

**BEFORE THE ADJUDICATING OFFICER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**  
**[ADJUDICATION ORDER NO. Order/MC/HP/2020-21/9613-9624]**

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**UNDER SECTION 15-I (2) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995.**

In respect of –

- 1) Sthithi Insurance Services Pvt Ltd (PAN: AAKCS6316E)** having address at - 82/40, 1<sup>st</sup> Main Road, CIT Nagar, Chennai, Tamil Nadu, India - 600035 **and** 155, Thiruvalluvar Salai Kumaran Nagar, Sholinganallur, Chennai, Tamil Nadu, India - 600119.  
Email Id - sthithipower@gmail.com
- 2) Sudarshan Venkataraman (PAN: AWJPS4793B)** having address at - 385, Pierson Avenue, Edison, New Jersey - 08837, United States of America. **and** 44/18, Venkataraman Street, T.Nagar, Chennai, Tamil Nadu, India - 600017.  
Email Id - sudarshanv@zsl.com
- 3) Ramanujam Sesharathnam (PAN: AERPR6301N)** having address at - 82/40, 1<sup>st</sup> Main Road, CIT Nagar, Chennai, Tamil Nadu, India - 600035. **and** New No.77, Flat No.10, 7th Avenue, Ashok Nagar, Chennai, Tamil Nadu, India - 600083.  
Email Id - rams@zsl.com
- 4) P Srikanth (PAN: AAQPS9253H)** having address at - 18/a, Rajamannar Street, T Nagar, Chennai, Tamil Nadu, India - 600017.  
Email Id - r.p.srikanth@gmail.com
- 5) S. P. Srihari (PAN: AFJPS1694C)** having address at - 'Gokulam' New No 46, Old No 64, Third Floor, 7<sup>th</sup> Avenue, Ashok Nagar, Chennai, Tamil Nadu, India - 600039.  
Email Id – srihari.sp@gmail.com

- 6) Srikanth Sripriya (PAN: AZAPS0630H)** having address at - Old No 18 A, New No 39, Rajamannar Street, T Nagar, Chennai, Tamil Nadu, India - 600017. **and** Old No.24, New No.51, 7th Avenue, Ashok Nagar, Chennai, Tamil Nadu, India - 600039.  
Email Id - sripriya.srikanth@gmail.com
- 7) Aditicon Services India Private Ltd (PAN: AAGCA8410P)** having address at - New No. 10, Old No. 29, Ranganathan Street, Triplicane, Chennai, Tamil Nadu, India - 600005.  
Email Id - aditiconservices@gmail.com
- 8) Effica Systems Private Limited (PAN: AACCE7595H)** having address at - 3, Fountain Plaza, 22, Pantheon Road, Egmore, Chennai - 600008, Tamil Nadu.
- 9) Mohan R (PAN: AHCPM3371K)** having address at - New No 1, New Street Saidapet, Chennai, Tamil Nadu, India - 600033.  
Email Id - mohanrangaswamy15@gmail.com
- 10) Santhanakumar R (PAN: AIVPR1409B)** having address at - 18/4 CPWD Quarters, K K Nagar, Chennai, Tamil Nadu, India - 600078. **and** S1, 2<sup>nd</sup> Floor, Anubam Flat, West Mambalam Five Lights, 4/2 Chakkarapani Street Extension, Chennai, Tamil Nadu, India - 600033.  
Email Id - santhanakumarr@gmail.com
- 11) Krishnaveni Ganesan (PAN: BOMPK8387K)** having address at - No 16, Gandhi Street, Chitlapakkam, Chennai, Tamil Nadu, India - 600064.  
Email Id - ganesan@gmail.com
- 12) M V Ganesan (PAN: AECPG0997C)** having address at - Flat No G 6, Arihant Flats no 29/16, Mahadevan Street, west Mambalam, Chennai, Tamil Nadu, India - 600033. **and** 77, Moorthy Street, West Mambalam, Chennai, Tamil Nadu, India - 600033.  
Email Id - mvrganesan@gmail.com

*In the matter of Zylog Systems Limited*

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## BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as, '**SEBI**'), initiated adjudication proceedings against **(1) Sthithi Insurance Services Pvt Ltd, (2) Sudarshan Venkataraman, (3) Ramanujam Sesharathnam, (4) P Srikanth, (5) S. P. Srihari, (6) Srikanth Sripriya, (7) Aditicon Services India Private Ltd., (8) Effica Systems Private Limited, (9) Mohan R, (10) Santhanakumar R, (11) Krishnaveni Ganesan and (12) M V Ganesan** (hereinafter referred to as "**the Noticee 1 to 12**" respectively or as "**the Noticees/You**" collectively) pursuant to investigation in the matter of trading activities of certain entities in the scrip of Zylog Systems Limited (hereinafter referred to as, '**Company/ZSL**').
2. Adjudication Proceedings have been initiated against,
  - a) Noticee 1 to 12 under Section 15HA of SEBI Act, 1992 (hereinafter referred to as, the '**SEBI Act**') for alleged violation of Section 12A (a), (b), (c) of SEBI Act read with Regulations 3 (a), (b), (c), (d), 4 (1), and 4 (2) (a) (f), (r) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003 ('**PFUTP Regulations**'),
  - b) Noticee 4 and 5 under Section 15HB of SEBI Act for alleged violations of Clause 6.15.2 of SEBI (Disclosure and Investor Protection) Guidelines, 2000 ('**DIP Guidelines**') read with SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ('**ICDR Regulations 2009**') and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ('**ICDR Regulations 2018**').
  - c) Noticee 1 to 3 under Section 15A(b) of SEBI Act for alleged violations of Regulations 31 (1), 31 (2) read with 31 (3) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ('**SAST Regulations**') and against Noticee 1 to 4 for alleged violation of Regulations 13 (4A) read with 13 (5) of SEBI (Prohibition of Insider Trading) Regulations, 1992 ('**PIT Regulations, 1992**') read with Regulations 12 of SEBI (Prohibition of Insider Trading) Regulations, 2015 ('**PIT Regulations, 2015**').

- d) Noticee 1 to 6 under Section 15H of SEBI Act for alleged violations of Regulation 3 (2) of SAST Regulations and Section 12 A (f) of SEBI Act.

### **APPOINTMENT OF ADJUDICATING OFFICER**

3. The undersigned was appointed as Adjudicating Officer (hereinafter referred to as '**AO**') *vide* order dated January 31, 2019 to inquire into and adjudge under Section 15A(b), 15H, 15HA and 15HB of SEBI Act, the aforesaid alleged violations against the Noticees. The appointment of the AO was communicated *vide* order dated March 22, 2019.

### **SHOW CAUSE NOTICE, REPLY AND HEARING**

4. Show Cause Notice No. EAD5/MC/HP/33158/1/2019 dated December 11, 2019 (hereinafter referred to as '**SCN**'), was issued to the Noticees in terms of Rule 4 (1) of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules**'), to show cause as to why an inquiry should not be held and penalty not be imposed against the Noticees in terms of Section 15A(b), 15H, 15HA and 15HB of SEBI Act as applicable, for the aforesaid alleged violations.
5. The allegations levelled against the Noticees in the SCN are summarized as below:
6. Pursuant to SEBI Order dated June 13, 2013 (**Interim Order**), Order dated July 30, 2015 (**Confirmatory Order**) and Order dated June 07, 2016, whereby certain promoters / directors of ZSL were restrained from buying, selling or dealing in securities markets either directly or indirectly in any manner till further directions, SEBI conducted an investigation in the dealing in the scrip of ZSL during the period from January 01, 2012 to December 31, 2012 ('**Investigation Period/IP**').

## 7. **About the Company**

ZSL is an information technology enabler and solutions provider for enterprises worldwide. The registered office of the company is located at 155, Thiruvalluvar Salai, Kumaran Nagar, Sholinganallur, Chennai. The company is listed on BSE and NSE. The closing price of the scrip was Rs. 0.88 at BSE and Rs. 0.85 at NSE on 30/10/18.

## 8. **The directors of the company during the investigation period were as under:**

Name	Designation	Date of Appointment	Date of Resignation
Sudarshan Venkatraman	Chairman & CEO	June 01, 1995	November 19, 2014
Ramanujam Sesharathnam	Managing Director & COO	September 02, 1996	January 28, 2016
P. Srikanth	Executive Director	June 27, 2008	August 14, 2013
M. Gajanathan	Director - Independent	June 27, 2008	January 28, 2016
S. Rajagopal	Director - Independent	January 28, 2007	December 7, 2012
A.P. Vasanthakumar	Director – Nominee	January 29, 2010	November 20, 2012
V.K.Ramani	Director - Independent	February 7, 2011	January 2, 2013
M.P.Mehrotra	Director - Independent	December 7, 2012	June 24, 2013

## 9. **The summary of the shareholding pattern of ZSL during investigation period is as under:**

Particular	Quarter ended Dec 2011			Quarter ended Mar 2012			Quarter ended Jun 2012		
	No. Of shares	%	Pledged/ encumbered shares (%)	No. Of shares	%	Pledged/ encumbered shares (%)	No. Of shares	%	Pledged /encumbered shares (%)
Promoter Holding	6779203	41.22	3615107 (53.33)	6830034	41.53	3615107 (52.93)	6832634	41.54	3615107 (52.91)
Non Promoter Holding	9667217	58.78	-	9616386	58.47	-	9613786	58.46	-
Total share capital	16446420	100	3615107 (21.98)	16446420	100	3615107 (21.98)	16446420	100	3615107 (21.98)

Particular	Quarter ended Sep 2012			Quarter ended Dec 2012			Quarter ended Mar 2013		
	No. Of shares	%	Pledged/ encumbered shares (%)	No. Of shares	%	Pledged/ encumbered shares (%)	No. Of shares	%	Pledged/encumbered shares (%)
Promoter Holding	13989064	42.53	7230214 (51.68)	11150750	33.90	8168462 (73.25)	6781203	20.62	6481055 (95.57)
Non Promoter Holding	18903776	57.47	-	21742090	66.10	-	26111637	79.38	-
Total share capital	32892840	100	7230214 (21.98)	32892840	100	8168462 (24.83)	32892840	100	6481055 (19.70)

10. The Noticees were related and/or connected with ZSL and/or each other and it was observed that:

- a) Noticee 1, 2 and 3 were promoters of ZSL.
- b) Noticee 2 was the then chairman and Chief Executive Officer of ZSL and the Noticee 3 was the then Managing Director and Chief Operating Officer of ZSL.
- c) The Noticee 1 was a private limited company with the Noticee 2 and 3 as the shareholders (holding 50% shares each) and directors. V. Viswanathan, brother of the Noticee 2, was the authorized person for the Noticee 1. He was also the then General Manager (Administration) of ZSL.
- d) Noticee 4 was the Whole Time Director of ZSL.
- e) Noticee 6 is wife of Noticee 4 and was holding shares of ZSL since the year 2002 and was the fourth largest shareholder as per Red Herring Prospectus (RHP) of ZSL dated July 07, 2007.
- f) Noticee 5 is the brother- in law of the Noticee 4 (brother of Noticee 6) and was then Global Chief Financial Officer of ZSL.
- g) Noticee 12 was the Vice President – Corporate Accounts, and was reporting to Noticee 3.
- h) Noticee 7 was a company formed in the name of employees of ZSL. Noticee 9 and 10 were the directors of Noticee 7 during the investigation period and both were employees of ZSL. Noticee 9 and 10 were getting approximately Rs. 20,000/- and Rs. 10,300/- as a salary from ZSL. *Vide* letters dated March 23,

2018, Noticee 9 *inter alia* submitted that he was asked to become director by Noticee 2 and V. Viswanathan and he was directed by V. Viswanathan to sign all the documents. Further, *vide* letter dated March 05, 2018, Noticee 10 *inter alia* submitted that he was made director on insistence of Noticee 2 and V. Viswanathan and he signed the documents on the instructions of Noticee 2, 3 and V. Viswanathan.

- i) From, the aforesaid replies of the directors of Noticee 7, it was observed that Noticee 7 was controlled by then key management personnel of ZSL. The same was corroborated by the statements of the then employees namely, Noticee 12, Saravanan S P and Srinivasan B.
- j) Noticee 8 was a company formed in the name of employees of ZSL. The directors of Noticee 8 during the investigation period were Noticee 10 (then employee of ZSL) and Noticee 11 (wife of Noticee 12, then VP Accounts of ZSL). *Vide* letter dated March 05, 2018, Noticee 10 *inter alia* submitted that he was made director on insistence of Noticee 2 and V. Viswanathan and he signed documents on the instructions of Noticee 2, 3 and V. Viswanathan. Further, *vide* letter dated May 23, 2018, Noticee 11 *inter alia* submitted that she was made director on the insistence of Noticee 3. From, the aforesaid replies of the directors of Noticee 8, it was observed that Noticee 8 was controlled by then key management personnel of ZSL. The same was corroborated by the statements of the then employees namely Saravanan S P, Srinivasan B and Noticee 12.
- k) It is observed that during the investigation period the directors of Noticee 8 were the Noticee 10 (employee of ZSL) and Noticee 11 (wife of Noticee 12, Vice President – Corporate Accounts of ZSL). Further, Prabhakar Kanniappan, one of the accounts executive was the person assisting Noticee 4 in dealing in share related activity. Further, it was observed that Prabhakar Kanniappan had all along worked in capital market intermediaries and was well versed with dealings in securities market. Further, S. Akila was the then Company Secretary of ZSL, she was reporting to Noticee 4 and handling secretarial activities like conducting the board meeting, annual general meeting and filing relevant forms and returns with ROC and stock exchanges. Sriram Chakrapani

was the then Finance Controller of ZSL and related to Noticee 3 as neighbour and both were from the same town and neighbourhood.

### **Alleged Violation of SAST Regulations**

11. Upon examining the connection / relation between aforesaid Noticees / entities, their email communications with each other and fund flow between various entities, following was observed:

- a) Noticee 4 (Whole Time Director of ZSL), Noticee 5 (brother- in law of Noticee 4 and then Global Chief Financial Officer of ZSL), Noticee 2 (Chairman and Chief Executive Officer of ZSL) and Noticee 3 (Managing Director and Chief Operating Officer of ZSL), were controlling and managing the shareholdings of promoters and other related entities including Noticee 1 and 6, with the Noticee 4 being the key person. The same was evidenced by numerous emails exchanged amongst themselves and from the replies of entities viz., NBFCs and Brokers.
- b) Noticee 6 and Noticee 1 had traded through eight and five brokers respectively. Details of the person placing the orders/ dealing on behalf of the Noticee 6 and Noticee 1, and their telephone numbers and Email IDs, as informed by the brokers/ NBFCs is given in table below:

<b>Details with respect to Noticee 6</b>			
<b>Broker Details</b>			
<b>Broker Name</b>	<b>Person placing the orders</b>	<b>Email IDs on contract notes were sent</b>	<b>Mobile No's from which orders were placed</b>
Motilal Oswal Securities Ltd	Noticee 4 and Noticee 6	srikanthp@zsl.com	9940114402



Edelweiss Broking Ltd	Noticee 4	<a href="mailto:r.p.srivatsan@gmail.com">r.p.srivatsan@gmail.com</a>	044-28152948 9840092849
Prabhudas Liladher Pvt Ltd	Noticee 4	<a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a>	9840092896, 044-28152849
Aditya Birla Money Ltd	Noticee 4	<a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a> ; <a href="mailto:sripriya.srikanth@gmail.com">sripriya.srikanth@gmail.com</a>	9840092896
Kotak Securities Ltd	Noticee 4 and Noticee 6	<a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a> ; <a href="mailto:sripriya.srikanth@gmail.com">sripriya.srikanth@gmail.com</a>	9840092896
JM Financial Services Ltd	Noticee 4	<a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a>	9840092896
IFCI Financial Services Ltd	Noticee 4	<a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a>	044-28152849 9840092896
Intime Equities Ltd	Hitesh Turakhia	<a href="mailto:Sripriya.srikanth@gmail.com">Sripriya.srikanth@gmail.com</a>	Not applicable (placed via email)
<b>NBFC Details</b>			
<b>NBFC Name</b>	<b>Person dealing on behalf of Noticee 6</b>	<b>Email IDs on Communications sent</b>	
Motilal Oswal Financial Services Ltd	Noticee 4	<a href="mailto:Sripriya.srikanth@gmail.com">Sripriya.srikanth@gmail.com</a>	
ECL Finance Ltd	Noticee 4	<a href="mailto:r.p.srivatsan@gmail.com">r.p.srivatsan@gmail.com</a>	
Prabhudas Liladher Financial Services Pvt Ltd	Glory Commosales Pvt Ltd	<a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a>	
Aditya Birla Finance Ltd	Noticee 4	<a href="mailto:Sripriya.srikanth@gmail.com">Sripriya.srikanth@gmail.com</a>	
JM Financial Products Ltd	Noticee 4	<a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a>	

IFIN Securities Finance Ltd	Noticee 4	srikanthp@zsl.com; Prabhakark@zsl.com	
Fortune Credit Capital Ltd	Noticee 6	Sripriya.srikanth@gmail.com	
Details with respect to Noticee 1			
Broker Details			
Broker Name	Person placing the orders	Email IDs on contract notes were sent	Mobile No's from orders were placed
Religare Broking Ltd	Noticee 4, 5, 12, V Viswanathan – authorized representatives		Trade Confirmation - 9840092896
Twentyfirst Century Shares and Securities Ltd	Noticee 4	srikanthp@zsl.com	9840092896
Reliable Stocks & Shares (India) Ltd	Noticee 5 / Noticee 12	ganeshmv@zsl.com	9840753922
Reliable Stocks & Shares (Mumbai) Pvt Ltd	Noticee 5 / Noticee 12	ganeshmv@zsl.com	9840753922
IFCI Financial Services Ltd	Noticee 4	srikanthp@zsl.com	9840092896
NBFC Details			
NBFC Name	Authorised Person	Email IDs on Communications sent	
IFIN Securities Finance Ltd	Viswanathan V	sthithipower@gmail.com, r.p.srikanth@gmail.com, mvrganesan@gmail.com, sriharisp@zsl.com, srikanthp@zsl.com, prabhakark@zsl.com	
Religare Finvest Ltd	Viswanathan V, Noticee 12, 5 and 4	sthithipower@gmail.com	
Cholamandalam Investment and Finance Co Ltd	Noticee 5, 12, 4, Prabhakar, Sriram V, Nithya P, Krishna Prasad S	prabhakark@zsl.com	

Karvy Financial Services Ltd	Viswanathan V	sthithipower@gmail.com, r.p.srikanth@zsl.com, sriharisp@gmail.com, mvnganesan@gmail.com, globalfriend2011@gmail.com
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c) Following was observed with respect to Noticee 6 and Noticee 1 from the above table:

Noticee 6	Noticee 1
From the account opening forms pertaining to the Noticee 6, it was observed that ZSL based domain ID i.e. <a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a> of Noticee 4 is indicated as the registered Email ID in six out of eight accounts and mobile number 9840092896 of Noticee 4 is indicated as registered mobile number in five out of eight accounts.	From the account opening forms pertaining to Noticee 1, it was observed that ZSL based domain ID i.e. <a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a> of Noticee 4 is indicated as the registered Email ID in two out of five accounts and mobile number 9840092896 of Noticee 4 is indicated as registered mobile number in three out of five accounts.
Seven out of eight brokers of the Noticee 6 submitted that the Noticee 4 was the person placing the orders on behalf of the Noticee 6. The broker IFCI Financial Services Ltd. submitted certain recordings of order placement by the Noticee 4 in the trading accounts of Noticee 6.	Three out of five brokers of Noticee 1 submitted that Noticee 4 was the person placing the orders on behalf of Noticee 1. The broker IFCI Financial Services Ltd. submitted certain recordings of order placement by Noticee 4 in the trading accounts of the Noticee 1.
Five out of seven NBFCs that had lent to Noticee 6 submitted that the Noticee 4 was the person dealing with them on behalf of Noticee 6. Three out of seven NBFCs submitted that the Email communications were sent to Email ID <a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a> of the Noticee 4.	Two out of four NBFCs that had lent to the Noticee 1 submitted that the Noticee 4 was the person dealing with them on behalf of Noticee 6. Two out of four NBFCs submitted that the email communications were sent to Email IDs <a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a> / <a href="mailto:r.p.srikanth@gmail.com">r.p.srikanth@gmail.com</a> of Noticee 4.
In ten demat accounts held by the Noticee 6, the registered mobile number was that of Noticee 4 i.e. 9840092896 and in six demat accounts held by Noticee 6, the registered Email ID indicated was that of Noticee 4 i.e. <a href="mailto:srikanthp@zsl.com">srikanthp@zsl.com</a> .	As per the replies of the concerned brokers, Noticee 4 was placing the orders despite not being the authorized person as per the Account Opening Form.

- d) Noticee 4 was using Email ID of Noticee 6, as is apparent from the copy of email dated May 07, 2012 sent by Noticee 4 to Edelweiss, wherein the following was stated: *“Hi Gautam, I’ve sent you the same through Sripriya’s gmail id”*. Further, certain emails were sent from Email ID i.e. srikanthp@zsl.com of Noticee 4 (which is a corporate domain based id) in the name of Noticee 6.
- e) Numerous emails with regard to dealings of Noticee 1 were addressed to and/or emanating from Noticee 4, showing that Noticee 4 was actively involved with the dealings of Noticee 1. Such emails included communications with respect to availing loans, repayments, addressing defaults/shortfalls, books of accounts etc.
- f) There were numerous emails sent by Noticee 4 to Noticee 3, 2, 5 and others which *inter alia* included aspects like Benpos Analysis, Margin Funding, Loan Against Shares (LAS), Research Reports on ZSL, transaction summaries, promoter funding queries, ZSL Target 450/-, brokerage plan charges, ZSL Funding, Demat Details, Shares to buy, Shortfall, cash margin requirement urgent and critical, shortfall details as on today (email dated December 06, 2010 12:07 PM), view on ZSL (email dated January 14, 2011 10:35 PM), update on ZSL (October 28, 2012 5:12 PM), Noticee 1 – Twentyfirst Century Shares and Securities Ltd. (TCSS) account (September 02, 2011 9:53 AM), Interest calculation of Noticee 1 (Fri August 26, 2011 3:43 PM) etc. All such emails indicate that Noticee 4 was the key person managing and handling share related activities.
- g) It was observed from the internal communications of ZSL that Noticee 6 was reflected under promoter group. Further, Prabhakar was an employee of ZSL during the investigation period. Noticee 4 along with Prabhakar used to manage and monitor the promoter group shareholding of ZSL. As part of monitoring, emails were exchanged by them reflecting promoter group shareholding.

- h) With respect to Shareholding Pattern as on quarter ending September 30, 2012, an email, bearing subject '*Holdings as on 03/09/2012 of Promoters – Reg*', was sent by Prabhakar K to Noticee 4 and Noticee 5 on October 02, 2012 indicating the holdings of three promoters of ZSL viz., Noticee 2, Noticee 3 and Noticee 1 as 4,15,000, 2,85,000 and 1,32,89,064 shares respectively.
- i) It was observed from the email dated October 02, 2012 that the shareholding of Noticee 1 i.e. 1,32,89,064 shares also reflects shares in the name of Noticee 6, TCSS, Noticee 7 and Srividya, details of which are depicted in table below:

Noticee 2	4,15,000
Noticee 3	2,85,000

<b>Holding of Noticee 1 as on September 30, 2012</b>		
<b>Name of the DP/Client</b>	<b>DPID/Client ID</b>	<b>Rs. 5/ paid up</b>
Madras Stock Exchange	1301740000084244	7001023
JM Financial Services	1203330000099351	1325180
Religare Finvest	1305110000010995	515563
Indian overseas Bank	IN302437/20140348	400000
Karvy Stock Broking Limited	IN302470/40247936	1170000
IFCI financial Services Limited	IN301364/10123649	1349698
Noticee 6		946000
TCSS		255600
Noticee 7		150000
Srivatsan		136000
Srividhya		40000
		<b>1,32,89,064</b>

- j) Total shareholding as per the aforesaid email exactly matches the shareholding of promoters as filed by ZSL with the Stock Exchanges. The same is depicted in table below:

<b>Name of Shareholder</b>	<b>Number of shares as per internal Email dated 02/10/2012 (from Prabhakar to Noticee 4 and Noticee 5)</b>	<b>Number of Shares held as per Shareholding Pattern filed under Clause 35 – with BSE</b>	<b>Number of Shares held as per Shareholding Pattern filed under Clause 35 – with NSE</b>
Noticee 2	4,15,000	4,15,000	4,15,000
Noticee 3	2,85,000	2,85,000	2,85,000
Noticee 1	1,32,89,064	1,32,89,064	1,32,89,064

- k) Similar observations are apparent from the email dated July 04, 2012 with respect to Shareholding Pattern as on quarter ending June 30, 2012. Further, total shareholding as per the aforesaid email was 2600 shares lesser than the shareholding of Noticee 1 as filed by ZSL with the Stock Exchanges. This is depicted in below table:

<b>Name of Shareholder</b>	<b>Number of shares as per internal Email dated 04/07/12 (from Prabhakar to Noticee 4 and Noticee 5 )</b>	<b>Number of Shares held as per Shareholding Pattern filed under Clause 35 – with BSE</b>	<b>Number of Shares held as per Shareholding Pattern filed under Clause 35 – with NSE</b>
Noticee 1	66,41,776	66,44,376	66,44,376

- l) In its own workings relating to shareholding of promoter group, ZSL itself has reflected the difference between shareholding of the promoter group as per Benpos vis-à-vis internal computation to be greater than 5%.

In the email dated October 19, 2012 from S Akila (Company Secretary of ZSL during the Investigation Period) to Noticee 4 and Noticee 5 with a CC to Prabhakar K bearing subject 'Promoters shareholding Pattern - September 30, 2012, the following was *inter alia* observed:

As per Stock Exchange Disclosure						
	Noticee 1		Noticee 2 and 3		Total	
	#Shares	%	#Shares	%	#Shares	%
Balance as on March 31, 2011	39,55,011	24.05	20,77,536	12.63	60,32,547	36.68
Balance as on June 30, 2011	39,55,011	24.05	20,77,536	12.63	60,32,547	36.68
Balance as on September 30, 2011	47,01,667	28.59	20,77,536	12.63	67,79,203	41.22
Balance as on December 31, 2011	47,01,667	28.59	20,77,536	12.63	67,79,203	41.22
Balance as on March 31, 2012	66,41,776	40.38	1,88,258	1.14	68,30,034	41.53
Balance as on June 30, 2012	66,44,376	40.40	1,88,258	1.14	68,32,634	41.54
Balance as on September 30, 2012	1,32,89,064	40.40	7,00,000	2.13	1,39,89,064	42.53
Benpos as on September 30, 2012	11609901	35.30	700000	2.13	12309901	37.42
As per Prabhakar's Report	13289064	40.40	700000	2.13	13989064	42.53
<b>Difference</b>	<b>-1679163</b>	<b>-5.10</b>	<b>0</b>	<b>0.000</b>	<b>-1679163</b>	<b>-5.10</b>
Break up for the difference						
TCSS Pool Account	225600					
Transfer from Noticee 1 to Others	1272000					
Religare Finvest	181563					
	1679163					

- m) ZSL had signed a guarantee deed for loan taken by Noticee 6 and had executed a deed of guarantee dated December 29, 2012 and multi-partite agreement dated March 28, 2013 to service then outstanding loan of approximately Rs.3.95 crores of Noticee 6. As per the deed of guarantee and multi-partite agreement, ZSL had admitted and acknowledged to be treated as 'Principal Borrower' and not merely a guarantor.
- n) Further, Noticee 4, Noticee 3, Noticee 2 and Noticee 1 were the guarantors to loan default by Noticee 6 and had executed a deed of guarantee dated November 16, 2012 to service then outstanding loan of approximately Rs.20.95 crores of Noticee 6. As per the deed of guarantee, Noticee 4, Noticee 3, Noticee

2 and Noticee 1 had admitted and acknowledged to be treated as 'Principal Debtor' and not merely a Guarantor.

- o) Emails received by Noticee 4 from NBFC/Brokers regarding shortfall/default in the loan/trading accounts of Noticee 6 were forwarded by Noticee 4 to Noticee 2, 3 and 5.
- p) In view of the above, it was observed that Noticee 4, 5 and 6 were persons acting in concert with Noticee 1, 2 and 3 during the investigation period. They were together holding more than 25% of shareholding in the scrip of ZSL as on April 01, 2012. Further, Noticee 6 was not only part of promoter group, but her accounts were being used by the promoters and KMPs of ZSL viz., Noticee 4 and 5. Further, Noticee 4 was actively involved and managing and controlling affairs of Noticee 1 along with Noticee 5, 2 and 3 including dealings of Noticee 1 in the scrip of ZSL. Aforesaid four entities were not only aware but had meeting of minds and were hand in glove in the said activities. Further, the common persons were behind trading by Noticee 1 as well as Noticee 6.
- q) As per the demat shareholding statement received from NSDL and CDSL, it was observed that the promoters of ZSL viz., Noticee 1, 2 and 3 were holding 64,14,234 (39.00%) shares of ZSL as on March 31, 2012 and Noticee 6 was holding 17,24,472 (10.49%) shares of ZSL as on March 31, 2012.
- r) Considering the acquisitions of the promoters and Noticee 6 taken together during the period from April to December 2012, their acquisitions on gross basis breached 5% threshold twice during the period, first on July 10, 2012 with their gross acquisition since April 01, 2012 being 5.07%, and subsequently crossing 10% on October 08, 2012.
- s) In view of the above, it was alleged that the promoters viz. Noticee 1, 2, and 3 along with the Noticees 4, 5 and 6 were persons acting in concert. They were together holding more than 25% of shareholding in the scrip of ZSL as on March



31, 2012 and together acquired more than 5% shareholding of ZSL during the period from April 01, 2012 to December 31, 2012 and thus the Noticee 1, 2, 3, 4, 5 and 6 were alleged to have contravened Regulation 3 (2) of SAST Regulations and Section 12 A (f) of SEBI Act.

## **12. Alleged violation of PFUTP Regulations**

- a) It was observed that numerous fund transfers took place between ZSL and Noticee 6. They stated *vide* their submissions that the fund transfers between them were owing to a land deal for Rs. 12 crores between them. It was observed that there was a land deal which they had entered into during April 2012 and the same was subsequently cancelled during December 2012.
- b) ZSL submitted the extract of the board resolutions wherein matter relating to land deal was discussed. However, the then independent directors who were part of the meeting categorically denied any such matter being part of agenda and/or discussions. Further, ZSL failed to provide copy of the minute book citing theft.
- c) The said land was purchased by Noticee 6 for mere Rs. 35 lakhs during February 2012 and the same is contended to have been bought by ZSL for Rs.12 crores within a gap of less than 2 months.
- d) Further, the said land was purchased by Noticee 6 from the wife of director of the TCSS with whom the Noticee 4 had an understanding for buying and holding the shares in the name of Noticee 1 for an overall limit of Rs.10-12 crores, of which more than Rs. 8 crores was used. The total amount involved in the arrangement was about Rs. 8-10 crores. Further, Noticee 4 was the key person who had been dealing with J Chandramouli of TCSS.
- e) It was observed from the payment details submitted by ZSL and Noticee 6 that the fund movement was in paise and unitary integers which is unlikely for a deal

to the tune of Rs. 12 crores. Further, the payment pattern reflects contra movements more than once and there are fund transfers between entities other than ZSL and/or Noticee 6 on both the sides.

- f) Email communications received by Noticee 4 from NBFC/Brokers regarding shortfall/default in the loan/trading accounts of Noticee 6 were forwarded by Noticee 4 to Noticee 2, 3 and 5. Further, ZSL had guaranteed the defaults of Noticee 6.
- g) No disclosures regarding any such land deal were made by ZSL either to the exchanges and/or in its Annual Reports. Further, no such deal was disclosed as related party transaction by ZSL in its books of accounts.
- h) It was observed from the replies received from IFCI Ltd that ZSL had submitted fake land documents to IFCI Ltd for availing loan. Further, as per the replies received from Union Bank of India, ZSL had submitted fake contracts/bills, mis-utilised the PCFC funds, raised invoices on undeclared related parties, declared abnormal expenses in project expenses, availed loans from other banks without approval of Union Bank, besides other malpractices of improper books of accounts etc.
- i) ZSL has provided the details of the transactions with Noticee 6. It was observed from the said transactions, that there were 41 transactions ranging between Rs. 2 Lakhs to Rs. 2 crores, with first transaction being on March 31, 2012 and last on December 04, 2012 totalling to debit of approximately Rs. 8.05 crores and credit of approximately Rs. 8.06 crores. Further, out of 41 instances of fund transfers pertaining to ZSL and Noticee 6, in 26 instances the transfers were made in cash mode. Out of the same, in 23 instances the amount was returned by Noticee 6 in cash after the deal had turned sour. In this regard vide letter dated July 30, 2014, Noticee 6 *inter alia* submitted, “...*The fund transfers between me and ZSL as referred in Para pertained to sale of land situated at Malaipattu village by me to ZSL for a consideration of Rs. 12 Crores. As per the*

said agreement, ZSL had made part payments to me on various dates. Since ZSL could not make the complete payment, as agreed to in the agreement, it resulted in termination of the Agreement and forfeiture of amount in accordance with the terms of the said agreement...”.

- j) Further, *vide* letter dated April 16, 2016, Noticee 6 *inter alia* submitted, “...Zylog made payments to me to the tune of Rs. 5,78,44,609.85 under the Sale Agreement...I and Zylog mutually decided to terminate the Sale Agreement and I, in good faith, agreed to return the advance received from Zylog. This understanding was recorded by was of a deed of cancellation dated December 03, 2012...I repaid the entire amount of Rs. 5,78,44,609.85 to Zylog...Details, along with dates, of such re-payment by me to Zylog is set out in the Deed of Cancellation....”.
- k) ZSL had also submitted a certified true copy of the extract of the board resolutions pertaining to the board meetings of ZSL dated November 12, 2011, February 01, 2012 and August 13, 2012 along with the bank transactions between ZSL and Noticee 6 with regard to land deal. As per the said board resolution dated November 12, 2011, the Board of Directors of ZSL consented to set up a disaster recovery center and facility to expand the business, as per the board resolution dated February 01, 2012 the Board authorized directors and company secretary to enter into land deal with Noticee 6 and *vide* the board resolution dated August 13, 2012, the board authorized directors and company secretary to cancel the land deal between ZSL and Noticee 6.
- l) Noticee 6 *vide* letter dated May 08, 2018 submitted *inter alia*, “...during December 2011 to January 2012, Sripriya had purchase the said land from Mrs. Shobana Chandamouli with a price of Rs. 35 lakhs. She personally knew that land owner very well and also was in continuous touch with her. After the subject land was purchased by me Mr. Ram wanted to make his plan for the purchase of land for ZSL. He enquired several time through Srikanth (i.e. my

spouse) I was also need of fund for pay of my stock brokers so I decided to sale the said land to ZSL at a price of Rs. 12 crore...”.

- m) Further, Noticee 4 *vide* letter dated May 08, 18, *inter alia* submitted, “...I confirm that a land deal between Zylog and my wife was discussed during the Board Meetings during the period from January 1, 2012 to December 31, 2012. The land deal was discussed with me closer to the date of the Board meeting and I was made to convince my wife to sell the land to Zylog....”. Noticee 4 further submitted *vide* his letter dated May 24, 2018, “...the specific date of the Board meeting of ZSL during which the land deal between ZSL and Smt. Sripriya was discussed is February 1, 2012...The specific date of the Board meeting of ZSL during which the Board of ZSL decided to withdraw from the land deal with Smt. Sripriya is August 13, 2012....”.
- n) ZSL could not provide copy of the minute book, citing that the same was missing and a police complaint had also been filed with respect to the same. However, ZSL provided the copy of extract of minutes of board meeting wherein said land deal was discussed.
- o) As per the Annual Report of ZSL / filings on MCA website /replies of ZSL, during the period Jan-Dec, 2012, ZSL had held five meetings of its Board of Directors (BoD) and there was no agenda item nor there was any discussion ever held with regard to any Disaster Recovery Site (DRS) and/or for purchasing any land in this regard and/or relating to land deal entered into between ZSL and Noticee 6 has been confirmed by the then independent directors namely, S Rajagopal, A P Vasanthakumar and V K Ramani who had attended the meetings of the Board of directors.
- p) As per Section 21 of SCRA read with Clause 36 of the Listing Agreement, all listed companies are required to make disclosure regarding any material event. Both BSE and NSE have also confirmed that no disclosures were received from ZSL, either with respect to any DRS and/or intention to acquire land thereto

and/or any land deal with the Noticee 6 and cancellation thereof, during relevant point of time.

- q) No such land deal was disclosed in the annual reports of ZSL pertaining to the F.Y. 2011-12 and F.Y. 2012-13. Noticee 6 has contended that ZSL had gone back on the deal and that she was put under pressure. *Vide* her letter dated April 05, 2018, she had *inter alia* submitted, “...the company through Mr. Ram called me & Srikanth to inform us that the deal has to be cancelled because the company has no funds to pay the entire amount of Rs. 12 Crores and that the payment made to me refunded. I refused to repay them as per the terms of the agreement as there was a clause of forfeiture. There were constant discussions and meetings held with Mr. Ram and Mr. Sudarshan who only threatened me to recover the funds by taking coercive steps. They also informed me that they would terminate the services of my husband if the repayment is not done....”.
- r) Noticee 6 had availed margin funding facility from Aditya Birla Finance Ltd (ABFL) by pledging the shares of ZSL held by Noticee 6. While repaying the loan and interest to ABFL, in many instances ZSL and its connected companies i.e. Noticee 7 and 8 transferred funds to Noticee 6, who in turn transferred the same to ABFL towards payment for the loan (taken for trading in the shares of ZSL during the investigation period), the details of the same are given as under:

<b>S. No.</b>	<b>Repayment of Loans by Noticee 6 to ABML</b>	<b>Amount (in Rs.)</b>	<b>Source of Funds</b>
1	August 27, 2012	10,00,000.00	ZSL
2	September 03, 2012	10,00,000.00	ZSL
3	September 05, 2012	10,00,000.00	Noticee 7
4	October 04, 2012	90,00,000.00	Noticee 7
5	October 19, 2012	1,00,00,000.00	Noticee 8
6	October 22, 2012	25,00,000.00	Noticee 8
7	October 31, 2012	75,00,000.00	ZSL

- s) While Noticee 6 was trading in the shares of ZSL through IFCI Financial Services Limited (IFIN) during the investigation period, in many instances ZSL and its connected company i.e. Noticee 7 transferred the funds to Noticee 6 who in turn transferred the same to IFIN towards payment for her trades in the shares of ZSL, the details of the same are given as under:

S. No.	Date of Payment of funds to IFIN by Noticee 6	Amount (in Rs.)	Source of Funds
1	January 03, 2012	46,00,000.00	Noticee 7
2	January 06, 2012	30,00,258.93	Noticee 7
3	January 06, 2012	12,07,461.41	Noticee 7
4	January 06, 2012	42,63,319.59	Noticee 7
5	January 13, 2012	75,00,000.00	Noticee 7
6	May 08, 2012	1,26,50,000.00	Noticee 7
7	May 15, 2012	1,50,00,000.00	ZSL
8	May 15, 2012	1,00,00,000.00	ZSL
10	May 18, 2012	70,00,000.00	ZSL
11	July 25, 2012	4,00,000	ZSL
12	August 30, 2012	50,00,000.00	ZSL
13	September 13, 2012	20,00,000.00	Noticee 7
14	September 17, 2012	83,00,000.00	Noticee 7
15	October 03, 2012	40,00,000.00	Noticee 7
16	October 04, 2012	60,00,000.00	Noticee 7

- t) It is observed from the above table that on numerous occasions, funds paid by Noticee 6 to IFIN were received by Noticee 6 from Noticee 7. In this regard, Noticee 6 *vide* letter dated April 05, 2018 *inter alia* admitted that funds received by Noticee 6 from Noticee 7 were used as, “.....*Payment for fresh purchase of shares over and above the limit available...*”. Noticee 7 was an entity, formed by ZSL in the name of its employees and used for the purpose of routing funds/dealing in the shares of ZSL.

- u) Further, ZSL was the guarantor to the loan default by Noticee 6 and had executed a deed of guarantee dated December 29, 2012 and multi-partite agreement dated March 28, 2013 to service then outstanding loan of approximately Rs.3.95 crores of Noticee 6.
- v) In view of the above, it was alleged that during the investigation period ZSL funded the trades of Noticee 6, while Noticee 2, 3, 4 and 5 were behind and aware of such act. Further, Noticee 7 and 8 aided and abetted the aforesaid funding to the trades of Noticee 6 in the shares of ZSL by lending their accounts for routing funds to Noticee 6. Thus, Noticee 7, 8 and its then directors Noticee 9, 10 and 11 were party to the aforesaid act. Thus, it was alleged that Noticee 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11 indulged in fraudulent and unfair trade practices while dealing in the shares of ZSL during the investigation period and thereby contravened Section 12A (a), (b), (c) of SEBI Act read with Regulation 3(a), (b), (c), (d), 4 (1) of PFUTP Regulations.

**13. Funding by ZSL to Noticee 1 for trading in the shares of ZSL:**

- a) It is observed that Noticee 1 was a company in which Noticee 2 and 3 were the only shareholders during the investigation period. The registered office of Noticee 1 is same as that of ZSL and the promoters of Noticee 1 i.e. Noticee 2 and 3 were the only shareholders and directors of Noticee 1. Further, Noticee 1 did not have any employees or operations. The same has been *inter alia* mentioned in the statement of Noticee 12, Srinivasan, Saravanan and Prabhakar who were then connected to ZSL.
- b) Further, Noticee 1 was used by then promoters and Key Managerial Persons of ZSL for routing funds and/or borrowing funds for dealing in the shares of ZSL. The details of trading of Noticee 1 in the scrip of ZSL during the investigation period is as under:

Trade Details of Noticee 1 during IP							
S. No.	Broker	No. of Buy Trades	Buy Quantity	Buy Value (in Rs.)	No. of Sell Trades	Sell Quantity	Sell Value (in Rs.)
1	IFCI Financial Services Ltd. (IFIN)	254	168546	65070021.8	574	144437	72688331.5
2	Reliable Stocks & Shares Mumbai Pvt. Ltd. (Reliable Mumbai)	2	6495	1862076.55	43	181156	57212398.95
3	Religare Securities Ltd. (Religare)	261	216510	64157473.95	0	0	0
4	Reliable Stocks & Shares (India) Ltd. (Reliable India)	0	0	0	84	188810	59702892
5	Twenty First Century Shares & Securities Ltd. (TCSS)	0	0	0	992	533611	151791090.2
	<b>Total</b>	<b>517</b>	<b>391551</b>	<b>131089572.3</b>	<b>1693</b>	<b>1048014</b>	<b>341394712.6</b>

- c) ZSL, *vide* letters dated March 07, 2018, May 25, 2018 and Noticee 3, *vide* letter dated June 02, 2016 submitted the details of all the transactions between ZSL and Noticee 1 pertaining to the F.Y. 2011-12 and F.Y. 2012-13.
- d) Noticee 1 had contended that it had given an amount of Rs. 57.15 crores to ZSL as loan and ZSL was repaying the same to Noticee 1 from January 01, 2012 to December 31, 2012. However, no documentary evidence and/or specific details were submitted to substantiate this claim. ZSL had not reflected these transactions under the head, related party transactions in its Annual Report for the F.Y. 2011-12 and F.Y. 2012-13.
- e) As Noticee 1 could not provide documents, details and there were no disclosures with respect to the aforesaid transactions between ZSL and Noticee 1, it was alleged that Noticee 1 was using the funds of ZSL to deal in the shares of ZSL. Such transactions were not reflected as related party transactions despite the transactions being of high value and more so despite the KMPs and others involved being qualified Chartered Accountants. Thus, it was alleged



that Noticee 1 was used as an entity interchangeably for routing funds and dealing in the shares of ZSL.

- f) In view of the above, it was alleged that ZSL funded the trades of its promoter Noticee 1 in the shares of ZSL. Therefore, it was alleged that Noticee 1 indulged into fraudulent and unfair trade practices while dealing in securities and thereby contravened Section 12 A (a), (b), (c) of SEBI Act, 1992 read with Regulations 3 (a), (b), (c), (d), 4 (1) of PFUTP Regulations.

14. During the year 2011, TCSS bought the shares for and on behalf of Noticee 1, however these shares were not transferred to the Beneficial Owner A/c (BO A/c) of Noticee 1 and instead held the same in the BO A/c in its own name (at times certain shares in miniscule proportion observed to have been transferred by the TCSS to the client DP A/c, based on client requests – for example 45,000 shares transferred on 15/10/2012). As per the account opening form, Noticee 1 was based at Chennai, and the TCSS was based at Mumbai. It is unlikely that a client would open an account at distant location unless there is certain arrangement / understanding.

15. Further, it was observed from the replies of TCSS and emails found in the backup provided by ZSL that there was an arrangement and understanding between TCSS and Noticee 1 which included funding and buying the shares of ZSL by TCSS (broker) for Noticee 1 (client), holding the shares of client in its own beneficiary account and not transferring the shares to the client account.

16. In view of the above, it was alleged that Noticee 1 has contravened Section 12A (a), (b), (c) of SEBI Act read with Regulations 3(a), (b), (c), (d), Regulation 4(1) and Regulation 4(2) (g) of PFUTP Regulations.

**17. Alleged violation of PFUTP Regulations – misleading promoter shareholding**

- a) It was observed that Noticee 12 was appearing in the list of public shareholders holding more than 1% shares of ZSL since June 2009. As per the shareholding pattern available on BSE for quarter ending June 2009, Noticee 12 was holding 2,28,998 shares of ZSL.
- b) Further, these 2,28,998 shares were received by Noticee 12 from Noticee 7 and Prabhudas Lilladher Private Limited (**PLPL**). Of the 2,28,998 shares, Noticee 12 had received 1,40,000 shares through off market from Noticee 7 on June 15, 2009 and 88,998 shares were received in off-market from Prabhudas Lilladher Financial Services (**PLFS**) during June 19-26, 2009. Noticee 7 is an entity which was formed in the name of employees of ZSL.
- c) Noticee 12 had availed margin funding and loan against shares (LAS) facility from PLFS, for which DP A/c was opened with Prabhudas Lilladher Private Limited (in which shares for availing LAS were required to be kept) and Power of Attorney signed in favor of PLFS and for trading purpose, account was opened with PLPL. The relationship of Noticee 12 with PLPL started sometime during May-June 2009 which included opening of demat account etc., with PLPL and availing of loan against shares from PLFS.
- d) The value of loan against shares initially requested and availed during May 2009 was Rs. 2 crores. Noticee 12 was a salaried employee of ZSL with his salary being less than Rs. 1 lakh (as seen from the bank account of Noticee 12). Also, as per the pre-sanctioning client profiling details forms submitted by PLPL, Noticee 12 had reflected himself as a businessman. It is observed that the limits availed by Noticee 12 were not commensurate with his income levels. Also, the trading of Noticee 12 was not commensurate with his income. The annual income of Noticee 12 as per the KYC document submitted by PLFS is mentioned as Rs. 12 lakhs, however traded value of Noticee 12 in the shares of ZSL was to the extent of crores of rupees. As per the copy of letter dated

November 30, 2017, submitted by PLFS, the outstanding loan against shares in respect of Noticee 12, as on November 30, 2017 was Rs.9.35 crores.

- e) Noticee 12 had opened the accounts with PLPL at Mumbai. Noticee 12 had visited PLPL office in Mumbai along with the witnesses Mr. Sunil Raheja and Mr. Lokesh Kapoor for the purpose of opening the accounts. The accounts were opened in Mumbai though Noticee 12 resided in Chennai. Numerous emails found in the email backup provided by ZSL, which were exchanged between Noticee 4 and Sunil Raheja / Lokesh Kapoor. Thus, it was alleged that Noticee 4 and Sunil Raheja / Lokesh Kapoor were known to each other.
- f) As per the replies of PLPL, Noticee 12 had indicated that his account would be handled and coordinated by Sunil Raheja and Lokesh Kapoor (who were the witnesses on Demat A/c). From November 2011 onwards, Mr Prabhakar Kannappan (**Prabhakar**), contact number and email id being 9790969784 and globalfriend2011@gmail.com, was coordinating for Noticee 12 from Chennai with regard to interest payments and margin payments as well as for loan balance confirmations. Prabhakar was the person assisting Noticee 4 with regard to trading and monitoring of shareholding and the given number and email id belonged to him.
- g) In view of the above, it was alleged that Noticee 4 was the person behind the said accounts in the name of Noticee 12 and that the said accounts were opened in the name of Noticee 12 with a premeditated mind. Further, besides managing the dealings in the trading accounts of Noticee 12, Noticee 4 was also managing the dealings/developments in the accounts of the promoter group entity viz. Noticee 1. There were numerous emails exchanged between Noticee 4 and other KMPs of ZSL viz. Noticee 2, Noticee 3 and Noticee 5 which indicate that all the four were aware and behind the said dealings/developments. Therefore, it was alleged that the disclosure of shareholding pattern of Noticee 12 under public category was wrong. This had led to ZSL disclosing false and misleading information about promoter

shareholding in the scrip of ZSL. Also, by lending his name, Noticee 12 along with Noticee 4 and Noticee 5 has aided and abetted ZSL in the said violation.

- h) Noticee 4 was managing the dealings in the trading accounts in the names of Noticee 6 and Noticee 12. Further, Noticee 4 was also the person managing the dealings/developments in the accounts of the promoter group entity viz. Noticee 1. Noticee 6 had received shares of ZSL from Noticee 3 during the year 2002, and Noticee 6 was the 4th largest shareholder of ZSL as per the RHP dated July 07, 2007 (**RHP**) of ZSL. Both the Noticee 4 and Noticee 5 were related to Noticee 6 and thus related to each other.
- i) Therefore, it was alleged that shareholding of Noticee 6 was wrongly disclosed under public category. This had led to ZSL disclosing false and misleading information about promoter shareholding in the scrip of ZSL. Also, by lending her name, Noticee 6 along with Noticee 4 and Noticee 5 has aided and abetted ZSL in said violation.
- j) In view of the above, it was alleged that Noticee 2, 3, 4, 5, 6 and 12 have contravened Section 12A (a), (b), (c) of SEBI Act read with Regulation 3(a), (b), (c), (d), 4 (1) and 4(2) (f), (r) of PFUTP Regulations.

#### **18. Misleading Disclosures about promoters increasing their shareholding**

- a) It is observed from the quarterly shareholding pattern filed by ZSL with the BSE and NSE that the total number of shareholders under “Promoter and Promoter Group” were three viz., Noticee 1, 2 and 3. Further, SEBI has obtained trade and off market data relating to the scrip of ZSL from BSE, NSE, CDSL and NSDL to examine change, if any, in the promoters holding on October 19, 2012 viz a viz October 01, 2012.

- b) Based on examination of data relating to trades and off market transactions pertains to the scrip of ZSL during the period October 01 - 19, 2012, the following is observed:
- ZSL had three promoters viz., Noticee 1, 2 and 3.
  - Noticee 2 and 3 had not traded in the market during the said period. On October 1, 2012, Noticee 2 and 3 had received 58,500 shares each through off market transfer from Noticee 1.
  - During the said period, Noticee 1 had bought 20,058 shares and sold 61,712 shares of ZSL in the market.
  - On October 15, 2012, Noticee 1 had received 45,000 shares through off market transfer from the TCSS.
  - On October 18, 2012, Karvy Financial Services Ltd (Karvy) and IFCL Limited (IFCL) invoked the pledge with regard to 6,40,000 shares and 90,362 shares of ZSL, respectively, pledged with them by Noticee 1.
- c) Summary of trades and off market transfers with regard to three promoters during the period October 01, 2012 to October 19, 2012 is mentioned in table below:

Date	On-Market (BSE / NSE)		Off-Market (CDSL / NSDL)		Net Increase / Decrease Quantity	Cumulative Increase / Decrease (During October 01-19, 2012)
	Buy	Sell	Received	Transferred Out		
01/10/2012		10000	117000	117000	-10000	-10000
03/10/2012		10000	-	-	-10000	-20000
08/10/2012		15000			-15000	-35000
09/10/2012		5000			-5000	-40000
15/10/2012	8500	18078	45000*		-9578	-49578
16/10/2012	2319	1134			1185	-48393
17/10/2012	9239	2500			6739	-41654
18/10/2012				730362	-730362	-772016
19/10/2012				312694	-312694	<b>-1084710</b>

<b>Net Increase / Decrease Quantity</b>	<b>-1084710</b>
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\* 45000 shares were bought earlier but credited now.

It is observed from the above table that on cumulative basis there was decrease in the shareholding on each day during the said period.

- d) As regards 45,000 shares of ZSL received through off market on October 15, 2012, it is observed that the same were received in the Demat A/c No. 1205570000001468 of Noticee 1 from the TCSS. In this regard, TCSS *vide* its letter dated September 21, 2018 *inter alia* stated, ‘...on 15/10/2012 there was a net balance of 1,80,600 shares of ZSL to the credit of Sthithi in the BO account (1205570000000371) maintained with us out of which we transferred 45,000 shares to client DP A/c No. 1205570000001468...’. Further, it was observed from the statement of details of shares purchased and sold on behalf of the client Noticee 1 provided by the TCSS that all the shares were bought during the period July 07, 2011 to October 18, 2011. Considering that all the shares were bought on or before October 18, 2011, the transfer of 45,000 shares would not fall under category of buy / acquisition on October 15, 2012 and hence has not been considered accordingly.
- e) On month wise analysis of on-market and off-market transactions of the three promoter group entities in the scrip of ZSL during the period since April 01, 2012 to October 19, 2012, it was observed that even on a month to month basis the combined shareholding of the three promoter group entities on an overall basis had been going down with the decrease in five out of six months. The table depicting cumulative change in the promoter group shareholding as at the end of each month during April 01, 2012 to September 19, 2012 (with April 01, 2012 being the base date) is analysed as under:

S. No.	Date (End of the Month)	Cumulative % Change in Promoter Group Shareholding (since April 2012)
1.	30/04/2012	0.02
2.	31/05/2012	-0.33
3.	29/06/2012	-0.33
4.	31/07/2012	-2.60
5.	31/08/2012	-2.26
6.	29/09/2012	-3.56
7.	19/10/2012	-6.72

- f) It is observed from the above table that considering the promoter group entities as disclosed by ZSL itself to the stock exchanges, even for the period since April 2012, the combined shareholding of the three promoter group entities had been decreasing on an overall basis.
- g) KMP's contended that they were not aware of the sell by the brokers and that these were in the nature of distress sale. However, contrary to their claims, it is observed that all the four KMPs viz. Noticee 2, 3, 4 and 5 were aware and behind the said disclosures. In view of the above, it was alleged that ZSL made a false and misleading disclosure that the promoters were increasing their shareholding in the scrip of ZSL and Noticee 2, 3, 4 and 5 were aware and behind the said false and misleading disclosures.

**19. Misleading disclosure about "business as usual"**

On October 19, 2012, ZSL had disclosed that there were no significant developments in the day to day operations of the company and it was 'business as usual'. However, it was observed that the same was not true in view of the following:

- a) As per the annual report of 2012-13 at page no. 58, under point 2.38 it is mentioned that "Under the provisions of Companies Act 205A, the payment of dividend declared in the last AGM dated September 25, 2012 of Rs. 16.44 Cr.

Out of which Rs.2.24 Cr, alone paid till 31st March 2013 and till date. The dividend distribution Tax of Rs.2.67 Cr. of the said dividend also not been paid 31st March 2013 and till date”. Further, in the Annual Report of 2012-13 at page no. 9, under the heading “Non Payment of Dividend & TDS” it is mentioned *inter-alia* as under: ‘...A substantial loss of Rs. 200 Crores due to appreciation of US Dollar Vs the Indian rupee created shrinkage in working capital limits as the Loans were in dollar denomination but limit was set in INR. Further the company couldn’t tie up additional sanctioned working capital limit in the subsequent year creating a deficit of additional Rs.130 crores. This happened during the period when Zylog was parallelly investing in expansion plans across different regions most of which were highly capital intensive in nature, but had the capability to provide solid & consistent returns after couple of years. Naturally the holding capacity of the company got deteriorated due to the losses suffered during the period & hence it had to abandon some plans mid-way which created further losses. This mismatch in cash flow resulted in slippage in pay roll processing, vendor payment & payments related to statutory dues like Dividend, TDS etc. The management is taking several measures on the operational front, lots of optimization/consolidation measures was put across all projects across the globe to manage and improve the cash flow, the results of which will naturally take some time to fructify but the management is confident of steering the company back on track in another few quarters...’. Further, it was observed from the email dated October 17, 2012 sent by S Akila (Company Secretary of ZSL) to Noticee 2, 3, 4 and 5 that as on October 17, 2012, the dividend amount was not credited to the dividend bank account of ZSL while the deadline was October 22, 2012 for the credit of the dividend to the account.

- b) It was observed from the email dated 04/10/12 sent by S Akila to Noticee 2, 3, 4, 5, 12 and Sriram Chakrapani (Financial Controller of ZSL) that ZSL had received legal notices dated September 27, 2012 under Negotiable Instruments Act from Watchdata Technologies India Pvt. Ltd. (the supplier of SCOSTA based smart cards to Zylog for issue of driving license and vehicle registration



cards for Government of Karnataka) for providing four cheques amounting to Rs. 99,99,152/- which were dishonored.

- c) Further, it was observed from the email dated September 18, 2012 sent by Ashiwini Sharma (employee of L & T finance Ltd.) to Noticee 4 and 5 that the very first installment cheque received from ZSL was bounced. In this regard L & T Finance also had forwarded two emails on September 21, 2012 and September 27, 2012 about the bounced cheque, and requested ZSL to release the payment with regard to the said installment. Further, ZSL defaulted the payment to L & T Finance Ltd for which one more legal notice dated September 28, 2012 received from L & T Finance Limited (lender to ZSL for a loan amount Rs. 30 Crore) for dishonoring of cheques amounting to Rs.2,83,75,015/-.
- d) Further, from the email dated October 07, 2012 sent by Noticee 12 to Noticee 3, 4 and 5, it was observed that their account with Federal Bank had already been classified as NPA as on September 30, 2012.
- e) It was observed from the email dated October 11 and 12, 2012 sent by Noticee 4 to Noticee 3, 5 and Sriram Chakrapani, that ZSL was in need of financial assistance and were planning to contact various financial institutions towards the same. Further, it was observed from the email dated August 10, 2012 sent by Dipesh Shah of IFIN to Prabhakar and Noticee 4, that IFIN requested for arrangement to transfer some stocks for margin shortfall in the account of Noticee 1 and Noticee 6 otherwise IFIN will be forced to sell the shares in these accounts to recover the interest amount without further notice.
- f) It was observed from the copy of email dated October 25, 2012 (sent by Viswanathan to Noticee 3, 4 and 5) that there was delay in salary related payments, as it was *inter alia* mentioned in the said email that the increments announced by ZSL about 3-4 months back was not paid. Thus, it was observed that ZSL was facing issues even with regard to salary related payments.

g) In view of the above, it was observed that ZSL was into financial crisis and it was unable to pay principal as well as interest installments with regard to various loans availed by it. Further, ZSL had failed to pay the dividend declared by it and also was facing issues with regard to salary related payments. Despite various issues ZSL made the disclosure that it was business as usual.

20. In view of the above, it was observed that ZSL made false and misleading disclosure on October 19, 2012 that the promoters were increasing their stake in the company and it was business as usual. Further, Noticee 2, 3, 4 and 5 were aware of the issues and they were behind the said disclosure of ZSL. Therefore, it was alleged that Noticee 2, 3, 4 and 5 have contravened Section 12A (a), (b), (c) of SEBI Act read with Regulation 3(a), (b), (c), (d), 4(1) and 4 (2) (a), (f), (r) of PFUTP Regulations.

**21. Misleading disclosures by the promoter:**

a) IFCI, Karvy and Religare Finvest Ltd (Religare) had invoked the shares of ZSL which was pledged with them by Noticee 1. Further IFCI, Karvy and Religare have sold them in the market to recover their dues. The details of the same are given in table below:

<b>Entity</b>	<b>Date of Pledge Invocation</b>	<b>No. of shares invoked</b>	<b>Date of intimation to Noticee 1</b>
Karvy	19/10/12	12,694	Vide email dated 19/10/12 (Sale of 29,000 shares)
Religare	31/10/12	1,49,776	Vide letter dated 31/10/12
IFCI	01/11/12	21,932	Vide letter dated 01/11/12
IFCI	02/11/12	86,314	Vide letter dated 01/11/12

b) Further, Noticee 1 had also taken loan against share facility from Religare. In this regard, Religare sent an email dated October 18, 2012 to Noticee 1 *inter*

*alia* stating, “margin intimation shortfall - Noticee 1 and requested to provide additional security/collateral by way of acceptable shares/stocks and/or monetary payment so as to bring margin level to minimum contractually agreed value i.e. 60%”. It was also observed that the Religare informed Noticee 1 about the aforesaid shortfall in its Loan account. Further, on October 31, 2012 Religare invoked the pledge and sold the shares of ZSL pledged with Religare and informed the same to Noticee 1 *vide* its email dated October 31, 2012, 5:11 P.M.

- c) The financial institutions namely IFCI, Karvy and Religare made the follow-up with Noticee 1 before invocation of pledge. However, Noticee 1 defaulted on loans taken from IFCI, Karvy and Religare. In view of the above, it was observed that promoters of ZSL were aware that there would be a possible invocation by IFCI, Karvy and Religare, subsequent to which there might be a sale of shares which might reduce their shareholding in the scrip of ZSL.
- d) The shareholding of Noticee 1 in the scrip of ZSL reduced from October 18, 2012 to November 02, 2012 (including market trades, pledge invocations and off-market transactions but excluding the off-market receipt of 30,000 shares from TCSS and 1,81,563 shares from Religare) as a result of the aforementioned transactions of invocation and subsequent sale of shares.
- e) Further, it was observed from the reply of Cameo India (the Registrar and Transfer Agent of ZSL during the investigation period) dated December 06, 2017 that the promoter shareholding had decreased during the period from October 19, 2012 to November 02, 2012.
- f) It was observed that Noticee 2 has provided false and misleading statement in media with respect to the news article dated November 02, 2012 that the promoters have increased their shareholding.

- g) In view of the above, it was alleged that Noticee 2 has provided false and misleading statement in media and thereby contravened Section 12A (a), (b), (c) of SEBI Act read with Regulation 3(a), (b), (c), (d), 4(1) and 4(2) (a), (f), (r) of PFUTP Regulations.

**22. Transactions between ZSL and Noticee 1 not captured in Financial Statement of ZSL during F.Y. 2011-12**

- a) It was observed from the available bank account statements of ZSL and Noticee 1 that multiple fund transfers were executed between them during the F.Y. 2011-12. As per the Annual Report of ZSL for the F.Y. 2011-12, Noticee 1 was described as “Enterprise influenced by Key Management Personnel”. Noticee 2 and 3 are the sole shareholders and directors of Noticee 1. Accordingly, Noticee 1 is a related party to ZSL. However, none of the aforesaid transactions between ZSL and Noticee 1 had been disclosed under the head “related party transactions” in the Annual Report of ZSL for the F.Y. 2011-12.
- b) With respect to the non-disclosure of transactions between ZSL and Noticee 1 during the F.Y. 2011-12, Noticee 2 and Noticee 3 *vide* their respective letters dated June 27, 2014 and March 01, 2014 *inter alia* submitted that the actual quantified fund amounts were inadvertently omitted to be included in the Annual Report of ZSL. The amounts are captured in the consolidated figures of debtors and creditors in the annual report.
- c) SEBI *inter alia* advised ZSL to provide the break-up of the loans and advances taken and the break-up of loans and advances given for the F.Y. 2011-12. ZSL *vide* letters dated March 03, 2016, March 07, 2018 and May 25, 2018 submitted the information. After analysis of the submissions of ZSL, it was observed that the transactions between ZSL and Noticee 1 had not been captured in the consolidated figures of creditors and debtors of ZSL in the Annual Report of F.Y. 2011-12.

- d) It was observed that the Brahmayya and Co was the Statutory Auditor of ZSL during the F.Y. 2011-12 and Noticee 6 was associated with the Brahmayya and Co since long. *Vide* letter dated February 28, 2018, SEBI *inter alia* advised Brahmayya and Co to provide its comments on the non-disclosure of the transactions between ZSL and Noticee 1 in the Annual Report of ZSL for the F.Y. 2011-12. P.S. Kumar of Brahmayya and Co, *vide* letter dated March 19, 2018, *inter alia* submitted, "...As explained by the management the transactions between ZSL and Sthithi are in the nature of amounts received by ZSL from Sthithi and paid out on account of the promoters. There was no interest charged on ZSL for receipt of funds and therefore they were not regarded as 'transactions' requiring disclosure. These transactions were not regarded as related party transactions and hence not mentioned in our audit report...". The definition of related party transaction as given in Accounting Standard – 18 is reproduced as under: "*10.1 Related party transaction – a transfer of resources or obligations between related parties, regardless of whether or not a price is charged*". From the above definition it is clear that price is not the criteria to determine the related party transaction. Hence the statement of the Brahmayya and Co that there was no interest charged on ZSL for receipt of funds and therefore they were not regarded as 'transactions' requiring disclosure was alleged to be incorrect.
- e) In view of the above, it was observed that ZSL did not disclose the related party transactions in its Annual Report for the F.Y. 2011-12. It was observed that Noticee 2, 3 and 5 falsely vouched for the accuracy of the financial statements in the Annual Report of ZSL for the F.Y. 2011-12. Thus, Noticee 2, 3 and 5 allegedly aided and abetted ZSL in publishing of aforesaid false and misleading information and thus, it was alleged that Noticee 2, 3 and 5 contravened Section 12A (a), (b), (c) of SEBI Act read with Regulation 3 (a), (b), (c), (d) and 4 (2) (f), (r) of PFUTP Regulations.

**23. Alleged violation of disclosure requirements under PIT and SAST Regulations**

- a) *Vide* email dated May 02, 2013, both BSE and NSE *inter alia* submitted that during the investigation period they had not received any disclosures from the promoters of ZSL viz., Noticee 1, 2 and 3 in accordance with the provisions of SAST Regulations and PIT Regulations.
- b) Therefore, it was alleged that the Noticee 1, 2 and 3 did not disclose their pledge related transactions in the scrip of ZSL during the investigation period to BSE and NSE.
- c) *Vide* letter dated November 10, 2017, SEBI advised ZSL *inter alia* to provide certified copy of all the disclosures received from the promoters, directors of ZSL under SAST Regulations and PIT Regulations, 1992 pertaining to the period January 01, 2012 to December 31, 2012. *Vide* letters dated March 31, 2018 and May 25, 2018, ZSL *inter alia* submitted, “...*neither this office nor the Zylog team confirms the completeness of the documents as there are still various files and folders which are missing from the records....*”.
- d) From the letters dated October 07, 2013, March 01, 2014 and June 27, 2014 of Noticee 1, 2 and 3 respectively, it was *inter alia* observed that they themselves had admitted the aforesaid non-disclosure of their pledge related transactions in the scrip of ZSL during the investigation period.
- e) In view of the above and the fact that Noticee 1, 2 and 3 themselves had already admitted that they did not made the disclosures in this regard, it was alleged that Noticee 1, 2 and 3 did not disclose their pledge related transactions in the scrip of ZSL during the investigation period to ZSL, BSE and NSE. Thus, Noticee 1, 2 and 3 alleged to have contravened Regulations 31(1) and 31(2) read with Regulation 31(3) of SAST Regulations.

- f) It was observed from the trade log of BSE and NSE and demat statements from NSDL and CDSL that Noticee 2 and 3 did not trade in the scrip of ZSL during the investigation period. However, they had engaged in off-market transactions of more than 25,000 shares or more than Rs. 5 lakhs in value.
- g) Further, Noticee 1 had traded in the scrip of ZSL during the investigation period and on many instances the number of shares traded were more than 25,000 shares or more than Rs. 5 lakh in value. Noticee 1 had also engaged in many off-market transactions of more than 25,000 shares or more than Rs. 5 lakhs in value.
- h) Noticee 1, 2 and 3 were required to disclose all such instances to the ZSL, BSE and NSE within two working days under Regulation 13 (4A) read with Regulation 13 (5) of PIT Regulations, 1992 and ZSL was required to disclose the same to BSE and NSE within two working days under Regulation 13 (6) of PIT Regulations, 1992. *Vide* email dated May 02, 2013, both BSE and NSE *inter alia* submitted that they had not received any disclosures from the promoters of ZSL viz. Noticee 1, 2 and 3 in accordance with the provisions of SAST Regulations and PIT Regulations during the investigation period. Therefore, it was alleged that Noticee 1, 2 and 3 did not disclose their transactions in the scrip of ZSL during the investigation period to BSE and NSE.
- i) Further, *vide* letter dated November 10, 2017, ZSL was *inter alia* advised to provide certified copies of all the disclosures received from the promoters, directors of ZSL under SAST Regulations 2011 and PIT Regulations, 1992 pertaining to the period January 01, 2012 to December 31, 2012. *Vide* letters dated March 31, 2018 and May 25, 2018, ZSL *inter alia* submitted, “...neither this office nor the Zylog team confirms the completeness of the documents as there are still various files and folders which are missing from the records...”. From the letters dated October 07, 2013, March 01, 2014 and June 27, 2014 of Noticee 1, 2 and 3 respectively, it was *inter alia* observed that they themselves

had admitted the aforesaid non-disclosure of their transactions to ZSL in the scrip of ZSL during the investigation period.

- j) In view of the above and the fact that Noticee 1, 2 and 3 had already admitted that they had not made the disclosures in this regard, it was alleged that Noticee 1, 2 and 3 did not disclose their transactions in the scrip of ZSL during the investigation period to ZSL, BSE and NSE. Thus, Noticee 1, 2 and 3 were alleged to have contravened Regulation 13 (4A) read with Regulation 13 (5) of PIT Regulations, 1992 read with Reg. 12 of SEBI PIT Regulations, 2015.

#### **24. Non disclosures by Director of ZSL**

- a) It is observed from the trade log obtained from BSE and NSE and demat statements from NSDL and CDSL that Noticee 6 had traded in the scrip of ZSL during the investigation period and on many instances the number of shares traded were more than 25,000 or more than Rs. 5 lakh in value. Further, Noticee 6 had engaged in many off-market transactions in which the number of shares were more than 25,000. Noticee 6 is related to Noticee 4 (then Whole Time Director of ZSL). Further, ZSL has disclosed Noticee 6 as the dependent of Noticee 4.
- b) It is observed that Noticee 4 being the director of ZSL and Noticee 6 being his dependent was required to disclose all such instances to ZSL, BSE and NSE within two working days under Regulation 13 (4) read with Regulation 13 (5) of PIT Regulations, 1992 and ZSL was required to disclose the same to BSE and NSE within two working days under Regulation 13 (6) of PIT Regulations, 1992.
- c) It is observed from email dated May 02, 2013 of BSE and NSE *inter alia* that they had not received any disclosures from Noticee 4 in accordance with the provisions of PIT Regulations 1992 during the investigation period. Therefore, it was alleged that Noticee 4 did not disclose the transactions of his dependent Noticee 6 in the scrip of ZSL during the investigation period to BSE and NSE.



Further, *vide* letters dated March 31, 2018 and May 25, 2018, ZSL *inter alia* submitted, "...neither this office nor the Zylog team confirms the completeness of the documents as there are still various files and folders which are missing from the records...". It is also observed from the letter dated July 30, 2014 of Noticee 4 and Noticee 6 that they themselves had admitted the aforesaid non-disclosure of their transactions in the scrip of ZSL during the investigation period to ZSL.

- d) In view of the above and the fact that Noticee 4 and 6 had already admitted that they had not made the disclosures in this regard, it was alleged that Noticee 4 did not disclose the transactions of his dependent viz. Noticee 6 in the scrip of ZSL during the investigation period to ZSL, BSE and NSE and thus, alleged to have contravened Regulation 13(4) read with Regulation 13(5) of PIT Regulations, 1992 read with Regulation 12 of PIT Regulations, 2015.

## **25. Alleged violation of SCRA and DIP Guidelines**

- a) ZSL had come out with its Initial Public Offering during the year 2007. As per the Red Herring Prospectus (RHP) of ZSL dated July 07, 2007, Noticee 4 was an Independent Director of ZSL. Further, Noticee 4 is related with Noticee 6 as husband and wife and with Noticee 5 as Brother in Law. As per the said RHP, Noticee 6 was holding 11 lakh shares of ZSL representing 8.56% of then shareholding of ZSL and the fourth largest shareholder of ZSL. Also, Noticee 6 had dealings with the promoter of ZSL even before the IPO of ZSL. Noticee 6 had received/transferred shares of ZSL from/to Noticee 3 (Promoter of ZSL) on January 18, 2002 and February 05, 2007 respectively. Further, Noticee 5 was the Finance Controller of ZSL since July 01, 2005. Noticee 4 was the director of Zylog Systems (India) Limited, a wholly owned subsidiary of ZSL since December 28, 2005.
- b) The relationship amongst Noticee 4, 5 and 6 was not disclosed in the aforesaid RHP. Despite being related directly to the then 4<sup>th</sup> largest shareholder and the

then Finance Controller, Noticee 4 was indicated an Independent Director in the aforesaid RHP of ZSL. Also, both Noticee 4 and Noticee 5 were signatories to the said RHP.

- c) Noticee 4 was reflected as Independent Director in aforesaid RHP of ZSL and its filings with Stock Exchanges, as part of Investors' grievance committee, Remuneration committee (as Non- Executive Independent Director) as per the Annual Report filed with Stock Exchange despite not being so.
- d) With regard to other directorships, the name of Twinkle Natural Resources Private Limited was not disclosed despite Noticee 4 being a director in the said company, as on the date of RHP.
- e) In view of the above, it was alleged that Noticee 4 and Noticee 5 have contravened Clause 6.15.2 of DIP Guidelines (read with ICDR Regulations 2009 and ICDR Regulations 2018).

26. The SCN was served upon the Noticees 4, 5, 6, 9, 10, 11 and 12 through Speed Post Acknowledgement (SPAD)/Email. Noticees 4, 5 and 6 filed their reply to the SCN on June 30, 2020, July 8, 2020 and additional submissions on July 20, 2020. Noticees 9, 10, 11 and 12 filed the reply on August 13, 2020. Noticee 12 filed additional submissions *vide* email dated August 27, 2020.

27. Opportunity of hearing was provided to the Noticees and Authorized Representatives attended the hearings along with Noticees 4, 5, 6, 9, 10, 11 and 12. Mr. Ravichandra S Hegde and Mr. Robin Shah appeared for the hearing on July 10, 2020 as authorized representative of Noticees 4, 5 and 6. Mr. Jaikishan Lakhwani appeared for the hearing on August 17, 2020 as authorized representatives of Noticees 9, 10, 11 and 12.

28. The SCN was affixed at the last known addresses of the Noticees 1, 3 and 7. The SCN was also served upon the Noticees 1 and 3 through email addresses as

obtained from the depositories. Further, the SCN and Hearing Notices were served upon the Noticees 2 and 8 through newspaper publication. In the interest of justice, an opportunity of personal hearing was also provided to the Noticees 1, 3 and 7 through newspaper publication. Noticees 1, 2, 3, 7 and 8 neither appeared on the scheduled date of personal hearing nor was any reply to the SCN received from the Noticees 1, 2, 3, 7 and 8.

29. I note that, through the SCN and the hearing notices, the Noticees 1, 2, 3, 7 and 8 were advised to furnish their reply, if any, within stipulated time, failing which, it shall be presumed that the Noticees have no reply to submit and the matter will be proceeded on the basis of the material available on record in terms of sub-rule (7) of rule (4) of the Adjudication Rules.

30. As sufficient opportunity was given to the Noticees 1, 2, 3, 7 and 8 to submit reply and appear for hearing and no response was received from them, the adjudication proceedings against the Noticees 1, 2, 3, 7 and 8 are undertaken ex-parte on the basis of material available on record.

31. The submissions of the Noticees made in their replies are summarized as below:

**Submissions of Noticee 4, 5 and 6:**

32. Noticee 4, 5 and 6 submitted that the proceedings are being conducted in complete disregard to the principles of natural justice and fair play, since complete inspection of records, in particular the Investigation Report of SEBI is denied, which form the basis of the entire proceedings. They further stated that, *'As you will appreciate that the Show Cause Notice, which is based on the documents relied upon by SEBI, contains serious charges against us, which potentially can be of grave prejudice to us. At the time of investigation, we had assisted the Administrator of ZSL, in providing all the required documents and submissions to SEBI. We had cooperated with the Investigation Officer, which clearly demonstrates that there cannot be any allegation of any wrongdoing on our part. However, the Investigation*

*Report which is the fundamental basis of the Show Cause Notice does not seem to have considered all the issues. We would, therefore, wish to understand the matter in perspective and review all the records (including the Investigation Report) and the statements recorded by SEBI during the investigation.'*

33. The erstwhile Whole Time Member, SEBI by his Order dated June 07, 2016 had directed SEBI to investigate in the matter wherein he opined that, *'It is also a legal contention put forth by Sripriya that she cannot be PAC with the promoters as the deeming fiction shall not extend to entities across different entities. Sripriya has also stated that she has borrowed money from financial institutions for trading in Zylog and that she did not have any right to exercise voting rights on such shares in view of the various covenants/clauses in the agreements entered with the financial institutions. I also note that the acquisition of 0.63% by Sthithi alone would not lead to triggering Regulation 3 (2) of the Takeover Regulation. Therefore, to prove the allegations, it needs to be seen whether Sripriya (who acquired 6.43%) was a PAC with the promoters in respect of the impugned acquisition.'*

34. Noticee 4 and 6 stated that the important facts, which were to be investigated, are missing in the SCN as mentioned below:

a) The allegation against Noticee 6 was that she failed to make an open offer which was made on an incorrect finding that she is a person acting in concert' with the promoters of ZSL and her shareholding had increased beyond the threshold limit which warranted an open offer. As per definition of person acting in concert ("PAC"), the relevant persons are required to act with a common objective or purpose for the acquisition of shares or voting rights in, or exercising control over a target company with an agreement or an understanding with each. SEBI on one hand has alleged that the promoters were facilitating their exit from ZSL whereas on other hand it has alleged that Noticee 6 was buying shares of ZSL.

b) The very basic ingredient for the trigger of an open offer under the SAST Regulations is the "entitlement to exercise voting rights". In the present case, the voting rights vested with the lenders and Noticee 6 had no entitlement to vote. Even assuming for the sake of argument, that she was a person acting in concert with the promoters of ZSL, it is important to note that the relevant shares along with the underlying voting rights were vested in favour of lenders who lent funds to her (for instance, JM Financial Products Limited and Motilal Oswal Financial Services Ltd). In addition to controlling the shares which were purchased by Noticee 6, the financial institutions had rights over such shares which ultimately were sold by them for the defaults in repayment of dues by her.

35. The erstwhile WTM directed that aforesaid issues need to be examined by SEBI and therefore they were not directed to come out with an open offer at the relevant point in time. The erstwhile WTM directed SEBI to investigate said aspects, amongst others. However, said critical issues have still been left unanswered and unexamined by the investigation team of SEBI. Hence, it appears, there is a reluctance on the part of the SEBI to part away with the Investigation Report. Continuing the present proceedings on half-baked facts and unexamined facets is against the principles of fair play and natural justice and therefore the SCN ought to be disposed-of at the thresholds itself.

36. Noticee 4 and 6 submitted that proceedings under Section 11B of the SEBI Act, 1992 on essentially the same issue is pending before the Whole Time Member. They have requested to consider the order of the WTM before deciding the instant proceedings.

37. Noticee 4, 5 and 6 submitted that they have been arraigned in the captioned proceeding based on the investigation conducted by SEBI as stated in the SCN, which is an incomplete exercise. SEBI Investigation Team has failed to consider critical aspects in the matter and relied upon selective emails without any corroboration and without even calling them to provide their statements. All that is

considered relevant to the investigation is documents pertaining to KYC from the brokers where Noticee 4 and 5 were mentioned for correspondence and some emails which have been gathered which are totally unconnected to the present controversy. Based on such documents, it arrived at a finding that they were the key person managing and controlling the trading account of Noticee 1 and Noticee 12. As regards Noticee 6 who is wife of Noticee 4 and sister of Noticee 5, no relevance to correlate her trading account with other accounts.

38. Noticee 4 stated that he is a Chartered Accountant by profession. He got associated with ZSL in the year 2007 as a Professional Director. ZSL got listed on NSE/BSE in August 2007. His wife, Noticee 6 was a shareholder even before ZSL was listed. The promoters of ZSL viz, Noticee 2 and 3 changed his designation to executive director in May - 2010. As per the Articles of Association ("AoA") of ZSL, an executive director of ZSL shall not be construed as Director of the company and shall not have any of the rights and powers or be subject to any duties of Director of the Company. His appointment as Executive Director was mainly to provide professional guidance in strategizing new business initiatives of ZSL as the company was aggressively expanding at that time and to present the quarterly performance of ZSL in analysts calls. Mr. K. Prabhakar ("Prabhakar") was appointed by the promoters of ZSL as the specific person to deal with the trading account of the promoter group entities. Prabhakar had the necessary skill to manage the same, due to experience working with brokers and had resigned from Karvy Stockbroking to join ZSL. Noticee 4 was later asked by the promoters to coordinate the matters pertaining to the trading besides his regular work which was providing professional advice. His scope of work was therefore limited to being a coordinator of instructions and decision making process. He had no rights or any privileges of a Director as per the direction and Clause 95 of AoA of ZSL. The said Clause 95 of AoA of ZSL which deals with appointment of Executive Director/Special Director is reproduced below:

*'Executive Directors / Special Directors:*

*95 a. The Board of Directors shall have power to appoint from time to time and at any time at their discretion one or more persons as Executive Directors or Special*

*Directors in the employment of the Company on such terms and conditions as to remuneration or otherwise as the Board may deem fit and to vary the same from time to time and at their discretion to remove or suspend the persons from the said offices. **The persons so appointed shall not be Directors of the Company within the meaning of the Companies Act nor shall they have any of the powers of or be subject to any of the duties of a Director.***

*b. The Board of Directors may determine by Special or general order the designation under which persons shall describe themselves and sign papers and documents and correspondence relating to the business of the Company and such designation may be either Special Director or Executive Director or any other designation of which the word Director forms a part with such additions as the Board of Directors may from time to time, determine.*

*c. **The use of the word 'Director' in the designation shall not be construed as constituting such person as Director of the Company for any purposes of the Act and such persons shall not have any of the rights and powers or be subject to any duties of the Directors of the Company.***

*d. Such special Director shall exercise such powers and discharge such duties as the Board of Directors may from time to time determine.'*

39. ZSL was managed and controlled by Noticee 2 and Noticee 3 since 1995. They held 43% of ZSL shares. Hence, they never required support of Noticee 4 to be in control of ZSL. There was no single largest shareholder even to compete with the promoters and there was no threat or any concerns over the management and control of ZSL by the promoters. Every decision was taken by the promoters with advice from Mr. V. Viswanathan ("Viswanathan"), elder brother of Noticee 2, who is interestingly not named in the list of Noticees by SEBI although he occupied a prominent position in the company (admittedly referred in many documents and references wherever name of Noticee 4 is mentioned). Mr. Prabhakar was appointed by Noticee 3 in 2011 as accounts executive of ZSL to take care of the share trading activity of promoter entity. Both of them worked under the instruction and control of promoters. It is a matter of record that Noticee 4 was compelled to resign from the Board because of the treatment given to him. He resigned from

ZSL on June 24, 2013. The promoters did try to retain him, and the relieving letter is self-explanatory. Noticee 4 provided the copy of the relieving letter.

40. Noticee 4 and 5 stated that he had always acted professionally and in the best interest of the Company and its shareholders. The same is validated by the fact that when High Court Madras appointed an Administrator for ZSL in November - 2015 to revive the Company, the shareholders of ZSL recommended that Noticee 4 be on board as an independent professional director to assist the Administrator. On the other hand, the shareholders removed both the promoters of ZSL from the Board of Directors of ZSL vide resolutions in the annual general meetings held on November 2014 and November 2015. The Administrator has commended his efforts in reviving the company in his reports submitted with High Court Madras from time to time.

41. Noticee 6 who was a shareholder of ZSL since year 2002, has also been arraigned in the instant proceedings. Most of the allegations against Noticee 4 emanate from her dealings in the shares of ZSL and fund transactions with ZSL. Her dealing in the shares of ZSL has been jumbled up with independent other transactions and generic allegations are made against both based on same.

42. Noticee 4 submitted that the allegations contained in the SCN are unsustainable, primarily on the following grounds, which are without prejudice to each other. These grounds goes to the root of the controversy in the present matter:

*'i. The SCN is based on incomplete investigation which relied upon irrelevant facts and documents and singularly failed to look into the aspect as directed by the learned Whole Time Member vide Order dated June 7, 2016. The SCN relies on set of email communications. Without going into the depth of such email communication, the investigating team tried to interpret the same in a manner detrimental to me and without even providing me with an opportunity to explain the same which is relevant to me.*



ii. The SCN is based on wrong inference that I was person-in-charge of managing and controlling the trading account of Noticee 1, Noticee 6 and Noticee 12, an allegation made on the basis of KYC documents and email which clearly defeats the conclusions drawn by SEBI. The promoters of ZSL viz., Ram and Sudarshan committed complex fraud and have absconded since then. Not only have they duped me and investors including my wife but have duped several banks which have filed multiple proceedings against them. They have left the country and I understand that they have now settled in United States of America (USA). In all the complaints and chargesheet filed by Central Bureau of Investigation ("CBI, and (Enforcement Directorate'), the promoters and their companies are arraigned as accused including the persons who controlled such promoter companies.

iii. SCN is based on wrong inference that Mr. S.P. Srihari and I were person-in-charge of ZSL, which isn't the case. The driving force behind ZSL were the promoters of ZSL viz. Mr. Ram and Mr. Sudarshan and their decisions were being implemented by Mr. Viswanathan who was the General Manager (Administration & Secretarial) who was acting as the defacto CEO of Indian Operations, Mr. Sriram Ramesh Chakrapani (Financial Controller) who was a close relative of Mr. Ram and Mr. M. V. Ganesan (Vice President — Corporate Accounts).

iv. It was Mr. Viswanathan who was controlling the secretarial and the reporting activities of ZSL and representing the promoters in India. The role of Mr. Viswanathan is mentioned everywhere in the SCN (Ref Paragraph 7 (c), (h) & (i) of SCN). Despite clearly specifying his role, he is not arraigned as Noticee. Similar observations are made against me as well, however, I am subject to regulatory proceedings on the very such documents, without even asking for my explanation over such documents. Therefore, on principles of parity, I must also be let-of.

v. The allegation against me with respect to me being a "PAC" is unsustainable and baseless because of the following reasons:

a. I was never a shareholder of ZSL.

*b. I had no control over the management and day to day business of the company and have acted only under the instructions of the promoters.*

*c. the basic particulars of the alleged failure and trigger to make an open offer under the SAST Regulations has not yet been provided by SEBI.*

*d. My wife's shareholding in ZSL has not crossed the applicable threshold limit of 5% since the very basic ingredient for the trigger of an open offer under the SAST Regulations was absent*

*vi. SEBI has failed to show how the rebuttable presumption with regard to status of a person acting in concert with other persons within the same category as specified in Regulation 2(1)(q), 200 (iii) (iv) and (v) of the SAST 2011 is attracted in the present matter to begin with.*

*vii. The allegations with respect to PFUTP Regulation has been alleged on an incorrect assumption that I was behind and aware in transferring of the funds of ZSL to my wife, which was in-turn used to deal in its shares, however, the fact is that my wife had borrowed funds from NBFCs/lenders vide loan agreements for dealing in the share market. Even such an observation, cannot be termed to be fraudulent by any stretch of imagination.*

*viii. The fund transaction between ZSL and my wife was towards advance payment received towards the sale of immovable property as per the Sale Agreement and it has no correlation with her dealing in shares of ZSL.*

*ix. ZSL had a full time Company Secretary, who was also the designated Compliance Officer of ZSL. She was taking instructions directly from promoters or through Mr Viswanathan who was her reporting superior. I was neither involved nor responsible for the disclosures made by ZSL, as alleged, and therefore I should not be held accountable for the same.*

*x. The failure to make disclosures under Regulations 13(4) read with 13(5) of the PIT Regulations, 1992 was corrected by me in the disclosures made to BSE and NSE on February 20, 2020 and as on date the same is complied with.*

*xi. With respect to disclosure with regard my association with Twinkle as a director in the RHP is concerned, it was an inadvertent lapse by the secretarial department of ZSL. In any event, considering I was not in control of ZSL, I cannot be held responsible for the incorrect/false disclosure made by the promoters of ZSL.*

*xii. There is no basis to proceed against me under PFUTP Regulations since the basic ingredients of PFUTP are not attracted. Even if all allegations under PFUTP are taken as correct, PFUTP charges could be only against promoters and not against me.'*

43. Noticee 4, 5 and 6 submitted that they received a separate SCN dated August 02, 2019 ("11B SCN") from SEBI for same set of violations and issued pursuant to same investigation. The captioned SCN proceeds on the fact that there is a failure to make open offer whereas 11B SCN has asked them to show cause why open offer is not warranted. The present SCN calls upon to explain why penalty should not be levied for failure to make an open offer. Therefore, the issue of whether an open offer is at all required is still pending before the WTM. Noticee 4, 5 and 6 have filed an application with the WTM. The copy of application filed with WTM is submitted with this reply.

44. Noticee 4 stated that the driving force behind ZSL have always been the promoters viz. Noticee 2 and 3. Their decisions were implemented by Mr. Viswanathan who was in charge of administration and Secretarial activities, the entire finance and accounts team at ZSL, including Mr. Prabhakar who was appointed as accounts executive of ZSL as he was having experience in dealing with stock market intermediaries. Even the SCN and its annexures at various places captures this fact. Noticee 9, 10 and 12 have given statements under Section 164 before a CBI magistrate court that all their actions in ZSL were under the instructions of the promoters of ZSL i.e. Noticee 2 and 3 either directly or through Mr. Viswanathan.

Further, Administrator of ZSL has issued a letter to SEBI in which he has stated that ZSL was controlled by Noticee 2 and 3. Administrator refers to a meeting he had with Mr. K Ramadoss of Ramadoss & Co, Chartered Accountants, the erstwhile auditor of ZSL. During this meeting Mr. Ramadoss categorically mentioned to the Administrator that the entire Company and specifically the Financial Operations were personally handled by the Promoters of ZSL.

45. Noticee 4 submitted that since his joining in ZSL as Executive Director, he was handed over with the responsibility to interact with analysts and institutional investors of ZSL at regular intervals, more so during quarterly results of ZSL, when conference calls with various brokerages, analysts and investors would happen to present the quarterly results of ZSL. In order to effectively answer the queries raised by analysts, he used to interact and coordinate between promoters as they were hands on managers of the company and finance team to take inputs on the quarterly numbers. This has been given the colour of him being a Key person in share related activities of ZSL in the SCN. Noticee 4 further stated that the promoters committed a fraud and left ZSL in disarray, and they were removed from the company by shareholders and they moved out of India more than 4 years ago and it is noted that they have not even cooperated in the investigation conducted by SEBI. Even the Administrator of ZSL has recorded this fact in the Reports he has filed with High Court Madras and with SEBI. The promoters as such are also named as prime accused in the charge sheet filed by CBI and their assets have been attached by ED vide a PMLA investigation and all such allegations recorded in parts in the SCN are in-fact the actions committed by the promoters of the ZSL.

46. Noticee 4 submitted that on the request of the Administrator and the shareholders of ZSL, Noticee 4 along with his brother in law Noticee 5, were appointed as independent director of ZSL in November 2015 to assist the Administrator as well as the Hon'ble High Court of Madras in revival of ZSL. Despite the same, SEBI failed to appreciate their bona fides, and moreover, instead of proceeding against the actual perpetrators of the alleged offences, random allegations are made against them. In most paragraphs of the SCN, there are generic observations

against Noticee 4 and the charging section is applied against ZSL. While, the proceedings against ZSL have been dropped vide Order dated May 28, 2020 passed by the adjudicating officer.

47. Noticee 4 submitted that SEBI has proceeded on an incorrect presumption that he was controlling the shareholding of Noticee 6 in ZSL. This presumption has been made in complete disregard to the fact that Noticee 6 is financially independent from him. Merely because he received trade confirmations from the brokers of Noticee 6 and his mobile number is listed in the KYC forms of such brokers, SEBI has incorrectly concluded that he was managing and controlling her shareholding. The inference drawn by SEBI is baseless as Noticee 6 had employed few independent people to manage her trading in her accounts and Noticee 4 used to get involved only when she sought any help. There can be nothing unusual in a husband having a watch on his wife's trades on her request. With minor shareholding in ZSL, there cannot be any significance of such shareholding. Noticee 4 further submitted that, Noticee 6 had no special rights or even a representative Director on board and therefore her shareholding does not matter in any manner more particularly because of the pledge of her entire shareholding with the financial institutions. Noticee 6 never exercised any voting rights over such shares. In any event, assuming there was any voting rights or substantial shareholding, it is not clear what influence" or "significant influence" her shareholding or voting rights had in the company where promoter had unquestioned dominant shareholding.

48. Noticee 4 further stated that SEBI has made a bold and baseless statement that he was controlling the shareholding of promoters of ZSL. In this regard, it is relevant to note the meaning of the term "control". This expression is defined in Section 2(27) of the Companies Act, 2013, as follows:

*(27) "control" shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their*

*shareholding or management rights or shareholders agreements or voting agreements or in any other manner.*

As is evident from the above, the expression "control" is defined in two parts. The first part refers to de jure control, which includes the right to appoint a majority of the directors of a company. The second part refers to de facto control. There is no document on record to establish that Noticee 4 had a right in appointment of directors or was controlling the management. Merely relying upon certain emails and without going into the depth of the same, it is concluded that he was the person in control of the promoter's shareholding. SEBI has completely ignored the fact that he was only receiving the emails as the promoters were constantly travelling abroad and he was simply forwarding such emails to them. Noticee 4 submitted that following instances (emails) depict his non-involvement:

Email	Contents
From Krishan R to Srikanth and Srihari dated March 19, 2010, 10:46 AM	Giving instructions regarding holdings of Sthithi and the declarations to be made as per SEBI regulations
From Santosh Saravana - Reliance Ada to Viswanathan dated May 27, 2010, 3:43 PM	Sharing the sanction letter for Sthithi for the LAS promoter funding against the shares of ZSL
From Sudarshan to Ganesan dated September 1, 2010 11:45 AM from Ganesan to Srikanth and Srihari dated September 1, 2010, 2:06 PM	Instructions and information with respect to Sthithi originated from Sudarshan, which are sent to Ganesan and then forwarded to Srikanth
From Srikanth to Prabhakar dated July 3, 2012, 12.23 PM	Srikanth is coordinating between L&T and Ganesan. Information was sought by L&T and Srikanth has forwarded the request to Ganesan
From Sudarshan to Prabhakar dated September 28, 2012, 2:21 pm; marking Srikanth and Srihari	Financial statements of Sthithi are sent to Prabhakar for final review and confirmation
From Sanjeev from IFCL to Ganesan and Prabhakar dated August 24, 2012, 4:25 PM	Letter in attachment sent directly to Ganesan and Prabhakar

From Srikanth to Prabhakar dated October 15, 2012, 8:13 PM; and October 29, 2012, 4:54 PM	Letter on behalf of promoters addressed to IFCI are forwarded to Prabhakar for due action
Correspondence between KR Choksey and Ganesan and Prabhakar - October 29, 2012	The broker approached Ganesan for details and Prabhakar filled the requisite forms sent out the details

49. Noticee 4 submitted that there is no basis for the observation that Prabhakar was reporting to him. Prabhakar was appointed by the promoters themselves based on his knowledge and experience for the purpose of managing their shareholding. As is rightly observed in the SCN in Paragraph 14(h), Prabhakar was managing all related entities. However, on the basis of incorrect understanding not supported by any evidence, it has been concluded that Prabhakar was reporting to Noticee 4 and therefore he was controlling the shareholding of Promoter. Prabhakar in his statements has even confirmed this position.

50. With respect to allegation that Noticee 4 was controlling the shareholding of Noticee 1 in ZSL, Noticee 4 stated that SCN has disregarded the fact pertaining to the active involvement of Mr. Viswanathan in account opening of the broker. A bare perusal of the KYC forms submitted to the brokers depict that it was Viswanathan who had signed all the forms. Despite the same he has not been arraigned in the proceeding. However, merely because email id and mobile number was entered into the KYC form, Noticee 4 has been dragged into this controversy. Noticee 4 further stated that he never entered any forms, it was all entered by the promoters or Viswanathan.

51. With respect to allegation that Noticee 4 had received trade confirmations from a broker of Noticee 1 namely Twenty First Century Shares & Securities and his email ID and phone number is mentioned in KYC of few brokers and NBFC of Noticee 1, and he was managing and controlling the shareholding of Noticee 1, Noticee 4 submitted that these accounts were in fact managed and controlled by Mr Prabhakar who has years of experience in handling Stock market intermediaries which precisely is the reason why he was recruited by the promoters of ZSL in the

year 2011. Noticee 4 further stated that Mr. Prabhakars' statement itself bears these facts, he was the person who was in daily contact with all the intermediaries. He acted on behalf of the promoters and upon their instructions he used to place orders with brokers of Noticee 1. As the promoters were constantly travelling and not stayed put in India, they had requested to keep a watch on the trades in their accounts.

52. Noticee 4 submitted that based on the reply of certain brokers it is alleged that he was the person placing trades on behalf of Noticees 1, however, these statements have been made by the brokers without any basis. There is no authority letter or voice recordings that was produced by the brokers that could justify that the trades were placed by him. In view there of the conclusion drawn in the SCN that Noticee 4 was controlling the trades of Noticee 1 is unjustified and cannot be sustained. According to Noticee 4, not even a single email suggests that he was exercising influence over shareholding of Noticee 1 or decided any issue in relation to the trading account of Noticee 1. The emails received by Noticee 4 are merely coordinative in nature. The emails received by him regarding trades of Noticee 1 has been immediately forwarded to Mr. Prabhakar and promoters. As an employee of ZSL, Noticee 4 was carrying out the directions and instructions of the employer and the email forwards clearly evidences this position. If he was the decision making personnel, there was no requirement of Mr. Prabhakar who was hired only to advice and take charge of the trading accounts by the promoters. Further, in the investigation conducted by CBI in the affairs of Noticee 1, only Noticee 2 and 3 were show caused because of their active involvement and accordingly charge sheeted. The investigation recorded no involvement of Noticee 4 in the affairs of Noticee 1.

53. With respect to alleged violation of SAST Regulations, Noticee 4 submitted that the said allegation is based on the incorrect footing that he was controlling the shareholding of promoters. Based on this incorrect inference, his wife's shareholding is clubbed with the promoters holding and they have been collectively labelled with the tag of "PAC". Noticee 4 stated that he never bought or sold even



a single share of ZSL, in the absence of which, it is totally incomprehensible to consider him as PAC with others for the alleged violation of the SAST Regulations. According to him, the entire grouping is erroneous and is without any basis. Since the grouping is erroneous the whole edifice of the SCN fails.

54. Noticee 4 further submitted that the open offer requirements could not have been triggered in the first place since the very basic ingredient for the trigger of an open offer under the SAST Regulations, which is the "entitlement to exercise voting rights" was absent in the shares acquired by Noticee 6. She had taken loans from certain NBFCs with whom her shares in ZSL were pledged. Therefore, the voting rights in her shares always vested with the NBFCs/lenders and she had no entitlement to vote. In addition to controlling the shares which were purchased by her, the lenders had rights over such shares which ultimately were sold by them for the defaults in repayment of dues by her.

55. With respect to allegation of violation of PFUTP Regulation, Noticee 4 submitted that the said allegation is on account of an incorrect presumption that funds of ZSL were transferred to his wife to purchase the shares of ZSL. It has been alleged that he was behind and aware of the transfer of funds and hence liability has been attributed upon him. SEBI has failed to consider the fact that Noticee 6 was dealing in the shares of ZSL since the year 2002. Prior to April 1, 2012 i.e. the earliest date of transfer of funds between Noticee 6 and ZSL, she was holding almost 16,44,361 (11%) shares of ZSL which were bought by her over the years. There is no correlation between the funds received from ZSL and dealings of Noticee 6 in the shares of ZSL. Noticee 6 has suffered huge loss on account of her bullish view on the scrip of ZSL. If he was behind her investment decision and was aware about the actual status of ZSL, she would have known that Karvy Financial Services Ltd and IFCI Limited which had lent funds to the promoters of ZSL sold their shareholding which was a distress sale. Such sale of promoters' shareholding holdings by the financial institutions resulted in the price of the scrip fall beyond imagination and therefore all her lifetime holdings were depleted. This also resulted in defaults as the financial institutions who had lent funds to her started selling the

shares which were pledged. The impact was such that till date there has been a huge outstanding due owed to the financial institutions and other lenders. Considering these factors, there cannot be any dispute to the fact that the transfer of funds from ZSL towards the proposed sale of land was only a co-incidence and there is no correlation with her dealing in ZSL.

56. With respect to generic observations made in the SCN, Noticee 4 stated as under:

- i. The funds received by Sripriya from ZSL and the repayment of the same to ZSL was by virtue of the Agreement of Sale of the Subject Land and subsequent cancellation thereof. The same position is also affirmed by the company in details provided by them [Ref. Annexure 22 of SCN].*
- ii. As part of the bargain to make the repayment to ZSL and taking into consideration the financial difficulties faced by Sripriya, the promoters connected me with certain financiers known to them, for granting friendly loans, without charging interest to enable Sripriya to honour her commitments with her NBFCs.*
- iii. Even the signing of guarantee by ZSL on behalf of Sripriya for loans taken by her with JM Financial and NSIPL is also in furtherance to the aforementioned arrangement with the promoters of ZSL. However, ZSL has not made any payment to these NBFCs toward discharging guarantee obligation.*
- iv. Sripriya had validly purchased the Subject Land from a close family acquaintance known to us for over twenty (20) years.*
- v. The SCN incorrectly relies on the statements of independent directors of ZSL viz. S Rajagopal, AP Vasanthakumar and VK Ramani and alleges that land dealings between Sripriya and ZSL never existed. On perusal of the submissions of the said independent directors [Ref. Annexure 19 and Annexure 26 to the SCN], it can be observed that the independent directors stated that they were not aware of the said land dealings. The SCN does not even annex the copies of the minutes submitted by the said independent directors. Moreover, it fails to recognize the submissions made by ZSL itself, and also the Administrator appointed by the High Court of Madras, Chennai which confirm the occurrence of these events. ZSL has*

*even submitted the extracts of the relevant minutes to the Investigating Authority and they have been duly taken into record [Ref. Annexure 25 of the SCN].'*

57. With respect to the allegation of the non-disclosure of the land dealings between ZSL and Noticee 6 in the Annual Report of ZSL under the head "related parties", filings on MCA Website, and to the stock-exchanges i.e. BSE and NSE, Noticee 4 submitted that apparently ZSL had inadvertently omitted to include the actual quantified fund amounts in the Annual Report, filings on MCA Website, and the stock exchanges. However, the consolidated figure of Debtors and Creditors that has been disclosed, captures the amounts transferred/exchanged between Noticee 6 and ZSL in furtherance to the land deal and the subsequent termination thereof. In any event, it must be noted that transaction was entered and cancelled before completion of a financial year and therefore same might have not been included by ZSL in its filings. Since, ZSL allegedly made some incorrect disclosures, Noticee 4 should not be considered to be at fault without any allegation of collusion with the promoters.

58. With respect to allegation arising out of the replies received from IFCI Ltd. and Union Bank of India, Noticee 4 stated that SEBI cannot level allegations merely based on observations made by third parties without first investigating into such issues and arriving at an independent conclusion. Further, he was not aware of and was not involved in such misdeeds. The actual miscreants i.e. the promoters of the Company have committed the fraud and have absconded.

59. Noticee 4 stated that the SCN has in various places attributed liability upon him on account of the alleged false and misleading disclosures made by ZSL. These liabilities have again been attributed upon him in complete defiance to the fact that all secretarial compliances were undertaken by the company secretary under the guidance of Viswanathan and assistance of Prabhakar. Noticee 4 submitted his response to the allegations made with respect to non-disclosure/false as given below:

<b>Sl. No</b>	<b>Allegation</b>	<b>Response</b>
1	<i>ZSL had disclosed false and misleading information about the shareholding of Noticees 12 and 6 i.e. that these Noticees should have been disclosed in the promoter category instead of public [Ref Paragraph 14 of SCN]</i>	<i>As regards the allegations with respect to disclosure of Noticees 12 and 6 in the public category, I deny that the categorization was incorrect or misleading. There were only 3 promoters in ZSL i.e. Ramanujam, Sudarshan and Sthithi who have been controlling all activities in ZSL. The inference of SCN that I was managing and controlling the dealings of Noticee 12 is incorrect. The SCN cites couple of emails to me from Noticee 12 broker Prabhudas Liladher to advance its argument. It is apparent from annexures to SCN that Noticee 12 has been trading with Prabhudas Liladher since year 2009 and there had been no emails sent or received by me from Prabhudas Liladher except couple of them in October 2012. Merely there being some handful of emails cannot justify any wrongdoings on my part.</i>
2	<i>Promoters shareholding is increasing for quarters ending September and December 2012 and that the business of ZSL was as usual" without any significant development even</i>	<i>I submit that my role and responsibilities in the Company did not concern with making these disclosures. Even the SCN does not allege the same. The promoters of the Company decided what disclosures were to be made and they</i>

	<p><i>n</i></p> <p><i>though the Company was facing severe financial issues. [Ref: Paragraph 15 of SCN]</i></p>	<p><i>implemented those decisions with the assistance of the secretarial department of ZSL.</i></p>
3	<p><i>Failure to disclose my wife's acquisition of more than 25,000 shares in ZSL by me under Regulations 13(4) read with</i></p> <p><i>h</i></p> <p><i>13(5) of the PIT Regulations, 1992. [Ref Paragraph 22(e) of SCN]</i></p>	<p><i>As regards the failure to disclose my wife's acquisition of more than 25,000 shares in ZSL by me under Regulations 13(4) read with 13(5) of the PIT Regulations, 1992 is concerned, the same was corrected by me in the disclosures made to BSE and NSE on February 20, 2020. It is minor lapse which has been rectified. The disclosure is made to NSE and BSE vide two letters on February 20, 2020.</i></p>
4	<p><i>ZSL failed to disclose the relationship between me, Sripriya and Srihari in its RHP made in 2007 [Ref Paragraph 23(d) of SCN]</i></p>	<p><i>As far as the disclosures in the RHP are concerned, apart from the promoters and secretarial and finance departments being responsible for the contents thereof, there were even two merchant bankers appointed by ZSL for duly vetting the RHP. I relied on the undertaking of the merchant bankers that the contents of the RHP were factual and accurate. With respect, to non disclosure with regard to relationship between myself, Srihari and Sripriya in the RHP is concerned, it was an inadvertent lapse by the secretarial department of ZSL. In any case, it is for the promoters</i></p>

		<p>of ZSL to answer the same and furnish suitable explanations on these aspects.</p> <p>Having said this, the shareholding of Sripriya, has been disclosed in the RHP at paragraph 5(c) [Ref: PDF Page 42 of the Annexure 56 to the SCN]</p>
5	<p>I was reflected as an independent director of ZSL in RHP and the Stock Exchange filing despite no being so.</p> <p>[Ref: Paragraph 23(e) of SCN]</p>	<p>The erstwhile Companies Act, 1956 did not contain any provision defining the scope and qualifications for a director as is alleged in SCN. Clause 49 of the Listing Agreement gives an inclusive definition of an independent director and lays down that such director himself should not be holding substantial shareholding in the company. However, it does not set out any restrictions with respect to shareholdings of the relatives of an independent director. The disclosure made by ZSL RHP and stock exchange with respect me holding Independent directorship cannot be termed as incorrect.</p>
6	<p>Non-disclosure of my association with Twinkle as a director in the <b>RHP</b></p> <p>[Ref: Paragraph 23(h) of SCN]</p>	<p>With respect, to disclosure with regard my association with Twinkle as a director in the <b>RHP</b> is concerned, it was an inadvertent lapse by the secretarial department of ZSL. In any case, it is for</p>

		<i>the promoters of ZSL to answer the same and furnish suitable explanations on these aspects.</i>
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60. Noticee 4 submitted that the elements of PFUTP Regulations are not attracted in the present case. Commission of 'fraud' under the PFUTP Regulations necessarily involves "inducement" of another to deal in securities, which is absent in the present case. There is no such allegation also made in the SCN. Further, fraud cannot be proved only on alleged gross negligence, carelessness or recklessness as amounting to collusion and connivance on a preponderance of probabilities. The Supreme Court in **Kanaiyalal's case** has categorically held that the element of "inducement" must exist and should be proved before holding that a person is guilty of fraud. In the instance case, there is no finding that Noticee 4 had induced someone and thereby played a fraud in the securities market.

61. Noticee 4 and 5 further stated that despite the promoters of ZSL running away to USA, they have cooperated with the Administrator of ZSL to collate and compile all the available records of ZSL so that Administrator could forward the same to the investigating authority of SEBI. From the day of initiation of the proceedings by SEBI, they have been diligently cooperating with the investigation department of SEBI by providing all the information/documents as required by SEBI.

62. Noticee 4, 5 and 6 submitted that the lacunae and inconsistencies in the present proceedings can only be cured if a reinvestigation is ordered wherein the critical aspects as to whether at all there was a trigger to make an open offer and connivance between me and the promoters can be examined. However, considering the fact that the events pertain to period before nine years, there is no point in wasting time and effort of regulator in another round of quasi-judicial proceedings. Especially when Noticee 4, 5 and 6 had suffered debarment since the last seven years and have already been penalized and ends of justice have already been met.

63. Noticee 4, 5 and 6 submitted that open offer is superfluous since:

*i. Justice S Rajeswaran, the Administrator of ZSL, who is overseeing the liquidation proceedings of ZSL has filed a final report dated June 30, 2019 with High Court Madras on the status of ZSL. In the said report the learned Administrator has reported that ZSL is not a "going concern" and has recommended that the company be wound up as all options of revival has been exhausted.*

*ii. With effect from July 29, 2019, the trading in the scrip of ZSL was suspended by the BSE Ltd on account of non-payment of listing fees and violation of certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. It is unlikely that this suspension would be revoked by BSE as the liquidation of ZSL has reached final stage and there are no funds to meet the listing dues of BSE.*

*iii. It is understood that ZSL has received a notice of compulsory delisting from stock exchanges and the process of delisting is underway.*

64. Further, Noticee 4 and 5 has requested to take cognizance of the factors mentioned under 15 J of the SEBI Act to not impose any penalty as:

*i. there is no quantifiable gain or unfair advantage accrued to me and even the SCN does not mention or quantify any disproportionate gain to me.*

*ii. no harm, loss or prejudice has been caused to the investors due my actions and involvement in the Company. I believe, till date, there is no complaint by any shareholder/investor in respect of my functions and role in ZSL.*

*iii there is no repetitive nature of default since the captioned proceedings are only a follow-up to the investigation ordered by WTM, which is also not been adhered to by the investigating team.*



65. Noticee 4 and 5 relied upon judgements of Hon'ble Supreme Court and Hon'ble SAT as stated below:

*The Hon'ble Supreme Court in the case of **Hindustan Steel vs State of Orissa** 1(1969)2 SCC 6271 has ruled that:*

*"whether penalty should be imposed for failure to perform a statutory obligation is a matter of discretion of the authority to be exercised judicially and on a consideration of all the relevant circumstances. Even if a minimum penalty is prescribed, the authority competent to impose the penalty will be justified in refusing to impose penalty, when there is a technical or venial breach of the provisions of the Act or where the breach flows from a bonafide belief that the offender is not liable to act in the manner prescribed by the statute."*

*In the case of **Barlatiya Steel Industries vs Commissioner, Sales Tax** [2008 11 SCC 617] the Hon'ble Supreme Court ruled that:*

*"where an authority has been conferred the discretionary jurisdiction to levy a penalty, by necessary implication, the authority may also chose not to levy a penalty."*

*In case of **R. V. Lifestyle vs SEBI** wherein a heavy penalty of Rs. 1 Crore was imposed by SEBI was reduced substantially by Hon'ble SAT.*

66. Noticee 5 submitted that the instant proceedings are being conducted in complete disregard to the principles of natural justice and fair play, since he had been denied complete inspection of records, and in particular the Investigation Report of SEBI, which form the basis of the entire proceedings.

67. Noticee 5 submitted that he is a Chartered Accountant and joined ZSL in May 2006 as a Financial Controller. Sometime in 2009, he was made Head of Indian Business Operations which included E-Gov Business & WiFi Technology business and also he was handling Business Acquisitions. As part of this responsibility, he was instrumental in acquiring (i) Ewak Creative Cornpusoft, Chennai, India in 2007,

(ii) Ducont Fz LLC, Dubai, UAE in 2008, (iii) Anodas Software, UK in 2008, (iv) Strategic stake in Nova MSC Berhad, A Malaysian listed Singapore Company in 2009 and (v) Brainhunter, Toronto, Canada in 2010. Post acquisition of Brainhunter, a CAD 200 Million Company, in Feb 2010, he was appointed as the CFO of this Company (Brainhunter which was renamed as Zylog Systems Canada Ltd) and he was spending considerable time in this Company as the same needs to be seamlessly integrated with the operations of ZSL. He had even a Canada Work permit, which was valid till 2013, and his Passport has the proof of his monthly travel to Toronto. Later, in May 2010, his designation in the Company had changed to Global Chief Financial Officer ("CFO").

68. Noticee 5 further submitted that his duties in the Company were to oversee the financial aspect of the Company and execute the functions related to the same as per the directions of the promoters of the Company. The final decision-making power, in any case always vested with Noticee 2 and 3. They held 43% of ZSL shares. Hence, they never required his support to be in control of ZSL. There was no single largest shareholder even to compete with the promoters and there was no threat or any concerns over the management and control by the promoters. Every decision was taken by the promoters with advice from Mr. Viswanathan.

69. Noticee 5 stated that he faced persistent issues with the promoters of the Company since they, being first generation entrepreneurs, wanted to control all activities in the Company including the finance activities personally without allowing anyone else to exercise control. He often had qualms with the promoters with respect to the work culture and he even tried to resign from the Company on several occasions. When he submitted resignation letter in December 2011, Noticee 2 convinced him to defer his resignation for a few months till June/July 2012 since the Company required his aid in raising funds as the Company at that point was suffering from huge outstanding debts taken for its business expansion. However, after a point in time it became increasingly difficult to satisfy the debts, and consequently, even the equity funds raising process got hindered. This coupled with the steep fall in share price completely disrupted the financials of the

Company. While making earnest efforts to revive the Company, Noticee 5 even gave up his salary for 6-7 months. Thereafter, he could not take any further hit to his personal financials, and therefore, he stopped attending office from first week of April 2013 and he was relieved with effect from April 30, 2013.

70. As preliminary submissions, Noticee 5 stated as under:

*i. I humbly submit that I have never held or traded in the shares of ZSL whether on my behalf or any other person. I was never involved in the false and misleading announcements made by the promoters of the Company. Even the SCN does not attribute the alleged announcements made by the Company or its promoters to me.*

*ii. My request for the copy of the Investigation Report, to have clarity with regards the aforesaid details has been rejected without providing any substantial or reasonable basis, in complete defiance to the principle of natural justice and fair play.*

*iii. The promoters of ZSL i.e. Sudarshan and Ramanujam who are the key perpetrators committed fraud of everyone and have absconded. At no point in time did they participate before SEBI investigation, or cooperate with Administrator appointed by the Madras High Court. Even the Administrator had filed a Police complaint against the promoters. Post the absconding of the promoters, on the request by shareholders I have even taken active steps to protect the interest of shareholders and assisted the Administrator. Despite having no involvement in the male fide actions of promoters, I have been attending all proceedings before the SEBI as well as the Madras High Court. I have co-operated with the SEBI investigation team and the Administrator from the beginning. Despite the same, I have been arraigned as a Noticee in the SCN.*

*iv. As stated above, I was never in control of the management or any other decisions in ZSL. The decision-making of ZSL vested in the promoters and day to*

*day management was undertaken by Promoters and Viswanathan, and their juniors. Viswanathan is named everywhere in the SCN. Despite clearly specifying his role, he is not arraigned as Noticee. There are more observations made against him in the SCN as compared to me, however no action is proposed. Therefore, on parity, I should also be let-of.*

*v. The charging provisions in the SCN are mainly directed towards ZSL. However, by directions of the Madras High Court liquidation proceedings have been initiated against the Company, and accordingly, SEBI has vide its Order dated May 28, 2020 dropped of the proceedings against the Company. Considering that all allegations towards me are stemming from the infractions of the Company, the present proceedings also ought to be dropped.*

71. Noticee 5 submitted that the allegations contained in the SCN are unsustainable, primarily on the following grounds, which are without prejudice to each other. These grounds goes to the root of the controversy in the present matter:

*i. The SCN is based on incomplete investigation which relied upon irrelevant facts and documents and singularly failed to look into the aspect as directed by the learned Whole Time Member ("WTM") vide Order dated June 7, 2016. The SCN relies on set of email communications of which I am not party. Without going into the depth of such email communication, the investigating team tried to interpret the same in a manner detrimental to me and without even providing me with an opportunity to explain the same which is relevant to me.*

*ii. The promoters of ZSL Sudarshan and Ramanujam — committed complex fraud and have absconded since then. Not only have they duped the investors and myself, but have duped several banks which have filed multiple proceedings against them. They have left the country and I understand that they have now settled in the United States of America (USA).*

iii. *Despite having no involvement in the mala fide actions of the promoters, I have been attending all proceedings before the SEBI as well as assisting the administrator before the High Court of Madras. I am not and cannot be considered to be a "PAC" with the promoters.*

iv. *IR is based on wrong inference that Srikanth and I were person-in-charge of ZSL, an allegation made on the basis of KYC documents and email which clearly defeats the conclusions drawn by SEBI. The driving force behind ZSL were the promoters viz. Ramanujam and Sudarshan and their decisions were being implemented by Mr. Viswanathan (elder brother of Sudarshan) who was the General Manager (Administration & Secretarial) who was acting as the defacto CEO of Indian Operations, Mr. Sriram Ramesh Chakrapani (Financial Controller) who was a close relative of Ramanujam and Mr. M V Ganesan ( Vice President — Corporate Accounts).*

v. *It was Viswanathan who was controlling the secretarial and the reporting activities of ZSL and representing the promoters in Indian operations. The role of Viswanathan is mentioned everywhere in the SCN (Ref: Paragraph 7 (c), (h) & (0 of SCN). Despite clearly specifying his role, he is not arraigned as Noticee. Similar observations are made against me as well, however, I am subject to regulatory proceedings on the very such documents, without even asking for my explanation over such documents. Therefore, on principles of parity, I must also be let-of.*

vi. *The allegation against me with respect to me being "PAC" is unsustainable and baseless because of the following reasons:*

- a. *I had no control over the management and day to day business of the company and have acted only under the instructions of the promoters.*
- b. *the basic particulars of the alleged failure and trigger to make an open offer under the SAST Regulations has not yet been provided by SEBI.*

c. *Sripriya's shareholding in ZSL has not crossed the applicable threshold limit of 5% since the very basic ingredient for the trigger of an open offer under the SAST Regulations was absent.*

vii. *SEBI has failed to show how the rebuttable presumption with regard to status of a person acting in concert with other persons within the same category as specified in Regulation 2(1)(q), 2(ii) (iii) (iv) and (v) of the SAST 2011 is attracted in the present matter to begin with.*

viii. *The allegations with respect to PFUTP Regulation has been alleged on an incorrect assumption that the funds of ZSL was used to acquire the shares by Sripriya, when, the fact is that Sripriya had borrowed funds from NBFCs/lenders vide loan agreements for dealing in shares of ZSL. Even such an observation, cannot be termed to be fraudulent by any stretch of imagination.*

ix. *The fund transaction between ZSL and Sripriya was towards advance payment received from ZSL towards the sale of immovable property as per the Memorandum of Understanding between ZSL and Sripriya and it has no correlation with dealing in shares of ZSL.*

x. *The Company had a full time Company Secretary, who was also the Compliance Officer. I was not involved or responsible for the disclosures made by the Company, as alleged, and therefore I should not be held responsible for the same.*

xi. *There is no basis to proceed against the me under PFUTP Regulations since the basic ingredients of PFUTP are not attracted. Even if all allegations under PFUTP are taken as correct, PFUTP charges could be only against promoters and not against me who did not control ZSL.'*

72. With respect to alleged violation of SAST Regulations 2011, Noticee 5 submitted that when the learned Whole Time Member of SEBI passed Orders against various

entities in matter of ZSL [Order dated June 7, 2016 (Ref: VVTM/PS/50/13D/JUN/2016), Order dated June 30, 2015 (Ref: WTM/RKA/ISD/74/2015) and Order dated (Ref: VVTM/ RKA/ISD/23/2013)], name of Noticee 5 never appeared in said Orders for the alleged violations pertaining to SAST 2011 and out of the blue, he has been roped into the proceedings and allegations of violations of Takeover Regulations has fastened on him.

73. The erstwhile Whole Time Member, SEBI by his Order dated June 07, 2016 had directed SEBI to investigate in the matter wherein he opined that,

*"In view of the foregoing, I hereby direct SEBI to investigate the allegations pertaining to the Takeover Regulations levelled against Mr. Ramanujam Sesharathnam, Mr. Sudarshan Venkataraman, Mr. Parthasarathy Srikanth, Ms. Sripriya Srikanth and Sthithi Insurance Services Private Limited and also examine the submissions and material submitted by the concerned noticees. SEBI is advised to expeditiously complete the investigation. The noticees are also directed to co-operate with SEBI in the on-going investigation and provide all information and documents that may be sought by SEBI in this regard."*

74. In this regard, Noticee 5 stated that the investigation was specifically directed qua the aforementioned entities, there was no rational for roping him into the proceedings by expanding the scope of this investigation, and he would like to understand the same from the investigation report.

75. Noticee 5 stated that he has never been deemed to be promoter of the Company, and he has never exercised any control over the affairs of the Company. Even the SCN states that only Noticee 1, 2 and 3 are the promoters of ZSL, who controlled and managed the day-to-day affairs of the Company. Even the SCN and its annexures at various places captures this fact. Noticee 9, 10 and 12 have given statements under Section 164 before a CBI magistrate court that all their actions in ZSL were under the instructions of the promoters of ZSL i.e. Noticee 2 and 3 either directly or through Mr. Viswanathan. Administrator of ZSL had a discussion with Mr. K Ramadoss of Ramadoss & Co, Chartered Accountants, the erstwhile

auditor of ZSL. During this meeting Mr. Ramadoss categorically mentioned to the Administrator that the entire Company and specifically the Financial Operations were personally handled by the Promoters of ZSL.

76. Noticee 5 further stated that he never involved in the shareholding related activities in ZSL and the same is not even alleged in the SCN. The promoters used to take their own trading decisions and the same used to be executed by Viswanathan and Prabhakar. Merely because he was marked in certain emails showing the shareholding patterns, he is roped into this allegation. Further, there is not an iota of evidence to show that he had any role in shareholding related decision in ZSL. Even the impugned emails do not show that he was involved in any decision-making process or controlling the Company on behalf of the promoters.

77. Noticee 4 submitted that it is incorrectly alleged in the SCN that he was aware and behind the shareholding changes of the Noticee 1 in ZSL, completely disregarding the fact pertaining to the active involvement of Viswanathan in account opening of the broker and of Mr. Prabhakar in managing and controlling the trading accounts. Mr. Prabhakar has years of experience in handling Stock market intermediaries which precisely is the reason why he was recruited by the promoters of ZSL in year 2011. Mr Prabhakar's statement itself bears these facts. He was the person who was in daily contact with all the intermediaries. He acted on behalf of the promoters and upon their instructions he used to place orders with brokers of Noticee 1. Further, he has never addressed any of the e-mails nor were any e-mails addressed to him.

78. Noticee 5 stated that based on certain internal emails the SCN seems to draw incorrect and illogical inferences that Noticee 6 is part of the promoter group. The assumption seems to be baseless, as Noticee 6, apart from holding shares in ZSL, was never involved with the management of the Company or controlling the affairs of the Company. The Company had never in its shareholding patterns stated Noticee 6 as a promoter. Despite the same, if an allegation under Regulation 3(2) of the SAST 2011 is being levelled, it is for the Company and its promoters and



also Noticee 6 to give explanation on the concept of PAC as suggested by the SCN. He further stated that there is no relevance or any significance in calling this as "controlling". With minor shareholding in ZSL, there cannot be any significance of such shareholding. Noticee 6 had no special rights or even a representative Director on board and therefore her shareholding does not matter in any manner more particularly because of the pledge of her entire shareholding with the financial institutions. Noticee 6 never exercised any voting rights over such shares. In any event, assuming there was any voting rights or substantial shareholding, it is not clear what "influence" or "significant influence" her shareholding or voting rights had in the company where promoter had unquestioned dominant shareholding.

79. Noticee 5 submitted that the open offer requirements could not be triggered since the very basic ingredient for the trigger of an open offer under the SAST Regulations, which is the "entitlement to exercise voting rights" was absent in the shares acquired by Noticee 6. She had taken loans from certain NBFCs with whom her shares in ZSL were pledged. Therefore, the voting rights in her shares always vested with the NBFCs/lenders and she had no entitlement to vote. In addition to controlling the shares which were purchased by her, the lenders had rights over such shares which ultimately were sold by them for the defaults in repayment of dues by her. This submission was duly noted by the erstwhile WTM, SEBI in his Order dated June 7, 2016, whereby he even directed SEBI to investigate further into these aspects. However, said critical issues have still been left unanswered and unexamined by the investigation team of SEBI. Therefore, the present proceedings suffer from lacunae and inconsistencies as far as the investigation is concerned. Whilst SEBI has still not provided an answer as to if at all there was a trigger to make an open offer, continuance of the present proceedings against him will only lead to defiance to the principles of natural justice and equity.

80. With respect to alleged violation of PFUTP Regulation Noticee 5 submitted as under:

*i. 'At the outset, it is pertinent to note that there is no specific allegation qua me in the SCN with respect to this allegation and yet I have been show caused for the*

same. I therefore submit that the SCN is not in consonance with the principles laid down by the Hon'ble Supreme Court in the case of *Gorkha Security Services v. Govt. of NCT Of Delhi & Ors.* The Hon'ble Supreme Court has held that "the fundamental purpose behind serving of a show cause notice is to make the noticee understand the precise case set up against him which he has to meet. This would require statement of imputations dealing with the alleged breaches and defaults he has committed, so he gets an opportunity to rebut the same."

ii. This allegation is based on an incorrect assumption that the funds of ZSL were used by Sripriya to acquire shares in ZSL. As far as the fund transactions between Sripriya and ZSL is concerned, the same was in respect of sale of land property by Sripriya to ZSL and it had no correlation or connection with her dealings in ZSL. There was a valid Memorandum of Understanding created for undertaking the property acquisition, which however, had to be cancelled later since the Company was unable to complete payment which was also effected by a Deed of Cancellation.

iii. Pursuant to cancellation of the land deal, the promoters of the Company had entered into an arrangement with Sripriya to offer her financial assistance for clearing her outstanding debts with the NBFCs/ lenders. Transfer of funds to Sripriya from Aditicon Services India Pvt Ltd (Noticees No. 8) and Effica Systems Pvt Ltd (Noticee No. 9) was also in pursuance to the said arrangement.

iv. Even the signing of guarantee by ZSL on behalf of Sripriya for loans taken by her with JM Financial and NSIPL was in furtherance to the aforementioned arrangement with the promoters of ZSL. However, ZSL has not made any payment to these NBFCs toward discharging guarantee obligation.

v. In so far as utilization of the amounts by Sripriya, post receipt of repayments from ZSL is concerned, it is submitted that the same is of no concern to ZSL and I am not aware of the same.

vi. The SCN incorrectly relies on the representations made by the independent directors of ZSL viz. S Rajagopal, AP Vasanthakumar and VK Ramani in this regard to state that the land dealings between Sripriya and the Company never existed. On perusal of the submissions made by the said independent directors [Ref: Annexure 19 and Annexure 26 to the SCN], it's sufficiently clear that the independent directors stated that they were not aware of the said land dealings and not that the discussions never took place. The SCN does not even annex the copies of the minutes submitted by the said independent directors. Moreover, it fails to recognize the submissions made by ZSL itself, and also the Administrator appointed by the High Court of Madras, Chennai which confirm the occurrence of these events. ZSL has even submitted the extracts of the relevant minutes to the Investigating Authority and they have been duly taken into record [Ref: Annexure 25 of the SCN].

vii. With respect to the allegation of the non-disclosure of the land dealings between ZSL and Sripriya in the Annual Report of ZSL under the head "related parties", filings on MCA Website, and to the stock-exchanges i.e. BSE and NSE, it is submitted that it appears that ZSL had inadvertently omitted to include the actual quantified fund amounts in the Annual Report, filings on MCA Website, and the stock exchanges. However, it may be noted that the consolidated figures of Debtors and Creditors that has been disclosed, captures the amounts transferred/exchanged between me and ZSL in furtherance to the land deal and the subsequent termination thereof. Same at the highest is a technical and venial lapse on part of the Company and was not actuated by any malafides or otherwise. It may also be noted that I was not a signatory to the Financial Statements for the Financial Year 2012-13, the year during which these transactions have been alleged to have taken place. In any event, I cannot be held responsible for such a lapse of the Company since I, being the CFO of the Company, was neither involved in its preparation nor was I aware that this lapse had occurred.

viii. As far as the allegations arising out of the replies received from IFCI Ltd. and Union Bank of India are concerned, I deny the same. SEBI cannot level allegations merely based on observations made by third parties without first investigating into

*such issues and arriving at an independent conclusion. Even assuming that such allegations are true, I was not aware of and was not involved in such misdeeds. The actual miscreants i.e. the promoters of the Company have committed the fraud and have absconded.*

81. With respect to allegation of false and misleading disclosures made by the Company, Noticee 5 submitted as under:

*i. As regards the allegations with respect to disclosure of Noticees 12 and 6 in the public category, I deny that the categorization was incorrect or misleading. There were only 3 promoters in ZSL i.e. Ramanujam, Sudarshan and Sthithi who have been controlling all activities in the Company.*

*ii. Without prejudice, even assuming that there was an incorrect disclosure made by ZSL in this regard, there is no lapse on my part in this regard and the SCN does not even state so or provide any material evidence in support of the same. If at all any such lapse occurred, it is for the promoters of ZSL to answer the same and furnish suitable explanations on these aspects.*

*iii. With respect to the remaining disclosures, I submit that my role and responsibilities in the Company did not concern with making these disclosures. Even the SCN does not allege the same. The promoters of the Company decided what disclosures were to be made and they implemented those decisions with the assistance of the secretarial department of ZSL. Therefore, Viswanathan and Akila were responsible for implementing the decisions of the promoters regarding disclosures.*

*iv. As far as the disclosures in the RHP are concerned, apart from the promoters and secretarial and finance departments being responsible for the contents thereof, there were even two merchant bankers appointed by the Company for duly vetting the RHP. I relied on their undertaking of the merchant bankers that the*

contents of the RHP were factual and accurate. Below is my detailed response to this allegation -

<b>Sl. No.</b>	<b>Allegation</b>	<b>Response</b>
a)	<i>That Srikanth being the husband of Sripriya who held 11 lakh shares in ZSL, was not disclosed as an independent director</i>	<i>The Companies Act, 1956 did not contain any provision defining the scope and qualifications for an independent director. Clause 49 of the Listing Agreement gives an inclusive definition of an independent director and lays down that such director himself should not be holding substantial shareholding in the company. However, it does not set out any restrictions with respect to shareholdings of the relatives of an independent director. Therefore, the status of Srikanth as an independent director cannot be said to be incorrect. Having said this, the shareholding of Sripriya, has been disclosed in the RHP at paragraph 5(c) [Ref: PDF Page 42 of the Annexure 56 to the SCN].</i>
b)	<i>That my relationship with Sripriya and Srikanth has not been disclosed. And that Sripriya had prior dealings in the scrip of ZSL.</i>	<i>It is pertinent to note that Annexure 6 of RHP at Page 107 And 108, discloses, list of related parties where even my name is not reflected. It was an inadvertent lapse by the secretarial department of ZSL. In any case, it is for the promoters of ZSL to answer the same and furnish suitable explanations on these aspects. In any event the disclosure pertaining to Sripriya being the shareholder of ZSL was made in the RHP at paragraph 5(a)</i>

		<i>and 5(c) [Ref: PDF Page 42 of the Annexure 56 to the SCN].</i>
c)	<i>Non-disclosure of Srikanth's association with Twinkle as a director in the RHP</i>	<i>With respect to disclosure with regard Srikanth's association with Twinkle as a director in the RHP is concerned, it was an inadvertent lapse by the secretarial department of ZSL. In any case, it is for the promoters of ZSL to answer the same and furnish suitable explanations on these aspects.</i>

*In any event, the elements of PFUTP Regulations are not attracted in the present case. Commission of 'fraud' under the PFUTP Regulations necessarily involves "inducement" of another to deal in securities, which is absent in the present case. There is no such allegation also made in the SCN. Further, fraud cannot be proved only on alleged gross negligence, carelessness or recklessness as amounting to collusion and connivance on a preponderance of probabilities. The Supreme Court in **Kanaiyalal's case** has categorically held that the element of "inducement" must exist and should be proved before holding that a person is guilty of fraud. In the instance case, there is no finding that I had induced someone and thereby played a fraud in the securities market.*

82. Noticee 6 submitted that the allegations contained in the SCN are unsustainable, primarily on the following grounds, which are without prejudice to each other. These grounds goes to the root of the controversy in the present matter:

*“i. The SCN is based on incomplete investigation which relied upon irrelevant facts and documents and singularly failed to look into the aspect as directed by the learned Whole Time Member vide Order dated June 7, 2016. The SCN relies on set of email communications of which I am not even party to. Without going into*

*the depth of such email communication, the investigating team tried to interpret the same in a manner detrimental to me and without even providing me with an opportunity to explain the same.*

*ii. IR is based on wrong inference that my husband (Mr. Srikanth) and my brother (Mr. Srihari) were persons-in-charge of ZSL, managing and controlling the trading account of Noticee 1, Noticee 6 and Noticee 12, an allegation made on the basis of KYC documents and emails which clearly defeats the conclusions drawn by SEBI.*

*iii. The promoters of ZSL Mr. Ramanujam Sesharathnam and Mr. Sudarshan Venkatraman committed complex fraud and have absconded since then. Not only have they duped the investors and myself, but have duped several banks which have filed multiple proceedings against them. They have left the country and I understand that they have now settled in USA. In all the complaints and chargesheet filed by CBI and ED, the promoters and their companies are arraigned as accused including the persons who controlled such promoter companies. Their actions, as evident from the material on record and the events that transpired during the liquidation of the Company, have caused severe distress and agony to me and my husband.*

*iv. The driving force behind ZSL were the promoters of ZSL viz. Mr. Ram and Mr. Sudarshan and their decisions were being implemented by Mr. Viswanathan who was the General Manager (Administration & Secretarial) who was acting as the defacto CEO of Indian Operations, Mr. Sriram Ramesh Chakrapani (Financial Controller) who was a close relative of Mr. Ram and Mr. M. V. Ganesan (Vice President — Corporate Accounts)*

*v. The allegations against me are vague and generic in as much as the basic particulars of the alleged failure and trigger to make an open offer under the SAST Regulations has not yet been provided by SEBI, despite a specific direction by the WTM of SEBI (vide Order dated June 7, 2016)*

vi. My shareholding in ZSL has not crossed the applicable threshold limit of 5% during the period between April 2012 to December 2012 since the very basic ingredient for the trigger of an open offer under the SAST Regulations is the "entitlement to exercise voting rights". The voting rights always vested with the lenders and financial institutions and I had no entitlement to vote.

vii. SEBI has failed to show how the status of a PAC with other persons within different categories as specified in Regulation 2(1)(q), 2(ii) (iii) (iv) and (v) of the SAST Regulations is attracted in the present matter to begin with.

viii. The allegations with respect to PFUTP Regulation has been alleged on an incorrect assumption that the funds of ZSL was used to deal in its shares, when the fact is that I had borrowed funds from NBFC/lenders vide loan agreements for dealing in the share market. Even such an observation, cannot be termed to be fraudulent by any stretch of imagination.

ix. The fund transaction with ZSL was towards advance payment received from ZSL towards the sale of immovable property as per the Memorandum of Understanding between ZSL and Noticee and it has no correlation with dealing in shares of ZSL. I have explained these in detail to provide the complete facts in perspective and chronologically as opposed to the distorted facts being sought to be aligned by SEBI only with a view to hold the requirements of open offer being triggered in the matter.

x. SEBI has failed to observe that the purchase of shares by me has been done after availing the funding from the lenders because of which the shares were pledged with the lenders. As there was a failure to repay, the shares were sold in distress as a coercive measure. If SEBI's allegation is correct and indeed the funds were provided by the promoters, then there would have been no distress sale or any so-called guarantee by the promoters in any manner. This is clear that the



*purchase of shares was independent/ unconnected and separate from the financial transaction between me and the promoters.*

*xi. There is no basis to proceed against me under PFUTP Regulations since the basic ingredients of PFUTP are not attracted in this matter. Even if all allegations under PFUTP are taken as correct, PFUTP charges could be only against promoters and not against me who did not control ZSL. I was never an employee or director of ZSL at any point.”*

83. Noticee 6 submitted her preliminary objections as under:

*“i. The SCN has been issued pursuant to an investigation (Ref. - paragraph 6 (i) & 6 (v)) that was directed by the erstwhile WTM viz., Mr. Prasant Saran vide Order dated June 7, 2016 ("WTM Order"). While disposing of the notice of why an open offer is not to be directed, the learned WTM took note of the submissions we made and directed SEBI to specifically look into the matter. The relevant extract is provided below:*

*(Ref: paragraph 22 on internal page 21 of the Order)*

***...It is also a legal contention put forth by Sripriya that she cannot be PAC with the promoters as the deeming fiction shall not extend to entities across different entities. Sripriya has also stated that she has borrowed money from financial institutions for trading in Zylog and that she did not have any right to exercise voting rights on such shares in view of the various covenants/clauses in the agreements entered with the financial institutions. I also note that the acquisition of 0.63% by Sthithi alone would not lead to triggering Regulation 3 (2) of the Takeover Regulation. Therefore, to prove the allegations, it needs to be seen whether Sripriya (who acquired 8.43%) was a PAC with the promoters in respect of the impugned acquisition...***

*ii. The following important facets, which were to be investigated, are missing in the SCN:*

*Adjudication Order in the matter of Zylog Systems Limited*

*a) When I was buying the shares of ZSL, the promoters were selling/exiting from ZSL - this was SEBI's allegations (vide WTM Order) since the beginning. The investigation has not established this fundamental fact as to how I can be termed as a PAC, when there was no common objective or purpose for the acquisition of shares or voting rights in, or exercising control over a target company.*

*b) The basic ingredient for the trigger of an open offer under the SAST Regulations is the "entitlement to exercise voting rights". Even assuming for the sake of argument, that I was a PAC with the promoters of ZSL, it is important to note that the ZSL shares along-with the underlying voting rights were vested in favour of lenders who lent funds to me [for instance, JM Financial and Motilal Oswal Financial Services Ltd ("MOSL")]. In addition to controlling the shares which were purchased by me, the financial institutions had rights over such shares which ultimately were sold by them for the defaults in repayment of dues by her. This fundamental facet is not even discussed in the entire SCN.*

*iii. By the WTM Order, SEBI was directed to examine the aforesaid issues and therefore I was not directed to come out with an open offer at the relevant point in time. However, said critical issues have still been left unanswered and unexamined by the investigation team of SEBI. My requests (made by letters dated January 3, 2020, February 25, 2020 and June 25, 2020) have not been heeded to and SEBI has not yet parted with the IR, despite a specific directions from the learned Adjudicating Officer (vide SEBI's letter dated January 22, 2020). I believe that the IR is silent on these critical issues and hence the reluctance of SEBI to provide the same. In my humble opinion, continuing the present proceedings on half-baked facts and unexamined facets is against the principles of fair play & natural justice and therefore the SCN ought to be disposed-of at the thresholds itself."*

84. Noticee 6 further submitted that the following critical issues must be considered which SEBI should have investigated:

*“i. Whether at all I had the entire shares and voting rights with me to say that I acquired 8.43% of shareholding given the admitted fact that voting rights and shares were with the lenders and relevant disclosures were made by them. In other words, there was a valid pledge created in their favour.*

*ii. Even if there are fund transfers between the entities, whether such fund transfers across different categories of people attract the definition / deeming fiction under the definition of PAC under the Takeover Code.*

*iii. Issue of whether or not I was the PAC with the promoters does not arise if the required shareholding was within the threshold limit for making an open offer. In other words, if my shareholding (excluding the ones which are pledged with the lenders) is within the permissible limit, then there is no question of determining the PAC issue.*

*iv. It is a trite law and which SEBI has been maintaining that entities who are buying the shares and entities who are selling the shares have different objectives and cannot be called to be acting in concert. In other words, PAC is acquisition specific and unless and until there is a larger objective of acquiring the shares or control, the very concept of PAC does not arise.*

85. With respect to generic allegation in the SCN, Noticee 6 submitted as under:

*“The background facts, pertaining to my relationship with ZSL and its promoters is as under:*

*i. During the year 2002, ZSL was an upcoming Information Technology (IT) company with international operations. ZSL was promoted and controlled by Mr. Ram and Mr. Sudarshan and the secretarial activities in India were managed by Mr. Viswanathan (brother of Sudarshan). Since the IT sector was booming in India, I also invested in the shares of ZSL and became its shareholder.*

*Adjudication Order in the matter of Zylog Systems Limited*

- ii. *During the year 2007, ZSL came out with an initial public offer ("IPO") and the shares held by me were subject to the lock-in for a period of one year post the IPO.*
- iii. *In or around December 2011, an acquaintance of mine (since 1994) from Chennai - Mrs. Shobana Chadramouli informed me that she was desperately in need of funds and needed financial assistance. I and my husband decided to aid her by buying a piece of land situated at Mailapattu Village, Sriperumbudur Taluk, Kancheepuram District admeasuring 2.85 acres ("the Subject Land") that she desired to sell in lieu of immediate financial payment.*
- iv. *I was informed that ZSL was looking to acquire land for setting up a disaster recovery center to bid for large contracts. Looking at the promising prospects from the Subject Land, the promoter of ZSL approached me to sell the same to ZSL.*
- v. *At the relevant time, there were good market reviews and positive reports from market analysts for ZSL. Max New York Life Insurance invested in ZSL in February & March 2012 & held 4,25,000 shares (representing 2.6%) of ZSL as on March 31, 2012. I felt bullish about the prospects of ZSL and hence I availed a loan against share facility from my stockbrokers and pledged shares of ZSL in favor of the financiers. However, in matter of few months, the market turned upside down and the share price started dwindling which resulted in severe losses to me. My funds fell short and I had to arrange the same at the earliest.*
- vi. *As, I was in need of funds, I agreed to sell the Subject Land to ZSL, and a sale agreement was executed between me and ZSL (Sale Agreement) on April 2, 2012. As per the Sale Agreement, part consideration of Rs. 6 Crores was to be paid to me on or before June 30, 2012 and the remaining Rs. 6 Crores was to be paid on the completion of the sale.*
- vii. *ZSL made initial payments to me to the tune of Rs. 5,78,44,809.85 under the Sale Agreement. In furtherance of the terms of the agreement, I even fenced*

*and levelled the Subject Land and performed such other things on the land which costed me about Rs. 27 lacs, which was reimbursed to ZSL in three installments. The entire fund was remitted to me by ZSL during the period between April 2012 to July 2012.*

*viii. After five months into the agreement, Mr. Ram informed me through Mr. Srikanth that the Sale Agreement had to be cancelled due to lack of funds with ZSL and asked me to refund the initial payments, which was patently refused by me. This led to a series of discussions and meetings which even resulted in exchange of heated arguments between me and the promoters of ZSL.*

*ix. However, since I had huge loan repayment obligations and Mr. Srikanth was pressurized by the promoters of ZSL, reluctantly the deal has to be terminated. Mr. Srikanth was even pressured into not exercising the forfeiture clause 11 in the Sale Agreement whereby I was entitled to receive a sum of Rs. 3 Crores in the event of breach by the Company. As a part of the bargain and taking into consideration my financial difficulties, the promoters of ZSL agreed to:*

- a. connect me and my husband with certain financiers known to them for granting friendly loans without charging any interest to enable me to clear the outstanding dues with stock-brokers.*
- b. provide guarantees to my outstanding loans at IFIN and JM Financial Products Ltd ("JM Financial"). Though, the final payment/settlement of loans was done by me and guarantee clause was never invoked.*
- c. introduce me and my husband to one Mr. Sunil Raheja for assisting us in selling the Subject Land. However, the said Mr. Sunil Raheja with an intent to cheat us took the power of attorney and transferred the title deed of the Subject Land to his accomplice in June 2013. The same has led to another long driven legal battle between us.*

*x. Accordingly, I repaid an amount of Rs. 5,78,44,609.85 to ZSL. I was even assured that the said funds will be used by ZSL to release the outstanding*

*dividends. This understanding was recorded by way of a Deed of Cancellation dated December 3, 2012, which also contains all details, along with dates, of such re-payment by me to ZSL. The Deed of Cancellation is annexed and marked hereto as "Annexure -3." This fact of my repayment is further certified by a chartered accountant. The said certificate is annexed and marked hereto as "Annexure - 4."*

*xi. In October 2012, due to the sale of the promoter shareholding of ZSL, there was a steep fall in the share prices of ZSL which resulted in severe losses to me, as my stock-broker/NBFC had to liquidate my shares in ZSL at very low prices as the same were being held as margin for the loans given to me. However, due to the low recoveries, there were still amounts outstanding with JM Financial, MOSL and IFIN who then initiated recovery proceedings against me, thereby adding to my mental agony and hardships.*

*xii. Needless to state that had the agreement to sell the Subject Land been duly honored by ZSL and its promoters, I would not have faced so many financial hardships. The aforesaid events show that my relationship with ZSL and its promoters has been rather unpleasant and resentful. Disregarding these facts, SEBI has made allegations suggesting that I am a PAC and acted in connivance with them, which is untrue and contrary to facts. Owing to difference of opinion with the promoters my husband resigned from ZSL in June 2013."*

86. With respect to allegation of violation of SAST Regulations, Noticee 6 submitted that the allegation of violation of SAST Regulations is based on the incorrect footing that she is PAC with promoter of ZSL and thereby her shareholding is bundled with theirs. SEBI has drawn an incorrect inference and presumed that her trading in ZSL was from the funds received from ZSL. Such a presumption in complete disregard of the documents on record, which demonstrate a case in complete opposition to SEBI's presumption. Noticee 6 further stated that to undertake the trading in the scrip of ZSL, she had not used any funds of ZSL or its promoters but

rather, she had availed of loans from NBFCs and stockbrokers. The details of these loans are as under:

Sl. No.	NBFC/Broker	Loan Sanctioned (in Rs.)	Loan Utilized (in Rs.)	Interest Rate per annum	Date of Agreement
1	JM Financial	20 crore	20 crore	14.50%	April 01, 2010
2	Motilal Oswal Securities Ltd (MOSL)	5 crore	5 crore	15.25%	May 21, 2012
3	Narayanan Sriram Investments Pvt Ltd (now IFIN Securities Finance Ltd)	5 crore	5 crore	19%	February 28, 2012
4	Aditya Birla Finance Ltd	14 crore	12.30 crore	16%	June 2012
5	Fortune Credit Capital Ltd	2.50 crore	2.50 crore	18%	July 31, 2012

87. Noticee 6 stated that despite this, SEBI concluded with a pre-conceived mindset that she was a PAC with promoters by relying upon some internal communication of ZSL, to which she was not even a part-of. Further, in all the quarterly shareholding patterns filed by ZSL, her shareholding is correctly and separately disclosed under her name only. She further stated that she had borrowed funds from NBFCs and entered into loan agreements with them. As per the agreements entered with the financial institutions, all her shares of ZSL were pledged with the said lenders. For instance, the loan agreements executed with JM Financial and MOSL also ensured that the voting rights and all rights attached to such shares were vested with the lenders. She reproduced the relevant clauses as under:

***“Master Agreement with JM Financial:***

***Clause 20(a):***

*All accretions, entitlements and benefits in respect of the Securities which the Lender is entitled to, including without limitation all bonus shares, dividend, interest, preferential entitlements and so on shall be deemed to be pledged in favour of the Lender pursuant to this Agreement without any further act, instrument or deed and the terms and conditions of this Agreement shall mutatis mutandis apply to such accretions as if they had originally been pledged with the Lender pursuant to this Agreement.*

**Clause 20(k):**

*During the subsistence of this agreement, all voting rights in respect of the Securities pledged to the lender shall be exercisable solely and exclusively by the Lender as the Lender deems fit and subject to directions, if any, of the Reserve Bank of India, unless the Lender otherwise agrees.*

**Clause 21:**

*The Lender shall have authority to collect and receive, either in the name of Security Provider or in the Lender's own name, all dividends, interest and moneys payable on redemption of Preference shares or debentures and all rights securities, bonus securities and such other benefits and privileges arising out of the Securities (Income from the Security).*

**Agreement with MOSL:**

**Clause 3.1(c)**

*The Borrower and the Security Provider hereby unconditionally and irrevocably appoint and constitute the Lender acting through any of its nominees, and/or employees as its /his Constituted Attorney or interalia, create the pledge over/transfer of the Securities as per Article 3.1(a) above and if the Lender so requires, the Borrower and the Security Provider agreed to execute a separate power of attorney in this behalf.*

**Clause 3.1(d)**

*Adjudication Order in the matter of Zylog Systems Limited*



*The Borrower and/ or the Security Provider hereby agree and confirm that the Lender will have a full right and power to*

- a. Create a pledge or a transfer or assign the Securities hereby agreed to be pledged /transferred, to secure the Lenders*
- b. Borrow from any bank or NBFC or any other lenders by way of refinance or otherwise and in that connection the Lender.*

*Clause 3.1(f)*

*Any and all Security, including the Securities, which is given or be hereafter given by the Borrower shall ipso facto, and without and further conveyance, assignment or act on the part of the Borrower or the Lender, become and be deemed subject to the Security Interest under this Agreement, irrespective of any Security Document, whether executed or not in respect of such Security, as fully and completely as though specifically described herein or therein.*

*Clause 3.6*

*The Lender may, at anytime until the repayment of the Loan Balance, open and maintain a bank account in the name of Security Provider or jointly in the name of the Security Provider and the Lender or cause the Borrower to open the said account, to enable the Lender to receive all dividends, interest and moneys payable on sale, redemption of Securities, and all rights Securities, bonus securities and such other benefits and privileges arising out of the Securities. Likewise, the Lender may also open and maintain a client account with any Depository Participant to hold the Security or any part thereof.*

*Clause 3.8(c)*

*During the subsistence of this Agreement all voting rights in respect of the Securities pledged to the Lender shall be exercisable solely and exclusively by the Lender. as the Lender deems fit and subject to directions, if any, of the Reserve Bank of India, unless the Lender otherwise agrees.*

Clause 4.4(a)

*The Borrower shall not by itself/ himself/ herself operate the Bank Account or DP Account envisaged in Article 3.6 hereof and agrees and undertake to empower and enable the Lender to uninterruptedly operate the Bank Account and the DP Account.”*

88. Noticee 6 further stated that these loan agreements also contained clauses to the effect that a joint bank account and DP account was to be opened by the borrower with the lender and a general power of attorney was to be given to the lender and that the borrower would have no rights to operate the said account. Her intention was only to make a gain on upside to the stock price and not acquire voting rights or control ZSL through acquisition of shares. She never exercised any voting right in any AGM of ZSL and in particular at the relevant period in time. Pursuant to the aforesaid pledge of shares, she ceased to exercise any control over the ZSL shares as the shares were held in the demat accounts maintained with such lenders. This fact is evident from her email (dated August 9, 2012) to JM Financial whereby she had requested them to transfer 2,50,000 shares of ZSL to another demat account for meeting the margin obligations. It was after several discussions and repeated requests, JM Financial agreed to permit her to transfer the said shares to her another demat account. Therefore, while computing and aggregating the shareholding, the percentage of shareholding which were pledged with the financial institutions have to be considered and accordingly the quantum of shares pledged by her ought not be added while computing the entire shareholding, without prejudice to the fact that there cannot be any clubbing of shareholding of Noticee 6 with the promoters of ZSL.

89. Noticee 6 submitted that in order to consider her as a PAC, it is also relevant to understand the intent of the legislature behind clubbing the holdings of connected

person. The Justice P.N. Bhagwati Committee Report on Takeovers, 1997, pursuant to which the Regulations of 1997 were framed, stated as follows:

*“Persons acting in concert” have particular relevance to public offers, for often an acquirer can acquire shares or voting rights in a company “in concert” with any other person in a manner that the acquisitions made by him remain below the threshold limit, though taken together with the voting rights of persons in concert, the threshold may well be exceeded.*

She further stated that she had no voting rights in ZSL, she cannot exercise any control over the company with respect to those shares. She had no special rights or even a representative Director on board of ZSL. In any event, assuming there was any voting rights or substantial shareholding, there was no "influence" or "significant influence" of her shareholding or voting rights in the company where promoter had unquestioned dominant shareholding. Therefore, the mandatory requirement of open offer is not attracted as there is no change in the "management" and "control" of the company, which are the key determining factors for considering a PAC.

90. Noticee 6 refer the relevant portion of the definition of "persons acting in concert" under Regulation 2(l)(q) of SAST Regulations is extracted below:

"persons acting in concert" means, -

- (1) persons who, with a common objective or purpose of acquisition of shares or voting rights in, or exercising control over a target company, pursuant to an agreement or understanding, formal or informal, directly or indirectly co-operate for acquisition of shares or voting rights in, or exercise of control over the target company.
- (2) Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be persons acting in concert with other persons within the same category, unless the contrary is established, -

- (i) a company, its holding company, subsidiary company and any company under the same management or control
- (ii) a company, its directors, and any person entrusted with the management of the company
- (iii) directors of companies referred to in item (i) and (ii) of this sub-clause and associates of such directors
- (iv) promoters and members of the promoter group
- (v) immediate relatives; ....

91. Noticee 6 stated that from the above definition, it is clear that for a person to be deemed to be acting in concert with another person, such persons must fall within the same category of relationships set out in Regulation 2(1)(q)(2). In other words, a company and its director are deemed to be acting in concert under Regulation 2(1)(q)(2)(ii) however, such director is not a person deemed to be acting in concert with the promoters since promoters are covered in a separate category i.e. under Regulation 2(1)(q)(2)(iv). It is a settled law that the deeming relationship applies and is limited only to persons falling within the same category and does not extend to entities across different categories. This position has been laid down by the Bombay High Court in **KK Modi case** [2002 (2) Bom CR 523: (2003) 1 13 Comp Cas 41 8 (Bom)] wherein it was ruled that:

*"It may well be that he may not share the said common objective or purpose. If he does, he shall be deemed to be a person acting in concert with the acquirer, but if he does not, he cannot be deemed to be an acquirer merely because he happens to be a promoter. Regulation Z(t)(e)(Z) also makes this clear. The persons named therein are deemed to be persons acting in concert with other persons in the same category, unless the contrary is established. It, therefore, follows that even though there is a presumption that the persons described therein may be deemed to be persons acting in concert with the acquirer, the presumption is rebuttable, and, therefore, in each case, the facts have to be examined to reach a conclusion as to whether a person is or is not acting in concert with the acquirer for the purpose of substantial acquisition of shares or voting rights or gaining control over the target company. He may do so by an express agreement or understanding, and the*

*agreement or understanding may be proved by evidence on record. Similarly, he may cooperate with the acquirer directly or indirectly. What is important is that it must be shown that he is acting in concert with the acquirer. A company may have several promoters, but only one of them may decide to increase his shareholding in the company by substantial acquisition of shares or voting rights in the company. The mere fact that one of the promoters of the company wishes to do so, is no reason to hold that the other promoters also necessarily share his objective or purpose. The other promoters may, in fact, be opposed to the acquirer acquiring further shares in the target company, and if they fail to prevent the acquirer from doing so, they may be inclined to dispose of the shares held by them. In such a situation, it cannot be said that the other promoters share the common objective or purpose of the acquirer."*

Furthermore, the aforesaid position was also confirmed by the Securities Appellate Tribunal in **Alliance Capital Mutual Fund case** (decided on November 1, 2007), wherein it was ruled that:

*"... The words "in the same category" are important and they make it clear that the deeming provision of sub-regulation (2) would apply only in respect of persons who are referred to in the same category. It follows that the deeming fiction shall not extend to entities across the different categories"*

92. Noticee 6 submitted that she do not fall within any category of deeming relationship under Regulation 2(1)(q)(2) with the promoters of ZSL i.e. Noticee 2 and 3 or with Noticee 1 and accordingly she is not a person deemed to be acting in concert with them. While it is correct that she is a person deemed to be acting in concert with her husband Noticee 4 in terms of Regulation 2(1)(q)(2)(iv), it is noteworthy to mention that Noticee 4 does not hold and has never acquired any equity shares of ZSL. As such the question of aggregating her holding with the shareholding of the promoters of ZSL does not arise and consequently there cannot be any obligation to make an open offer under Regulation 3(2) of SAST Regulations.

93. Noticee 6 stated that some ingredients must be satisfied for a person to be termed as PAC are missing in present case. In this regard, Noticee 6 submitted as under:

<i>Sl. No.</i>	<i>Ingredient</i>	<i>Remarks</i>
<i>1</i>	<i>PAC must act with a common objective or purpose</i>	<i>In the previous orders passed against me, SEBI has alleged that when I was buying the shares, the promoters were selling the shares. If promoters were indeed selling as alleged by SEBI and I am buying the shares, it defies logic to state that I am PAC with the promoters. If such an interpretation is accepted, then the same would be re-writing the settled position of law and advancing a case against SEBI's own decision in other cases.</i>
<i>2</i>	<i>the purpose is acquisition of shares or voting rights in, or exercising control over a target company</i>	<i>I have been holding the shares of ZSL even before the IPO days in August 2007. I was holding 11,00,000 shares even before the IPO which represented around 6.7% of ZSL. I was also holding 17,86,412 shares as on March 31, 2012 which represented 10.87%. I have been trading in the scrip of ZSL since 2008. None of the trades done by me are pursuant to any agreement or understanding with the other Noticees. The subject funds which has created controversy was returned to ZSL immediately when the proposed sale of my land was not fructified. Apart from holding shares, I have never been involved in the management of the Company or have exercised any control over the Company in any manner.</i>
<i>3</i>	<i>there should be an agreement or an understanding</i>	<i>SEBI has not been able to show any relationship by design between the other Noticees and me or meeting of minds between us to acquire substantial shares of ZSL or gain control over it. Thus, the SCN has erroneously included me as a PAC with the other Noticees.</i>

	with each other	
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94. In this regard, Noticee 6 relied upon several judgements by Hon'ble Supreme Court:

- i. In **Technip SA v. SMS Holding (P) Ltd. and Ors.**, (2005) 5 SCC 465, the Supreme Court has held:

*"According to the Bhagwati Committee Report, to be acting in concert with an acquirer, persons must fulfil certain "bright line" tests. They must have commonality of objectives and a community of interest and their act of acquiring the shares or voting rights in company must serve this common objective."*

- ii. In **Daiichi Sankyo Company Ltd. v. Jayaram Chigurupati and Ors.**, (2010) 7 SCC 449, the Supreme Court has held:

*"48. To begin with, the concept of "person acting in concert" under Regulation 2(e)(1) is based on a target company on the one side, and on the other side two or more persons coming together with the shared common objective or purpose of substantial acquisition of shares etc. of the target company. Unless there is a target company, substantial acquisition of whose shares etc. is the common objective or purpose of two or more Persons coming together there can be no "persons acting in concert". For, dehors the target company the idea of "persons acting in concert" is as irrelevant as a cheat with no one as victim of his deception. Two or more persons may join hands together with the shared common objective or purpose of any kind but so long as the common object and purpose is not of substantial acquisition of shares of a target company they would not comprise "persons acting in concert".*

*49. The other limb of the concept requires two or more persons joining together with the shared common objective and purpose of substantial acquisition of shares etc. of a certain target company. There can be no "persons acting in concert" unless there is a shared common objective or purpose between two or*

*more persons of substantial acquisition of shares etc. of the target company. For, dehors the element of the shared common objective or purpose the idea of "persons acting in concert" is as meaningless as criminal conspiracy without any agreement to commit a criminal offence. The idea of "persons acting in concert" is not about a fortuitous relationship coming into existence by accident or chance. The relationship can come into being only by design, by meeting of minds between two or more persons leading to the shared common objective or purpose of acquisition of substantial acquisition of shares etc. of the target company. It is another matter that the common objective or purpose may be in pursuance of an agreement or an understanding, formal or informal; the acquisition of shares etc. may be direct or indirect or the persons acting in concert may cooperate in actual acquisition of shares etc. or they may agree to cooperate in such acquisition. Nonetheless, the element of the shared common objective or purpose is the sin qua non for the relationship of "persons acting in concert" to come into being...*

*55. Regulation 2(1)(e)(2) defines "person acting in concert". It is a deeming provision. It has to be read in conjunction with Regulation 2(1)(e)(t) which states that person acting in concert comprises of persons who in furtherance of a common objective or purpose of substantial acquisition of shares or voting rights or gaining control over the target company, pursuant to an agreement or understanding (formal or informal), directly or indirectly cooperate by acquiring or agreeing to acquire shares or voting rights in the target company or to acquire control over the target company.*

*56. The word "comprises" in Regulation 2(1)(e) is significant. It applies to Regulation 2(1)(e)(2) as much as to Regulation 2(1)(e)(1). A fortiori, a person deemed to be acting in concert with others is also a person acting in concert. In other words, persons who are deemed to be acting in concert must have the intention or the aim of acquisition of shares of a target company. It is the conduct of the parties that determines their identity."*



95. With respect to allegation of violation of PFUTP Regulation, Noticee 6 submitted that she has been dealing in shares of ZSL since the year 2002. Prior to April 1, 2012 i.e. the earliest date of transfer of funds between her and ZSL, she was holding almost 16,44,361 (11%) shares of ZSL which were bought by her over the years. Further, there is no co-relation between the funds received by her from ZSL and her dealings in the shares of ZSL. The amount transferred to her account from ZSL amounted to Rs. 5,78,58,609 while the purchase through various brokers amounted to approximately Rs. 31,90,33,000 as depicted in below table:

Sl. No.	Period	Fund flow from ZSL Amount (in Rs.)	Transaction amount in the shares of ZSL	
			NBFC/Broker	Amount (in Rs.)
1	April 2012	4,58,609	a. IFIN Securities Finance Ltd b. JM Financial	6,43,70,000
2	May 2012	5,20,00,000	IFIN Securities Finance Ltd.	6,71,55,000
3	July 2012	4,00,000	a. IFIN Securities Finance Ltd b. JM Financial c. MOSL d. Fortune Credit Capital Ltd	17,23,25,000
4	August 2012	50,00,000	Fortune Credit Capital Ltd	1,51,83,000
	<b>TOTAL</b>	<b>5,78,58,609</b>		<b>31,90,33,000</b>

96. Noticee 6 stated that she was bullish on the scrip of ZSL and consequently borrowed huge funds by pledging all her existing holdings in ZSL. Further, Karvy and IFCI which had lent funds to the promoters of ZSL sold their shareholding which was a distress sale. Such sale of promoters' shareholdings by the financial institutions resulted in the price of the scrip fall beyond imagination and therefore all her lifetime holdings were depleted. This also resulted in defaults as the financial institutions who had lent funds to her also started selling the shares which were

pledged by her. The impact was such that till date there has been a huge outstanding due owed to the financial institutions and other lenders. Considering this, the transfer of funds from ZSL towards the proposed sale of land was only a co-incidence and there is no correlation with her dealing in ZSL.

97. With respect to other allegations, Noticee 6 stated as under:

- “i. The funds received by me from ZSL and the repayment of the same to ZSL was by virtue of the Agreement of Sale of the Subject Land and subsequent cancellation thereof. The same position is also affirmed by the company in details provided by them [Ref: Annexure 22 of SCN].*
- ii. It is clear that the purchase of shares of ZSL were made with the funds raised from NBFCs / lenders. The purchase value is substantially more than the amounts transferred by ZSL to my account for the Sale Agreement. Hence, there are both independent and separate transactions.*
- iii. I had validly purchased the Subject Land from a close family acquaintance known to me for over twenty years and hence it is a matter of fact that my husband also knew Mr. Chandramouli.*
- iv. The SCN incorrectly relies on the statements of independent directors of ZSL viz. S Rajagopal, AP Vasanthakumar and VK Ramani and alleges that land dealings between me and ZSL never existed. On perusal of the submissions of the said independent directors [Ref: Annexure 19 and Annexure 26 to the SCN], it can be observed that the independent directors stated that they were not aware of the said land dealings. The SCN does not even annex the copies of the minutes submitted by the said independent directors. Moreover, it fails to recognize the submissions made by ZSL itself, and also the Administrator appointed by the Hon'ble High Court of Madras which confirm the occurrence of these events. ZSL has even submitted the extracts of the relevant minutes*

*to the Investigating Authority and they have been duly taken into record [Ref: Annexure 25 of the SCN].*

- v. With respect to the allegation of the non-disclosure of the land dealings between ZSL and me in the Annual Report of ZSL under the head "related parties", filings on MCA Website, and to the stock-exchanges i.e. BSE and NSE, it is submitted that it appears that ZSL had inadvertently omitted to include the actual quantified fund amounts in the Annual Report, filings on MCA Website, and the stock exchanges. In this regard, I state that I cannot be held responsible for such a lapse of the Company and its officers since I was merely a shareholder and not involved in the management thereof.*
- vi. As far as the findings in the SCN regarding transfers of funds to me from Aditicon (Noticee No. 8) and Effica (Noticee No. 9) are concerned, as detailed hereinabove I reiterate that the promoters of ZSL have connected me with these two companies for granting me interest-free loans for repayment of my outstanding obligations to my stock-brokers. This arrangement came into being pursuant to the discussion on cancellation of Sale Agreement in respect of the Subject Land.*
- vii. As to the allegation of ZSL signing a guarantee on my behalf for loans taken by me with JM Financial and NSIPL, it is submitted the same has happened in March - 2013 and November - 2012, i.e. at a much later date after my purchases of ZSL shares and not before.*
- viii. The information provided in table at paragraph 10(b) of the SCN with regard to my accounts with NBFC and stockbrokers is interpreted in a wrong way. While my husband has received the contracts notes in his email id, it is not true to say that my husband alone was doing all the trading activities in my account. I had engaged few investment managers to manage my trading and they were handling the day to day trading. Anyway, it is not the case of SEBI that I have disowned the trades done in my account with the stockbrokers.*

*ix. The trading done by me in the scrip of ZSL through various brokers are a matter of record. It may be noted that there is no embargo on me not to deal in the shares of a company of which I am a shareholder.*

*x. It is also clear that after the pledge of share as per the loan agreements, I have had no control over my shareholding in ZSL nor even had the voting rights with me. Thus, the two transactions were completely unrelated.”*

98. Noticee 6 denied that there was any orchestrated device, plan or artifice on her part to mislead and defraud the investors as alleged, ZSL allegedly made some incorrect disclosures, and without any allegation of collusion with the promoters, she should not be considered to be at fault. She stated that, fraud cannot be proved only on alleged gross negligence, carelessness or recklessness as amounting to collusion and connivance on a preponderance of probabilities. She relied upon **Kanaiyalals case**, wherein Hon’ble Supreme Court has categorically held that the element of "inducement" must exist and should be proved before holding that a person is guilty of fraud. In the instance case, there is no finding that she had induced someone and thereby played a fraud in the securities market.

#### **Additional Submissions of Noticee 4, 5 and 6:**

99. AR of Noticee 4, 5 and 6 submitted that the entire consideration for the purchase of shares by Noticee 6 were funded by the lenders since 2010 who had created a pledge on the entire shareholding of Noticee 6. Even the dividend was transferred by ZSL directly to the lenders. The lenders have also made disclosures of the pledge as ‘acquisition’ under the takeover code. Further, more than 95% of the shareholding held by Noticee 6 were with the lenders and therefore the threshold for making an open offer did not trigger in the matter. PAC is acquisition specific and therefore absent the trigger to make an open offer, the allegation of PAC does not arise. Further, even the promoters had pledged their shares with their lenders who sold the shares in distress because of default in payment obligations by

promoters and due to fall in price of the scrip. Therefore, even substantial portion of the shareholding of the promoters were pledged which further demolishes SEBI's claim of a trigger of open offer.

100. AR submitted that the fraud as alleged in the matter is the undisclosed PAC arrangement between the Noticees which does not arise when there is no PAC or the trigger of open offer threshold. Further, there was no reason for Noticee 4, 5 and 6 to act in concert and hold shareholding of Noticee 6 at the behest to indirectly support the promoters as the promoters were already in control holding majority of shareholding with no threat of any hostile takeovers from any entities. Further, the allegation of SEBI based on ZSL's internal emails wherein holding of Noticee 6 was shown under promoters, cannot be the basis for any allegation as Noticee 6 was not a party to those emails.

101. AR stated that even assuming the alleged fund transfer was true and that there was "no land deal", there would have been no defaults committed by Noticee 6 towards her loan liability of the lenders who would not have taken such drastic and coercive measures of selling the entire shareholding, insisting of guarantee by the promoters and filing complaints for dishonour of cheque by Noticee 6. Therefore, the fund transfers and the purchase of shares by Noticee 6 are completely independent and unconnected transactions even on the timelines as alleged by SEBI.

102. AR further submitted that if the promoters had the amount of money which is alleged to be funded to Noticee 6, it would be illogical for the promoters or ZSL to make payments to Noticee 6 when promoter holdings itself was in jeopardy with the creation of pledge and when funds were required to avoid any coercive steps by the lenders of promoters.

103. ZSL's business was to provide IT solutions to onshore and offshore clients. ZSL was a part of the booming industry, accordingly ZSL was heavily recommended by market analysts. Therefore, Noticee 6 purchased 5,50,000 shares of ZSL and as

anticipated she received good returns in the short term. There was no relationship with ZSL or any promoters or office bearers of ZSL even at the time of this investment. ZSL was a consistent dividend paying company until the year - 2011. In the year 2010, the stock price had even touched Rs. 500/- at one point. At such point also, market research reports acclaimed that the stock prices in ZSL would further go up. Therefore, being reassured, Noticee 6 decided to acquire more shares in ZSL by taking loans against pledge of the same shares with various NBFCs and stockbrokers. Strategy of Noticee 6 was to avail finance from NBFCs and use the said securities as collateral and settle the difference after selling the shares. In case of loss, all that is required to be paid is the amount which was lost, as the NBFCs were anyway covered with the collateral as security. Therefore, all loans were taken from the NBFCs of the brokers who gave better rate for brokerage when their NBFCs are involved and keep the collateral shares under their control and disposal.

104. During the relevant period, certain unfortunate events such as currency fluctuations, failure of products, mismanagement by the promoters and lop-sided competition with the peers in the industry led to the downfall of ZSL and severe crash in its stock prices. Noticee 1 had failed to honor its commitments under the loans availed which led to sale of its shares pledged as security with such lenders. This further degraded the stock prices. All these factors eventually snowballed into termination of business from all quarters.

105. In meanwhile, the lender banks filed criminal complaints against ZSL and its promoters since they suspected that bogus documents were submitted to them as security by the promoters of ZSL. This led to initiation of investigation proceedings by the ED and a charge sheet was filed by the CBI against ZSL and its promoters. In view of the charges crystallized by the CBI in its charge sheet, proceedings under the Prevention of Money Laundering Act, 2002 (PMLA) were also initiated against ZSL and its promoters. However, the promoters of ZSL never cooperated

with any of the aforesaid government agencies. The Administrator of ZSL was constrained to file a police complaint against the promoters of ZSL.

106. When the Administrator took over the affairs and sought for clarification from the then auditors of ZSL, the auditors too failed to cooperate without consent of Noticee 2 and 3. The Administrator has filed a complaint with ICAI against the then auditors who not only seems to have managed the affairs badly but were actively involved in supporting the action of the promoters. All these events took place much after Noticee 4 and 5 left ZSL.
107. With respect to land deal between Noticee 6 and ZSL, AR submitted that the entire money received by Noticee 6 from ZSL was duly returned back to ZSL, post termination of deal. No earnest money was forfeited by Noticee 6 even though the Sale Agreement allowed her to forfeit a sum of Rs. 3 Crores in the event of breach by ZSL. Inadvertently, the erstwhile advocate representing Noticee 6 made an erroneous submission in this regard before the WTM in the earlier proceedings in 2015 and stated that a sum of Rs. 5.8 Crores was forfeited by Noticee 6, which was incorrect. This was clarified by the Noticee 6 later.
108. AR submitted that if the funds of the promoters as alleged was indeed retained by Noticee 6 and used for acquisition of shares, then there would have been no default of Noticee 6 towards the loan of NBFCs / financial institution and, there would have been no proceedings initiated by the lenders against her under Section 138 of Negotiable Instruments Act which eventually got settled only in 2018. Noticee 6 was forced to return the said earnest money since the promoters of ZSL had threatened to remove Noticee 4 from ZSL. In turn, ZSL was requested that since the Noticee 6 was in financial distress and had to repay huge outstanding loans, which Noticee 6 intended to pay from land deal as a stop gap arrangement they should support her. Thus, the promoters agreed to stand guarantee to the loans availed by Noticee 6 from NBFC's like JM Financial, MOSL. Though the promoters

gave personal guarantees for repayment of the loans by Noticee 6 to the NBFCs and stockbrokers, they never had to pay even a dime in furtherance thereto. Noticee 6 was only making the repayments in instalments to JM Financial, MOSL, IFIN by herself. The guarantee was given by promoters as NBFC insisted on huge margin cover or guarantee by the promoters of the company whose shares were the collaterals / security cover for the loan granted by the lenders. This guarantee was provided at the instance of the lenders.

109. Trading of Noticee 6 in ZSL was based on her independent judgement and had nothing to do with the promoters of ZSL. In fact, from records, it can be observed that SEBI has itself alleged that when promoters of ZSL were selling their shares, she was purchasing the ZSL shares. Hence, there is no question of she being termed PAC with the promoters, when both of their trading pattern was diametrically opposite.

110. With respect to the allegation of disclosure violations, AR submitted that these were not the responsibilities of Noticee 4 and/or Noticee 5. ZSL had appointed professionals to manage these affairs. ZSL had an accounts manager i.e. Mr. Prabhakar as well as a company secretary i.e. Ms. S. Akila who were responsible to make appropriate disclosures from time to time. All actions in the Company in this regard originated from the directions/instructions of the promoters and were being executed by the secretarial and finance teams. Noticee 4 being a professional director and Noticee 5 being the CFO of the ZSL, they were not responsible for tracking disclosures to be made by the relevant persons specifically engaged in this regard. The failure to make the impugned disclosures by Noticee 4 and Noticee 6 directly, at best was an inadvertent and un-intentional slip-up and hence a lenient view be taken in this regard.

111. In respect of transfer of voting rights to pledger and consequent trigger of open offer, Noticee 4, 5 and 6 relied upon the order dated July 31, 2015 in the case of **Andhra Cements** wherein the learned adjudicating officer of SEBI opined as under:

*Adjudication Order in the matter of Zylog Systems Limited*



*“63. I also note that the Noticee ISG has highlighted in its submission, the key ingredients which completes a sale transaction. ISG has asserted that the invocation and subsequent redemption transaction cannot be said to be sale or purchase in the absence of these essential elements. However, in the case at hand, the treatment in the book of accounts of the pledger/pledge cannot become a decisive factor, so long as the voting rights devolved upon the pledgee and there was transfer of beneficial ownership/ voting rights in accordance with the provisions of the Depositories Act, 1996/ SEBI (Depositories and Participants) Regulations, 1996. I observe that Regulation 11(2) too talks about acquisition of shares or voting rights. Hence, whether or not there was a valid sale is immaterial, so long as there was a transfer of voting rights.”*

#### **Submissions of Noticee 9 and 10:**

112. Noticee 9 and 10 submitted that the Investigation Report and copies of certain documents requested through his advocate has not been furnished to him till date in a gross violation of the principles of natural justice.

113. With respect to allegations of PFUTP Regulations, Noticee 9 and 10 submitted as under:

*“a. It is humbly submitted that they were employees of ZSL and was designated as an Administrative Officer with salary of approximately Rs. 10,000 to 20,000/- pm.*

*b. It is further submitted that they have no personal relation with any of the promoters / directors of ZSL nor has SEBI alleged of any connection between them and the promoters / directors of the ZSL.*

*c. It is submitted that during their employment with ZSL, Noticee 2, 3 and Mr. Vishwanathan time and again directed them to sign certain papers /blank*

*cheque book and as employees of ZSL they had no other option and hence signed the documents as directed by the Noticee 2, 3 and Mr. Vishwanathan. Noticee 9 and 10 further submitted that it came to their knowledge much later that they were appointed as directors in companies Noticee 7 and Noticee 7 and 8 respectively.*

- d. It is submitted that they were directed to even sign blank cheques book pertaining to the bank account of aforesaid companies, the same were retained by Mr. Vishwanathan V.*
- e. It is submitted that they were compelled to sign these documents by Noticee 2, 3 and Mr. Vishwanathan. They were given the impression that signing such documents were part of their job with ZSL. Further they were never given an option to refuse, in fact any kind of refusal by them would have been dealt with dire consequences including loss of their job with ZSL.*
- f. It is submitted that ZSL was managed and controlled by Noticee 2 and 3 under the guidance of Mr. Vishwanathan V who has not been named in the list of Noticee although he occupied prominent position in the ZSL.*
- g. It is submitted that for all practical purposes Noticee 7 and 8 were the companies owned by Noticee 2 and 3 and were completely controlled by Noticee 2, 3 and Mr. Vishwanathan. They were only appointed as employee directors of the said companies.*
- h. It is submitted that the bank account statement of the Noticee 7 and 8 clearly demonstrates that the account was used for the benefit of Noticee 1, 2 and 3, ZSL and Mr. Vishwanathan and at no point of time they derived any benefit from Noticee 7 and 8.*
- i. It is submitted that just because of their employment with ZSL they had used their names as Directors in respective companies.*

- j. It is humbly submitted that they were never a part of any manipulation or deceptive devices or contrivance of contravention of the provision of the said Sections and Regulations.*
- k. It is further submitted that there is no evidence to establish their involvement or even that they had prior knowledge of the alleged modus operandi of the Noticee 2, 3 and Mr. Vishwanathan.*
- l. It is humbly submitted that in the absence of any connecting evidence the charges levied against them may be dropped.*
- m. It is submitted that the SCN also recognizes that they were not aware of the transaction and the entire modus operandi while admitting that the entire control of Noticee 7 and 8 was under the control of the Key Management personnel of ZSL i.e. Noticee 2, 3 and Mr. Vishwanathan (see para 9 (h) of the SCN).*
- n. It is further submitted that they were working under the instruction of Noticee 2, 3 and Mr. Vishwanathan and who were in control of the day to day affairs of the Companies. In fact the SCN says it in many words that they were only employee directors and the entire control remained with the Key Management personnel of ZSL as mentioned above also. They further submitted that merely carrying out the instructions of their higher ups and that there were functional hierarchies above their position. They also submit that they had no decision making power in alleged transactions or routing / funding of money.*
- o. It is further submitted that in the entire SCN or annexures thereto at no place has SEBI provided any evidence to indicate that they were also responsible for the affairs of the Noticee 7 and 8.*

- p. It is submitted that only being director would not make them automatically responsible for the alleged transactions.*
- q. It is submitted that a company is a juristic person, all its deeds and functions are the result of acts of others. Therefore, officers of a company who are responsible for acts done in the name of the company should be held liable.*
- r. It is humbly submitted that the liability arises from being in charge of and responsible for the transaction at the relevant time and not merely holding a designation or office in a company. It is further submitted that the liability depends on the role one plays in the affairs of the company and not on designation or status.*
- s. It is humbly submitted that there has to be a specific finding against them that they were responsible for the transaction, the mere fact that they were the directors of the Company/Companies would not automatically responsible for the alleged transaction.*
- t. It is submitted that the SCN has infact identified that the Noticee 7 and 8 was completely under the control of key management personnel of ZSL and that KMPs were responsible for the affairs of Noticee 7 and 8. It is humbly prayed that no adverse order be passed against them especially when there is no finding nor any shred of any evidence to indicate that they were responsible for the affairs of the Companies.”*

#### **Submissions of Noticee 11:**

- 114. Noticee 11 submitted that the Investigation Report and copies of certain documents requested through his advocate has not been furnished to him till date in a gross violation of the principles of natural justice.
- 115. With respect to allegations of PFUTP Regulations, Noticee 11 submitted as under:

*Adjudication Order in the matter of Zylog Systems Limited*

- “a. It is humbly submitted that I am the wife of Noticee 12 i.e. Mr. M V Ganesan who was an employee of ZSL and was designated as Vice President - Corporate Accounts who was reporting to Noticee 4.*
- b. It is submitted that I had lent my name for directorship under coercion and duress as refusal to abide by the directions of Noticee 3 would have meant an immediate loss of job for my husband.*
- c. It is further submitted that I have no personal relation with any of the promoters / directors of ZSL nor has SEBI alleged of any connection between me and the promoters / directors of the ZSL*
- d. It is submitted that I have not signed any documents or cheques during the investigation period. I was given the impression being a director in Noticee 8 would ensure job security of my husband with ZSL. Further I was never given an option to refuse, infact any kind of refusal by me would have been dealt with dire consequences including loss of my husband's job with ZSL.*
- e. It is submitted that just because of my husband's employment with ZSL, under duress and coercion Noticee 2 and 3 used my name as one of the Directors in Noticee 8.*
- f. It is humbly submitted that I was never a part of any manipulation or deceptive devices or contrivance of contravention of the provision of the said Sections and Regulations.*
- g. It is further submitted that there is no evidence to establish my involvement or even that I had prior knowledge of the alleged modus operandi of the Noticee 2, 3 and Mr. V Vishwanathan.*
- h. It is humbly submitted that in the absence of any connecting evidence the charges levied against me may be dropped.*

- i. *It is submitted that the SCN also recognizes that I was not aware of the transaction and the entire modus operandi. In fact the SCN says it in many words that I am only a name lending director and the entire control remained with the Key Management personnel of ZSL as mentioned above also. I also submit that I had no decision making power in alleged transactions or routing / funding of money.*
- j. *It is further submitted that in the entire SCN or annexures thereto at no place has SEBI provided any evidence to indicate that I was also responsible for the affairs of the Noticee 8.*
- k. *It is submitted that a mere fact that I am a director would not make me automatically responsible for the alleged transactions.*
- l. *It is submitted that a company is a juristic person, all its deeds and functions are the result of acts of others. Therefore, officers of a company who are responsible for acts done in the name of the company should be held liable.*
- m. *It is humbly submitted that the liability arises from being in charge of and responsible for the transaction at the relevant time and not merely holding a designation or office in a company. It is further submitted that the liability depends on the role one plays in the affairs of the company and not on designation or status.*
- n. *It is humbly submitted that there has to be a specific finding against me that I was responsible for the transaction, the mere fact that I was the director of the Company would not automatically responsible for the alleged transaction.*
- o. *It is submitted that the SCN has infact identified that the Noticee 8 was completely under the control of key management personnel of ZSL and that they were responsible for the affairs of Noticee 8. It is humbly prayed that no*

*adverse order be passed against me especially when there is no finding nor any shred of any evidence to indicate that I was responsible for the affairs of the Company.*

**Submissions of Noticee 12:**

116. Noticee 12 submitted that the Investigation Report and copies of certain documents requested through his advocate has not been furnished to him till date in a gross violation of the principles of natural justice.

117. With respect to allegations of PFUTP Regulations, Noticee 12 submitted as under:

- “a. It is humbly submitted that I was an employee of ZSL and was designated as Vice President - Corporate Accounts with salary of less than Rs. 1,00,000/- pm.*
- b. It is further submitted that I have no personal relation with any of the promoters / directors of ZSL nor has SEBI alleged of any connection between me and the promoters / directors of the ZSL*
- c. It is submitted that during my employment with ZSL, Noticee 2 and 3 gave me 25000 equity shares of ZSL sometime in 2004-05 without any consideration, along with few other employees working with ZSL at that time. Please note these 25000 equity share were received by me much before the IPO.*
- d. It is submitted that during IPO around 2008-09 I was allotted 4829 equity shares of ZSL which was paid by me from my personal savings.*
- e. It is submitted that I have done trading in various scrip other than the scrip of ZSL.*
- f. It is further submitted that the trading done in my account were done PLPT under instructions from Noticee 2 and / or 3. It is submitted that Mr. Lokesh Kapoor of PLPT was introduced to me by Noticee 2 who was handling my*

*demat account, after I requested Noticee 2 for financial assistance. He introduced me to PLPT. It is further submitted that I had signed a Power of Attorney in favor of Mr. Lokesh Kapoor's name under instructions of Noticee 2 and Mr. Lokesh Kapoor was operating my trading and demat account.*

- g. It is submitted that I was not in a position to refuse or deny the instruction / direction of Noticee 2 and 3 at anytime as I was under constant threat to lose my employment with ZSL.*
- h. It is submitted that I have at no point of time derived any benefit from the alleged transaction.*
- i. It is submitted that just because of my employment with ZSL they opened my trading and demat account and used the same, without my consent, as per instructions / directions of Noticee 2 and 3.*
- j. It is humbly submitted that I was never a part of any manipulation or deceptive devices or contrivance or contravention of the provision of the said Sections and Regulations.*
- k. It is further submitted that there is no evidence to establish my involvement or even that I had prior knowledge of the alleged modus operandi of the Noticee 2 and 3.*
- l. It is humbly submitted that in the absence of any connecting evidence the charges levied against me may be dropped.*
- m. It is submitted that the SCN also recognizes that I was not in control of the transaction and the entire modus operandi while taking cognizance that the entire control remained with Noticee 2, 3 and Mr. Vishwanathan.*



- n. *It is further submitted that I was working under the instruction of Noticee 2 and 3 and they were in complete control of my trading and demat account. Infact the SCN says it in many words that I am only a name lender while the entire control remained with Noticee 2 and 3. I further submit that I was merely carrying out the instructions of their higher ups and that there were functional hierarchies above my position. I also submit that I had no decision making power in alleged transactions or routing / funding of money.*
- o. *It is further submitted that in the entire SCN or annexures thereto at no place has SEBI provided any evidence to indicate that I was also responsible for the trades being conducted in ZSL.*
- p. *It is submitted that a mere fact that my trading and demat account was being used would not make me automatically responsible for the alleged transactions.*
- q. *It is humbly submitted that there has to be a specific finding against me that I was responsible for the transaction, while the established fact remains that the alleged transactions were done on the behest of Noticee 2 and 3, I should not be held guilty for the wrongful acts of Noticee 2 and 3.*
- r. *It is submitted that the SCN has infact identified and established beyond doubt that the entire alleged transactions were done by or on behest of Noticee 2 and 3, it is humbly prayed that no adverse order be passed against me especially when there is no finding nor any shred of any evidence to indicate that I was responsible for the alleged transactions.”*

118. In additional submissions, Noticee 12 submitted that Mr. Lokesh Kapoor, who was associated with the promoter of ZSL viz. Noticee 2, introduced him to Prabhudas Lilladhar (PL) of Mumbai and had arranged for the loan against shares. He had signed some documents related to the loan against shares, opening of Demat Account (with PL) and bank account (with ICICI Bank) etc. He had also signed Power of Attorney in favour of Mr. Lokesh Kapoor authorizing him to trade in his

account with PL. The Purpose of opening the loan account was for trading of shares. There was no other reason to have the client account at a distinct place except that Mr. Kapoor had agreed to arrange loan facilities against shares from PL.

119. Noticee 12 submitted the details of acquisition/sale of ZSL shares in his name, from inception till date as under:

<b>Financial Year of acquisition</b>	<b>No. of shares acquired</b>	<b>Source</b>
2004-05	25,000	Off market acquisition
2007-08	4,829	On Market acquisition through IPO
2009-10	1,40,000	Off market acquisition
2009-10	1,57,543 bought & 2,97,543 sold	On Market acquisition and sale using the LAS sanctioned by PL
2010-11	20,000	Off market acquisition and off market transfer
2010-12	1,50,000	Off market acquisition
2010-11	89,350	On Market acquisition using the LAS sanctioned by PL
2011-12	1,14,425 bought & 1,31,006 sold	On Market acquisition and sale using the LAS sanctioned by PL
2012-13	70,000 bought & 1,48,001 sold	On Market acquisition and sale using the LAS sanctioned by PL

120. With respect to aforesaid transactions, Noticee 12 submitted as under:

- “a. In the year 2004, ZSL promoters gave shares of ZSL to some of its employees who were working in the company for long time without any monetary consideration. In this regard, in October 2004 I was given 25,000 shares of ZSL*
- b. In the year 2007, I applied for ZSL shares in the IPO of ZSL and was allotted 4,829 shares. These shares were bought out of my savings.*
- c. In the FY2009-10, I received 1,40,000 equity shares of ZSL through off market directly into my demat account maintained with PL at the instance of Noticee 3 and Noticee 4. The off market share transfer details are provided in the duly certified copy of the transaction statement of PL from 1st June 2009 to 31st March 2010, among the documents received from PL, submitted to your department as annexure to my letter dt. 24-Dec-2018.*
- d. In June 2009, these 1,40,000 shares were pledged with PL and loan was availed. During the FY 2009-10, utilizing the loan, 1,57,543 shares of ZSL were bought on market and 2,97,543 shares of ZSL were sold on market. Details are provided in the duly certified copy of the transaction statement of PL from 1st June 2009 to 31st March 2010, submitted to your department as annexure to my letter dt. 24-Dec-2018.*
- e. On 12th January 2011, I received 20,000 shares in my DP account from Aditicon Services India Pvt Ltd ("Aditicon") via off market and the same was returned to Aditicon on 4th February 2011 via off market.*
- f. I received 85,000, 50,000 & 15,000 shares of ZSL on 12th January 2011, 9th February 2011 & 23rd November 2011 respectively from Aditicon on the instructions of Noticee 3 & 4. Further loan was availed by me against those shares from PL.*

- g. During the FY 2010-11, utilizing the loan provided by PL, 89,350 shares of ZSL were purchased from the open market. Details are provided in the duly certified copy of the transaction statement of PL from 1st April 2010 to 4th December 2018, submitted to your department as Annexure to my letter dt. 24-Dec-2018.
- h. During the FY 2011-12, utilizing the loan provided by PL, 114,425 shares of ZSL were bought from open market and 131,006 shares of ZSL were sold on market. Details are provided in the duly certified copy of the transaction statement of PL from 1st April 2010 to 4th December 2018, submitted to your department as Annexure to my letter dt. 24-Dec-2018.
- i. During the FY 2012-13, utilizing the loan provided by PL, 70,000 shares of ZSL were bought from open market and 1,48,001 shares of Zylog were sold in the open market. Details are provided in the duly certified copy of the transaction statement of PL from 1st April 2010 to 4th December 2018, submitted to your department as Annexure to my letter dt. 24-Dec-2018.

121. Noticee 12 submitted that the certain shares of ZSL transferred by off market were pledged as mentioned below:

<b>Date</b>	<b>Number of shares of ZSL</b>
FY 2009-10	1,40,000
FY 2010-11	1,35,000
FY 2011-12	15,000
<b>Total</b>	<b>2,90,000</b>

122. Noticee 12 submitted that the shares of ZSL were purchased and sold using the Loan facility availed from PL. Further, no funds had been received from ZSL or from any other associate companies controlled by Noticee 2, 3 and Mr. V. Viswanathan with respect to purchase of shares. The remaining shares left in his demat account with PL were confiscated by PL for the loan outstanding with them.

Noticee 12 further stated that the said transactions were done by Mr. Kapoor under the instruction and knowledge of Noticee 2.

123. Noticee 12 further submitted that the disclosure of his shareholding of ZSL were done by the then Secretarial department of ZSL. He had no knowledge on how the classifying of shareholders of ZSL were made or have any say in classifying the same. The secretarial department of ZSL had taken signatures from him on some documents.

124. In the light of the allegations contained in the SCN, the Noticees' submissions and relevant material available on record, I now proceed to decide the case on merits.

### **CONSIDERATION OF ISSUES AND FINDINGS**

125. The issues that arise for consideration in the instant matter are:

- |                    |  |
|--------------------|--|
| <b>Issue No. I</b> | <p>Whether</p> <ul style="list-style-type: none"><li>a) Noticees 1 to 6 have violated Regulation 3 (2) of SAST Regulations and Section 12 A (f) of SEBI Act.</li><li>b) Noticees 1 to 12 have violated Section 12A (a), (b), (c) of SEBI Act read with Regulations 3 (a), (b), (c), (d), 4 (1), and 4 (2) (a) (f), (r) of PFUTP Regulations,</li><li>c) Noticees 4 and 5 have violated Clause 6.15.2 of DIP Guidelines read with ICDR Regulations 2009 and ICDR Regulations 2018,</li><li>d) Noticees 1 to 3 have violated Regulations 31 (1), 31 (2) read with 31 (3) of SAST Regulations,</li><li>e) Noticees 1 to 4 have violated Regulations 13 (4A) read with 13 (5) of PIT Regulations, 1992 read with Regulations 12 of PIT Regulations, 2015 and</li></ul> |
|--------------------|--|

**Issue No. II** If yes, whether the failure, on the part of the Noticees would attract monetary penalty under Section 15A(b), 15H, 15HA and 15HB of SEBI Act as applicable.

**And**

**Issue No. III** If yes, what would be the monetary penalty that can be imposed upon the Noticees taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?

**Issue No. I** **Whether the Noticees have violated the following Regulations**

**a. Whether Noticees 1 to 6 have violated Regulation 3 (2) of SAST Regulations and Section 12 A (f) of SEBI Act.**

126. The issue to be determined here is whether Noticees 4, 5 and 6 were acting in concert with the promoters of the Company i.e. Noticees 1, 2 and 3, and if so, whether they triggered open offer by acquiring more than 5% shareholding under Regulation 3(2) of the SAST Regulations.

127. Having perused the charges in the SCN and the replies made by the Noticees as stated above, I find the following with respect to shares purchased by Noticees 4, 5 and 6

a) Noticees 4, 5 and 6 are related to each other, Noticee 4 being the husband of Noticee 6, and Noticee 5 being the brother of Noticee 6.

b) Noticee 6 was holding 11 lakh shares of ZSL representing 8.56% of then shareholding of ZSL and was the fourth largest shareholder of ZSL as per the RHP of ZSL filed dated July 07, 2007. ZSL had come out with its Initial Public Offering during the year 2007. Noticee 6 had received/transferred shares of ZSL from/to Noticee 3 (Promoter of ZSL) on January 18, 2002 and February 05, 2007 respectively before the IPO.

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Further, Noticee 5 was the Finance Controller of ZSL since July 01, 2005. Noticee 4 was also the director of Zylog Systems (India) Limited, a wholly owned subsidiary of ZSL since December 28, 2005.

- c) The material on record does not suggest any relation between Noticee 6 and Noticees 1, 2 and 3 other than the fact that she was the fourth largest shareholder in the Company and had also received shares from Noticee 3 prior to the IPO. I note that being a large shareholder does not automatically make one a promoter, unless the same is either declared as such by the Company or the person is in control of the Company. In terms of DIP Guidelines as of year 2007, the term 'Promoter' was defined to include: (a) *the person or persons who are in over-all control of the company;* (b) *the person or persons who are instrumental in the formulation of a plan or programme pursuant to which the securities are offered to the public;* (c) *the persons or persons named in the prospectus as promoters(s).*
- d) From the material on record, I note that Noticee 6 has been alleged to be a promoter based on her being mentioned as promoter in internal communications of the company. On further scrutiny, I find that Noticee 6 is mentioned in the context of converting her trading account into a promoter funding account to avail more funding against the shares held in her account. There is also internal working of shareholding of Noticee 1, wherein shares held in the account of Noticee 6 are considered as being shares of Noticee 1. It is pertinent and relevant to note here that there was frequent off market transfer of shares of ZSL between the account of Noticee 1 and 6. This establishes that the promoters of ZSL were having control of moving shares into and from the account of Noticee 6. However, the material on record does not establish that Noticee 6 was in overall control of the Company or instrumental in formulation of a plan or programme of the company pursuant to which

securities were offered to the public. Noticee 6 was also not named as promoter in the prospectus.

- e) Noticee 6 in her submissions has stated that she was taking decisions to buy and sell ZSL shares in her account. However, the emails produced in the SCN show otherwise and establish that the decisions to move shares off market between accounts of Noticee 1, 6 and 7 were not being taken by her, but were based on funding needs as determined in consultation with Noticee 2 and 3, and executed through emails sent by Noticee 4. Hence, I am of the view that Noticee 6 cannot be held to be a promoter of ZSL.
- f) Noticee 4 submitted that he got associated with ZSL in the year 2007 as a Professional Director. In terms of DIP Guidelines, *a director/ officer of the issuer company or person, if they are acting as such merely in their professional capacity shall not be considered as Promoter.*
- g) Noticee 4 further stated that ZSL got listed on NSE/BSE in August 2007. His wife, Noticee 6 was a shareholder even before ZSL was listed. The promoters of ZSL viz, Noticee 2 and 3 changed his designation to executive director in May - 2010. As per the Articles of Association ("AoA") of ZSL, an executive director of ZSL shall not be construed as Director of the company and shall not have any of the rights and powers or be subject to any duties of Director of the Company. His appointment as Executive Director was mainly to provide professional guidance in strategizing new business initiatives of ZSL as the company was aggressively expanding at that time and to present the quarterly performance of ZSL in analysts calls.
- h) I note that Noticee 4 was Executive Director of the company during Investigation Period. I further note that as per the Annual Report of FY 2012 of ZSL, Noticee 4 was proposed to be re-appointed as Whole Time



Director of the Company for a period of 2 years. Further, as per the said Annual Report, Noticee 4 was also the director of Zylog Systems (India) Limited, a wholly owned subsidiary of ZSL.

- i) The definition prescribed under SAST Regulations for persons acting in concert reads as follows,

*(q) “persons acting in concert” means, —*

*(2) Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be persons acting in concert with other persons within the same category, unless the contrary is established,—*

*(i) a company, its holding company, subsidiary company and any company under the same management or control;*

*(ii) a company, its directors, and any person entrusted with the management of the company*

*(iii) directors of companies referred to in item (i) and (ii) of this sub-clause and associates of such directors;*

- j) Hence, I find that Noticee 4, being a director of the subsidiary of ZSL falls in the definition of deemed PAC in terms of Reg 2(q)2(iii). Noticee 5 was Global Chief Financial Officer of ZSL during Investigation Period, and was related to Noticee 4 and 6 as stated earlier. However, he does not fall in the definition of PAC merely by being the Global CFO or being in charge of the finances of ZSL or by being the authorized person representing Noticee 1 with NBFCs.

- k) Hence, Noticees 4, 5 and 6 would be considered as PAC, if in terms of Regulation 2(q)(1) of SAST Regulations they were persons, who, with a common objective or purpose of acquisition of shares or voting rights in, or exercising control over a target company, pursuant to an agreement or understanding, formal or informal, directly or

indirectly co-operated for acquisition of shares or voting rights in, or exercise of control over the target company.

- l) It has been argued by Noticee 4, 5 and 6 that they did not have common objective with Noticee 1, 2 and 3 in acquisition of shares as they were buying shares when the Noticee 1 was selling. Here I note that the trading by Noticee 2, 3, 4 and 5 was negligible during the relevant period of April 2012 to November 2012. Active trading is seen mainly in the accounts of Noticee 1 and 6.
- m) I note from the individual trades of Noticee 1 and 6 in the period 2/4/12 to 31/12/12 that the trading pattern of the two Noticees is different. While Noticee 1 has just 10 market buy transactions for 3,05,716 shares, there are 26 market sell transactions for 5,72,620 shares. There are also 21 off market transfers (sell transactions) for 38,18,066 shares, against 11 off market receipts (buy transactions) for 6,51,136 shares.
- n) On the other hand, Noticee 6 is seen to be actively trading on market with large number of buy and sell trades on the same day, with a total buy quantity of 34,55,875 and sell quantity of 42,47,802. In addition, a large number of off market receipts are seen by Noticee 6 amounting to 49,52,375 shares. Off market transfers amount to 29,19,924. Hence, on the face of it the trading pattern of Noticee 1 and 6 appears to be quite different. A tabular summary of their trades from April – November 2012 is given below:

Sripriya/ Noticee 6				Sthithi/ Noticee 1			
Mkt Buy	Mkt Sell	Off Mkt Rect	Off Mkt Tfr	Mkt Buy	Mkt Sell	Off Mkt Rect	Off Mkt Tfr
34,55,875	42,47,802	49,52,375	29,19,924	3,05,716	5,72,620	6,51,136	38,18,066

o) From the above summary, it can be seen that during this period, Noticee 6 shows a net buy of 12,40,524 shares whereas Noticee 1 shows a net sale of 34,33,834 shares.

p) However, I note that Investigation has brought out certain email communications relating to trading by Noticee 1 and 6, extracts from 2 of which are reproduced below:

i) Email dated 20/06/11 from Aditya Birla Finance to Srikanth, bearing subject Change of Margin Funding Account to Promoter Funding Account – Ms. Sripriya wherein the following was inter-alia stated:

*.....the conversion of MTF (Margin Trade Funding) Account into Promoter Funding Account for Ms. Sripriya with reference to transfer of 5.75 lakh shares and the loan outstanding, from ABML to ABFL. We are trying all options to do it seamlessly without affecting the SEBI guidelines and our compliance norms and we are having deliberations at all levels on the same. Nonetheless, request you to try if there are any possibilities for transferring 7 lakh shares (for Rs.10 Cr) to Ms. Sripriya's promoter funding account so that we can pay off the loan outstanding in the MTF account and release the 5.75 lakh shares lying there to your account within 5 working days. Meanwhile, I will also keep you posted on the developments from my side. Currently we have all the approvals in place for Rs.10 Cr under Promoter Funding for Ms. Sripriya.*

ii) Email dated 30/04/12 from Srihari to Sudarshan with cc to Srikanth bearing subject, 'Dividend Shortfall' inter alia stating the following:

*"In the below call it was decided that I come back with a plan for effecting this 2 lac shares transfer. The objective of this plan is to give effect to this transfer without having any financial payout from the Company's side, given the present financial position we are in today and also to start this transferring process at the earliest. This is how the committed transfer will be effected;*

1. *There is a free balance of 60,000 shares in Sthithi post requesting for a release of additional shares from Karvy and a balance of 20,000 free shares in Aditicon account. From this cumulative balance of 80,000 free shares, 40,000 shares can be transferred to my account and the balance to Edelweiss Sripriya account so that we can build the balances in Edelweiss new account and the same can be used towards buying fresh market shares against the proposed limit being issued by them... In case if this proposal goes wrong anywhere the same can be treated as refund of shares taken from Sripriya's account towards loan transaction that we had taken for effecting the Syndicated Bank transaction.*
2. *Against this transfer of 40,000 shares to my account I am setting up a 4 day limit to buy shares in Edelweiss. This limit I will use to buy shares from VB in tranches - Looks like we can start this transaction from Thursday.. We have requested VB to issue the payout to Aditicon instead of my account so that the dues in aditicon can also be closed in this process as the initial payout to VB happened from Aditicon account only .. This money post getting credited to Aditicon should be immly transferred to my account and in turn I will fund my Edelweiss account to square off the funding utilised. In this rotation process over a 30-45 days period, VB's 1,00,000 shares could get transferred to my account.*
3. *This totals up to transferring 1,40,000 shares to me without having any financial payout to the Company and the same would leave a balance of 60,000 shares post effecting these transfers..*  
*Will get back to you with a further plan for the balance 60,000 shares transfer in due course of time along with a plan for increasing the free shares in Edelweiss Sripriya's account to buy fresh shares against the proposed limit. We will start immediately with Step 1 as given above and in case there is any change in step 2, I will get back to you.., Will give instructions to Prabhakar/Ganesh accordingly."*

q) The email extract above gives some explanation of the frequent off market transfer of shares in the account of both Noticee 1 and 6. While Noticee 1 has gross off market transfer of 38,18,066 shares i.e. these shares moved out of the account of Noticee 1, Noticee 6 has gross off

market receipts of 49,52,375 shares in her account. On market, both Noticee 1 and 6 are net sellers during this period. The email exchange and the large amount of share transfers between the accounts indicate efforts to adjust share balances in the account to avail NBFC funding by pledging the shares.

- r) When seen during the period till April 02- October 08, 2012, when the trigger of 10% acquisition is alleged to be breached, it is seen that Noticee 6 had net market buy of 4,57,879 shares and off market receipt of 16,59,403 shares. Noticee 1 had a net market sale of 1,96,604 shares and off market transfers of 13,96,146 shares.
- s) Therefore, I find that even though there is no apparent common objective as seen from the trading pattern of the Noticees, the common objective becomes apparent from the various emails exchanged relating to adjusting balance of shares available in the accounts of Noticee 1 and 6. It becomes evident that the frequent off market transfer of shares was to maximise funding available from NBFCs by pledging the shares, and then to acquire more shares. Funds obtained by pledging shares have been utilized to make further purchase of shares. Hence, I find that Noticee 6 was acting in concert with Noticee 1, with the help and planning by Noticee 2, 3 and 4.
- t) Noticee 6 has contended that she did not have the voting rights of the shares purchased by her as the shares were pledged with NBFCs or brokers. In this regard I note that the intent to acquire further shares existed at the time of purchase, even though the voting rights were with the NBFC/ broker. Noticee 6 has also cited several judgments on the determination of PAC and common objective. I have considered all the judgments cited by the Noticee, and find that a common objective did exist in the trading by Noticee 1 and 6 to make further purchase of shares by pledging existing shareholding.

- u) While trading by Noticees 2, 3, 4 and 5 is negligible, Noticees 1, 2 and 3 are promoters and 4, 5 and 6 are related to each other as stated above. Hence, Noticees 1 to 6 are found to be PACs.
- v) It is also of interest to note that on a net basis, there is no substantial increase in shareholding of either Noticee 1 or Noticee 6, or of Noticee 1 to 6 taken together. However, due to frequent purchase transactions and frequent off market receipts of shares in the accounts of both Noticees, the gross buy of the Noticees is seen to cross the threshold of 5% on 2 occasions i.e. on 10/07/12 with their gross acquisition since 01/04/12 being 5.07%, and subsequently crossing 10% on 08/10/12. The net and gross acquisitions by Noticees 1 to 6 during July to October as shown below to depict how the 5% and 10% threshold is breached, even though on net basis, the acquisition is less than 5%.

Trade Date	Net Acquisition	Net Acquisition % of ZSL shareholding	Cumulative Net acquisition	Cumulative gross acquisition
02/07/2012	10949	0.07%	2.33%	4.11%
03/07/2012	30597	0.09%	2.42%	4.20%
04/07/2012	160793	0.49%	2.91%	4.69%
05/07/2012	73837	0.22%	3.14%	4.92%
06/07/2012	18466	0.06%	3.19%	4.97%
09/07/2012	2891	0.01%	3.20%	4.98%
<b>10/07/2012</b>	<b>29435</b>	0.09%	3.29%	<b>5.07%</b>
11/07/2012	1543	0.00%	3.30%	5.08%
12/07/2012	10671	0.03%	3.33%	5.11%
13/07/2012	54384	0.17%	3.49%	5.28%
14/07/2012	-85163	-0.26%	3.24%	5.28%
16/07/2012	9935	0.03%	3.27%	5.31%
17/07/2012	152105	0.46%	3.73%	5.77%
18/07/2012	7454	0.02%	3.75%	5.79%
19/07/2012	-6586	-0.02%	3.73%	5.79%
20/07/2012	10071	0.03%	3.76%	5.82%
23/07/2012	-87381	-0.27%	3.50%	5.82%
24/07/2012	5677	0.02%	3.51%	5.84%

25/07/2012	-206	0.00%	3.51%	5.84%
26/07/2012	122509	0.37%	3.88%	6.21%
27/07/2012	83855	0.25%	4.14%	6.47%
30/07/2012	-100000	-0.30%	3.84%	6.47%
31/07/2012	30000	0.09%	3.93%	6.56%
01/08/2012	25700	0.08%	4.00%	6.64%
02/08/2012	65900	0.20%	4.21%	6.84%
03/08/2012	-88133	-0.27%	3.94%	6.84%
04/08/2012	-195000	-0.59%	3.34%	6.84%
06/08/2012	38795	0.12%	3.46%	6.95%
07/08/2012	2478	0.01%	3.47%	6.96%
08/08/2012	95684	0.29%	3.76%	7.25%
09/08/2012	194827	0.59%	4.35%	7.84%
10/08/2012	-85686	-0.26%	4.09%	7.84%
11/08/2012	20	0.00%	4.09%	7.84%
13/08/2012	-210200	-0.64%	3.45%	7.84%
14/08/2012	-19472	-0.06%	3.39%	7.84%
16/08/2012	-71257	-0.22%	3.18%	7.84%
17/08/2012	-51490	-0.16%	3.02%	7.84%
21/08/2012	-31923	-0.10%	2.92%	7.84%
22/08/2012	-44438	-0.14%	2.79%	7.84%
23/08/2012	-44690	-0.14%	2.65%	7.84%
24/08/2012	-80519	-0.24%	2.41%	7.84%
27/08/2012	19100	0.06%	2.47%	7.90%
28/08/2012	26742	0.08%	2.55%	7.98%
29/08/2012	34712	0.11%	2.65%	8.09%
30/08/2012	21368	0.06%	2.72%	8.15%
31/08/2012	31572	0.10%	2.81%	8.25%
03/09/2012	66455	0.20%	3.02%	8.45%
04/09/2012	50660	0.15%	3.17%	8.61%
05/09/2012	27657	0.08%	3.25%	8.69%
06/09/2012	36591	0.11%	3.37%	8.80%
07/09/2012	20459	0.06%	3.43%	8.86%
08/09/2012	1248	0.00%	3.43%	8.87%
11/09/2012	-1473	0.00%	3.43%	8.87%
12/09/2012	-4896	-0.01%	3.41%	8.87%
13/09/2012	18500	0.06%	3.47%	8.92%
14/09/2012	-5000	-0.02%	3.45%	8.92%
17/09/2012	-111251	-0.34%	3.12%	8.92%
18/09/2012	30021	0.09%	3.21%	9.01%

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20/09/2012	-46856	-0.14%	3.06%	9.01%
21/09/2012	63936	0.19%	3.26%	9.21%
22/09/2012	773	0.00%	3.26%	9.21%
24/09/2012	32331	0.10%	3.36%	9.31%
25/09/2012	67665	0.21%	3.56%	9.52%
26/09/2012	-35424	-0.11%	3.46%	9.52%
27/09/2012	-84243	-0.26%	3.20%	9.52%
28/09/2012	24862	0.08%	3.28%	9.59%
29/09/2012	42638	0.13%	3.41%	9.72%
01/10/2012	-40323	-0.12%	3.28%	9.72%
03/10/2012	45189	0.14%	3.42%	9.86%
04/10/2012	-25323	-0.08%	3.34%	9.86%
05/10/2012	43923	0.13%	3.48%	9.99%
<b>08/10/2012</b>	<b>193701</b>	<b>0.59%</b>	<b>4.07%</b>	<b>10.58%</b>

w) As seen above, on a factual basis, the acquisition by Noticees 1 to 6 together never crossed 5% on net basis, and that no case is made out of change of control or management. Hence, in effect, there was no acquisition of additional voting rights in excess of 5% by Noticees 1 to 6 through their trading on market as well as off market. Here, it is pertinent to note the net off market receipts by Noticee 6 till Sep 30, 2012. These amount to 14.89 lakh shares. For the same period, the net off market transfers out of Noticee 1's account amount to 12.79 lakh shares.

April – Sep 2012

Noticee 6		Noticee 1	
Net market buy	Net off market receipt	Net market sell	Net of market transfer
375836	1489279	-161604	-1279146

x) While examining the connection of Noticee 6 with the promoters, Investigation revealed that the of the total shareholding of Noticee 1 of 1,32,89,064 shares as on Sep 30, 2012, 9,46,000 shares were held in the account of Noticee 6. The table above indicates a net off-market buy of 14.89 lakh shares. When seen in the context of the shareholding disclosed to exchanges by Noticee 1, 9.46 lakh of these shares are



shown to be owned by Noticee 1. This explains the off market transfers between Noticee 1 and 6.

- y) Having taken note of the reason for the frequent transfer of shares between the accounts of Noticee 1 and 6, and the fact that on net basis, their shareholding did not increase beyond 5%, I note from the explanation to Regulation 3(2) of SAST Regulations that *“For purposes of determining the quantum of acquisition of additional voting rights under this sub-regulation,—(i) gross acquisitions alone shall be taken into account regardless of any intermittent fall in shareholding or voting rights whether owing to disposal of shares held or dilution of voting rights owing to fresh issue of shares by the target company.”*
- z) As seen from the table above, on gross acquisitions alone, Noticees 1 to 6 acquired shares in excess of 5% and 10%, whereby in terms of Regulation 3(2) of SAST Regulations, Noticees 1 to 6 were required to make a public announcement of an open offer for acquiring shares of ZSL when the gross acquisition of shares of ZSL breached the threshold of 5%, which the Noticees failed to do. Thus, I find that Noticees 1 to 6 violated Regulation 3(2) of the SAST Regulations and Section 12A(f) of SEBI Act.

**b. Whether Noticees 1 to 12 have violated Section 12A (a), (b), (c) of SEBI Act read with Regulations 3 (a), (b), (c), (d), 4 (1), and 4 (2) (a) (f), (r) of PFUTP Regulations**

128. The allegations of violations of PFUTP Regulations can be summarized as follows:

- a) Whether the Noticees 1 to 11 committed fraud by allegedly funding or assisting in funding trades of Noticee 1 and Noticee 6 by the Company
- b) Whether the Noticees 2 - 6 and 12 committed fraud by giving misleading information about promoters and thereby about promoter shareholding,

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about increase / decrease in promoter shareholding, about making a statement of business as usual when the Company was facing a crisis, and about making a misleading response to a newspaper article on promoter shareholding increase.

- c) Whether the Noticees 2, 3 and 5 committed fraud by non-disclosure of related party transactions between Noticee 1 and the Company.

129. The material on record has brought out that the shares of the company ZSL were pledged with several NBFCs which had given funds to Noticee 1 and Noticee 6 against these shares. These funds were used to purchase shares of ZSL. There is material to show repayment of loans of Noticee 6 by ZSL, Noticee 7 and Noticee 8, as well as a loan guarantee by ZSL for Noticee 6. Several fund transfers are also shown from Noticee 7 and 8 to Noticee 6 and it is alleged that these funds were received from ZSL and used to acquire shares of the company by the Noticee 6. There are fund transfers between Noticee 6 and ZSL on account of a land acquisition which was later cancelled.

130. The main acquisition/ trading of shares of ZSL was done by Noticee 1 and Noticee 6, as discussed in preceding paras. While Noticee 1 has not submitted any reply, Noticee 4, 5 and 6 have submitted that the entire consideration for the purchase of shares by Noticee 6 were funded by lenders since 2010 who had created a pledge on the entire shareholding of Noticee 6. Even the dividends were transferred by ZSL directly to the lenders. Noticee 6 has denied using funds obtained from ZSL to trade in shares of ZSL. Noticee 6 has also offered explanation for the fund transfers between her and ZSL on account of the land deal, as also the loan repayment done on her behalf to ABFL.

131. I note that no charge of price manipulation or volume manipulation has been made in the SCN. It is already established that Noticees 1 to 6 were acting in concert when buying and selling shares of ZSL. The common objective of Noticee 1 to 6 is established as raising of funds through pledging of shares of ZSL so as to acquire further shares of ZSL. Whether the land deal related funding

between ZSL and Noticee 6 was genuine or not is not a subject matter for this adjudication. What is noteworthy is that the funds given by ZSL to Noticee 6 for the land purchase were returned by her to ZSL within a period of around 6 months. Noticee 6 in her replies has explained the funding for the purchase of shares by her as being through loans raised from NBFCs as given below:

Sl. No.	Period	Fund flow from ZSL	Transaction amount in the shares of ZSL	
		Amount (in Rs.)	NBFC/Broker	Amount (in Rs.)
1	April 2012	4,58,609	a. IFIN Securities Finance Ltd b. JM Financial	6,43,70,000
2	May 2012	5,20,00,000	IFIN Securities Finance Ltd.	6,71,55,000
3	July 2012	4,00,000	a. IFIN Securities Finance Ltd b. JM Financial c. MOSL d. Fortune Credit Capital Ltd	17,23,25,000
4	August 2012	50,00,000	Fortune Credit Capital Ltd	1,51,83,000
	<b>TOTAL</b>	<b>5,78,58,609</b>		<b>31,90,33,000</b>

132. From the above, it is seen that the value of shares purchased by Noticee 6 was far in excess of funds directly given by ZSL to Noticee 6 against the land deal. Considering that the funds for the land deal were returned by Noticee 6 upon cancellation of the deal, I am inclined to accept the contentions of Noticee 6 regarding source of funding.

133. SCN also alleges that funds were received from ZSL, and Noticees 7 and 8 which were companies formed in the name of employees of ZSL for repayment of loans taken by Noticee 6 as shown below:

S. No.	Repayment of Loans by Sripriya to ABML	Amount (in Rs.)	Source of Funds
1	August 27, 2012	10,00,000.00	ZSL
2	September 03, 2012	10,00,000.00	ZSL

<b>S. No.</b>	<b>Repayment of Loans by Sripriya to ABML</b>	<b>Amount (in Rs.)</b>	<b>Source of Funds</b>
3	September 05, 2012	10,00,000.00	Aditicon
4	October 04, 2012	90,00,000.00	Aditicon
5	October 19, 2012	1,00,00,000.00	Effica
6	October 22, 2012	25,00,000.00	Effica
7	October 31, 2012	75,00,000.00	ZSL
	Total	3,20,00,000.00	

<b>S. No.</b>	<b>Date of Payment of funds to IFIN by Sripriya</b>	<b>Amount (in Rs.)</b>	<b>Source of Funds</b>
1	January 03, 2012	46,00,000.00	Aditicon
2	January 06, 2012	30,00,258.93	Aditicon
3	January 06, 2012	12,07,461.41	Aditicon
4	January 06, 2012	42,63,319.59	Aditicon
5	January 13, 2012	75,00,000.00	Aditicon
6	May 08, 2012	1,26,50,000.00	Aditicon
7	May 15, 2012	1,50,00,000.00	ZSL
8	May 15, 2012	1,00,00,000.00	ZSL
10	May 18, 2012	70,00,000.00	ZSL
11	July 25, 2012	4,00,000	ZSL
12	August 30, 2012	50,00,000.00	ZSL
13	September 13, 2012	20,00,000.00	Aditicon
14	September 17, 2012	83,00,000.00	Aditicon
15	October 03, 2012	40,00,000.00	Aditicon
16	October 04, 2012	60,00,000.00	Aditicon
	Total	9,09,21,039.93	

134. With regard to the above mentioned fund transfers, Noticees 4 and 6 has submitted that pursuant to cancellation of the land deal, the promoters of the ZSL had entered into an arrangement with Noticee 6 to offer her financial assistance for clearing her outstanding debts with the NBFCs/ lenders. Transfer of funds to Noticee 6 from Aditicon Services India Pvt Ltd (Noticees No. 8) and Effica Systems Pvt Ltd (Noticee No. 9) was also in pursuance to the said arrangement. The aforesaid fund transfers amounting to around Rs.12.29 crore represent funding arranged by ZSL to help Noticee 6 purchase ZSL shares and Noticee 6 has not denied the financial assistance in her reply.
135. The web of fund transfers, off-market transfers of shares largely between Noticee 1 and 6, depict a scheme by the promoters of ZSL i.e. Noticee 2 and 3 who were also the CEO and COO of ZSL to make arrangements for funding further purchase of ZSL shares in the account of non-promoters i.e. Noticee 6 and Noticee 12. This arrangement not only misled shareholders regarding actual

promoter shareholding, but also regarding the extent of promoter shares pledged. As evidenced by internal emails produced in the SCN, Noticee 2 and 3 were assisted in implementing this scheme by their key employees, Noticee 4 and 5. Noticees 2 to 3 thus created a scheme of dealing in shares of the ZSL whereby investors were deceived as to the intent of dealing in violation of Regulation 3(d) of PFUTP Regulations and Section 12A(c) of SEBI Act. Noticees 4 and 5 assisted in this scheme by acting on instructions of Noticees 2 and 3. Noticees 1 and 6, in whose accounts the trades took place, were participants in the scheme. Thus Noticees 1 to 6 acted in violation of Regulation 3(d) of PFUTP Regulations and Section 12A(c) of SEBI Act.

136. I note here that Noticee 4, 5 and 6 submitted that after ZSL failed to meet its financial commitments, lender banks filed criminal complaints against ZSL and its promoters on suspicion that bogus documents were submitted to them as security by the promoters of ZSL. This led to initiation of investigation proceedings by the ED and a charge sheet was filed by the CBI against ZSL and its promoters. In view of the charges crystallized by the CBI in its charge sheet, proceedings under the Prevention of Money Laundering Act, 2002 (PMLA) were also initiated against ZSL and its promoters.
137. The role of Noticees 7 and 8 and their directors is found to be nominal as the evidence on record does not show any control being exercised by the persons appointed as directors of Noticee 7 and 8 i.e. Noticee 9, 10 and 11. I note from the replies of Noticees 9, and 10 that they have contended that they were compelled to sign various documents by Noticee 2, 3 and Mr. Vishwanathan. They were given the impression that signing such documents were part of their job with ZSL. Noticee 11 has submitted that she lent her name for directorship under coercion and duress as refusal to abide by the directions of Noticee 2 would have meant an immediate loss of job for her husband. Considering that material on record does not establish any control being exercised by these Noticees in the use of Noticee 7 or 8 to route funds, I am inclined to accept their contentions.

138. With regard to allegations deals with giving misleading information regarding status of affairs at the company. *ZSL informed the BSE on October 19, 2012 that "other than those reported to the stock exchanges till date, there have been no reportable significant developments in the day to day operations of the Company and it is 'business as usual'. On the other hand the Promoters of the company have been buying and increasing their stake in the Company.... Further, a news article published in the Economic Times dated November 2, 2012 and titled "Zylog crashes 40% on pledged share sale talk; CEO blames crash on panic by speculators" reported the following – 'Sudarshan Venkatraman, chairman & CEO, attributed the stock price fall to "panic" created by speculators. "Promoters and large institutions have increased their shareholding over the past two weeks, coinciding with the fall in the share price." He said there was no adverse impact on the company's business. ‘..*
139. During 2012, ZSL was in a financial crisis and was unable to pay principal as well as interest installments with regard to various loans availed by it. ZSL had failed to pay the dividend declared by it and also was facing issues with regard to salary related payments. Despite these issues, ZSL made the disclosure that it was business as usual, which was a false and misleading disclosure on 19/10/12.
140. The disclosure of business as usual was clearly misleading as the company was struggling with loan repayments. While Noticees 1, 2 and 3 have not replied to the SCN, Noticee 4, 5 and 6 submitted that during the relevant period, certain unfortunate events such as currency fluctuations, failure of products, mismanagement by the promoters and lop-sided competition with the peers in the industry led to the downfall of ZSL. The promoters, Noticee 1, had failed to honor its commitments under the loans availed which led to sale of its shares pledged as security with such lenders. This further degraded the stock prices. All these factors eventually snowballed into termination of business from all quarters.

141. Considering the facts brought during investigation and detailed in the SCN, and the eventual failure of the company, the disclosures made by ZSL on 19/10/12 regarding 'business as usual' were clearly misleading and an attempt to influence stock price by concealing the difficulties being faced by the company, in violation of Regulations 4(2) (f) and (r) of PFUTP Regulations.
142. On the disclosures related to increase in shareholding by the promoters, I have examined the change in shareholding of promoters and find that promoter, Noticee 1, had been selling in the market during September and October 2012, and sold net 120259 shares between 01/09/12 to 18/10/12. Noticee 2 and 3 did not make market sales. However, there were off market receipts and transfers in the accounts of Noticees 1, 2 and 3 showing net off market sale of more than 2,00,000 shares. The disclosure made to exchanges by ZSL on 19/10/2012 stated that promoters have been buying and increasing their stake in the company, was not supported by the actual transactions of the promoters. Hence, this was also a misleading statement in violation of Regulations 4(2) (f) and (r) of PFUTP Regulations.
143. The said disclosure of 19/10/2012 was made in compliance with Listing Agreement Clause 36 which requires disclosures of material developments and furnishing to the exchange information the exchange may reasonably require. The responsibility for making disclosures under Listing Agreement rests with the company, its managing director and /or chief executive officer and company secretary.
144. Noticee 2 and 3 were Chairman and CEO, and Managing Director respectively and hence responsible for ensuring correct disclosures under Clause 36 of the Listing Agreement.
145. Noticee 4 and Noticee 5 have submitted that ZSL had appointed professionals to manage these affairs. ZSL had an accounts manager i.e. Mr. Prabhakar as well as a company secretary i.e. Ms. S. Akila who were responsible to make

appropriate disclosures from time to time. All actions in the Company in this regard originated from the directions/instructions of the promoters and were being executed by the secretarial and finance teams. Noticee 4 being a professional director and Noticee 5 being the CFO of the ZSL, were not responsible for tracking disclosures to be made by the relevant persons specifically engaged in this regard.

146. As the material on record does not bring out the role of Noticee 4 and 5 in so far as making disclosures under Listing Agreement is concerned, I am inclined to accept the submissions of Noticee 4 and 5.
147. Hence, I am of the view that Noticee 2 and 3, being Chairman & CEO and MD of ZSL, were responsible for the misleading disclosures and hence violated Regulations 4(2) (f) and (r) of PFUTP Regulations.
148. With regard to allegation of misleading promoter shareholding, the SCN alleges that shareholding of Noticee 6 and Noticee 12 was wrongly disclosed as public shareholding whereas they should have been part of promoter shareholding. It is already established in preceding paras that Noticee 6 cannot be considered a promoter.
149. In terms of DIP Guidelines as of year 2007, the term 'Promoter' was defined to include: (a) *the person or persons who are in over-all control of the company;* (b) *the person or persons who are instrumental in the formulation of a plan or programme pursuant to which the securities are offered to the public;* (c) *the persons or persons named in the prospectus as promoters(s).*
150. From the material on record, neither Noticee 6 nor Noticee 12 have been shown to be in overall control of the Company or instrumental in formulation of plan of the company pursuant to which securities were offered to the public, nor are they named in the prospectus as a promoter. As it is established that Noticee 6, was



a PAC but not a promoter, disclosure of her shareholding as public shareholding cannot be considered as misleading.

151. Noticee 12 was Vice President – Corporate Accounts in ZSL and SCN brings out that trading took place in his account of value not commensurate with his income levels. Noticee 12 was appearing in the list of shareholders holding more than 1% since June 2009. His initial holding during as per the shareholding pattern available on BSE for quarter ending June 2009, was 2,28,998 shares of ZSL. Of the 2,28,998 shares, he had received 1,40,000 shares through off market from Aditicon/ Noticee 7 on June 15, 2009 and 88,998 shares were received in off-market from PLFS during June 19-26, 2009. SCN further states that the account of Noticee 12 was managed by Noticee 4 as shown by various emails.
152. Noticee 12 in his submissions has admitted that he was used as a name lender and decisions regarding trades in his account were taken by Noticee 2 and 3. Noticee 12 submitted that Mr. Lokesh Kapoor, who was associated with the promoter of ZSL viz. Noticee 2, introduced him to Prabhudas Lilladhar (PL) of Mumbai and had arranged for the loan against shares. He had signed some documents related to the loan against shares, opening of Demat Account (with PL) and bank account (with ICICI Bank) etc. He had also signed Power of Attorney in favour of Mr. Lokesh Kapoor authorizing him to trade in his account with PL. Further, no funds had been received from ZSL or from any other associate companies controlled by Noticee 2, 3 and Mr. V. Viswanathan with respect to purchase of shares. The remaining shares left in his demat account with PL were confiscated by PL for the loan outstanding with them. Noticee 12 further stated that the said transactions were done by Mr. Kapoor under the instruction and knowledge of Noticee 2.
153. Noticee 12 further submitted that the disclosure of his shareholding of ZSL were done by the then Secretarial department of ZSL. He had no knowledge on how the classifying of shareholders of ZSL were made or have any say in classifying

the same. The secretarial department of ZSL had taken signatures from him on some documents.

154. From the material on record and submission of Noticee 12, I find that Noticee 2 and 3 used his account for taking loan from PL and then acquired shares in the account of Noticee 12. The shares so acquired were under instruction of Noticee 2 and 3, and thus the public was misled regarding the actual shares held by the promoters in violation of provisions of 4(2) (f), (r) of PFUTP Regulations. Noticee 12 by allowing his account to be misused by Noticee 2 and 3, aided in the scheme devised by Noticee 2 and 3 to deal in the shares of ZSL. In this, Noticee 2 and 3 were assisted by Noticee 4 and 5. Hence I find that Noticees 2, 3, 4, 5 and 12 being part of a scheme devised by Noticees 2 and 3, violated provisions of Regulation 3(d) and 4(2) (f), (r) of PFUTP Regulations and Section 12 (c) of SEBI Act.
155. The last part of allegations of violation of the PFUTP Regulations relates to non-disclosure of related party transactions between Noticee 1 and the Company. In this regard, I note that transactions referred to in the SCN pertain to funds given by Noticee 1 to ZSL. From the investigation report, it is seen that during investigation, Noticee 1 had contended that it had given an amount of Rs. 57.15 crores to ZSL as loan and ZSL was repaying the same to Noticee 1 from 01/01/12 to 31/12/12. Noticee 1 was wholly owned by Noticee 2 and Noticee 3, promoters of ZSL, and was itself also a promoter of ZSL.
156. I note that material on record does not bring out the impact of the failure to report these transactions as related party transactions on the trading in securities of ZSL or on the overall results of ZSL which could have influenced the price or trading in shares of ZSL. It is stated in investigation report that Noticee 1 was using the funds of ZSL for dealing in shares of ZSL. As claimed during the investigation by Noticee 1, the funds were first given by Noticee 1 to ZSL and subsequently returned by ZSL to Noticee 1. However, as details of the first leg were not produced during investigation, it was alleged that ZSL has given funds to Noticee 1.

157. I note that these transactions are in fact related party transactions, and were required to be reported as such under the Accounting Standard on 'Related Party Disclosures' in the Annual Report of the company as specified in Clause 32 and 49 of the Listing Agreement. However, failure to report related party transactions amounted to publishing misleading information. Hence, I find non-reporting related party transactions between Noticee 1 and ZSL was in violation of provisions of 4(2) (f), (r) of PFUTP Regulations.

158. The onus of complying with Listing Agreement, and of preparing the Financials in compliance with accounting standards rests with the Company, its CEO, MD and CFO. Hence, I find that Noticees 2, 3 and 5 violated provisions of 4(2) (f), (r) of PFUTP Regulations.

**c. Whether the Noticees 1, 2 and 3 violated disclosure requirements under PIT and SAST Regulations in respect of transactions by promoters and directors**

159. The alleged violation of SAST Regulations by Noticees 1, 2 and 3 relate to non-disclosure of pledge related transactions. While the percentage of shares pledged by Noticees 1, 2 and 3 was between 83.5% in March 2012 to 96.31% in December 2012, as informed by the depositories NSDL and CDSL, the promoters had disclosed pledge of between 41.53% and 33.90% in respective quarters.

160. Vide email dated 02/05/13, both BSE and NSE *inter-alia* submitted that they had not received any disclosures from Noticees 1, 2 and 3 and 4 in accordance with the provisions of SAST Regulations and PIT Regulations during the investigation period.

161. In the letters dated 07/10/13, 01/03/14 and 27/06/14 of Noticee 1, 2 and 3 respectively, the Noticees themselves had admitted the aforesaid non-disclosure of their pledge related transactions. Hence it is established that the Noticee 1, 2 and 3 did not disclose their pledge related transactions in the scrip of ZSL during

the investigation period to BSE and NSE in violation of Regulations 31(1) and 31(2) read with Regulation 31(3) of SEBI (SAST) Regulations, 2011.

162. The alleged violation of PIT Regulations by Noticees 2 and 3 relates to 4 off-market trades carried out by them on 25/09/12 and 01/10/12 which were of more than 25,000 shares or more than Rs. 5 lakhs in value. There were also 54 market and off-market transactions carried out by Noticee 1 which were more than 25,000 shares or more than Rs. 5 lakh in value.
163. Noticee 1, 2 and 3 were required to disclose all such instances to the ZSL, BSE and NSE within two working days under Regulation 13 (4A) read with Regulation 13 (5) of SEBI (PIT) Regulations, 1992 and ZSL was required to disclose the same to BSE and NSE within two working days under Regulation 13 (6) of SEBI (PIT) Regulations, 1992.
164. Vide email dated 02/05/13, both BSE and NSE *inter-alia* submitted that they had not received any disclosures from the Noticee 1, 2 and 3 in accordance with the provisions of SEBI (SAST) Regulations and SEBI (PIT) Regulations during the investigation period.
165. In the letters dated 07/10/13, 01/03/14 and 27/06/14 of Noticee 1, 2 and 3 respectively, the Noticees themselves had admitted the aforesaid non-disclosure of their transactions to ZSL in the scrip of ZSL during the investigation period.
166. It is therefore established that Noticee 1, 2 and 3 did not disclose their transactions in the scrip of ZSL during the investigation period to ZSL, BSE and NSE in violation of Regulation 13 (4A) read with Regulation 13 (5) of SEBI (PIT) Regulations, 1992 read with Reg. 12 of SEBI (PIT) Regulations, 2015.
167. With regard to trades of Noticee 6, being the spouse of Noticee 4 who was the Executive Director of the company and hence an officer of the company in terms of Regulation 13(4) of PIT Regulations, Noticee 4 was required to disclose her

trades of more than 25,000 shares or more than Rs. 5 lakh in value within two working days.

168. Vide email dated 02/05/13 of BSE and NSE *inter-alia* informed that they had not receive any disclosures from Noticee 4 under PIT Regulations during the investigation period. In their reply, Noticees 4 and 6 have submitted that the failure to make the impugned disclosures was an inadvertent and un-intentional slip-up and hence a lenient view be taken in this regard. Hence, it is established that Noticee 4 failed to comply with Regulation 13(4) read with Regulation 13(5) of SEBI (PIT) Regulations, 1992 read with Regulation 12 of SEBI (PIT) Regulations, 2015.

**d. Whether the Noticees 4 and 6 made incorrect disclosures in the RHP of the Company in violation of DIP Guidelines**

169. ZSL had come out with its Initial Public Offering during the year 2007. As per the Red Herring Prospectus (RHP) of ZSL dated July 07, 2007, Noticee 4 was an Independent Director of ZSL. The SCN alleges that Noticee 4 was wrongly disclosed as Independent Director.

170. It is not in doubt that Noticee 4, 5 and 6 are related to each other. It is also not in doubt that Noticee 6 was holding 11 lakh shares of ZSL representing 8.56% of then shareholding of ZSL and was the fourth largest shareholder of ZSL at the time of the IPO. Noticee 6 had acquired the shares of ZSL from the promoter of ZSL prior to the IPO of ZSL. Further, Noticee 5 was the Global CFO of ZSL since July 01, 2005. Noticee 4 was the director of Zylog Systems (India) Limited, a wholly owned subsidiary of ZSL since December 28, 2005.

171. The relationship amongst Noticee 4, 5 and 6 was not disclosed in the aforesaid RHP. Despite being related directly to the then 4<sup>th</sup> largest shareholder and the then Finance Controller, Noticee 4 was indicated an Independent Director in the aforesaid RHP of ZSL. Also, both Noticee 4 and Noticee 5 were signatories to the said RHP.

172. I note that in terms of Clause 49 of the Listing Agreement as applicable at the time of the RHP, an independent director cannot be a person who is a substantial shareholder of the company i.e. owning more than 2% or more shares. He shall also not be an executive at the company. Though Noticee 4 was not directly a shareholder or executive, his spouse was a substantial shareholder and his brother-in-law was an executive at ZSL. Hence, it was not appropriate to appoint him as Independent Director of the company by ZSL.

173. With regard to other directorships, the name of Twinkle Natural Resources Private Limited was not disclosed in the RHP despite Noticee 4 being a director in the said company, as on the date of RHP.

174. Clause 6.15.2 of DIP Guidelines reads:

*(a) The draft prospectus (in case of issues other than fast track issues), red herring prospectus and prospectus shall be approved by the Board of Directors of the issuer and shall be signed by all Directors, the Chief Executive Officer, i.e., the Managing Director or Manager within the meaning of the Companies Act, 1956 and the Chief Financial Officer, i.e., the whole-time Finance Director or any other person heading the finance function and discharging that function.*

*(b) The signatories shall further certify that all disclosures made in the prospectus are true and correct.*

175. Therefore, onus of certifying the disclosures in RHP rested with all the signatories of RHP. In the instant case, RHP was signed by Noticee 4 and Noticee 5. Therefore, it is established that Noticee 4 and Noticee 5 have violated Clause 6.15.2 of DIP Guidelines read with ICDR Regulations 2009 and ICDR Regulations 2018 by certifying incorrect disclosures of relationships between Noticees 4, 5 and 6 and of the directorship of Noticee 4.

**Issue No. II**      **If yes, whether the failure, on the part of the Noticees would attract monetary penalty under Section 15A(b), 15H, 15HA and 15HB of SEBI Act as applicable.**

**And**

**Issue No. III**      **If yes, what would be the monetary penalty that can be imposed upon the Noticees taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?**

176. It has been established that,

- a) Noticees 1 to 6 violated Regulation 3(2) of the SAST Regulations and Section 12A(f) of SEBI Act. Therefore, Noticees 1 to 6 are liable for imposition of monetary penalty under Section 15H of SEBI Act.
- b) Noticees 1 to 6 violated Regulation 3(d) of PFUTP Regulations and Section 12A(c) of SEBI Act. Therefore, Noticees 1 to 6 are liable for imposition of monetary penalty under Section 15HA of SEBI Act.
- c) Noticees 2, 3, 4, 5 and 12 violated Regulations 4(2)(f) and (r) of PFUTP Regulations. Therefore, Noticees 2, 3, 4, 5 and 12 are liable for imposition of monetary penalty under Section 15HA of SEBI Act.
- d) Noticees 1, 2 and 3 violated Regulations 31(1) and 31(2) read with Regulation 31(3) of SEBI (SAST) Regulations, 2011. Further, Noticees 1, 2 and 3 violated Regulation 13 (4A) read with Regulation 13 (5) of SEBI (PIT) Regulations, 1992 read with Regulation 12 of SEBI (PIT) Regulations, 2015. Therefore, Noticees 1, 2 and 3 are liable for imposition of monetary penalty under Section 15A(b) of SEBI Act.

- e) Noticee 4 violated Regulation 13(4) read with Regulation 13(5) of SEBI (PIT) Regulations, 1992 read with Regulation 12 of SEBI (PIT) Regulations, 2015. Therefore, Noticees 4 is liable for imposition of monetary penalty under Section 15A(b) of SEBI Act.
- f) Noticee 4 and 5 violated Clause 6.15.2 of DIP Guidelines read with ICDR Regulations 2009 and ICDR Regulations 2018. Therefore, Noticees 4 and 5 are liable for imposition of monetary penalty under Section 15HB of SEBI Act.

177. Text of Section 15A(b), 15H, 15HA and 15HB of SEBI Act is reproduced as under:

### **SEBI Act**

#### ***Penalty for failure to furnish information, return, etc.***

**15A.** *If any person, who is required under this Act or any rules or regulations made there under —*

**(b)** *to file any return or furnish any information, books or other documents within the time specified there for in the regulations, fails to file return or furnish the same within the time specified there for in the regulations, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less”*

#### ***Penalty for non-disclosure of acquisition of shares and takeovers.***

**15H.** *If any person, who is required under this Act or any rules or regulations made thereunder, fails to, -*

- (i) disclose the aggregate of his shareholding in the body corporate before he acquires any shares of that body corporate; or*
  - (ii) make a public announcement to acquire shares at a minimum price; or*
  - (iii) make a public offer by sending letter of offer to the shareholders of the concerned company; or*
  - (iv) make payment of consideration to the shareholders who sold their shares pursuant to letter of offer,*
- he shall be liable to a penalty twenty-five crore rupees or three times the amount of profits made out of such failure, whichever is higher.*

#### ***Penalty for fraudulent and unfair trade practices.***

**15HA.** *If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty twenty-five crore rupees or three times the amount of profits made out of such failure, whichever is higher*



***Penalty for contravention where no separate penalty has been provided.***

**15HB.** *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which may extend to one crore rupees*

178. While determining the quantum of penalty under Section 15A(b), 15H and 15HA of SEBI Act, the following factors stipulated in Section 15J of the SEBI Act have to be given due regard:

***Factors to be taken into account by the adjudicating officer***

**15J.** *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.*

179. The material available on record has not quantified the amount of disproportionate gain or unfair advantage made by the Noticees and the loss suffered by the investors as a result of the violations established against the Noticees. With regard to violation of Regulation 3(2) of SAST Regulations, by Noticees 1 to 6, I note that the breach of 5% and 10% acquisition happened on the basis of gross acquisitions, though on net basis the acquisition was less than 5%. Hence I am of the view that a penalty of Rs. 10 lakh to be paid jointly and severally by Noticees 1 to 6 under Section 15H of the SEBI Act will be commensurate with the violation committed.
180. Noticees 1 to 6 were part of a scheme whereby their existing shareholding was pledged with NBFCs and brokers to raise funds so as to acquire further shares. This scheme misled investors as to the true extent of promoter shareholding and the number of shares pledged. Noticee 2 and 3 who were promoters as also the CEO and COO of ZSL carried out the scheme. Noticees 4 and 5 assisted in this

scheme by acting on instructions of Noticees 2 and 3. Noticees 1 and 6, in whose accounts the trades took place, were participants in the scheme. Noticee 12 by allowing his account to be misused by Noticee 2 and 3, aided in the scheme devised by Noticee 2 and 3 to deal in the shares of ZSL. I note that ZSL was going through financial difficulties and the actions of Noticee 1 to 6 and 12 were intended to mislead investors as to the actual state of affairs in the company, while at the same time continuing to buy shares of the company by pledging existing shareholding. Eventually, as the company was unable to meet its financial commitments, its lenders sold pledged shares causing the share price to crash. The extent of loss caused to investors through this scheme is not quantified. Considering the facts of the case, I am of the view that a penalty of Rs.1 crore under Section 15HA of the SEBI Act to be paid jointly and severally by Noticees 1 to 3, and a penalty of Rs.20 lakhs to be paid jointly and severally by Noticee 4 to 6 and 12 will be commensurate with the violations committed.

181. Noticees 1, 2 and 3 failed to disclose their pledge related transactions and market & off-market transactions in the scrip during the IP to the exchanges in violation of Regulation 31(1), 31(2) read with Regulation 31(3) of SAST Regulations and Regulation 13(4A) read with Regulation 13(5) of PIT Regulations, 1992 read with Regulation 12 of PIT Regulations, 2015 respectively. Hence, a penalty of Rs.20 lakh each on Noticees 1, 2 and 3 under Section 15A(b) will be commensurate with the violations committed.
182. Noticee 4 failed to make the disclosures for the trades of Noticee 6 in violation of Regulation 13(4) read with Regulation 13(5) of PIT Regulations, 1992 read with Regulation 12 of PIT Regulations, 2015. Hence, a penalty of Rs.5 lakh under Section 15A(b) will be commensurate with the violations committed.
183. Noticees 4 and 5 violated Clause 6.15.2 of DIP Guidelines read with ICDR Regulations 2009 and ICDR Regulations 2018 by certifying incorrect disclosures of relationships between Noticees 4, 5 and 6 and of the directorship of Noticee 4. Hence, a penalty of Rs.5 lakh to be payable jointly and severally by Noticees 4 and 5 under Section 15A(b) will be commensurate with the violations committed

## ORDER

184. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in Section 15J of the SEBI Act and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the SEBI Adjudication Rules, I hereby impose the following penalty on the Noticees as below:

Sl. No.	Name of the Noticee	Penalty
1.	Sthithi Insurance Services Pvt Ltd, Sudarshan Venkataraman, Ramanujam Sesharathnam, P Srikanth, S. P. Srihari and Srikanth Sripriya	Rs. 10,00,000 (Rupees Ten Lakh only) under Section 15H of the SEBI Act for violation of Regulation 3(2) of SAST Regulations and Section 12A(f) of SEBI Act (payable jointly and severally)
2.	Sthithi Insurance Services Pvt Ltd, Sudarshan Venkataraman and Ramanujam Sesharathnam	Rs. 1,00,00,000 (Rupees One crore only) under Section 15HA of the SEBI Act for violation of Regulations 3(d) and 4(2) (f) and (r) PFUTP Regulations, and Section 12 (c) of SEBI Act. (payable jointly and severally)
3.	S. P. Srihari, P Srikanth, Srikanth Sripriya and M V Ganesan	Rs. 20,00,000 (Rupees Twenty Lakh only) under Section 15HA of the SEBI Act for violation of Regulations 3(d) and 4(2) (f) and (r) of PFUTP Regulations and Section 12 (c) of SEBI Act (payable jointly and severally)
4.	Sthithi Insurance Services Pvt Ltd	Rs. 20,00,000 (Rupees Twenty Lakh only) under Section 15A(b) of the SEBI Act for violation of Regulations 31(1),

		31(2) read with 31(3) of SAST Regulations and Regulation 13(4A) read with 13(5) of PIT Regulations, 1992 read with Regulations 12 of PIT Regulations, 2015
5	Sudarshan Venkataraman	Rs. 20,00,000 (Rupees Twenty Lakh only) under Section 15A(b) of the SEBI Act for violation of Regulations 31(1), 31(2) read with 31 (3) of SAST Regulations and Regulation 13(4A) read with 13(5) of PIT Regulations, 1992 read with Regulations 12 of PIT Regulations, 2015
6	Ramanujam Sesharathnam	Rs. 20,00,000 (Rupees Twenty Lakh only) under Section 15A(b) of the SEBI Act for violation of Regulations 31(1), 31(2) read with 31 (3) of SAST Regulations and Regulation 13(4A) read with 13(5) of PIT Regulations, 1992 read with Regulations 12 of PIT Regulations, 2015
7.	P Srikanth	Rs. 5,00,000 (Rupees Five Lakh only) under Section 15A(b) of the SEBI Act for violation of Regulation 13(4) read with 13(5) of PIT Regulations, 1992 read with Regulations 12 of PIT Regulations, 2015
8.	P Srikanth and S. P. Srihari	Rs. 5,00,000 (Rupees Five Lakh only) under Section 15HB of the SEBI Act for violation of Clause 6.15.2 of DIP

		Guidelines read with ICDR Regulations 2009 and ICDR Regulations 2018. (payable jointly and severally)
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185. The Noticees shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of “SEBI - Penalties Remittable to Government of India”, payable at Mumbai, OR through online payment facility available on the SEBI website [www.sebi.gov.in](http://www.sebi.gov.in) on the following path, by clicking on the payment link

**ENFORCEMENT → Orders → Orders of AO → PAY NOW**

186. The Noticees shall forward said Demand Draft or the details / confirmation of penalty so paid to the Enforcement Department – Division of Regulatory Action – II of SEBI. The Noticees shall provide the following details while forwarding DD/ payment information:

- a) Name and PAN of the entity (Noticee)
- b) Name of the case / matter
- c) Purpose of Payment – Payment of penalty under AO proceedings
- d) Bank Name and Account Number
- e) Transaction Number

187. Copy of this Adjudication Order is being sent to the Noticees and also to SEBI in terms of Rule 6 of the Adjudication Rules.

**DATE: NOVEMBER 24, 2020**

**PLACE: MUMBAI**

**MANINDER CHEEMA**

**ADJUDICATING OFFICER**