

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. EAD-2/AO/47/2013-14]

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
M/s Karuturi Global Limited
PAN: AAACK8275A

Background

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted an investigation into the alleged irregularity in the trading in the shares of M/s Karuturi Global Limited (hereinafter referred to as 'Noticee') and into the possible violation of the provisions of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as 'SEBI Act') and various rules and regulations made there under.
2. The investigation inter-alia revealed that the shares of Noticee are listed on Bombay Stock Exchange Limited and National Stock Exchange of India Limited. As per the shareholding pattern of KGL disclosed at BSE website for the quarter ended September 2004, Shri K S Ramakrishna, promoter of Noticee was holding 20.83% of the shares of Noticee and M/s. Simply Class Fashions Pvt Ltd. (hereinafter referred to as SCFPL) was holding 18.15% of the shares of Noticee. However, Noticee had informed that due to the mistake by the secretarial staff, SCFPL was erroneously shown in the promoter group and that a revised Clause 35 report of the Listing Agreement was filed by the Noticee with BSE for the quarter ended

September 2004. As per the revised clause 35 report of the Listing Agreement, SCFPL was not holding any of the shares of Noticee. However, it was informed by BSE that the exchange did not receive any revised shareholding pattern for the quarter ended September 2004 from Noticee. Further, there was also a discrepancy with regard to information submitted by Noticee under Regulation 8(2) of SEBI (Substantial Acquisition Shares and Takeovers) Regulations, 1997 (hereinafter referred to as SAST Regulations). Noticee had disclosed incorrect promoter shareholding in various quarters in violation of Clause 35 of the Listing Agreement read with Clause 5.1 of Schedule II of Code of Corporate Disclosure Practices for Prevention of the Insider Trading under Regulation 12(2) of the SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as 'PIT Regulations').

3. SEBI has, therefore, initiated adjudication proceedings under the Act against the Noticee to inquire into and adjudge the alleged violation of Clause 35 of the Listing Agreement read with Clause 5.1 of Schedule II of Code of Corporate Disclosure Practices for Prevention of the Insider Trading under Regulation 12(2) of the PIT Regulations.

Appointment of Adjudicating Officer

4. SEBI vide order dated July 16, 2012 appointed Shri Parag Basu as the 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 (hereinafter referred to as the 'Adjudication Rules') to inquire into and adjudge under section 15HB of the SEBI Act and Section 23A (a) of the Securities Contract Regulation Act, 1956 (hereinafter referred to as 'SCRA') for the alleged violation of the abovementioned provisions of Listing Agreement and PIT Regulations by the Noticee. Consequent to the transfer of Shri Parag Basu, SEBI vide Order dated August 16, 2012 appointed me as the Adjudicating Officer.

Notice, Reply & Personal Hearing

5. A Notice dated September 11, 2012 (hereinafter referred to as 'SCN') was issued to the Noticee in terms of Rule 4 of the Adjudication Rules to show cause as to why an inquiry should not be held against it for the alleged violations. The SCN was sent to the Noticee by Registered Post which was delivered and acknowledged by the Noticee. It was alleged in the SCN that Noticee violated Clause 35 of the Listing Agreement read with Clause 5.1 of Schedule II of Code of Corporate Disclosure Practices for Prevention of the Insider Trading under Regulation 12(2) of the PIT Regulations. The Noticee vide letter dated October 05 2012 sought extension of time for filing reply to the SCN. However, the Noticee did not submit any reply to the SCN.
6. In the interest of natural justice and in order to conduct an inquiry as per Rule 4 (3) of the Adjudication Rules the Noticee was granted an opportunity of personal hearing on November 26, 2012 vide notice dated November 06, 2012. The personal hearing notice was sent to the Noticee by Registered Post which was delivered and acknowledged by the Noticee. Another opportunity of personal hearing was granted to the Noticee on January 31, 2013 vide notice dated January 16, 2013. The Authorized Representative's (AR's) of the Noticee appeared for the hearing, filed written submissions dated January 30, 2013 and reiterated the said submissions. The Noticee vide letter dated January 30, 2013 inter alia denied all the allegations made against it.
7. In view of the above, I am proceeding with the inquiry taking into account of the submissions made before me, the documents and material as available on record.

Consideration of Issues, Evidence and Findings

8. I have carefully perused the charges against the Noticee mentioned in the SCN, submissions made by the Noticee, the materials and documents as

available on record. The issues that arise for consideration in the present case are:

- a) Whether the Noticee has violated the provisions Clause 35 of the Listing Agreement read with Clause 5.1 of Schedule II of Code of Corporate Disclosure Practices for Prevention of the Insider Trading under Regulation 12(2) of the PIT Regulations?**
- b) Does the violation, if any, on the part of the Noticees attract any penalty under section 15HB of the SEBI Act and Section 23A(a) of SCRA?**
- c) If yes, what should be the quantum of penalty?**

9. Before moving forward, it will be appropriate to refer to the relevant provisions of SAST and PIT Regulations which read as under:-

SEBI (Prohibition of Insider Trading) Regulations, 1992

Regulation 12

Code of internal procedures and conduct for listed companies and other entities.

12. (1) All listed companies and organisations associated with securities markets including :

(a) the intermediaries as mentioned in section 12 of the Act, asset management company and trustees of mutual funds ;

(b) the self-regulatory organisations recognised or authorised by the Board;

(c) the recognised stock exchanges and clearing house or corporations;

(d) the public financial institutions as defined in section 4A of the Companies Act, 1956; and

(e) the professional firms such as auditors, accountancy firms, law firms, analysts, consultants, etc., assisting or advising listed companies, shall frame a code of internal procedures and conduct as near thereto the Model Code specified in Schedule I of these Regulations 45[without diluting it in any manner and ensure compliance of the same.

(2) The entities mentioned in sub-regulation (1), shall abide by the code of Corporate Disclosure Practices as specified in Schedule II of these Regulations.

Schedule II

5.0 Reporting Requirements for transactions in securities

5.1 All directors/officers/designated employees of the listed company shall be required to forward following details of their securities transactions including the statement of dependent family members (as defined by the company) to the Compliance Officer:

(a) all holdings in securities of that company by directors/officers/designated employees at the time of joining the company;

(b) periodic statement of any transactions in securities (the periodicity of reporting may be defined by the company. The company may also be free to decide whether reporting is required for trades where pre-clearance is also required); and

(c) annual statement of all holdings in securities.

10. From the material available on record, I find that as disclosed at BSE website during the quarter ended September 2004, Shri K S Ramakrishna, promoter of Noticee was holding 20.83% of the shares of Noticee and SCFPL was holding 18.15% of the shares of Noticee. I find that the shareholding of SCFPL was erroneously shown in the promoter group and that a revised Clause 35 of Listing Agreement was filed with BSE for the quarter ended September 2004. As per the revised clause 35 of Listing Agreement, Shri K S Ramakrishna was holding 50.03% and SCFPL was not holding any of the shares of KGL. Also, there was a discrepancy with regard to information submitted by Noticee under Regulation 8(2) of SAST Regulations.

11. The following submissions were made by the Noticee:

(a) In the quarterly filing for the quarter ended September 2004 under clause 35 of the Listing Agreement, Noticee had inadvertently disclosed the name of M/s Simply Class Fashions Pvt. Ltd.

(SCFPL) as one of the promoters with a shareholding of 18.15%. Infact at the relevant time SCFPL was not holding even a single share of the Noticee. The said bonafide error occurred at the end of Noticee's secretarial staff. The shareholding so erroneously disclosed against the name of SCFPL was actually held by Mr. K.S. Ramakrishna. Shareholding of Mr. K.S. Ramakrishna which at the relevant time stood at 38.98% shares was erroneously bifurcated and was reflected as 20.83% against his name and 18.15% against the name of SCFPL. Whereas the fact was that the entire 38.98% shares were in the name of K.S. Ramakrishna.

- (b) As a result of the said inadvertence, there was no change in the promoter shareholding. Since the consolidated shareholding of the promoter group continued to remain the same at 57.78%. therefore, as result of such inadvertence, the interest of the shareholders was not adversely affected.
- (c) Immediately on becoming aware of the said error/discrepancy in the disclosure, the Noticee vide its letter dated January 03, 2012 filed the revised disclosure with the BSE correcting the error.
- (d) In so far as the information submitted by the Noticee to BSE and before investigating authority is concerned, the same was furnished by the Noticee based on the data provided by the Registrar to the Noticee with regard to the details of the shareholders and the number of shares held by them. All listed companies, prior to filing the details of shareholding seek data from their registrar and based on the same they file their disclosures. This is a normal market practice, which the Noticee has also followed.
- (e) In so far as the shareholding as disclosed by the Noticee to BSE under Regulation 8(3) of SAST Regulations is concerned, the same has been filed by the Noticee based on the receipt of

disclosure by the company from the individuals/entities under Regulation 8(2) of SAST Regulations.

(f) The said disclosures are made to the Noticee by the individuals/entities and the Noticee has in the absence of anything to excite its suspicion as to something exceptionally wrong, no role to play save and except ministerial role of forwarding the disclosures to the exchanges.

12. I concede with the submissions of the Noticee that the errors were inadvertent, unintended and did not cause any harm to the investors. Further, the Noticee has already taken steps to rectify the errors. I am of the view that the present case is not fit for warranting imposition of monetary penalty.

Order

15. In view of the above, after considering all the facts and circumstances of the case and exercising the powers conferred upon me under Section 15-I (2) of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby conclude that the charges leveled against the Noticee as per the SCN does not stand established and accordingly the matter is disposed of.

16. In terms of the Rule 6 of the Adjudication Rules, copies of this order are sent to the Noticee and also to Securities and Exchange Board of India.

Date: July 02, 2013

Place: Mumbai

**P K KURIACHEN
ADJUDICATING OFFICER**