

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Sections 11(1), 11(4) and 11B of the Securities and Exchange Board of India Act, 1992

In the matter of Polaris Software Lab Limited (presently known as Polaris Consulting and Services Limited)

In respect of:

- 1. Mr. Arun Jain [PAN: AAHPJ6020E] and**
 - 2. Mr. R. Srikanth [PAN: AAUPS6235R]**
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1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') on receipt of a report from the National Stock Exchange Limited (hereinafter referred to as 'NSE') conducted an investigation in the scrip of Polaris Software Lab Limited (hereinafter referred to as 'Polaris' or 'the Company') for the period of April 21, 2008 to July 31, 2008, to ascertain the possible violation of the SEBI Act, 1992 (hereinafter referred to as 'SEBI Act') and SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as 'PIT Regulations').
2. Polaris Software Lab Limited was incorporated under the Companies Act, 1956 on January 05, 1993. The Company was promoted by one Mr. Arun Jain, who is also the Chairman and Managing Director (CMD) of Polaris. The Company is engaged in providing software services and solutions and had changed its name to 'Polaris Financial Technology Limited' w.e.f. December 20, 2011. The name was later changed to 'Polaris Consulting and Services Limited' w.e.f. October 21, 2014. The scrip of Polaris is listed on NSE and Bombay Stock Exchange (hereinafter referred to as 'BSE').
3. The investigation alleged that Mr. Arun Jain, CMD of Polaris and Mr. R. Srikanth, ex-Chief Financial Officer (CFO) of Polaris had traded in the shares of the Company during the investigation period, while in possession of 'price sensitive information' ('PSI'). The PSI and the price of the scrip before and after the PSI became public are as under:

Table A

Date & Time	PSI	Price				
17-July-08 14:51 hrs (Thursday)	1. Consolidated Results for the quarter ended June 30, 2008 2. Approval of commencement of the Real Estate business activity	16-July-2008(Wednesday)				
		Exchange	Open	High	Low	Close
		BSE	71.50	72.90	66.70	68.20
		NSE	71	72.80	66.40	68.10
		17-July-2008(Thursday)				
		Exchange	Open	High	Low	Close
		BSE	70.85	80	68.60	78.75
		NSE	70.90	79.95	68.70	78.75
		18-July-2008(Friday)				
		Exchange	Open	High	Low	Close
		BSE	79.40	84.20	77.40	81.75
		NSE	84.35	77.60	81.10	81.75

4. The discussion as regards the PSI is as under:

a. Declaration of quarterly results of the Company on July 17, 2008

- The financial results of the Company were discussed in the Board Meeting and the Audit Committee meeting held on July 17, 2008. Subsequently the financial results were declared to the Stock Exchanges on July 17, 2008. As per the disclosures made to the Stock Exchanges, Polaris had recorded a growth of 87% in the net profit as compared to the corresponding quarter last year.
- The chronology of the details regarding declaration of financial results are as follows:

Table B

Date	Event
June 26, 2008	Polaris informed NSE that its Board shall meet on July 17, 2008 to discuss, consider and approve the quarterly financial results of the Company for the quarter ended June 30, 2008.
July 01, 2008	Polaris initiated preparation of quarterly financials for the quarter ended June 30, 2008.
July 07, 2008	The draft quarterly results of Polaris for the quarter ended June 30, 2008 was submitted to the auditors for their review and report thereon.
July 17, 2008	<p>a. Mr. R. Srikanth, CFO made a presentation of the audited quarterly financial results to the Audit Committee.</p> <p>b. The Board Meeting was held and the quarterly financial results of Polaris were discussed and approved.</p> <p>c. The Company declared the quarterly financial results as under:</p> <ul style="list-style-type: none"> • BSE: 14:51 hrs. • NSE: 16:43 hrs

Pursuant to the dissemination of the said information, the scrip price of Polaris had closed at ₹81.75 on July 18, 2008.

- The Company, vide its letter dated November 24, 2011, had explained to SEBI the procedure followed for the Statutory Audit of its accounts. It had been said that the preparation of the books of accounts was done on monthly basis by its internal finance department. The standalone results are audited on a quarterly basis and the consolidated results are audited annually. Further, the Statutory Auditors commenced audit during the last week of the quarter and used to complete the same by first week of the succeeding month of the next quarter.
- Mr. Arun Jain, CMD of the Company in his statement dated June 07, 2012, had stated that, on monthly basis, he used to review the unaudited financial results of all the 10 business units of Polaris. According to him, such review used to happen between 10th and 20th of every month with the CFO and Chief Operating Officer (COO). He also said that *“The results are aggregated by the CFO and COO. There is no such thing as sequential reporting of results – draft results put to me and then approved by the auditors. The auditors typically start in the last week of the quarter...”*.
- As noted from the table B above, , the draft quarterly financial results of the Company for the quarter ended June 30, 2008, were submitted to the auditors of the Company for review and report thereon on July 07, 2008. As per the statement of Mr. Arun Jain, the aggregated draft quarterly results of Polaris (before putting up the same to the Auditors on July 07, 2008) were put up to him first. In other words, the same was put up to Mr. Arun Jain on or before July 07, 2008 and therefore, he would be in possession of the financial numbers of Polaris at least few days before July 07, 2008.

The UPSI regarding the draft quarterly results had definitely originated on July 07, 2008 (i.e. the date on which the draft quarterly results of Polaris for the quarter ended June 30, 2008, was submitted to the Auditors for review) and the same remained unpublished till July 17, 2008 at 14:51 hrs. Further, in terms of the Regulation 2(ha)(i) of the PIT Regulations, the periodical financial results of the Company are PSI. As per the discussion above, Mr. Arun Jain, CMD of Polaris

and Mr. R. Srikanth, ex-CFO of Polaris (also ‘Head of Finance wing of Polaris’ and primarily responsible for the preparation of the financial statements of Polaris) were privy to the said UPSI between July 07, 2008 till July 17, 2008 (till the same was made public at 14:51 hrs.).

b. Commencement of Real Estate business activity

- The Board of Polaris in its meeting dated July 17, 2008, had also discussed and approved the entry of Polaris into the real estate business activity subject to the regulatory proceedings.
- From the minutes of the Board Meeting dated July 17, 2008, it is noted that the Board had constituted a Committee at the previous Board Meeting (held on April 23, 2008), ‘to look in to the possibilities of monetisation of real estate investment by the Company’.
- The chronology of the details regarding the ‘real estate business’ of Polaris are as follows:

Table C

Date	Event
April 21, 2008	Spark Capital Advisors, the Merchant Banker, presented a concept note recommending the demerger of the non-core assets of Polaris, more particularly the land bank, in order to maximise the Company shareholders’ value by creation of two separate listed entities. An e-mail was sent by Mr. R. Srikanth, CFO to Mr. Arun Jain, CMD discussing the demerger process mentioning that ‘it is completely right as per their earlier understanding’. Apart from the demerger, the buyback programme was also mentioned in the email.
April 23, 2008	Meeting of Board of Directors of Polaris was held on this date. The Board of Polaris had <i>inter alia</i> discussed and decided to explore the best options to maximise the shareholder value from the real estate investments made by the Company. For the same, the Board had constituted a Committee comprising of various directors of Polaris including Mr. R. Srikanth, CFO, as a core member to make a study on the real estate investments made by the Company so as to maximize shareholders returns. Immediately after the Board meeting on April 23, 2008, Polaris had also held a conference call with the stakeholders and informed one of the stakeholders that Polaris had deferred the buy-back of its shares till the newly appointed committee makes its recommendation regarding leveraging of the Company's real estate investment and

Date	Event
	maximising shareholders value.
June 09, 2008	An e-mail was sent by Mr. R. Srikanth to Spark Capital Advisors, on the demerger process (a copy of the same was also marked to Mr. Arun Jain), wherein it was mentioned that Polaris has to act fast on the demerger decision and they are ready to release the mandate in this regard. The e-mail also specifically mentioned the demerger proposal as regards the real estate business of the Company and instructing/ advising Spark Capital to hasten the matter as the Company is ready to release the mandate in this regard.
June 30, 2008	An e-mail was sent by Mr. R. Srikanth to the Board of Directors of Polaris communicating the dates of the next Board and Audit Committee meetings.
July 10, 2008	An e-mail was sent by Mr. R. Srikanth to Mr. Arun Jain mentioning about the committee meeting held in Delhi on monetisation of real estate business.
July 17, 2008	Board Meeting of Polaris, wherein it was <i>inter alia</i> decided to foray into the Real Estate business activity, subject to amendment of object clauses of the Memorandum of Association to enable real estate business as an independent activity within Polaris and other regulatory aspects/process.

- The relevant extract of the press release issued by the Company after the Board Meeting dated April 23, 2008 is as under:

“The Board of Polaris Software Lab Ltd considered a proposal of buy-back of its equity shares and had discussions on this subject. In the course of the discussions, Members of the Board drew attention to the real estate investments made by the Company and suggested that the best options to maximize shareholder value from these investments should also be explored. The Board accordingly decided to defer its decision on the buy-back of equity shares and appointed a committee of the Board to give recommendations to enable the Board to take a decision at its next meeting.”

A reading of the same suggests that the Company in the press release had mentioned about its real estate investments and to explore the best options available to maximize the shareholder value from these investments.

- The Committee constituted for monetizing real estate investment had deliberations and had decided to refer and obtain opinions on the legal and procedural issues before commencing the real estate business activity as an independent business within Polaris. Mr. R. Srikanth, CFO (at the relevant point of time) who was also a member of such Committee was authorized for taking opinion and placing the same before the Board. The Committee then recommended the proposal of

commencing real estate business activity within Polaris subject to the regulatory process.

- It has been found during the course of investigation that Mr. R. Srikanth had sent an e-mail dated June 09, 2008 to the Merchant Banker, Spark Capital Advisors with a copy marked to Mr. Arun Jain mentioning specifically about the demerger process on the 'real estate business' activity and the need to expedite the decision on the demerger. The same shows that there was a move on the part of the Company to take forward the demerger process on the 'real estate business' activity and there was also a sense of urgency to expedite the process. As the e-mail was marked to Mr. Arun Jain, it can be said that Mr. Arun Jain was also aware of the complete process/ plans/ proposal of the Company to venture into the 'real estate business' activity as an independent activity within Polaris.

The discussed e-mail was not in the public domain and the same was an internal communication about the prospective plans of the Company on their monetisation project and demerger process. Therefore, *prima facie* it appears that the UPSI regarding the decision of Polaris to foray into 'real estate business' came into existence on June 09, 2008.

- It is noted from the investigation, that the recommendation of the Committee got crystallized into a concrete decision on July 17, 2008, when the Board in its meeting held on July 17, 2008, had approved the suitable amendments to the object clause in the Memorandum of Association of the Company.
- Foraying into the real estate sector was clearly a major expansion plan as the Company had decided to expand beyond the information technology (IT) sector. The same was a UPSI till it was declared on July 17, 2008, at 14:51 hrs, in terms of the Regulation 2(ha)(iv) of the PIT Regulations. The period of such UPSI was definitely from June 09, 2008 till July 17, 2008 i.e. from the date of the email to Spark Capital Advisors with a copy to Mr. Arun Jain.

- As per the discussion above, Mr. Arun Jain and Mr. R. Srikanth were privy to the said UPSI between June 09, 2008 till July 17, 2008 (till the same was made public at 14:51 hrs.)
5. Trading window closure period: Polaris had mentioned that for the purposes of the Board Meeting held on July 17, 2008, the Company had closed the trading window from July 11, 2008 to July 18, 2008.
 6. Mr. Arun Jain, being the Promoter and CMD of the Company during the relevant period, being the connected person within the meaning of Regulation 2(c)(i) of the PIT Regulations and having access to the UPSI, as detailed above, is alleged to be an 'insider' in terms of the Regulation 2(e) of the PIT Regulations read with Regulation 2(c) thereof.
- Further, Mr. R. Srikanth, being the CFO of the Company during the relevant period (resigned from the services of Polaris since October 31, 2011) was a 'connected person' within the meaning of Regulation 2(c) (ii) of the PIT Regulations and by virtue of him being a 'connected person' he is also an 'insider' within the meaning of Regulation 2(e) of the PIT Regulations.
7. During the investigation period, Mr. Arun Jain and Mr. R. Srikanth had traded in the shares of Polaris during the UPSI period (i.e. pertaining to the declaration of quarterly financial results and commencement of real estate activities) while in possession of the PSI. The details of their trading in the scrip of Polaris are as under:

Table D

Purchases made by Mr. Arun Jain in the scrip of Polaris

Exchange	Date	No. of shares	Avg. purchase price (₹)	Date of pre-clearance approval	Avg. cost of purchase (₹)
BSE	2-July-08	35948	66.73	July 02, 2008	23,98,810
NSE	2-July-08	155000	67.35	July 02, 2008	1,04,39,250
NSE	3-July-08	209000	65.75	July 02, 2008	1,37,41,750
NSE	4-July-08	175000	68.54	July 02, 2008	1,19,94,500
NSE	7-July-08	200000	74.83	July 02, 2008	1,49,66,000
		7,74,948			5,35,40,310

Table E**Purchases made by Mr. R. Srikanth in the scrip of Polaris**

Exchange	Date	Buy Qty	Avg. Purchase Price (₹)	Date of pre-clearance approval	Avg. cost of purchase (₹)
NSE	7-July-08	75548	74.09	July 05, 2008	55,97,351
NSE	8-July-08	22300	73.96	July 05, 2008	16,49,308
BSE	7-July-08	30452	73.87	July 05, 2008	22,49,489
BSE	8-July-08	6700	73.70	July 05, 2008	4,93,790
	Total	1,35,000			99,89,938

From the above, it is observed that during the period (i.e. from June 09, 2008 to July 17, 2008, 14:51 hrs) when the PSI remained unpublished:

- Mr. Arun Jain bought 7,74,948 shares,
- Mr. R. Srikanth bought 1,35,000 shares.

8. The relevant observation of the investigation with regard to the trading of Mr. Arun Jain and Mr. R. Srikanth are as under:

The investigation has found that the purchases by Mr. Arun Jain were made through the market transactions, prior to the Board Meeting of Polaris held on July 17, 2008. He had not sold his shares in the scrip of Polaris subsequently. An analysis of the demat account statement held in the name of Mr. Arun Jain from April 2008 to August 2008, has prima facie revealed he had not traded in any other scrip other than Polaris. Mr. Arun Jain had taken the approval from Mr. R. Srikanth, CFO of Polaris to purchase the shares of the Company, as aforesaid (as per the Company's trading and pre-clearance policy).

Further, it is also noted that Mr. R. Srikanth had joined Polaris on June 06, 2006 as an Executive Vice President and CFO and had reported directly to Mr. Arun Jain, the CMD of Polaris. He was also the 'head of the finance wing' of Polaris and primarily responsible for the preparation of the financial statements of Polaris. As discussed earlier, he by virtue of his position in Polaris, was in possession of the UPSI at the time he made the purchases in the scrip of Polaris on July 07, 2008 and July 08, 2008. As seen from table E above, the purchases of Mr. R. Srikanth had taken place during the period between July 02, 2008 to July 08, 2008. The investigations have found that during the period of investigation Mr. R. Srikanth did not have the requisite finances/

capital to procure such quantities of shares of Polaris. For arranging the same, he obtained Margin Funding arrangement from Kotak Mahindra Investments Limited immediately prior to his transactions in the scrip of Polaris, by which he funded his purchase of 1,35,000 shares of Polaris on July 07, 2008 and July 08, 2008. Further, the investigations have also revealed that Mr. R. Srikanth had not made the required disclosures of the discussed purchases to the Company as required under the Regulation 13(4) and 13(5) of the PIT Regulations.

9. As noted in table D and E above, the trading activity by Mr. Arun Jain and Mr. R. Srikanth was observed on five days i.e. on July 02, 2008, July 03, 2008, July 04, 2008, July 07, 2008 and July 08, 2008 respectively. As discussed earlier, these persons had traded in the scrip of Polaris while in possession of the UPSI, allegedly in violation of Section 12A(d) and (e) of the SEBI Act and Regulation 3 and 4 of the PIT Regulations and have allegedly committed the offence of 'insider trading' in terms of the Regulation 4 of the PIT Regulations. Further, the investigations have also revealed that Mr. R. Srikanth had failed to make the required disclosures of the discussed purchases to the Company under the Regulation 13(4) and 13(5) of the PIT Regulations.
10. **Gains:** It is noted from the investigation that Mr. Arun Jain and Mr. R. Srikanth had not sold the shares purchased by them i.e. 7,74,948 shares and 1,35,000 shares respectively before the PSI became public. The UPSI was made public at 14:51 hrs on July 17, 2008. Hence, the closing price of July 18, 2008, has been reckoned as the reference price for calculating the value of sale.

Hence the notional profit, considering the fact that the scrip of Polaris had closed at ₹81.75 on July 18, 2008, is as under:

- **Mr. Arun Jain:** ₹6,33,51,999 (7,74,948 shares purchased X ₹81.75) – ₹5,35,40,310 (cost of purchases)= **₹98,11,689/-**.
 - **Mr. R. Srikanth:** ₹1,10,36,250 (1,35,000 shares purchased X ₹81.75) – ₹99,89,938 (cost of purchases)= **₹10,46,312/-**.
11. As the alleged gains were made during the year 2008, it is reasonable and necessary to levy an interest at 12% simple interest per annum. A summary of the gains along with the interest is as under:

Table F

Particulars	PAN	Gains (in ₹)	Interest @ 12% p.a.*	Total Amount (₹)
Mr. Arun Jain	AAHPJ6020E	98,11,689	86,56,869	1,84,68,558
Mr. R. Srikanth	AAUPS6235R	10,46,312	9,23,159	19,69,471

*Interest calculation from July 18, 2008 to November 24, 2015.

From the above, it can be observed that Mr. Arun Jain and Mr. R. Srikanth had made the alleged gains to the tune of ₹1,84,68,558 and ₹19,69,471 respectively.

12. Considering the facts and circumstances of the case, the balance of convenience lies in favour of SEBI. With the initiation of investigation and quasi-judicial proceedings, it is possible that the noticees may divert the unlawful gains (*subject to the adjudication of the allegation on the merits in the final order*), which may result in defeating the effective implementation of the direction of disgorgement, if any to be passed after adjudication on merits. Non-interference by the Regulator at this stage would therefore result in irreparable injury to interests of the securities market and the investors.

13. Accordingly, as an *interim* measure, an *ad-interim ex-parte* Order for impounding such alleged gains under Section 11(4)(d) of the Securities and Exchange Board of India Act, 1992, needs to be issued against the following:

S. No.	Name	PAN
1	Mr. Arun Jain	AAHPJ6020E
2	Mr. R. Srikanth	AAUPS6235R

14. In view of the foregoing, I, in exercise of the powers conferred upon me by virtue of Section 19 read with Sections 11(1), 11(4)(d) and 11(B) of the SEBI Act, 1992, hereby order to impound the alleged unlawful gains of **₹1,84,68,558** [i.e. alleged gain of **₹98,11,689** + **interest of ₹86,56,869** (from July 18, 2008 to November 24, 2015)] made by Mr. Arun Jain and **₹19,69,471** [i.e. alleged gain of **₹10,46,312** + **interest of ₹9,23,159** (from July 18, 2008 to November 24, 2015)] made by Mr. R. Srikanth.
15. The Banks and Depositories are directed that no debits shall be made, without permission of SEBI, in respect of the bank accounts and demat accounts, held jointly or severally, by the persons/ entities tabulated in **paragraph 13** above. The Banks and

the Depositories are directed to ensure that all the above directions are strictly enforced. However, credits, if any, into the accounts may be allowed.

16. The persons/ entities tabulated in **paragraph 13** above are also directed not to dispose off or alienate any of their assets/ properties/ securities, till such time the amounts mentioned in **paragraph 14** are credited to an escrow account [**Escrow Account in Compliance with SEBI Order dated November 24, 2015 – A/c (in the name of the respective persons/ entities)**] created specifically for the purpose in a Nationalized Bank. The escrow account/s shall create a lien in favour of SEBI and the monies kept therein shall not be released without permission from SEBI. On production of proof by any of the persons, mentioned in **paragraph 13**, that the said money is deposited in the escrow account, SEBI shall communicate to the Banks and Depositories to defreeze the accounts.
17. Further, the persons/ entities tabulated in **paragraph 13** above are directed to provide, within 7 days of this order, a full inventory of all their assets and properties and details of all their bank accounts, demat accounts and holdings of shares/securities, if held in physical form and details of companies in which they hold substantial or controlling interest.
18. The above directions shall come into force with immediate effect.
19. This Order is without prejudice to the right of SEBI to take any other action that may be initiated against the said two persons/entities covered under this Order, in accordance with law. The persons/ entities against whom this Order has been passed may file their replies to SEBI within 21 days from the date of receipt of this order, if they so desire. They may also indicate in their replies whether they wish to avail an opportunity of personal hearing in the matter.

Date: November 24th, 2015
Place: Mumbai

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA