

ADJUDICATION ORDER NO. EAD-3/ORDER/JS/SP/2665/2019-2020

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

In respect of:

Ranklin Solutions Ltd.(PAN AABCR6000R)
Flat No. 204, 2nd Floor, Dhruv Tara Apartments,
Medinova complex, Somjiguda, Hyderabad- 500082

**In the matter of:
Ranklin Solutions Ltd.**

BACKGROUND

1. Securities and Exchange Board of India (**'SEBI'**) during the course of investigation, observed that Ranklin Solutions Ltd. (**'Noticee'**) have provided false information to SEBI in relation to the transaction executed by Mr. MJVVD Prakash (**'Prakash'**), Managing Director of Ranklin Solutions Ltd. (**'Company/Scrip/Ranklin'**), scrip listed at Stock Exchange, Bombay (**'BSE'**). The details of allegation are as follows:

Noticee Name	Alleged Violation	Violation Provisions of	Action Initiated
Ranklin	Furnished false information to SEBI regarding trading by Prakash in the scrip of Ranklin in response to summons dated May 08, 2013	Section 11C(2) and 11C(3) of SEBI Act, 1992 ('SEBI Act')	Section 15HB of SEBI Act

2. SEBI, therefore, initiated adjudication proceedings against the Noticees for the alleged violation of the above-mentioned provisions of law.

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI vide order dated June 09, 2017, appointed Adjudicating Officer under Section 15-I of the SEBI Act read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (**'Adjudication Rules'**) to inquire into and adjudge under Section 15HB of SEBI Act for the alleged violations against the Noticee as mentioned above. Consequent to transfer vide Office order dated May 10, 2018, the proceedings are continued for the aforesaid alleged violations against the Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. A common Show Cause Notice (**'SCN'**) dated December 19, 2017 was issued to the Noticee in terms of provisions of Rule 4 of the said Rules requiring them to show

cause as to why an inquiry should not be held against them for the alleged violation of provisions of law. The SCN was issued to the Noticees to the address “Flat No. 204, 2nd Floor, Dhruvtara Apartments, Medinova Complex, Somajiguda, Hyderabad- 500 082 (Telangana)”, available on record, were returned undelivered.

5. Subsequently, an attempt was made to affix the referred SCN in terms of Rule 7 (c) of the Adjudication Rules 1995 at the address mentioned above could not be made since, the present occupants did not allow to paste the SCN. It is observed from the records that the referred common SCN was also issued to the other Noticee i.e MJVVD Prakash, MD of Ranklin, for alleged violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003, SEBI (Prohibition of Insider Trading) Regulations, 1992, SEBI (Substantial Acquisitions of Shares and Takeovers) Regulations, 1997, Listing Agreement etc. It is observed that the referred common SCN was duly delivered to Prakash.
6. Further, vide Notice dated February 23, 2018, Noticee was granted an opportunity to appear for personal hearing on March 09, 2018 however, the same was returned undelivered. Also, an attempt made to affix the Notice dated February 23, 2018 could not be materialized since the present occupants did not allow to paste the SCN. Subsequently, the Notice dated February 23, 2018 was uploaded in SEBI website.
7. In the meantime, in terms of Rule 7(d) of Adjudication Rules, newspaper publication of the notice was carried out in English daily newspaper (Times of India), a Hindi daily newspaper (Swatantra Vaartha) and a newspaper in vernacular language i.e. Telegu in Sakshi newspaper having wide circulation in the state of Telangana, informing the Noticees to download the referred SCN from the website of SEBI (www.sebi.gov.in) under the head “Unserved Summons/Notices” or to collect from the Office of SEBI, Mumbai. Further, vide the newspaper publication, Noticee was also granted an opportunity of hearing before the Adjudicating Officer on May 09, 2018. Subsequently, the then AO rescheduled the hearing.

8. Ranklin, vide letter dated March 14, 2018 (received on May 02, 2018), while acknowledging the receipt of referred SCN and Notice dated February 23, 2018, has filed reply to the SCN. It is further observed that the letter dated March 14, 2018 was issued from the same address to which the SCN and hearing notice were delivered. The relevant extracts of the reply filed by Ranklin are as follows:

- a. *The company obtained the consent of the shareholders by way of special resolution passed through postal ballot held on 15/04/2010 for issue, offer and allot Equity Shares/Warrants and /or any instruments convertible into Equity Shares whether optionally or otherwise, Global Depository Receipts (GDRs)/ American Depository Receipts (ADRs) or Foreign Currency Convertible Bonds (FCCB) hereinafter referred to as 'Securities' for an aggregate sum of USD 22 million (United States Dollars Twenty Two Millions Only).*
- b. *The resolution is essentially an enabling one and relates to a proposal to offer, issue and allot Equity shares/Depository Receipts and /or the appropriate securities up to an amount not exceeding USD 22 million (United State Dollars Twenty Two Millions only), inclusive of premium on Equity shares, in the course of domestic/international offerings.*
- c. *It was also mentioned in the explanatory statement to the notice of the Postal Ballot that the issue will be done after considering the prevailing market conditions and all other relevant factors. However, due to unfavorable market conditions, the company could not proceed further with the GDR/ADR issue. As said, the resolution passed by the shareholders through postal ballot is only enabling resolution and there is no compulsion that the company should come out with GDR issue since the resolution is passed by the shareholders of the company.*
- d. *We further submit that the company sincerely tried to raise funds and taken up all the necessary steps including Board meeting and intimating to BSE etc. However, the market condition was very poor and highly discouraging and as a result the Company could not proceed further with GDR. Hence, we submit that corporates announcement was made with any intention to implement GDR and but not with the intention of distorting the market and influencing the decision of investors or to defraud or to deceive anyone.*
- e. *The Company had declared a dividend of Re.1 per share and Rs.50 paise per share in the years 2009-10 and 2010-11 respectively. However, the Company had outstanding secured and unsecured loans payable to banks and other creditors to the tune of Rs.9.09 crores as on 31.03.2011. There was tremendous amount of pressure on the Company from the banks and the others for repayment of loans. The financial position of the Company was in doldrums. The Company was struggling to serve its debt and there was no money to pay to the shareholders. Non-payment of dividend to the shareholders was purely unintentional as the circumstances were much beyond the control of the Company and were not in favour of the Company as the management was working day in and day out to meet the impending financial obligations of the banks and creditors. The Company also lost its valuable human resources in the process and the business as well.*
- f. *The Company was never listed on BSE and did not sign any listing agreement with it. However, its equity shares were traded under permitted category. Since the Company was not listed on BSE, disclosures pertaining to SEBI (SAST) and (PIT) Regulations, and other clauses pertaining to Listing Agreement were not given to BSE. BSE stopped the trading in the shares of the Company w.e.f. 26.10.2015.*
- g. *The Company has in place code of Internal Procedure and Conduct and Code of Corporate Disclosure Practice in terms of PIT Regulations, 1992. It is submitted that the Coe of Conduct has been made pursuant to Regulations 12(1) of SEBI PIT Regulations, 1992 and in accordance with the Model Code of Conduct as per Schedule 1part A of the SEBI PIT Regulations, 1992 and Clause 49 of the Listing Agreement with the stock exchanges. A copy of the same is enclosed for the perusal of SEBI.*
- h. *It is further submitted that there were debit balances in Mr. MJVVD Prakash's account with Bonanza Portfolio Limited (BPL) and India Infoline Limited (IIFL). It is also true that in case of BPL, he paid partial amount towards outstanding debit balances though he was undergoing extremely bad financial conditions. Having understood that he failed to pay the debit balances, he did not pay attention or raised any objection on their sale of shares without his knowledge to recover their dues.*
- i. *Trading members have stated that the shares were sold with his consent, probably it must be to avoid the attraction of wrath of SEBI on unauthorized trades which can be understood and appreciated as the same had taken place as he failed to honor his pay in obligation to the said Trading Members.*
- j. *We submit that the alleged self-trades as cited in the SCN as having been carried through Mr. MJVVD Prakash are very small in number i.e. only 0.93% of the total market volume and as can be seen, the alleged self-trades were miniscule. We submit that the liquidity in the scrip was quite good and thus*

heavily traded. The alleged trades were little quantum and the said trades could not have affected the prices or otherwise mattered.

9. Subsequent to the transfer of the present proceedings, vide Notice dated January 11, 2019, Noticee was granted an opportunity to appear before the new Adjudicating Officer for the personal hearing dated January 28, 2019. The Notice dated January 11, 2019 was served to the same address from which the reply dated March 14, 2018 was received, however, the referred Notice was returned undelivered. Subsequently, the Notice dated January 11, 2019 was uploaded in the SEBI website.
10. In view of above and in terms of Rule 7(d) of Adjudication Rules, newspaper publication of the SCN, Hearing Notices dated February 23, 2018 and January 11, 2019 were carried out on March 05, 2019 in Times of India, Navbharat Times, Sakshi, Telegana Edition and accordingly, informed the Noticee to appear before the Adjudicating Officer on March 18, 2019. On the date of hearing, the Noticee failed to appear before the Adjudicating Officer.
11. While it was seen that the initially the company responded to the SCN, however later in the proceedings the noticee abstained from responding. From the above, it is clear that the Noticee was served SCN and hearing Notices, through affixture and subsequently through publication of the Notices in the nationwide newspaper in English, Hindi and Regional language in terms of Rule 7(c) and 7(d) of the AO Rules 1995 respectively. In spite of providing enough opportunity, Noticee have failed to appear before the Adjudicating Officer. Thus, the matter is proceeded based on the facts available on record in terms of Rule 4(7) of the AO Rules 1995.

CONSIDERATION OF ISSUES AND FINDINGS

12. After perusal of the material available in record, the following issues are for consideration viz.
 - a. Whether Ranklin have failed to comply with Section 11C(2) and 11C(3) of SEBI Act, 1992.
 - b. Do the violations, if any, on the part of the Noticee attract any penalty under SEBI Act?

- c. If yes, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act?

ISSUE A: Whether Ranklin have failed to comply with Section 11C(2) and 11C(3) of SEBI Act, 1992.

13. 11(C) (2) of the SEBI Act enjoins upon every person to whom the summons has been issued to produce the documents as sought by the Investigating Authority.

14. It is pertinent to mention that the provisions under Section 11C(3) of the SEBI Act, grant powers to Investigation Authority ('IA') to seek such information or record evidences/ statement which are relevant or necessary for the purpose of investigations, from any person associated with securities market in any manner.

15. SEBI during the investigation have issued summons, dated May 08, 2013 to Ranklin to furnish certain information in the matter. The information sought vide the Summons and the reply of the Noticee are as follows:

Query *"Reasons for non closure of trading windows as per PIT regulations before making announcements to BSE, as the MD had traded in the scrip on April 15, 2010 before the announcement of approval of issue of GDR and warrants."*

Reply *"As explained earlier the trading that took place in the MD's account is due to non payment of outstanding amounts to the broking houses on the shares which are under pledge most of these transaction have been done in the form of selling by the broking houses to recover there outstanding amounts who usually do not observe any of the PIT regulations."*

Query *"Failure to disclose transactions in shares by MD as Per 7(3) of SAST on several dates like May 20 (net 36000 shares purchased)"*

Reply *"It all happened without the knowledge of MD. It is only brokerage houses started dealing in the name of the MD and henceforth the intimations were not made."*

16. To examine the replies of the Noticee furnished by way of letter dated May 17, 2013, SEBI sought clarifications from brokers, viz. Bonanza Portfolio Limited and India Infoline Limited, for trading done in the account of Prakash. The replies of the brokers are as follows:

Bonanza Portfolio Limited (hereinafter, "BPL")

"all trades have been executed under client's instruction and duly confirmed to the client on regular basis. To date no complaint has been received by the company from the client about any discrepancy in the trade / financial statements."

SEBI also observed from the client ledger statement of Mr. MJVVD Prakash, as obtained from BPL that as on date May 03, 2010, Mr. MJVVD Prakash had a debit balance of close to Rs. 31.02 lakh in the account which increased to Rs. 56.68 lakh as on December 03, 2010. Further during the period, there were several late payment interest charges @ 18% p.a levied in the account of Mr. MJVVD Prakash by BPL on the outstanding balance. Mr. MJVVD Prakash had also provided a cheque (no. 232330) of Rs. 10 lakh to reduce the outstanding balance of Rs. 56 lakh but the same was dishonored. It is pertinent to note that Mr. MJVVD Prakash had a total of 81,148 shares of RSL in the balance maintained with BPL for the F.Y ending 2010-11.

India Infoline Limited (hereinafter, "IIFL")

"MJVD opened the trading and DP account with India Infoline Limited on May 19th, 2010. He had not pledged any shares with India Infoline Ltd. Further, India Infoline Ltd is not doing any fund based activities, and hence no pledge of shares, any amount were lent to the client by IIFL. Kindly note we have not executed any trades on behalf of the client. As per our Risk management system, whenever the client had not squared off the purchases or not made the pay-in of funds within T+3 days, the clients' positions were compulsorily squared off on T+5 basis. Whenever the securities were sold, immediately the same were considered for the purpose of exposure through our online risk management system. At no point of time the clients' total exposure was more than the limits permitted by our RMS. Whenever there was margin shortfall the client was advised to make payment immediately or square off the position and the same was totally followed. As per our risk management system, the client was advised to make the payment immediately or square off the holdings. The client did not make the payment immediately and advised us to sell the positions towards the balance dues. Accordingly, the sales were affected in the client account on June 11, 2010 and June 21, 2010 in the client Account."

SEBI also observed from the ledger statement Mr MJVVD Prakash maintained with IIFL that he had a debit balance of Rs. 20 lakh as on May 20, 2010 which got reduced to Rs. 157/- by the end of investigation period. For the trading days June 11, 2010 and June 21, 2010, 53,573 and 7,500 shares respectively were sold off from the account of Mr. MJVVD Prakash by IIFL as he had not made the pay-in of funds within T+3 days for his trades on May 20, 2010 and June 02, 2010 respectively. Both these sell transactions were system initiated by IIFL as part of their Risk Management System.

17. It is observed from the ledger statement Prakash maintained with IIFL, that he had a debit balance of Rs. 20 lakh as on May 20, 2010 which got reduced to Rs. 157/- by the end of investigation period. For the trading days June 11, 2010 and June 21, 2010, 53,573 and 7,500 shares respectively were sold off from the account of Prakash by IIFL as he had not made the pay-in of funds within T+3 days for his trades on May 20, 2010 and June 02, 2010 respectively. Both these sell transactions were system initiated by IIFL as part of their Risk Management System.

18. SEBI also observed from the replies of the BPL that orders were placed by the client, i.e. Prakash over phone and trade confirmations were sent to him over his

mobile number. The broker has provided the details of the sms sent for the trades as well as the delivery details of the contract notes for the subject trades.

19. As regards IIFL, the trades were initiated due to make full the debit balance of Prakash with the broker by the risk management system. In the entire process the broker has sent the sms alerts and the contract note. The delivery details of the same are part of records. Further, copies of contract notes were also delivered to his address and e-mail address.
20. Furthermore, records show that Prakash had made payment in the ledger account maintained with BPL to lower the outstanding balance which further proves that Prakash was aware of these transactions.
21. All of the above, goes to conclude that the Noticee had knowingly provided false information under the summons issued regarding Prakash being unaware of the aforesaid transactions executed in his name, which is in violation of Section 11C(2) and 11C(3) of the SEBI Act, where records establish that Prakash was indeed aware of all the trades with both the brokers.
22. It is not in dispute that Ranklin was issued summons under Section 11C(2) and 11C(3) of the SEBI Act to furnish certain information/documents. Records show that the summonses were duly received by the noticee. The information sought by IA was relevant to the investigations and was available only with the noticee. Further, the Noticee had also replied to the Summons, however, made false submissions.
23. On a bare perusal of the information sought from the noticee by the IA it can be concluded that the information sought was in the knowledge of Ranklin as it chose to respond to the summons issued and provided information. The same could not be gathered from any other source without hampering timelines for investigations.
24. It is critical to the investigation process that the information flow is unhampered as a fact finding mission can easily be derailed by entities by not submitting the

relevant information. Further it is assessed from the requisition of the information that the information was indeed specific to Ranklin.

25. Also, during these proceedings, Ranklin was granted an opportunity to appear before the Adjudication Officer however, the Noticee failed to avail the hearing opportunity.

26. Thus, it is an admitted fact that Ranklin have submitted false information for the Summons issued by IA and accordingly violated Section 11C(2) and 11C(3) of SEBI Act.

ISSUE B: Do the violations, if any, on the part of the Noticees attract any penalty under SEBI Act?

27. It is clear that if a person fails to comply with the summons of IA he is liable for penalty under Section 15HB of SEBI Act. As the violation of provisions of section 11C(2) and 11C(3) of SEBI Act, 1992 by the noticee i.e. Ranklin Solutions Ltd. has been established and it is held that Noticee is liable for monetary penalty under section 15HB of SEBI Act.

28. The non-compliance of Summonses makes Ranklin Solutions Ltd liable for penalty under Section 15HB of the SEBI Act. The provisions of Section 15HB are as follows:

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 ²[liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees].*

29. In this context, reliance is placed upon the order of the Hon'ble Supreme Court of India in the matter of *Chairman, SEBI v.. Shriram Mutual Fund* {[2006] 5 SCC 361} wherein it was held that "*In our view, the penalty is attracted as soon as contravention of the statutory obligations as contemplated by the Act is established and, therefore, the intention of the parties committing such violation becomes immaterial. Hence, we are of the view that once the contravention is established, then the penalty has to follow and only the quantum of penalty is discretionary.*"

30. Based on the above, it is determined that it is a fit case for imposition of monetary penalty on Ranklin Solutions Ltd.

ISSUE C: If yes, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act?

31. While determining the quantum of penalty under Section 15HB, it is important to consider the factors stipulated in section 15J of SEBI Act, which is as follows:-

“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.”*

¹[Explanation.—For the removal of doubts, it is clarified that the power of an adjudicating officer to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.

32. The available records neither reveals any disproportionate gains/ unfair advantage made by Ranklin, the specific loss suffered by the investors due to such violations and nor has such allegations been made against Ranklin.

33. However, it is pertinent to take into account that submitting false information with respect to the summonses has the potential to hamper and waylay the investigations and thus compromises the regulatory framework.

34. Therefore, taking into consideration the facts, circumstances of the case and all of the above factors, it is determined that a justifiable penalty needs to be imposed upon Ranklin.

ORDER

35. In view of above and after considering all the facts and circumstances of the case and the factors mentioned in the provisions of Section 15-J of the SEBI Act, in exercise of the powers conferred under Section 15-I of the SEBI Act read with Rule 5 of the SEBI Adjudication Rules, it is concluded that the proceedings against

¹ Inserted by Part VIII of Chapter VI of the Finance Act, 2017 vide Gazette Notification No. 7, Extraordinary Part II Section 1 dated March 31, 2017. This shall come into force from April 26, 2017.

²Substituted for the words —liable to a penalty which may extend to one crore rupees” by the Securities Laws (Amendment) Act, 2014, w.e.f. 08-09-2014.

Ranklin stands established in terms of the provisions of the SEBI Act. Accordingly, a monetary penalty against Ranklin is imposed which is as follows:

Noticee Name	Violated	Penal Provisions	Amount of Penalty (in Rs.)
Ranklin Solutions Ltd	Section 11C(2) and 11C(3) of SEBI Act, 1992	Section 15HB of SEBI Act, 1992	20,00,000/-

36. Ranklin shall remit / pay the said amount of penalty within 45 (forty five) days of receipt of this order either by way of Demand Draft (DD) in favour of “SEBI - Penalties Remittable to Government of India”, payable at Mumbai, or through e-payment facility into Bank Account, the details whereof are as follows:-

Account No. for remittance of penalties levied by Adjudication Officer	
Bank Name	State Bank of India
Branch	Bandra Kurla Complex
RTGS Code	SBIN0004380
Beneficiary Name	SEBI – Penalties Remittable To Government of India
Beneficiary A/c No.	31465271959

37. Ranklin shall forward said Demand Draft or the details / confirmation of penalty so paid through e-payment to the Division Chief, Enforcement Department 1, Division of Regulatory Action - II [EFD1-DRA-II], SEBI Bhavan, Plot No.C4-A, ‘ G’ Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051. The Format for forwarding details / confirmations of e-payments made to SEBI shall be in the form as provided at Annexure A of Press Release No. 131/2016 dated August 09, 2016 shown at the SEBI Website which is produced as under;

- I. Case Name :
- II. Name of Payee:
- III. Date of payment:
- IV. Amount Paid:
- V. Transaction No:
- VI. Bank Details in which payment is made:
- VII. Payment is made for: (like penalties/disgorgement/recovery/Settlement amount and legal charges along with order details)

38. In terms of Rule 6 of the SEBI Adjudication Rules, copies of this order is being sent to Ranklin and also to SEBI.

Date: April 11, 2019
Place: Mumbai

Jeevan Sonparote
Adjudicating Officer