

ADJUDICATION ORDER NO. EAD-3/ORDER/JS/SP/3033-3039/2019-20

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

In respect of Noticees:

MJVVD Prakash (PAN:AGDPM3021C) I-206, Divya Shakthi Complex, Green Lands, Ameerpet, Hyderabad- 500 016	P Venkateswara Rao 7/528, Turlapati St., Godugupet, Ward-7, Machilipatnam- 521001, Andhra Pradesh	M Jyotsana Lakshmi (PAN ALEPM3653J) I-206, Divya Shakthi Complex, Green Lands, Ameerpet, Hyderabad- 500 016
JVV Raghava Kumar No. 102, Manema Enclave, Jawahar Nagar, Hyderabad – 520020 (Telangana)	M Satish Kumar 16-11-512/1, Road No. 1, Dilkush Nagar, Hyderabad, Telangana – 500020	K S Chakravarthi 22/09, Batchupet, Machilipatnam- 521001, Andhra Pradesh
K Vijaya Rama Raju, 2-22-1/105, Shanthi Apartments, Bhagya Nagar Colony, Kukatpally, Hyderabad, Telangana – 500072		

In the matter of Ranklin Solutions Ltd

BACKGROUND

1. Securities and Exchange Board of India (**‘SEBI’**), conducted investigation into the trading activities in the scrip of Ranklin Solutions Ltd. (**‘Scrip/Company/Ranklin’**), scrip listed at The Bombay Stock Exchange (**‘BSE’**) for the period February 01, 2010 to January 12, 2011 (**‘Investigation Period/IP’**).
2. Investigation revealed that during the IP, the Noticee(s) have traded in the scrip while in possession of the unpublished price sensitive information and failed to frame Code of Conduct and accordingly alleged to have violated provisions of the SEBI Act, 1992 (**‘SEBI Act’**), SEBI (Prohibition of Insider Trading) Regulations, 1992 (**‘PIT Regulations’**). The details of allegation against the Noticees are as follows:

Sr. No	Noticee Name	Findings in brief	Alleged violations of provisions
1	MJVVD Prakash (‘Prakash’)	Traded in the Scrip while in possession of Unpublished Price Sensitive Information	Reg. 3(i) read with Reg. 12 of PIT Regulations

Sr. No	Noticee Name	Findings in brief	Alleged violations of provisions
		Failed to frame code of conduct for Insider Trading as per PIT Regulations	Reg. 12(1) read with Clause 1.2 of Schedule I of Part A of Model Code of Conduct of PIT Regulations.
2.	P Venkateswara Rao ('Venkateswara')	Failed to frame code of conduct for Insider Trading as per PIT Regulations	Reg. 12(1) read with Clause 1.2 of Schedule I of Part A of Model Code of Conduct of PIT Regulations.
3	M Jyotsana Lakshmi ('Jyotsana')		
4	JVV Raghava Kumar ('Raghava')		
5	M Satish Kumar ('Satish')		
6	K S Chakravarthi ('Chakravarthi')		
7	K Vijaya Rama Raju ('Vijaya')		

Prakash, Venkateswara, Jyotsana, Raghava, Satish, Chakravarthi and Vijaya are collectively referred as the "Noticees".

- In view of the above, SEBI initiated adjudication proceedings against Prakash to inquire and adjudge under Section 15G of the SEBI Act and against the Noticees under Section 15HB of SEBI Act for the alleged violations as mentioned above.

APPOINTMENT OF ADJUDICATING OFFICER

- Adjudicating Officer was appointed vide order dated June 09, 2017 under Section 15-I read with Section 19 of the SEBI Act, 1992 (**'SEBI Act'**) and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rule, 1995 (**'Adjudication Rules'**) and Section 19 of the SEBI Act to inquire into and adjudge under Section 15G and 15HB of SEBI Act. Consequent to transfer vide office order dated May 10, 2018, the proceedings are continued for the aforesaid alleged violations against the Noticees.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. A Show Cause Notice ('SCN'), dated December 19, 2017, in terms of provisions of Rule 4 of Adjudication Rules was issued to the Noticees to the address mentioned below:

Noticee Name	Address of the Noticee
<i>Prakash, Managing Director of Ranklin</i>	<i>I-206, Divya Shakthi Complex, Green Lands, Ameerpet, Hyderabad- 500 016</i>
<i>Venkateswara, Independent Director, Ranklin (resigned on Feb 10, 2011)</i>	<i>7/528, Turlapati St., Godugupet, Ward-7, Machilipatnam- 521001, Andhra Pradesh</i>
<i>Jyotsana, Director, Ranklin</i>	<i>I-206, Divya Shakthi Complex, Green Lands, Ameerpet, Hyderabad- 500 016</i>
<i>Raghava, Director, Ranklin</i>	<i>No. 102, Manema Enclave, Jawahar Nagar, Hyderabad – 520020 (Telangana)</i>
<i>Satish, Independent Director, Ranklin</i>	<i>16-11-512/1, Road No. 1, Dilkush Nagar, Hyderabad, Telangana – 500020</i>
<i>Chakravarthi, Independent Director, Ranklin (resigned on Dec 03, 2010)</i>	<i>22/09, Batchupet, Machilipatnam- 521001, Andhra Pradesh</i>
<i>Vijaya (Addl. Director, Ranklin (appointed on Feb 10, 2011))</i>	<i>2-22-1/105, Shanthi Apartments, Bhagya Nagar Colony, Kukatpally, Hyderabad, Telangana – 500072</i>

The SCN issued to the Noticees were returned undelivered. The referred SCN was uploaded in SEBI website under the heading "Unserved Summons/ Notices".

6. Subsequently, the SCN was affixed at the address of the Noticees namely Prakash and Raghava. With respect to the other noticees affixture of the SCN could not be done since the present occupants did not allow to paste the notice.
7. Further, vide notice dated February 23, 2018, the Noticees were informed to file reply to the SCN and an opportunity to appear before the Adjudicating Officer on March 13, 2018. The referred Notice dated February 23, 2018 was returned undelivered which was subsequently uploaded in SEBI website under the heading "Unserved Summons /Notices".
8. 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, Noticees were also granted an opportunity of hearing before the Adjudicating Officer on May 09, 2018, which was subsequently rescheduled by then Adjudicating Officer.

9. Ranklin, on behalf of Prakash and Jyotsana, 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.*
- Accordingly, provided a copy of the "Statement of Policy and Procedures of Ranklin Governing Material, Non Public Information and The Prevention of Insider Trading.*

The above letter is combined submissions of Ranklin, Prakash and Jyotsana.

10. Subsequent to the transfer of the present proceedings, vide Notice dated January 11, 2019, Noticees were 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 duly received by Prakash and Jyotsana and with respect to Venkateswara, Raghava, Satish, Chakravarthi and Vijaya, the notice dated January 11, 2019 were returned undelivered which was subsequently uploaded in the SEBI website.
11. 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 and accordingly, informed the Noticees namely Venkateswara, Raghava, Satish, Chakravarthi and Vijaya to appear before the Adjudicating Officer on March 18, 2019 and to file reply to SCN. On the date of hearing, Venkateswara, Raghava, Satish, Chakravarthi and Vijaya have failed to appear before the Adjudicating Officer and to file reply to the SCN.
12. Further, vide letter dated March 06, 2019, Prakash and Jyotsana were also informed to appear before the Adjudicating Officer on March 20, 2019. On the date of hearing, the Prakash and Jyotsana have failed to appear before the Adjudicating Officer.

13. From the above, it is clear that the Noticees were served SCN and hearing Notices, through affixture and 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, the Noticees have failed to appear before the Adjudicating Officer and to reply to SCN. 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

14. After perusal of the material available on record, the following issues are for consideration viz.

- a. Whether Prakash have violated Regulation 3(i) read with Reg. 12 of PIT Regulations?
- b. Whether the Noticees have violated Reg. 12(1) read with Clause 1.2 of Schedule I of Part A of Model Code of Conduct of PIT Regulations?
- c. Do the violations, if any, on the part of the Noticees attract any penalty under SEBI Act?
- d. 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 Prakash have violated Regulation 3(i) read with Reg. 12 of PIT Regulations?

Traded while in possession of Unpublished Price Sensitive Information ('UPSI')

15. It has been alleged in the SCN that Prakash had traded in the scrip of the Company while in possession of UPSI during the investigation period. The details of such trades are mentioned as follows:

Date of Corporate Announcement	Announcement	Trades of Prakash			
		Trade Date	Buy Qty	Sell Qty	Net Trd Qty
May 30, 2010	Financial results for quarter ended Mar 31, 2010	May 20, 2010	40687	4000	36687
May 31, 2010	Recommendation of dividend	May 21, 2010	7262	7262	0
		May 24, 2010	11000	11000	0
		May 25, 2010	11000	10500	500

		May 26, 2010	0	(500)	(500)
Nov 15, 2010	Financial results for quarter ended Sep 30, 2010	Nov 9, 2010	10300	10300	0

16. It is pertinent to mention that Prakash the Managing Director of Ranklin is involved in day to day affairs of the Company. In respect to the above allegation, Prakash has not filed any reply or any evidence to substantiate his submissions. Further, Prakash was provided various opportunities to appear before the Adjudicating Officer, which he failed to avail. In spite of providing opportunities, Prakash failed to make submissions or to appear before the Adjudicating Officer.

17. Thus, it is clear from information that Prakash, being the Managing Director of Ranklin was privy of the Unpublished Price Sensitive Information and traded while in possession of the same. Accordingly, it is concluded that Prakash has violated Regulation 3(i) read with Regulation 12 of PIT Regulations.

ISSUE D: Whether the Noticees have violated Reg. 12(1) read with Clause 1.2 of Schedule I of Part A of Model Code of Conduct of PIT Regulations?

18. In terms of Regulation 12(1) of PIT Regulations all listed companies are required to frame a “Model code of conduct for prevention of Insider Trading for listed companies”. During the investigations, vide Summons dated May 08, 2013, Ranklin was advised to provide copy of the insider trading regulations drafted by the Company in terms of PIT Regulations, which the Company has failed to provide.

19. During these proceedings, Ranklin for the alleged violations, in reply to the SCN, has informed that “*they have in place code of Internal Procedure and Conduct and code of Corporate Disclosure Practice in terms of PIT Regulation. Ranklin, further has stated that the Code of Conduct has been made pursuant to Regulation 12(1) of PIT Regulations and in accordance with the Model Code of Conduct as per Schedule I Part A of the PIT Regulations and Clause 49 of the Listing Agreement with the Stock Exchanges*”. Accordingly, provided a copy of the statement of policy and procedures

of Ranklin, governing material, non-public information and the Prevention of Insider Trading, framed by the Company.

20. However, Ranklin has not provided the date on which the Board of Ranklin has approved the Policy or any records to substantiate that the said Policy was in existence and was also followed by the Company during the time of investigations. It has neither provided the board resolution where the board had adopted the model code.
21. This brings into question the submissions of the Company, and it appears to be an afterthought and thus cannot be taken into consideration based on the information and circumstances detailed above.
22. Accordingly, it is to be concluded that the Noticees namely Prakash, Venkateswara, Jyotsana, Raghava, Satish, Chakravarthi and Vijaya being the Board of Directors of Ranklin have failed to frame the Code of Conduct as required under PIT Regulations and have violated Clause 1.2 of Schedule I of Part A i.e. Model Code of Conduct For Prevention of Insider Trading For Listed Companies read with Regulation 12(1) of PIT Regulations.

Issue E: Does the violation, if any, attract monetary penalty under Section 15G and 15HB of SEBI Act ?

23. In view of the above conclusion drawn, it now remains to be determined whether the violation attracts the monetary penalty under section 15G and 15HB of the SEBI Act. In this regard the provisions of Section 15G and 15HB are quoted as follows:

Penalty for insider trading

15G If any insider who,—

- (i) either on his own behalf or on behalf of any other person, deals in securities of a body corporate listed on any stock exchange on the basis of any unpublished price-sensitive information; or*
 - (ii) communicates any unpublished price-sensitive information to any person, with or without his request for such information except as required in the ordinary course of business or under any law; or*
 - (iii) counsels, or procures for any other person to deal in any securities of any body corporate on the basis of unpublished price-sensitive information,*
- shall be liable to a penalty which shall not be less than ten lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of insider trading, 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 shall not be less than one lakh rupees but which may extend to one crore rupees.*

24. 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.*"

25. Based on the above, present case is a fit case for imposing penalty against MJVVD Prakash under Section 15G of SEBI Act for violation of Regulation 3(i) read with Regulation 12 of PIT Regulations and against the Noticees namely MJVVD Prakash, Venkateswara Rao, Jyotsana Lakshmi, JVV Raghava Kumar, M Satish Kumar and K S Chakravarthi and K Vijaya Rama Raju under Section 15HB of SEBI Act for violation of Regulation 12(1) read with Clause 1.2 of Schedule I of Part A of Model Code of Conduct of PIT Regulations.

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

26. While determining the quantum of penalty under section 15G and 15HB of SEBI Act, it is important to consider the factors stipulated in section 15J of SEBI Act, which reads as under:-

"15J - Factors to be taken into account by the adjudicating officer

While adjudging quantum of penalty under section 15-I, the adjudicating officer shall have due regard to the following factors, namely:-

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default."

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.*

27. The material made available on record has not quantified the amount of disproportionate gain or unfair advantage made by the Noticees and the loss suffered

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.

by the investors due to such violations and nor has such allegations been made against the Noticees.

28. Therefore, taking into consideration the facts / circumstance of the case and above factors, a justifiable penalty needs to be imposed upon the Noticees to meet the ends of justice.

ORDER

29. After taking into consideration all the facts and circumstance 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 proceeding against the Noticees stands established in terms of the provisions of the SEBI Act. Accordingly, a monetary penalties against the Noticees which are as follows:

Noticee Name	Violated	Penal Provisions	Amount of Penalty (in Rs.)
MJVVD Prakash	Reg. 3(i) read with Reg. 12 of PIT Regulations	Section 15G of SEBI Act	Rs 10 lakhs in words Rupees Ten Lakhs
	Reg. 12(1) read with Clause 1.2 of Schedule I of Part A of Model Code of Conduct of PIT Regulations	Section 15HB of SEBI Act	Rs. 5 lakhs in words Rupees Five Lakhs
P Venkateswara Rao	Reg. 12(1) read with Clause 1.2 of Schedule I of Part A of Model Code of Conduct of PIT Regulations.	Section 15HB of SEBI Act	Rs. 5 lakhs in words Rupees Five Lakhs
M Jyotsana Lakshmi			Rs. 5 lakhs in words Rupees Five Lakhs
JVV Raghava Kumar			Rs. 5 lakhs in words Rupees Five Lakhs
M Satish Kumar			Rs. 5 lakhs in words Rupees Five Lakhs
K S Chakravarthi			Rs. 5 lakhs in words Rupees Five Lakhs
K Vijaya Rama Raju			Rs. 5 lakhs in words Rupees Five Lakhs

30. The Noticees 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

31. The Noticees 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;

1. Case Name :
2. Name of Payee:
3. Date of payment:
4. Amount Paid:
5. Transaction No:
6. Bank Details in which payment is made:
7. Payment is made for: (like penalties/disgorgement/recovery/Settlement amount and legal charges along with order details)

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

Date: April 30, 2019

Place: Mumbai

Jeevan Sonparote
Adjudicating Officer