

**BEFORE THE ADJUDICATING OFFICER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**  
**[ADJUDICATION ORDER NO. Order/SR/PP/2020-21/9321]**

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

**In respect of**

**Praveen Mohnot**  
Address: D-1, Sunita Apartments,  
62-CC Peddar Road,  
Mumbai- 400 036

**PAN: AAFPM3430K**

**In the matter of KLG Capital Services Ltd.**

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**BACKGROUND OF THE CASE IN BRIEF**

1. A department (in short **OD**) of Securities and Exchange Board of India (in short **SEBI**) pursuant to receipt of alerts in its IMSS system in the scrip of KLG Capital Services Ltd. (hereinafter referred to as '**KLG**' / '**Company**') appointed Investigating Authority (**IA**). Investigation revealed that during the period February 22, 2008 to February 27, 2008, Awaita Properties Pvt. Ltd. (hereinafter referred to as '**APPL**') had acquired 17,11,287 equity shares of KLG through market transactions. Such acquisition had increased the shareholding of APPL in KLG to 60.46% and the same was disclosed by KLG to Bombay Stock Exchange Limited (**BSE**) on February 28, 2008. Thereafter, APPL made a public announcement dated March 03, 2008 to acquire another 20% shares of KLG. The investigation revealed that certain entities, namely Hemant Patel (HUF) (whose karta is Mr. Hemant R. Patel), Ms. Priyanka Singhvi and Ms. Anita Ravichandran had bought

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Adjudication Order in respect of Praveen Mohnot in the matter of KLG Capital Services Limited

substantial number of equity shares of KLG, based on unpublished price sensitive information (**UPSI**), relating to the impending acquisition of KLG by APPL. Based on the findings of the investigation, OD observed certain non-compliances with regard to Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as **PIT Regulations**) in the matter of KLG.

2. OD initiated adjudication proceedings in the matter of KLG. The adjudication proceedings were approved by the Competent Authority and Adjudicating Officer (in short AO), was appointed under section 15-I of The Securities and Exchange Board of India Act, 1992 (hereinafter referred to as **the SEBI Act**) r/w rule 3 of Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as **Adjudication Rules**), to inquire into and adjudge, under section 15G of the SEBI Act, the alleged violation of regulations 3(i) and 3(ii) of PIT Regulations by Praveen Mohnot (hereinafter referred to as '**Noticee**').

### **APPOINTMENT OF ADJUDICATING OFFICER**

3. OD appointed Shri V S Sundaresan as the Adjudicating Officer (**AO**) vide order dated October 20, 2008 to inquire into and adjudge, under section 15G of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**the SEBI Act**'), the alleged violation of regulations 3(i) and 3(ii) of PIT Regulations. The previous AO issued the Show Cause Notice (**SCN**) dated March 31, 2009. The matter was then transferred to Shri Piyoosh Gupta, who was appointed as the AO. Noticee requested the previous AO to keep the matter in abeyance as the Noticee had filed an appeal before Hon'ble Securities Appellate Tribunal against the order dated September 22, 2009 passed by Whole Time Member of SEBI in a parallel 11B proceedings in the matter of KLG. Further, Adjudication Order in respect of Praveen Mohnot in the matter of KLG Capital Services Limited

the Noticee sought cross-examination of certain persons whose statements were relied upon in the SCN. Acceding to the request, previous AO had granted an opportunity of cross examination to the Noticee. The matter was then transferred to Shri A Sunil Kumar, who was appointed as the AO. The previous AO issued the supplementary SCN dated September 04, 2014. The Noticee sought inspection of documents and the same was provided to him on March 10, 2015 and April 08, 2015. The matter was then transferred to Shri S V Krishnamohan vide order dated June 17, 2015. The previous AO conducted the personal hearing on September 04, 2015. The matter was thereafter transferred to Shri Nagendraa Parakh vide order dated December 15, 2015. Matter was then transferred to Ms. Sangeeta Rathod (undersigned). Undersigned was appointed AO in this matter, which was communicated vide order dated July 10, 2017.

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

4. Show cause notice no. EAD-5/VSS/TZ/159071/2009 dated March 31, 2009 and supplementary show cause notice no. EAD-05/ADJ/ASK/SPV/OW/26002/2014 dated September 04, 2014 respectively (hereinafter referred to as **SCNs**) were issued by the previous AOs to the Noticee under rule 4 of the AO Rules to show cause as to why an inquiry should not be held against the Noticee and why penalty under section 15G of SEBI Act be not imposed on the Noticee for the violations alleged and specified in the said SCNs. The aforementioned SCNs were sent to the Noticee through hand delivery. Proof of service of the SCNs upon the Noticee is available on record.

5. Details of the violations alleged in the SCN dated March 31, 2009 are as follows:

1. *It is observed that the earlier promoters of KLG Capital Services Ltd. (KLG / Company) had exited and Awaita Properties Pvt. Ltd. (APPL) took a stake in KLG aggregating to 60.46% of the total share capital of the company. From February 22, 2008 to February 27, 2008 through transactions carried out at BSE. The impending acquisition of KLG by APPL was communicated to BSE in February 28, 2008. BSE subsequently published the said communication on its website on the same day. Therefore, till February 27, 2008, the said information remained unpublished price sensitive (UPSI).*

The order to purchase 1,80,000 shares of KLG at a price of Rs. 32.65 was placed by APPL on February 22, 2008 at 14:31:43 hrs. The price was amended at 14:52:52 hrs to make it Rs. 32.70, at 15:21:28 hrs to make it Rs. 32.85 and at 15:22:41 hrs to make it Rs. 33:00, at which price the first trade of APPL towards acquisition of shares of KLG took place.

2. APPL made a public announcement on March 03, 2008 for acquisition of up to 6,40,480 shares constituting 20% of the total share capital of the company as per SAST Regulations. Further, Network Stock Broking Ltd. (NSBL) was the manager to the open offer for acquisition of 6,40,480 shares. It is observed from the Draft Letter of Offer in respect of Rights Issue of Horizon Infrastructure Ltd. (HIL) that SKIL Infrastructure Ltd. (SKIL) and APPL are both promoter group entities of HIL.
3. The corporate announcements made by the company during the relevant period:

Date	Announcements
28-Feb-2008	KLG Capital Services Ltd has informed BSE that the Company's Existing Promoter Group has sold through open market on February 27, 2008 15,80,607 shares comprising of 49.35% of the paid up share capital of Company. Awaita Properties Pvt Ltd has informed the Company vide their letter dated February 28, 2008 that they have acquired above said quantity. As a result the control and management of the KLG Capital Services Ltd (Target Company) shall be transferred to the acquirer after successful completion of Open Offer formalities under the SEBI Takeover Code 1997. The Company has further informed BSE that M/s Awaita Properties Pvt Ltd has informed the Company that they have purchased 17,11,287 (Seventeen Lac Eleven Thousand Two Hundred Eighty Seven only) of Equity shares of KLG Capital Services Ltd comprising of 53.44% of the existing paid up share Capital of the Company from the open market as per their letter dated February 28, 2008. With the above, their aggregate shareholding reaches to 60.46% (19,36,075 share)
28-Feb-2008	KLG Capital Services Ltd has informed BSE that M/s. Awaita Properties Pvt Ltd has informed the Company that they have purchased 224788 (Two Lacs Twenty Four Thousand Seven Hundred Eighty Eight only) of Equity shares of KLG Capital Services Ltd Company comprising of 7.02% of the existing paid up share Capital of the Company from the open market as per their letter dated February 26, 2008.
05-Mar-2008	Network Stock Broking Ltd ("Manager to the Offer") on behalf of Awaita Properties Pvt Ltd ("Acquirer") has issued this Public Announcement to the equity shareholders of KLG Capital Services Ltd ("Target Company"), pursuant to and in compliance with among others, Regulation 10 read with Regulation 12 of Chapter II of the Securities & Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulations, 1997 and subsequent amendments thereto ("SEBI (SAST) Regulations, 1997"). The Offer The Acquirer is hereby making a public announcement of the Offer to acquire upto 640,480 equity shares of Rs 10/- each, representing 20.00% of the issued, subscribed & paid-up equity share capital of the Target Company, from the public shareholders of the Target Company, at a price of Rs 37.50/- per share ("Offer Price") payable in cash subject to the terms & conditions mentioned in PA. Equity shares that would be tendered in the valid form in terms of this Offer will be transferred in favour of the Acquirer upon the closure of the Open Offer. Due to the Operation of Regulation 2(1)(e) of SEBI Takeover Regulations, there may be persons who could be deemed to be persons acting in concert. However, they are not acting in concert with the Acquirer for the purpose of this Offer. Schedule of Activities: Specified Date -

	March 28, 2008 Date of Opening of the Offer - April 25, 2008 Date of Closing of the Offer - May 16, 2008
08-Apr-2008	KLG Capital Services Ltd has informed BSE that the Audited Financial Results for the year 2007-2008 will be published within three months from the close of the accounting year i.e. March 31, 2008 instead of publishing the unaudited results.
04-June-2008	Networth Stock Broking Ltd ("Manager to the Offer") on behalf of Awaita Properties Pvt Ltd ("Acquirer") has issued this Post Offer Public Announcement to the shareholders of KLG Capital Services Ltd ("Target Company"), which is in continuation of & should be read in conjunction with the Public Announcement ("PA") dated March 03, 2008, Letter of Offer Dated April 30, 2008 and Corrigendum to the PA dated May 08, 2008, pursuant to and in compliance with among others, Regulations 10 and 12 of Chapter III of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and subsequent amendments thereto ['SEBI Takeover Regulations' / 'Regulations']
20-June-2008	KLG Capital Services Ltd has informed BSE that consequent to the takeover (as per the norms of SEBI) there has been a change in the constituents of the Board of Directors. The following changes have been made in the Board Meeting held on June 19, 2008: Appointments: 1. Mr. Nikhil Gandhi : Chairman (Non Executive), Promoter Director 2. Mr. S S Thakur : Independent Director 3. Mr. B C Daga : Independent Director 4. Mr. Jitendra B Sanghavi : Independent Director 5. Mr. Praveen Mohnot : Director 6. Mr. Hemant Patel : Whole Time Director Resignations: 1. Mrs. Sushila Garg : Resigned from Directorship 2. Mr. Narinder Pal : Resigned from Directorship 3. Mr. Pawan Aggarwal : Resigned from Directorship.

4. The findings of the investigation relevant to you are as follows:

The composition of the Board of Directors of KLG as on July 15, 2008 reveals that you are the Director of KLG. You are also the Director (Finance) HIL. You have given the name of your employer as SKIL Infrastructure Limited in KYC details as available with ICICI Securities Limited.

a. Possession of UPSI by Mr. Praveen Mohnot-

- (i) It is observed that you were the primary introducer of APPL with the merchant banker, NSBL, for the proposed acquisition. Shri Girish Dev, CEO, NSBL confirmed that "The mandate for client APPL came to us through Shri Praveen Mohnot. Shri Mohnot was known to our Chairman Shri S.P. Jain from his earlier days. Shri Mohnot was in touch with us for this particular mandate in the sense that it was he who brought the deal to us from APPL / SKIL side." Copy of statement dated July 30, 2008 of Shri Girish Dev is enclosed.
- (ii) Moreover, NSBL was appointed by APPL as Lead Manager to the Open Offer to the shareholders of KLG in terms of SAST. The mandate lists out scope of services to be offered by NSBL as a Lead Manager and other conditions such as terms of payment of fees, duration of assignment, clauses relating to confidentiality of information etc. The said mandate was signed on February 08, 2008. A perusal of the document reveals that it was signed by Shri Anil Mehta on behalf of NSBL and you as an authorized signatory on behalf of APPL.
- (iii) Shri Ganesh Hadvale, Manager Investment Banking, NSBL in his statement has stated that "The mandate / Memorandum of Understanding for the said open offer was offered to us in February. We signed the mandate/MoU on February 8, 2008 and received the acknowledged copy of the mandate before February 18, 2008. The mandate was signed by Shri Anil Mehta from our (NSBL) side and an authorised signatory from APPL side. Statement is enclosed.
- (iv) It is also seen that you have on several occasions talked to Shri Ganesh Hadvale on his mobile number- 9323949569, an official in the merchant banking division of NSBL, who was involved in

the deal relating to acquisition of KLG by APPL. Five such calls were observed on a single day i.e. March 1, 2008

- (v) It is also observed that you have called Shri Girish Dev, CEO of NSBL on his mobile number 9870296854 on February 22, 2008 at 15:23:55 hrs. The call lasted for 104 seconds and the timing is crucial as the first trade of APPL for acquisition of KLG shares was on February 22, 2008 at 15:22:44 hrs. In fact the first trade of client Priyanka Singhvi was also on February 22, 2008 at 15:02:57 hrs. You have also received a call on his mobile number: 9833993505 on February 27, 2008 at 10:06:44 hrs from a telephone number 022-22836311 which belongs to NSBL.
- (vi) It was observed that a large number of calls have been made between you (9833993505) and Shri Hemant Patel, present Whole- Time Director of KLG, (9820286203): at least 63 such calls/SMSs during the period January 15 to June 15, 2008. Many of these calls were concentrated around the dates of acquisition of KLG by APPL. It is observed that three calls were made on February 22, 2008, four calls on 23.02.08 and five calls on February 27, 2008.
- (vii) The linkage between you and Shri Hemant Patel appears to emerge from the fact that you both are officials in companies of the same SKIL group, as stated in the Draft Red Herring Prospectus (DRHP) of HIL. The calls between them at the crucial points of time during the period of acquisition of KLG by APPL underline the strong inference of sharing UPSI and utilizing the same for purchasing shares of KLG on their respective personal accounts. This is further supported by the statement of Shri Hemant Patel; when asked "When have you spoken to Shri K.L. Garg, erstwhile promoter director of KLG Capital Services Ltd. prior to the acquisition of KLG Capital Services Ltd. by APPL? If yes, then in what context?" He replied "I have spoken to Shri K L Garg prior to the acquisition of KLG Capital Services Ltd. by APPL. Shri Garg told me that he is looking for some investor for his stake in KLG Capital Services Ltd. In this way I got the information regarding stake sale in KLG Capital Services Ltd. from Shri Garg and based on this information I, together with Praveen Mohnot and N Ravichandran, made purchases in KLG Capital Services Ltd. " Copy of statement dated August 13 given by Shri Hemant Patel is enclosed. Shri Patel accepted the possession of unpublished price sensitive information, which appears to have been passed on during talks in office.
- (viii) It is observed that calls were made from number, 9820153505 registered in your name to BPL around the time when the orders were placed by your daughter, Priyanka Singhvi to buy shares. Following is the summary of calls-

Date	Caller	Receiver	Time of call	Duration (seconds)	Bid order time of Mrs. Priyanka Singhvi (hrs)	Final Trade Time (hrs)	Call before placing order for
23.01.2008	9820153505	Bonanza 66522100	15:23:44	149	15:28:02	15:28:02	Purchase of Hindalco Industries Ltd.
22.02.2008	9820153505	Bonanza 66522100	14:13:19 15:47:06	212 97	14:16:59	15:05:33	Purchase of KLG
27.02.2008	9820153505	Bonanza 66522100	10:18:41 10:26:59	121 121	10:21:10	10:25:57	Purchase of KLG

- (ix) On February 22, 2008 a call was made at 14:13:19 hrs and the bid order time for purchase of shares of KLG in the account of Priyanka Singhvi on February 22, 2008 is 14:16:59 hrs. Similarly calls were made to this number 66522100 on February 22, 2008 at 15:47:06 hrs, on February 26, 2008 at 11:37:42 hrs and 11:40:44 hrs, on February 27, 2008 at 10:18:41hrs and 10:26:59 hrs, around the time of transaction in KLG shares.
- (x) Moreover, Priyanka Singhvi's final trades were put through on the same date as that of the final trades of APPL. These findings are depicted in the table below:

Caller	Receiver	Duration (seconds)	Date	Time of call (hrs)	First Trade time (hrs)	Trades by
Praveen Mohnot	Girish Dev (NSBL)	104	22.02.08	15:23:55	15:22:44	APPL

			22.02.08		15:02:57	Priyanka Singhvi
NSBL	Praveen Mohnot	32	27.02.08	10:06:44	10:21:10	Priyanka Singhvi

b. Link amongst you, your daughter- Priyanka Singhvi, N Ravichandran, Anita Ravichandran, N Ravichandran and Hemant Patel-

(i) An analysis of the order book position in the scrip of KLG on February 22, 2008 at 15:02:57 hrs reveals the precise modus operandi of the three persons dealing on UPSI. i.e. just prior to execution of trades done by Priyanka Singhvi, Hemant R Patel HUF and Mrs. Anita Ravichandran. The following table shows the order book (buy-side) at 15:02:57 hrs as per price-time priority:

Broker	Order Price (Rs.)	Client name/code	Order entry Time (hrs)	Value (Rs.)	Volume (No. of shares)	Remarks
Bonanza Portfolio Limited	32.7	Priyanka Singhvi	14:16:59	26,16,000	80,000	Original price was Rs. 32.65. Amended at 14:49:27 hrs to make it to Rs. 32.70
Kaynet Capital Limited	32.7	Anita Ravichandran	14:28:38	26,16,000	80,000	Original price was Rs. 32.65. Amended at 14:50:25 hrs to make it to Rs. 32.70
K. G. Vora Securities Limited	32.7	Hemant Patel HUF	14:37:58	16,35,000	50,000	Original price was Rs. 32.65. Amended at 14:51:40 hrs to make it to Rs. 32.70
K. G. Vora Securities Limited	32.7	Hemant Patel HUF	14:38:27	9,81,000	30,000	Original price was Rs. 32.65. Amended at 14:51:43 hrs to make it to Rs. 32.70
Networth Stock Broking Limited	32.7	APPL	14:31:43	58,86,000	1,80,000	Original price was Rs. 32.65. Amended at 14:52:52 hrs to make it to Rs. 32.70
ICICI Securities Limited	32.65	8501250782	13:14:26	3167.05	97	
Pioneer TCP Stock Brokers Limited	32.65	SS01	14:31:42	163250	5,000	
Pioneer TCP Stock Brokers Limited	32.65	SS01	14:37:41	163250	5,000	

(ii) The table given above reveals that both Priyanka Singhvi and Anita Ravichandran have placed buy orders just before placement of buy orders by APPL. Moreover, Hemant R Patel HUF has placed buy order just after the placement of buy order by APPL. However, all three of these aforesaid entities have amended their buy orders to Rs. 32.70 before amendment of buy orders by APPL at 14:52:52 hrs to the same price. This is the reason that orders of the their orders got priority for execution over orders of APPL as per price time priority and got executed ahead of execution of buy orders of APPL. APPL subsequently amended its price to higher levels of Rs. 32.85 at 15:21:28 hrs, Rs. 33.00 at 15:22:41 hrs and Rs. 33.50 at 15:24:36 hrs. Further, Priyanka Singhvi and Anita Ravichandran placed one buy order of 80,000 each while Shri

Hemant Patel through his HUF account placed two buy orders of 50,000 shares and 30,000 shares.

- (iii) Further, Priyanka Singhvi, Anita Ravichandran and Hemant Patel have placed buy orders prior to the placement of sell orders of the erstwhile promoter group of KLG/other erstwhile large shareholders who offloaded their shares on February 22, 2008.
- (iv) Priyanka Singhvi and aforesaid other two clients have also placed buy orders at same price i.e. Rs. 32.65 and subsequently amended their orders to Rs. 32.70 within three minutes to match the sell orders which were placed subsequently at Rs.32.70. An analysis of the order book position prior to February 22, 2008 reveals that the maximum size of a buy as well as sell order placed in the scrip since January 1, 2008 to February 21, 2008 is for 5,000 shares. Thus placement of these huge buy orders on February 22, 2008 and February 27, 2008 by Priyanka Singhvi and the other two clients is clearly a deviation from the past trading pattern in the scrip.
- (v) It is observed that a similar financing of transactions by Priyanka Singhvi, Anita Ravichandran and Hemant Patel by another entity- SEPL, which is an associate company of APPL, seems to connect the clients. Following table provides information about the finance arranged by these clients:

Date	Cheque Number	Amount (Rs.)	Financier	Beneficiary	Remarks
23.02.08	71189	26,50,000	SEPL	Anita Ravichandran	
23.02.08	71190	16,50,000	SEPL	Hemant Patel HUF	
25.02.08	71191	26,30,000	SEPL	Priyanka Singhvi	Cheque directly issued by SEPL to HDFC bank for making banker's cheque in favour of Bonanza Portfolio Limited, broker of Mrs. Priyanka Singhvi
01.03.08	Fund transfer	11,20,000	SEPL	Priyanka Singhvi	

- (vi) It may be seen from the above table that three successive cheques have been issued to finance the KLG purchases of these clients and all these cheques have been signed by Shri Chetan Kothari, who is also a director on the board of HIL, a group company of APPL. It is also pertinent to note that the entire purchase cost of these three clients has been financed by SEPL.
- (vii) You, Shri Hemant Patel and N Ravichandran have talked to one another on various occasions during the period 15.01.08 to 15.06.08 through calls and SMSs. N Ravichandran and you have contacted each other at least 50 times as revealed by the phone records of the two during the period (Mobile phone no. 9833993505 belonging to Shri Praveen Mohnot and 9820021323 belonging to you). You (9820021323) have also talked/SMS to Shri Hemant Patel (9820286203) at least 4 times during the aforesaid period.
- (viii) While giving reply to a question- How were you aware about the impending takeover of KLG Capital Services Ltd. by Awaita Properties Pvt. Ltd. (APPL)? You have answered that - "I was not aware of the impending takeover of KLG by APPL. However some casual discussions were going on during lunch with the senior executives of SKIL group that the company KLG Capital was an NBFC with all compliances in order. Shri Hemant Patel and Shri Praveen Mohnot were also party to this discussion. I don't remember the exact date/time of discussion since the discussion was casual but it probably may have been in January/ February, 2008." Copy of



statement dated August 14, 2008 given by Shri Ravichandran is enclosed as Annexure 3 to the SCN.

- (ix) Both Shri Hemant Patel and Shri Praveen Mohnot were completely aware of the impending takeover of KLG by APPL as discussed earlier. This fact was also known to you. This is further supported by the statement of Shri Hemant Patel who in his statement, when asked - When have you spoken to Shri K.L. Garg, erstwhile promoter director of KLG Capital Services Ltd. prior to the acquisition of KLG Capital Services Ltd. by APPL? If yes, then in what context?, replied "I have spoken to Shri K L Garg prior to the acquisition of KLG. by APPL. Shri Garg told me that he is looking for some investor for his stake in KLG. In this way I got the information regarding stake sale in KLG. from Shri Garg and based on this information I, together with Praveen Mohnot and N Ravichandran, made purchases in KLG." Copy of statement dated August 14, 2008 given by Shri Ravichandran is enclosed as Annexure 4 to the SCN.
- (x) It is also observed that you have been in touch with Shri Devichand Nimbade, who is designated as authorized person by APPL in its KYC documents filed with NSBL. Copy of the KYC document is attached as Annexure 5 to the SCN.

b. Link amongst you, your wife- Mrs. Anita Ravichandran, Priyanka Singhvi, Praveen Mohnot and Hemant Patel-

- (i) An analysis of the order book position in the scrip of KLG on February 22, 2008 at 15:02:57 hrs reveals the precise modus operandi of the three persons dealing on unpublished price sensitive information i.e. just prior to execution of trades done by Anita Ravichandran, Hemant R Patel HUF and Mrs. Priyanka Singhvi. The following table shows the order book (buy-side) at 15:02:57 hrs as per price-time priority:

Broker	Order Price (Rs.)	Client name/code	Order entry Time (hrs)	Value (Rs.)	Volume (No. of shares)	Remarks
Bonanza Portfolio Limited	32.7	Priyanka Singhvi	14:16:59	26,16,000	80,000	Original price was Rs. 32.65. Amended at 14:49:27 hrs to make it to Rs. 32.70
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Brokers Limited						
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- (ii) The table given above reveals that both Mrs. Anita Ravichandran and Mrs. Priyanka Singhvi have placed buy orders just before placement of buy orders by APPL. Moreover, Hemant R Patel HUF has placed buy order just after the placement of buy order by APPL. However, Anita Ravichandran has amended her buy orders to Rs. 32.70 before amendment of buy orders by APPL at 14:52:52 hrs to the same price. This is the reason that orders of the Noticee got priority for execution over orders of APPL as per price time priority and got executed ahead of execution of buy orders of APPL. APPL subsequently amended its price to higher levels of Rs. 32.85 at 15:21:28 hrs, Rs. 33.00 at 15:22:41 hrs and Rs. 33.50 at 15:24:36 hrs. Further, Anita Ravichandran and other clients placed one buy order of 80,000 each while Shri Hemant Patel through his HUF account placed two buy orders of 50,000 shares and 30,000 shares.
- (iii) Further, Anita Ravichandran, Mrs. Priyanka Singhvi and Shri Hemant R Patel have placed buy orders prior to the placement of sell orders of the erstwhile promoter group of KLG/other erstwhile large shareholders who offloaded their shares on February 22, 2008.
- (iv) Anita Ravichandran and aforesaid other two clients have also placed buy orders at same price i.e. Rs. 32.65 and subsequently amended their orders to Rs. 32.70 within three minutes to match the sell orders which were placed subsequently at Rs.32.70. An analysis of the order book position prior to February 22, 2008 reveals that the maximum size of a buy as well as sell order placed in the scrip since January 1, 2008 to February 21, 2008 is for 5,000 shares. Thus placement of these huge buy orders on February 22, 2008 and February 27, 2008 by Anita Ravichandran and the other two clients is clearly a deviation from the past trading pattern in the scrip.
- (v) It is observed that a similar financing of transactions by Anita Ravichandran, Priyanka Singhvi and Hemant Patel by another entity- SEPL, which is an associate company of APPL, seems to connect the clients. Following table provides information about the finance arranged by these clients:

Date	Cheque Number	Amount (Rs.)	Financier	Beneficiary	Remarks
23.02.08	71189	26,50,000	SEPL	Anita Ravichandran	
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01.03.08	Fund transfer	11,20,000	SEPL	Priyanka Singhvi	

- (vi) It may be seen from the above table that three successive cheques have been issued to finance the KLG purchases of these clients and all these cheques have been signed by Shri Chetan Kothari, who is also a director on the board of HIL, a group company of APPL. It is also pertinent to note that the entire purchase cost of these three clients including the Noticee has been financed by SEPL.

c. Communication of the unpublished price sensitive information-

- (i) In addition to the fact that Priyanka Singhvi is your daughter her KYC details filed on December 06, 2007 with broker BPL reveals that your residential address is D-1, Sunita Apartments, 62-CC, Peddar Road, Mumbai 400 026. The telephone number as given in the KYC details with Depository Participant, BPL, is 9820153505 and email address is given as [praveenmohnot@gmail.com](mailto:praveenmohnot@gmail.com). (Copy of KYC pf Priyanka Singhvi is enclosed. Moreover, it is observed that the said number 9820153505 is registered in your name, having the same address as given in her KYC.
- (ii) When Priyanka Singhvi was asked "How did you know that you will be able to buy 1,10,000 shares of KLG Capital Services Ltd. when the number of shares available for purchase were very less prior to 22 February 2008?", She replied "My father advised to place order for KLG at my own risk and I placed fully disclosed order at the prevailing market price." However, it is observed that her buy orders were limit orders which were updated in tandem with the buy orders of APPL.
- (iii) She also stated that " I have also discussed with my father before I made the decision to purchase the shares of KLG...Quantity of shares to be purchased and price was decided by me in consultation with my family. We then decided to take a loan for this purpose, since we did not have the necessary liquidity. Thereafter, I informed my father who also agreed with the same and also arranged for the loan.
- d. Trading details of Priyanka Singhvi- She has traded in the scrip of KLG through broker BPL. She bought a total of 1,10,000 shares for Rs. 37,25,950, constituting almost 3.43% of the total share capital of KLG. These purchases were made in 16 trades and timing of start of these purchases was just before the start of acquisition of KLG by APPL as well as during the time of its acquisition process. The first trade was executed on February 22, 2008 at 15:02:57 hrs. The last trade was executed on February 27, 2008 at 10:25:57 hrs: She sold 31,827 shares during June 2008 (11, 16, 17, 19 and 20 June 2008). The total sale consideration is Rs. 34,31,868 and average sale price per share is Rs. 107.82. Profit made on purchase and sale of 31,827 shares is Rs.23,53,888. The unrealized profit is Rs. 4,10,42,993 as on September 11, 2008 for the 78,173 shares still held by her. Details of purchases made on February 22 and 27 are as under:

Date	Volume	Price	Value
22/2/2008	80,000	32.70	26,16,000.00
27/2/2008	30,000	37.00	11,09,950.00

It is observed that she had not done significant trading prior to her purchases in the scrip of KLG. Her maximum purchase in BSE amounts to Rs. 2,44,049 in the scrip of Shipping Corporation on November 30, 2007 This contrasts with a significant amount of Rs.37.251akhs invested for purchases in a not-so-frequently-traded scrip of KLG, constituting almost 3.43% of the equity capital of KLG.

e. Financing of purchases

- (i) The total financial obligation towards purchases of 1,10,000 shares of KLG is Rs. 37,25,950. It is observed that she had made payment to the broker for meeting the pay-in obligations in two tranches - Rs.26,30,000 on February 25, 2008 and Rs. 11,20,000 on March 5, 2008. As per her statement dated August 13, 2008, she stated that "I signed two cheques for the purchases I made for 37 lakhs. After 2-3 days of the purchases I made the payment by cheque to broker." Copy of the same. is enclosed. But the ledger of BPL reveals that payment of Rs. 26,30,000 has been

made vide a banker's cheque drawn on HDFC bank, funds for which have come from the bank account of M/s Starwort Engineers Private Limited (hereinafter referred to as 'SEPL'), an associate company of Horizon Infrastructure Limited (hereinafter referred to as 'HIL'). It is observed that APPL is designated as promoter entity of HIL. It is also observed that Rs. 11,20,000 has been transferred to your account from SEPL on March 1, 2008 for making payment to BPL. Thus the entire purchase in shares of KLG has been financed by SEPL.

- (ii) Shri Chetan Kothari is observed to be on the Board of HIL along with you and is designated as a Whole Time Director in HIL. As per the statement dated August 13, 2008 of Shri Mohnot, he stated that "I had arranged for funds from Starwort Engineering Private Limited. Mr. Chetan Kothari is a friend and on the Board of Horizon Infrastructure Limited. Interest to be paid on this loan is 15%. The entire fund was arranged by way of two cheques paid into her account." Copy of the statement is enclosed. The deposition to the extent of mechanism of payment to the broker is contradictory to the evidence found. However, from the facts given above it is alleged that she signed only one cheque for the purchase of 30,000 shares and for the rest 80,000 shares, the payment has been made directly to the broker via banker's cheque.
- (iii) It is observed that a similar financing of transactions by Priyanka Singhvi, Anita Ravichandran and Hemant Patel from another entity- SEPL, which is an associate company of APPL, seems to connect the clients. Following table provides information about the finance arranged by these clients:

Date	Cheque Number	Amount (Rs.)	Financier	Beneficiary	Remarks
23.02.08	71189	26,50,000	SEPL	Anita Ravichandran	
23.02.08	71190	16,50,000	SEPL	Hemant Patel HUF	
25.02.08	71191	26,30,000	SEPL	Priyanka Singhvi	Cheque directly issued by SEPL to HDFC bank for making banker's cheque in favour of Bonanza Portfolio Limited, broker of Mrs. Priyanka Singhvi
01.03.08	Fund transfer	11,20,000	SEPL	Priyanka Singhvi	

- (iv) It may be seen from the above table that three successive cheques have been issued to finance the KLG purchases of these clients and all these cheques have been signed by Shri Chetan Kothari, who is also a director on the board of HIL, a group company of APPL. It is also pertinent to note that the entire purchase cost of these three clients has been financed by SEPL.

Since you are her father, possessed the UPSI, communicated the same to your daughter and enabled her to trade, her trading would be deemed to be your trading and you have violated regulations 3(i) and (ii) of PIT Regulations.

6. Supplementary Show Cause Notice was issued to the Noticee on the basis of the following additional observations in connection with the acquisition of KLG by APPL-

- (i) *This supplementary SCN has to be read in conjunction with the original SCN. It was inter alia mentioned in the original SCN that SKIL and APPL were both promoter group entities of HIL. It was also mentioned that you were on the Board of the directors of KLG as on July 15, 2008 and was also a Director of HIL. You had also given the name of SKIL as his employer in KYC details as available with ICICI Securities Ltd. It was also mentioned that you were a party to the discussion regarding the acquisition of KLG by APPL, held between Mr. Hemant Patel and Mr. N Ravichandran prior to the acquisition of KLG by APPL. Hemant Patel and N Ravichandran were the then President- Business Development of SKIL and Deputy Chairman, SKIL respectively. It was also mentioned in the SCN that you had also arranged loan for your daughter specifically for buying securities of KLG.*
- (ii) *In addition to whatever stated in the original SCN, the following further observations are now made:*
- a. The addresses of APPL, SKIL, HIL and SEPL are same/similar. Further, APPL, HIL and SKIL have common promoters/directors. Both APPL and SKIL are group companies of HIL.*
  - b. In APPL and SKIL, Mr. Nikhil P. Gandhi, Mr. Bhavesh P. Gandhi and Mr. Prataprai Gandhi together have majority shareholding of 100% and 60.09% respectively. Mr. Nikhil P. Gandhi and Mr. Bhavesh P. Gandhi are promoters/directors in APPL and SKIL. Further, Mr. Nikhil P. Gandhi, Mr. Bhavesh P. Gandhi and Mr. Prataprai Gandhi together have 13.04% in HIL and are also promoters of HIL.*
  - c. The directors of SEPL namely Manoj Mehta and Chetan Kothari are directors in APPL and HIL respectively.*
  - d. In SKIL, the companies namely Montana Valves and Compressor Limited and Ashwini Infrastructure Pvt Ltd together have shareholding of 39.9%. In these companies Mr. Chetan Kothari, who is director in SEPL, is a director.*
  - e. In SEPL, Neptune Industries (Through Sanjay M Doshi) held 99.80% shareholding. Mr. Sanjay M Doshi is also observed to be a promoter of HIL.*
  - f. From the Draft Letter of Offer of HIL it is observed that:  
-On February 15, 2008, Sanjay Doshi transferred 4,00,000 shares of HIL to Nikhil Gandhi.- Off Market transfer data of the same day ( February 15, 2008 ) indicate that Sanjay Doshi ( PAN : ADZPD1057C ) transferred— 4,00,000 shares of HIL to Nikhil Gandhi.-CA Bharat Shah ( Chartered Accountant of Sanjay M. Doshi), vide email dated April 2, 2012 stated that Sanjay M. Doshi ( PAN : ADZPD1057C ) is partner in Neptune Industries. It shows that Sanjay M Doshi, Partner in Neptune Industries, is same as Sanjay Doshi, Promoter in HIL. Email ids of APPL and SKIL viz. skil@skilgroup.co.in and company.secretory@skilgroup.co.in contain reference to SKIL group.*

*From the above, it is observed that APPL, SKIL, HIL and SEPL belong to SKIL group.*

- (iii) Thus, it is observed that APPL, SKIL, HIL and SEPL belong to SKIL group and you also belong to SKIL group. It is also observed that you were a connected person to the company as defined in Regulation 2(c)(ii) of SEBI (Prohibition of Insider Trading) Regulations, 1992 and had access to the unpublished price sensitive information, hence an insider of the company according to Regulation 2(e) of SEBI (Prohibition of Insider Trading) Regulations, 1992.*
- (iv) In view of the above, it is also observed that you are deemed to be connected to the company as defined in regulation 2(h)(viii) of SEBI(Prohibition of Insider Trading) Regulations, 1992 and had access to the unpublished price sensitive information, hence an insider of the company according to Regulation 2(e) of SEBI (Prohibition of Insider Trading) Regulations, 1992.*
- (v) In view of what is stated in the original SCN and in this supplementary SCN, it is alleged that you being an insider had communicated the information to your daughter, Ms. Priyanka Singhvi who had traded in the scrip of KLG taking advantage of the said unpublished price sensitive information. Since you are her father, possessed the UPSI, communicated the same to her and enabled her trading would be deemed to be your trading. It is, therefore, alleged that you have violated regulations 3 (i) and (ii) of PIT Regulations.*
- (vi) The relevant provisions of PIT Regulations are under:  
PIT Regulations, 1992.  
2. In these regulations, unless the context otherwise requires:—  
(c) Connected person means any person who -  
(ii) occupies the position as an officer or an employee of the company or holds a position involving a professional or business relationship between himself and the company whether temporary or permanent and who may reasonably be expected to have an access to unpublished price sensitive information in relation to that company.  
Explanation: For the purpose of clause (c), the -words "connected person" shall mean any person who is a connected person six months prior to an act of insider trading.  
(h) "person deemed to be a connected person:, if such person -  
(viii) relatives of the connected person.  
Prohibition on dealing, communicating or counseling on matters relating to  
insider trading.  
3. No insider shall—*

(i) either on his own behalf or on behalf of any other person, deal in securities of a company listed on any stock exchange when in possession of any unpublished price sensitive information; or  
(ii) communicate counsel or procure directly or indirectly any unpublished price sensitive information to any person who while in possession of such unpublished price sensitive information shall not deal in securities.

7. Pursuant to the appointment of undersigned AO, vide letter dated December 08, 2017, Noticee was granted hearing on January 10, 2018. Acceding to the request of Noticee vide email dated January 08, 2018, hearing was rescheduled for January 11, 2018. Authorised Representative (AR) of the Noticee appeared on January 11, 2018. Noticee sought list of witnesses whose statements are relied upon in the SCNs for the purpose of cross examination. Hearing Minutes are on record. Vide letter dated January 24, 2018, Noticee was informed that *"in addition to the statements of the Noticees, the statements of Amit Singh, Ganesh Hadvale and Girish Dave is relied upon in the matter. It is observed from records that vide letter dated March 09, 2011, you have already requested for cross examination of three persons viz. Mr. Amit Singh, Mr. Ganesh Hadvale and Girish Dev and also that cross examination of Ganesh Hadvale has been completed "*.

Vide letter dated August 14, 2018 Noticee was interalia informed that *" It is observed from records that vide letter dated March 09, 2011, you have already requested for cross examination of three persons viz, Amit Singh, Ganesh Hadvale and Girish Dev. Subsequently, the cross examination of Ganesh Hadvale has been completed before the previous AO. The undersigned had received an intimation from EFD, SEBI that the Noticee have completed cross examination of two witnesses viz, Ganesh Hadvale and Amit Singh under 11B proceedings in the subject matter on July 12, 2018. In this regard, you may intimate to the undersigned, if you would require cross examination of the same witnesses independently for the instant AO proceedings"*. Noticee vide

letter dated September 05, 2018 stated that *“the 11B proceedings under WTM and the AO proceedings are two separate and distinct proceedings that are initiated by SEBI. Both the proceedings serve two well-defined functions of SEBI and have different authoritative hierarchy, procedure, methodology and outcome....In such circumstance, these two separate proceedings cannot be clubbed together for the purpose of cross-examination. Nor can SEBI assume that the said letter is not responded the rights of the Noticee will be forgone with respect to the cross-examination of the witnesses viz. Girish Dev and Amit Singh....Further, it is requested that liberty be granted to conduct the cross examination of Ganesh Hadvale again. This request emanates from the fact that Ganesh Hadvale was cross examined by previous AO who is no longer connected to the proceedings. Since, you will be the authority passing orders in the captioned matter, it would be in the interests of justice that witness Ganesh Hadvale be cross examined again in your presence.”* Acceding to the request for cross examination, vide letter dated January 16, 2020 Noticee was granted an opportunity to take cross-examination of the abovementioned entities on January 30, 2020. Separate letters were sent to Girish Dev, Ganesh Hadvale and Amit Singh to appear before the AO on the said date. Vide email dated January 29, 2020, Noticee requested for adjournment of cross examination scheduled on January 30, 2020. Additionally, Noticee requested for cross examination of two more persons viz. Hemant Patel and K L Garg stating SCN relies upon conversation between Hemant Patel and K L Garg. Acceding to the request, vide letter dated Feb 20, 2020 Noticee was granted an opportunity to take cross-examination of the abovementioned five entities on March 04, 2020. Accordingly, the said five entities were called for the cross examination as scheduled. However, none of the witnesses appeared. Further, Hemant Patel and K L Garg requested for a further date for cross examination. Authorized Representatives (**ARs**) on behalf of the Noticee appeared



before the undersigned on the specified date. They submitted copies of record of cross examination of Girish Dev and Amit Singh conducted before Whole Time Member of SEBI and the cross examination of Ganesh Hadvale in the instant adjudication proceedings conducted before the previous Adjudicating Officer, and further submitted that the same may be taken on record for the instant adjudication proceedings also. Minutes of the cross examination held on March 04, 2020 is on record. Vide hearing notice dated June 02, 2020 Noticee was granted an opportunity of personal hearing on July 09, 2020 and Noticee was also advised to send all written submissions before July 09, 2020. AR vide email dated July 02, 2020 interalia stated that *"none of the witnesses were present during the Adjudication Proceeding held on 4<sup>th</sup> March, 2020 and to avoid further delays to the proceedings, our client has instructed us to submit that they will not cross-examine Mr. Hemant Patel and Mr. K. L. Garg. Further, stated that due to pandemic of COVID-19 and lockdown declared by the government of Maharashtra, all the offices are closed and all of us are working from home. Hence, neither our client nor we are in a position to attend the personal hearing scheduled on July 09, 2020. In view of what is stated above and situation aroused due to pandemic of COVID-19, we on behalf of our client, kindly request you to postpone the personal hearing scheduled on 9<sup>th</sup> July, 2020 until the situation is under control"*. Vide email dated July 02, 2020, Noticee was informed that all other submissions of email have been taken on record and the hearing is as scheduled and in case Noticee would like to avail of the same may kindly confirm availability. Vide email dated July 04, 2020 AR stated that *"the Counsel appearing on behalf of Anita Ravichandran is not attending any proceeding where physical presence is required. All of us are working from home and will not be able to attend the personal hearing scheduled on 9<sup>th</sup> July, 2020. Kindly, postpone the personal hearing scheduled on 9<sup>th</sup> July, 2020 until the current curfew and lockdown rules are eased and the situation is*

*normalized*". Vide email dated July 06, 2020 AR stated that *"Noticee is a senior citizen. In view of the situation aroused due to pandemic of COVID-19, the Government of India from time to time has directed and urged the senior citizen to stay at home at all costs. Since we do not have access to the physical files in relation to the matter, so far as the reply to be filed by our client to the Show Cause Notice is concerned, we reserve our right to deal with the same on or before the personal hearing. Kindly postpone the personal hearing scheduled on July 09<sup>th</sup>, 2020 until the current curfew and lockdown rules are eased and the situation is normalized"*. Vide email dated July 06, 2020, AR was informed that the hearing can be decided upon receipt of replies to SCNs. In absence of replies, AO will be constrained to proceed as per material on record. Vide email dated July 07, 2020 AR *interalia* requested *"reasonable time until the pandemic of COVID-19 is under control, so that we can get access to the papers in relation to the matter and inform you regarding the reply if any to be filed on behalf of our clients to the Show Cause Notice"*. Vide email dated July 15, 2020, Noticee was informed that enough time has elapsed since the time SCNs were issued on March 31, 2009 and September 04, 2014 by the previous Adjudicating Officers however, Noticee did not file replies to the SCNs regarding charges levelled by OD. Consequent upon appointment of the undersigned as Adjudicating Officer in the matter, Noticee was given opportunities to file reply to the SCNs and avail cross examination vide email dated March 04, 2020. AR appeared for cross examination before the undersigned on March 04, 2020 and record of proceedings of cross examination is on record. Further, Noticee was granted opportunities to file reply to the SCNs and avail personal hearing, Noticee failed to reply to the SCNs. Thus, Noticee was informed vide said email that in view of the enough opportunities granted for the replies and hearing, still in case Noticee wishes to submit her replies, may submit before July 22, 2020 otherwise the matter will be

proceeded on the basis of material available on record. AR vide email dated July 22, 2020 requested time till August 15, 2020 for submission of reply and an opportunity of personal hearing by way of a virtual hearing on a suitable online platform. Vide email dated July 23, 2020 Noticee was advised to file reply to the SCNs latest by August 15, 2020. Accordingly, Noticee was granted an opportunity of hearing on August 18, 2020 through telecom. Noticee was also informed that this is the last opportunity in the matter and no further delays shall be entertained and the matter shall be proceeded upon with the material on record. Vide email dated August 17, 2020 submitted reply to the SCN. Reply is summarised as under-

- (1) All the contentions raised, pleadings advanced before the Ld. WTM should be considered as a part of present reply and are not repeated herein for the sake brevity. The Noticees crave leave to file a detailed reply once the current situation spread due to the pandemic of COVID-19 is normalized and the Noticees are able to travel back to their abodes and provide details in relation to the matter.*
- (2) It is submitted that the Noticee has already suffered tremendously due to the instant proceedings for the last more than 10 years. The Noticee has sacrificed a large period at the peak of productive career and have already suffered considerable damage and financial impacts due to the same. Hence, putting further penalty upon the Noticee only for the reason that there is a technical breach or venial breach of the provisions of the SEBI Act, 1992 is against the provisions of law.*
- (3) It is further submitted that the discretion to the Adjudicating officer provided by Section 15-I of the SEBI Act, 1992 is to be exercised judicially and penalty if any imposed by the Adjudicating officer must not be due to a technical breach or venial breach of the provisions of SEBI Act, 1992. The said principle is observed by Hon'ble Supreme Court in Hindustan Steel Ltd. v. State of Orissa. The aforesaid judgment of Hindustan Steel Ltd. v. State of Orissa is reiterated in the case of Bajrang Oil Mills vs. Income Tax Officer [2007]. The observations by the Hon'ble Supreme Court in the matters above clearly holds that in cases where an individual is in breach of any law, and such breach results from a bona-fide error as happened in the present case, the relevant authority need not impose penalty even if it is prescribed to do so. Noticee has also placed reliance upon Kensington Investment Ltd. Vs. SEBI and Brentfield Holdings Ltd. Vs. The Chairman, Adjudicating Officer, SEBI Appeal Nos. 27, 28, 30 and 31/2002.*

AR attended the hearing scheduled on August 18, 2020 and reiterated the submissions made in the Noticee's reply. Also requested another hearing on August 21, 2020 for the counsel to speak on the matter. Hearing minutes are on record. AR vide email dated August 19, 2020 stated that the reply filed in the matter is a limited reply as the Noticee does not have a copy of the SCN. Another hearing was conducted on August 21, 2020, senior counsel attended the hearing on behalf of the Noticee and reiterated the earlier submissions. Noticee was granted time till August 28, 2020 for additional submissions. Hearing minutes are on record. Copy of the SCNs along with the annexures were resent to the Noticee vide email dated August 21, 2020. Noticee was granted time till August 28, 2020 for additional submissions. Hearing minutes are on record. Noticee vide email dated August 23, 2020 stated that "our counsel requested your good offices to provide us with all the necessary pleadings in relation to the matter before your good offices and before the Ld. WTM. We are aware that the proceedings before Ld. WTM and that before your good self are separate and distinct, however, as the facts in relation to the matter are almost similar, we would, solely for the purpose to prepare for the matter would also want to peruse the pleadings before the WTM". Vide email dated August 26, 2020, AR was informed that the records of adjudication proceedings available with the Office of Adjudicating Officer and relied upon in the Show Cause Notices have already been resent to AR on August 21, 2020. Noticee has also requested for the documents pertaining to SCN issued by Whole Time Member, SEBI and the reply / written submissions filed by the Noticee before the WTM which are separate proceedings. In this regard, Noticee was advised that record of the said proceedings in front of Hon'ble WTM, SEBI has not been relied upon by Adjudicating Officer in the instant matter. The documents which have not been relied upon nor are part of record of adjudication proceedings are extraneous to current proceedings, and Adjudicating Officer has no access to such

documents. Further, Noticee sought time for filing of submissions in the subject matter. Accordingly, vide email dated August 21, 2020 additional time till August 28, 2020 was granted for filing submissions in the matter, failing which the matter shall be proceeded upon with the material on record. However, Noticee has not submitted additional submissions. Proof of delivery of all the outgoing e-mails mentioned herein from the Adjudicating Officer, is available on record.

8. After taking into account, the allegations levelled in the SCN, reply received and material on record, I hereby proceed to decide the case on merit.

### **CONSIDERATION OF ISSUES, EVIDENCES AND FINDINGS**

9. I have carefully perused the charges levelled against the Noticee in the SCNs and the material on record. In the instant matter, the following issues arise for consideration and determination:-

- a. Whether there was UPSI in the matter of KLG Capital Services Limited? Whether Noticee had access to UPSI?*
- b. Whether Noticee was an insider? Whether Noticee had communicated the UPSI and acted in violation of regulations 3(i) and (ii) of PIT Regulations?*
- c. Do the violations, if any, on the part of the Noticee attract monetary penalty under section 15G of the SEBI Act for the alleged violations by the Noticee?*
- d. If yes, then what would be the monetary penalty that can be imposed upon the Noticee, taking into consideration the factors mentioned in section 15J of the SEBI Act r/w rule 5(2) of the AO Rules?*

10. Before proceeding further, I would like to refer to the relevant provisions of PIT Regulations:

### **PIT REGULATIONS**

Definitions.

*2. In these regulations, unless the context otherwise requires :—*

- (c) “connected person” means any person who—*  
*(i) .....*

(ii) occupies the position as an officer or an employee of the company or holds a position involving a professional or business relationship between himself and the company whether temporary or permanent and who may reasonably be expected to have an access to unpublished price sensitive information in relation to that company:

*Explanation :—For the purpose of clause (c), the words “connected person” shall mean any person who is a connected person six months prior to an act of insider trading;*

(ha) price sensitive information means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of securities of company.

*Explanation - The following shall be deemed to be price sensitive information:-*

1. Periodical financial results of the company;
2. Intended declaration of dividends (both interim and final);
3. Issue of securities or buy-back of securities;
4. Any major expansion plans or execution of new projects;
5. Amalgamation, mergers or takeovers;
6. Disposal of the whole or substantial part of the undertaking; and
7. Significant changes in policies, plans or operations of the company.

(h) "person deemed to be a connected person:; if such person –  
(viii) relatives of the connected person.

*Chapter II. Prohibition on dealing, communicating or counseling on matters relating to insider trading.*

*3. No insider shall—*

(i) either on his own behalf or on behalf of any other person, deal in securities of a company listed on any stock exchange when in possession of any unpublished price sensitive information; or

(ii) communicate counsel or procure directly or indirectly any unpublished price sensitive information to any person who while in possession of such unpublished price sensitive information shall not deal in securities

11. On perusal of the material on record and giving regard to the facts and circumstances of the case, I hereby record my findings as under.

**a. Whether there was UPSI in the matter of KLG Capital Services Ltd.? Whether Noticee had access to UPSI?**

(A) There is no reply on merits to the SCNs from Noticee on record, therefore, I find it pertinent to refer to the judgment dated December 08, 2006 of Hon'ble Securities Appellate Tribunal in the matter of Classic Credit Ltd. v SEBI (Appeal No. 68 of 2003) wherein, it observed, “... *the appellants did not file any reply to the second show-cause notice. This being so, it has to be presumed that the charges alleged against them in the show cause notice were admitted by them*”.

I also observe that the Hon'ble Securities Appellate Tribunal in the matter of Sanjay Kumar Tayal & Ors. v SEBI (Appeal 68 of 2013 dated February 11, 2014) had inter alia observed that, *"...As rightly contended by Mr. Rustomjee, learned senior counsel for respondents, appellants have neither filed reply to show cause notices issued to them nor availed opportunity of personal hearing offered to them in the adjudication proceedings and, therefore, appellants are presumed to have admitted charges levelled against them in the show cause notices..."* However, I will still consider all issues, as per record available, on merit.

(B) I find that the allegations in SCN are:

- (i) The earlier promoters of KLG had exited and APPL took a stake in KLG aggregating to 60.46% of the total share capital of the company, from February 22, 2008 to February 27, 2008 through on market transactions carried out at BSE. The impending acquisition of KLG by APPL was unpublished price sensitive information till February 27, 2008 and intimation was made to BSE and published on its website on February 28, 2008.
- (ii) APPL made a public announcement on March 03, 2008 for acquisition of up to 6,40,480 shares constituting 20% of the total share capital of the company as per Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. Further, NSBL was the manager to the open offer for acquisition of 6,40,480 shares. (a) You were on the Board of the directors of KLG as on July 15, 2008 and was also a Director of HIL. You had also given the name of SKIL as his employer in KYC details as available with ICICI Securities Ltd. It was also mentioned that you were a party to the discussion regarding the acquisition of KLG by APPL, held between Mr. Hemant Patel and Mr. N Ravichandran prior to the acquisition of KLG by APPL. Hemant Patel and N Ravichandran were the then President- Business Development of SKIL and

Deputy Chairman, SKIL respectively . It was also mentioned in the SCN that you had also arranged loan for your daughter specifically for buying securities of KLG.. The addresses of APPL, SKIL, HIL and SEPL are same/similar. Further, APPL, HIL and SKIL have common promoters/directors. Both APPL and SKIL are group companies of HIL. (b) Hemant Patel, N Ravichandran and Noticee have talked to each other on various occasions during the period 15.01.08 to 15.06.08 through calls and SMSs. N Ravichandran and Noticee have contacted each other at least 50 times as revealed by the phone records of the two during the period (Mobile phone no. 9833993505 belonging to Noticee and 9820021323 belonging to N Ravichandran). Noticee (9820021323) has also talked/SMS to Shri Hemant Patel (9820286203) at least 4 times during the aforesaid period. (c) Also, Noticee in his statement dated August 13, 2008, regarding financing his daughter for purchase of shares of KLG has stated that - *"I had arranged for funds from Starwort Engineering Private Limited. Mr. Chetan Kothari is a friend and on the Board of Horizon Infrastructure Limited. Interest to be paid on this loan is 15%. The entire fund was arranged by way of two cheques paid into her account."*

(iii) The perusal of Noticee's daughter's KYC details with BPL reveals that her residential address, telephone and email (viz. D-1, Sunita Apartments, 62-CC, Peddar Road, Mumbai- 400 026, 9820153505 and praveenmohnot@gmail.com) are same as Praveen Mohnot's contact details "

(C)(i) I observe from SCN and annexures that the happening of takeover and its being PSI is not disputed by the Noticee. The information regarding the takeover of KLG by APPL is deemed to be price sensitive information(PSI) by virtue of regulation 2(ha) of PIT Regulations and the same was unpublished in terms of regulation 2(k) of PIT Regulations till the time it was published on BSE's website on February 28, 2008, thus there was UPSI in the instant matter.



(ii) As regards, whether the Noticee had access to UPSI, I note that the information pertaining to acquisition of KLG by APPL was UPSI till February 27, 2008. Noticee was on the Board of the directors of KLG as on July 15, 2008 and was also a Director of HIL. Noticee had also given the name of SKIL as his employer in KYC details as available with ICICI Securities Ltd. holding post in SKIL. APPL and SKIL are group company of SKIL group. Also he was in touch with persons who were in possession of the said UPSI viz. Hemant Patel and N Ravichandran, who had access to the UPSI. Thus, Noticee was in possession of the UPSI and consequently, he falls within the ambit of the term 'insider' as defined under regulation 2(e) of PIT Regulation. Thus, Noticee by virtue of his relationship with Priyanka Singhvi and her statement with regards to trading in the shares of KLG, having the same residential address as her father, is evident of her being a person deemed to be a connected person in terms of regulation 2(h) of PIT Regulations. Thus, Noticee had access to UPSI and he communicated the UPSI to his daughter. His daughter has traded in the shares of KLG while in possession of the UPSI. In this regard, I would like to refer to the orders of Hon'ble Securities Appellate Tribunal in the matter of Shri E Sudhir Reddy Vs. SEBI decided on 16.12.2011 wherein the Hon'ble Securities Appellate Tribunal has observed as follows: "... *The directors of the company or for that matter even professionals like Chartered Accountants and Advocates advising the company on its business related activities are privy to the performance of the company and come in possession of information which is not in public domain. Knowledge of such unpublished price sensitive information in the hands of persons connected to the company puts them in an advantageous position over the ordinary shareholders and the general public. Such information can be used to make gains by buying shares anticipating rise in the price of the scrip or it can also be used to protect themselves against losses by selling the shares before the price falls. Such trading by the insider is not based on level playing field and*

*is detrimental to the interest of the ordinary shareholders of the company and general public. It is with a view to curb such practices that section 12A of the Sebi Act makes provisions for prohibiting insider trading and the Board also framed the Insider Trading Regulations to curb such practice...".*

(iii) I would like to refer to the order of Hon'ble Securities Appellate Tribunal in the matter of V K Kaul vs. Adjudicating Officer in its order dated October 08, 2012 held that, *"We are also of the view that the adjudicating officer has rightly relied on the observations of U. S. Court in Rajaratnam case (supra) on the relevance of circumstantial evidence in para 38 of the impugned order which reads as under :- "38. Regarding the issue of relevance of circumstantial evidence, the Hon'ble District Court Southern District of New York in the matter of United States of America V Raj Rajaratnam 09 Cr. 1184 (RJH) decided on 11.08.2011 has observed as follows: 14 "...Moreover, several other Courts of Appeals have sustained insider trading convictions based on circumstantial evidence in considering such factors as (1) access to information; (2) relationship between the tipper and the tippee; (3) timing of contact between the tipper and the tippee; (4) timing of the trades; (5) pattern of the trades; and (6) attempts to conceal either the trades or the relationship between the tipper and the tippee." United States v. Larrabee, 240 F.3d 18, 21-22 (1st Cir. 2001)..." The above principles are not in conflict with the regulatory framework prescribed by the Board and can be looked into while deciding case of insider trading under the Indian regulatory framework."*

(iv) In this regard, I would like to refer to order of Hon'ble SAT in the matter of Dilip S. Pendse Vs. SEBI (Appeal No. 80 of 2009) , as follows: *"... the charge of insider trading is one of the most serious charges in relation to the securities market and having regard to the gravity of this wrong doing higher must be the preponderance of probabilities in establishing the same..."*

(D) In view of the above para 11 (B), (C), I am of considered opinion that there was UPSI and Noticee had access to it.

**12. Issue b: Whether Noticee was an insider? Whether Noticee had communicated the UPSI and acted in violation of regulations 3(i) and (ii) of PIT Regulations?**

- (i) As regards, the allegations of trading while in possession of UPSI, the Noticee has not disputed the allegations, but also have not given any specific response, further Noticee made multiple requests for record of proceedings which are not on record of the instant AO proceedings, thereby meting out treatment to the office of the undersigned AO, of a liaison office and also creating a probable issue of principles of natural justice where none exists by using the garb of lock-down etc while being digitally connected. It is noted from record that multiple opportunities for reply, hearings, cross etc were given to the Noticee by previous AOs and undersigned AO. I note that the requests for repetitive adjournments of personal hearings, without making any submissions in defense of their case but on vague and frivolous reasons is merely delaying tactic on the part of the Noticee. In this regard, I place reliance upon order of Hon'ble Securities Appellate Tribunal decision dated 17.7.2020 in the matter of Anant R. Sathe vs SEBI (Appeal No.150 of 2020) held that "7....we are of the opinion that the controversy involved in the present appeal is squarely covered by the decision of this Tribunal in Shruti Vora's (supra) wherein the Tribunal held that: "In the light of the aforesaid, we are of the opinion that concept of fairness and principles of natural *justice are in-built in Rule 4 of the Rules of 1995 and that the AO is required to supply the documents relied upon while serving the show cause notice. This is essential for the person to file an efficacious reply in his defence.*" 8. *The said principle elucidated in Shruti Vora's judgement is squarely applicable in the instant case. The authority is required to supply the documents that they rely upon while serving the show cause notice which in the instant case has been done and which is sufficient for the purpose of filing an efficacious reply in his defence.*"

(ii) The various allegations in the SCN are not disputed by the Noticee. It is established that Noticee had access to UPSI and consequently falls within the ambit of the term 'insider' as defined under regulation 2(e) of PIT Regulations, which states that, two categories of persons can qualify as an insider. They are: (a) any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to unpublished price sensitive information in respect of securities of a company; or (b) who has received or has had access to such unpublished price sensitive information. Hence, for any person to be qualified as insider, it is sufficient if just one of the two conditions stated above is met. I find that mere access to UPSI pertaining to KLG was sufficient to render Noticee an insider of KLG. In this regard, it is pertinent to refer to the judgments of the Hon'ble SAT in the matter of :

Dr. Anjali Beke Vs. SEBI (Appeal no. 148 of 2005, Date of Decision: 26.10.2006) wherein it was held that *"when a person receives UPSI, he becomes an insider, even when he is not connected to the company to which the UPSI pertains"*.

Hon'ble Securities Appellate Tribunal in the matter of Utsav Pathak vs. SEBI decision dated 12.06.2020 (Misc. Application No.138 of 2020 And Appeal No.430 of 2019) held that-

*"19. The contention of the learned counsel for the appellant that the inference of providing sensitive information by the appellant to the Tippees was not inferred from any foundational facts is patently erroneous. In this regard, we may note that it is a fundamental principle of law that proving of an allegation levelled against a person can be derived either from direct substantive evidence or can be inferred by a logical process of reasoning from the totality of attending facts and circumstances surrounding the allegations made and levelled. The Supreme*

*Court in SEBI vs. Kishore Ajmera( 2016) 6 SCC 368 held that in the absence of direct evidence, the court cannot become helpless and that the court can take notice of immediate and proximate facts and circumstances surrounding the events and reach to a reasonable conclusion. The Supreme Court held that the test would always be as to what inferential process that a reasonable/prudent man would adopt to arrive at a conclusion.*

*20. In this regard, the decision in Raj Ratnam's case is relevant wherein the relevance of circumstantial evidence relating to an insider has been culled out as under:- "...Moreover, several other Courts of Appeals have sustained insider trading convictions based on circumstantial evidence in considering such factors as "(1) access to information; (2) relationship between the tipper and the tippee; (3) timing of contact between the tipper and the tippee; (4) timing of the trades; (5) pattern of the trades; and (6) attempts to conceal either the trades or the relationship between the tipper and the tippee." United States v. Larrabee, 240 F.3d 18, 21-22 (1st Cir. 2001)..."*

*21. Taking a cue from the decision in Ajmera's case and Raj Ratnam's case, we find the foundational facts as under:- A. The appellant was a connected person and was an insider as per the PIT Regulations and was privy to the price sensitive information and was directly involved with the activities pertaining to the open offer. B. The appellant had close relationship with the Tippees. C. During the investigation, the appellant made attempts to conceal his relationship with the Tippees, as well as tried to dilute his role in the open offer process. D. The trading pattern of the Tippees makes it apparently clear that the Tippees had prior information with regard to the open offer. To elaborate, we find that the Tippee-1 i.e., the sister of the appellant purchased 4000 shares of CRISIL on 31/5/2013 and sold it on the day when the open offer announcement was made on 3/6/2013.*

*Similarly, Tippee-2 purchased 15000 shares on 14/5/2013, 20/5/2013, 21/5/2013 and 24/5/2013 and sold it on 4/6/2013. E. The Tippees only traded in the shares of CRISIL and did not trade in any other shares. F. Tippee 2 had borrowed large amount [Rs. 1 cr] and sold off existing holdings etc to finance the buy orders of CRISIL shares thereby effectively putting all her eggs in one basket which is a highly abnormal investment behavior. G. Purchase of large chunks of shares and selling it immediately after announcement of the open offer without any plausible cause is suspicious. H. The Tippees were also charged for insider trading and violation of the PIT Regulations....".*

*22. From the aforesaid foundational facts, the circumstantial evidence or on a preponderance of probability by a logical process of reasoning from the totality of the attending facts and circumstances as stated aforesaid, an irresistible inference can be drawn that the appellant had passed on the price sensitive information regarding the open offer to the Tippees. Such inference taken from the immediate and proximate facts and circumstances surrounding the events is reasonable and logical which any prudent man would arrive at such a conclusion. The Supreme Court in Kanhaiyalal Patel (supra) held that an inferential conclusion from proved and admitted facts would be permissible and legally justified so long as the same is reasonable."*

- (iii) It is noted that Noticee's daughter had total financial obligation towards purchases of 1,10,000 shares of KLG is Rs. 37,25,950. It is observed that she had made payment to the broker for meeting the pay-in obligations in two tranches - Rs.26,30,000 on February 25, 2008 and Rs. 11,20,000 on March 5, 2008. As per her statement dated August 13, 2008, she stated that "I signed two cheques for the purchases I made for 37 lakhs. After 2-3 days of the purchases I made the payment by cheque to broker." Copy of the same is enclosed. But the ledger of BPL reveals that payment

of Rs. 26,30,000 has been made vide a banker's cheque drawn on HDFC bank, funds for which have come from the bank account of M/s Starwort Engineers Private Limited (hereinafter referred to as 'SEPL'), an associate company of Horizon Infrastructure Limited (hereinafter referred to as 'HIL'). It is observed that APPL is designated as promoter entity of HIL. It is also observed that Rs. 11,20,000 has been transferred to your account from SEPL on March 1, 2008 for making payment to BPL. Thus the entire purchase in shares of KLG has been financed by SEPL.

- (iv) It is relevant to refer to the judgment of the Hon'ble SAT in the matter of V.K. Kaul Vs. SEBI (Appeal No. 55 of 2012, Date of Decision: 08.10.2012) wherein it has been held that: *"It is not obligatory under the regulations that the UPSI must be in possession or knowledge of 'a company' in whose securities an insider of 'the company' deals. As long as, as insider of 'the company' deals in the securities of 'a company' listed on any exchange while in possession of UPSI relating to that company, the provisions of Regulation 3(i) of the regulations will get attracted."*
- (v) From the above paras it is evident that the Noticee while in possession of UPSI traded in the shares of KLG. Provisions of regulations 3(i) and (ii) of PIT Regulations states that no insider shall deal in securities of a company listed on any stock exchange when in possession of any unpublished price sensitive information. In this regards, I refer to the judgment of the Hon'ble Securities Appellate Tribunal dated January 31, 2012 in the matter of Mrs. Chandrakala vs. AO, held that *" 7. The prohibition contained in regulation 3 of the regulations apply only when an insider trades or deals in securities on the basis of any unpublished price sensitive information and not otherwise. It means that the trades executed should be motivated by the information in the possession of the insider. If an insider trades or deals in securities of a listed company, it may be presumed that he / she traded on the basis of unpublished price sensitive information in his / her*

*possession unless contrary to the same is established. The burden of proving a situation contrary to the presumption mentioned above lies on the insider. If an insider shows that he / she did not trade on the basis of unpublished price sensitive information and that he / she traded on some other basis, he / she cannot be said to have violated the provisions of regulation 3 of the regulations....”*

(vi) In view of the above and on the basis of the material available on record, I find that the Noticee was on the Board of the directors of KLG as on July 15, 2008 and was also a Director of HIL. Noticee had also given the name of SKIL as his employer in KYC details as available with ICICI Securities Ltd. holding post in SKIL. APPL and SKIL are group company of SKIL group. Noticee was also in touch with Hemant Patel and N Ravichandran through telephone calls/ SMSs. Further, the period of said trades by Priyanka Singhvi (his daughter) and in this regard the statement of Priyanka Singhvi, evidences the active participation of the Noticee in facilitating the loans for her trading in the shares of KLG. I find that the Noticee by passing on UPSI to other person (his daughter) who executed trades on the basis of such UPSI, Noticee has indulged in insider trading. Thus Noticee has violated the provisions of regulations 3(i) and 3(ii) of PIT Regulations, thereby the violations alleged in the aforementioned SCNs are established.

**13. Issue c: *Do the violations, if any, on the part of the Noticee attract monetary penalty under section 15G of the SEBI Act for the alleged violations by the Noticee?***

In light of the analysis regarding various allegations in terms of material available on record, it has been established that Noticee has violated provisions of regulation regulations 3(i) and 3(ii) of PIT Regulations. Therefore, after taking into account the aforesaid entire facts / circumstance of the case, and material available on record, I



am of the view that the above said violations attract imposition of monetary penalty under section 15G of SEBI Act. The relevant provision in this regard is as under:

*SEBI Act*

***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 of twenty-five crore rupees or three times the amount of profits made out of insider trading, whichever is high.*

**14. Issue d: *If yes, then what would be the monetary penalty that can be imposed upon the Noticee, taking into consideration the factors mentioned in section 15J of the SEBI Act r/w rule 5(2) of the AO Rules?***

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

*While adjudging quantum of penalty, 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.”*

I observe, that the material available on record do not indicate the disproportionate gain made by the Noticee. I note that no case regarding quantum of unlawful gains have been made out in the SCNs also there is no case regarding amount of loss incurred to investors. The material on record does not indicate that the non-compliance is repetitive in nature. Therefore taking into consideration the

aforementioned facts/circumstance of the case, I am of the view that the Noticee is liable for a monetary penalty of Rs. 5,00,000/- (Rupees Five Lakh only) for his failure to comply with the provisions of regulations 3(i) and 3(ii) of PIT Regulation.

## **ORDER**

15. In exercise of the powers conferred under section 15-I of SEBI Act and rule 5 of the AO Rules 1995, I hereby impose a penalty of Rs. 5,00,000/- (Rupees Five Lakh only) under sections 15G of SEBI Act. I am of the view that the said penalty is commensurate with the defaults committed by the Noticee.

16. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order by one of following two modes:

- a. By using the web link <https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html> 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**

- b. By way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai

17. Details of Demand Draft made as given in format below shall be sent to "The Division Chief, EFD-DRA-I, Securities and Exchange Board of India, SEBI Bhavan II, Plot no. C- 7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051." and also to e-mail id :- [tad@sebi.gov.in](mailto:tad@sebi.gov.in)

Case Name

Name of the 'Payer/Noticee'

Date of Payment

Amount Paid

Transaction No.

Bank Details in which payment is made

Payment is made for (like penalties/disgorgement / recovery/ settlement amount and legal charges along with order details)

18. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

19. In terms of rule 6 of the Adjudication Rules, copy of this order is sent to the Noticee and also to SEBI.

**Date: September 30, 2020**

**SANGEETA RATHOD**

**Place: Mumbai**

**ADJUDICATING OFFICER**