

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: MADHABI PURI BUCH, WHOLE TIME MEMBER

ORDER

Under Sections 11, 11(4), 11A and 11B of the Securities and Exchange Board of India Act, 1992 in the matter of M/s Signet Industries Limited (PAN: AABCS3489F)

Background of case:

1. Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) was in receipt of a letter no. F. No. 03/73/2017-CL-II dated June 9, 2017 from the Ministry of Corporate Affairs (hereinafter referred to as “**MCA**”) vide which MCA has annexed a list of 331 shell companies for initiating necessary action as per SEBI laws and regulations. MCA has also annexed the letter of Serious Fraud Investigation Office (hereinafter referred to as “**SFIO**”) dated May 23, 2017 which contained the data base of shell companies along with their inputs.
2. SEBI as a market regulator is vested with the duty under section 11(1) of the SEBI Act, 1992 (hereinafter referred to as “**SEBI Act**”) of protecting the interests of the investors in securities and to promote the development of and regulations of securities markets by appropriate measures as deemed fit.
3. SEBI was of the view that companies whose names are included as shell companies by SFIO and MCA, were potentially involved in
 - (a) Misrepresentation including of its financials and its business and possible violation of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 (hereinafter referred to as “**LODR Regulations**”) and/or

- (b) Misusing the books of accounts/funds of the company including facilitation of accommodation entries to the detriment of minority shareholders and therefore reneging on the fiduciary responsibility cast on the board, controlling shareholders and key management person (KMP)
4. SEBI was also of the view that investors should be alerted on the possible enforcement action by various authorities leading to potentially significant impact on the price of the stock.
5. Therefore, in the interest of investors, SEBI took the pre-emptive interim measures under section 11(1) of SEBI Act, 1992, in respect of listed shell companies including M/s Signet Industries Limited (hereinafter referred to as “**SIL**” / “**Company**”), vide its letter dated August 7, 2017, based on the view stated at para 3 and 4 above. SEBI placed trading restrictions, on the promoters/directors so that they do not exit the company at the cost of innocent shareholders. In view of the said objective, SEBI vide the said letter dated August 7, 2017 also placed the scrip in the trade to trade category with limitation on the frequency of trade and imposed a limitation on the buyer by way of 200% deposit on the trade value, so as to alert them trading in the scrip. The said measures were initiated by SEBI pending final determination after verification of credentials and fundamentals by the exchanges, including by way of audit and forensic audit if necessary. The measures also envisaged, on the final determination, delisting of companies from the stock exchange, if warranted. By virtue of these measure, trading in scrip was not suspended but allowed under strict monitoring so that investors could take informed investment decisions, till SEBI and Exchanges completed their detailed examination of such companies.
6. Pursuant to the same, Bombay Stock Exchange Limited (hereinafter referred to as “**BSE**”) vide notice dated August 7, 2017, National Stock Exchange of India Limited (hereinafter referred to as “**NSE**”) vide notice dated August 7, 2017 and Metropolitan Stock Exchange of India Limited (hereinafter referred to as “**MSE**”) vide notice dated August 07, 2017, to all its market participants, initiated actions envisaged in the SEBI letter dated August 7, 2017 in

respect of all the listed securities as identified by MCA and communicated by SEBI, with effect from August 8, 2017.

7. On August 09, 2017, SEBI further advised the Exchanges to submit a report after seeking auditor's certificate, from all such listed companies, providing the status of certain aspects of the company like company's compliance requirement with Companies Act, whether company is a going concern and its business model, status of compliance with listing requirements, etc.
8. SIL vide its email dated August 08, 2017 had made a representation to SEBI submitting that SIL is in business for over 35 years, SIL is engaged in the business of manufacturing of household plastic products, PVC/HDPE/CPVC/UPVC pipes and its fitting and micro irrigation system consisting drip irrigation & sprinkler irrigation. The company is supplying its own manufactured drip irrigation & sprinkler irrigation system to the farmers through Government of Andhra Pradesh, Telengana, Karnataka, Gujarat, Maharashtra etc. and PVC/HDPE pipes for various big government projects for installation of water and other pipelines. The gross turnover of the company in last Financial Year (FY) 2016-17 is over Rs. 1000 crores and profit before tax is Rs. 24 crores.
9. In the meantime, aggrieved by the aforesaid letters dated August 7, 2017 issued by SEBI, NSE and BSE, SIL filed an appeal No. 177 of 2017 before the Hon'ble Securities Appellate Tribunal (hereinafter referred to as "SAT"). The Hon'ble SAT vide order dated August 11, 2017 directed the following:-

“

1. *Without conducting any investigation and without hearing the appellant, whether the Securities and Exchange Board of India ("SEBI" for short), solely based on the letter dated 09.06.2017 received from the Ministry of Corporate Affairs (MCA), is justified in passing the ex-parte order on 07.08.2017 and directing the stock*

exchanges to treat, inter alia, the appellant company as a 'suspected shell company' and suspend the daily trading in the securities of the appellant company on the stock exchanges by moving the securities of the appellant company to Stage VI of Graded Surveillance Measure ("GSM" for short) is the question raised in this appeal.

2. *Similar question was raised in the case of J. Kumar Infraprojects Ltd. (Appeal No. 174 of 2017) and by our order dated 10.08.2017 we have stayed direction 1(a) & (b) contained in the impugned communication of SEBI dated 07.08.2017 qua the appellant therein.*
3. *In view of the facts set out in the Memorandum of Appeal and other documents tendered at the time of hearing relating to annual turnover of the appellant company for last three years, which even according to SEBI prima facie appear to be correct, we extend the said stay to the case of the appellant company herein and direct the stock exchanges to reverse their decision in respect of the appellant company as expeditiously as possible.*
4. *Appellant company has already made a representation to SEBI against the impugned communication of SEBI dated 07.08.2017. SEBI is directed to dispose of the said representation in accordance with law.*
5. *It is made clear that this order shall not come in the way of SEBI as well as the stock exchanges to investigate the case of the appellant company and initiate proceedings if deemed fit*
..... ”

10. The Hon'ble SAT in the matter of *J. Kumar Infra Projects Limited vs. SEBI* dated August 10, 2017 held that the measures taken by SEBI vide its letter dated August 07, 2017 was in the nature of quasi-judicial order and the same has been passed without investigation. Without prejudice to the powers enumerated in section 11(1) of SEBI Act, SEBI has been granted power under section 11(4) and 11B of SEBI Act, 1992 to pass order in the interests of investors or securities market by taking any of the measures enumerated therein either pending investigation or inquiry or on completion of such investigation or inquiry. The inquiry under section 11B of the SEBI Act can also be caused to be made by SEBI.

11. SEBI vide letter dated August 16, 2017 had advised SIL to provide following information:

- (a) Details of the transactions (including nature of transaction and supporting documents) dated Jan 31, 2011, where company has received Rs. 25,00,000/- from Dhanus Technologies Limited and Transaction dated March 21, 2011, where the company has received Rs. 30,00,000/- from Avance Technologies Limited.
- (b) Declaration from the company that whether there were any other transactions made wherein Mr. Shirish Chandrakant Shah, Dhanus Technologies Ltd and/or Avance Technologies Ltd. are directly or indirectly involved. Further, provide details of the all such transactions including nature of transaction and supporting documents.
- (c) Further, you are also requested to furnish details of employees on the rolls of the Company, their respective roles, remuneration received qualifications and experience for the job. Details of Provident Fund contributions made by the Company for the aforesaid employees. For ease of furnishing the information, broad categories of roles: Blue collar, Junior management, Middle management, senior management, may be given with names and corresponding details.
- (d) Permanent Account Number (PAN) of the promoters and entities associated with promoters, directly or indirectly along with details of association.

12. SIL vide its letter dated August 21, 2017 submitted the information sought by the SEBI's letter dated August 16, 2017 which are as under:

- 1. *The Company has received a sum of Rs. 25,00,000/- on 31.01.2011 through RTGS from Dhanus Technologies Limited, Chennai towards application for 5% non-cumulative redeemable preference shares of Signet Industries Limited.*
Similarly, the Company has received following amount from Avance Technologies Limited, Mumbai:

<i>Sl. No.</i>	<i>Cheque/ RTGS</i>	<i>Date</i>	<i>Amount Rs.</i>
<i>1</i>	<i>RTGS</i>	<i>15th September, 2010</i>	<i>25,00,000</i>
<i>2</i>	<i>RTGS</i>	<i>17th September, 2010</i>	<i>25,00,000</i>
<i>3</i>	<i>RTGS</i>	<i>20th September, 2010</i>	<i>21,00,000</i>
<i>4</i>	<i>RTGS</i>	<i>20th September, 2010</i>	<i>4,00,000</i>
<i>5</i>	<i>RTGS</i>	<i>22nd September, 2010</i>	<i>50,00,000</i>
<i>6</i>	<i>RTGS</i>	<i>21st March, 2011</i>	<i>30,00,000</i>
<i>TOTAL</i>			<i>1,55,00,000</i>

In this context, we are enclosing:

- a) Application for allotment of 2,50,000 - 5% non-cumulative redeemable preference shares of Rs. 10/- each from M/s Dhanus Technologies Limited. Application is enclosed.*
- b) Application for allotment of 15,50,000- 5% non-cumulative redeemable preference shares of Rs. 10/- each from M/s Avance Technologies Limited. Application is enclosed.*
- c) Board resolution authorizing for making application of allotment of 2,50,000 - 5% non-cumulative redeemable preference shares of Rs. 10/- each from M/s Dhanus Technologies Limited. Copy of board resolution is enclosed.*
- d) Board resolution authorizing for making application of allotment of 15,50,000- 5% non-cumulative redeemable preference shares of Rs. 10/- each from M/s Avance Technologies Limited. Copy of board resolution is enclosed.*
- e) Certificate from M/s Dhanus Technologies Limited certifying investment of Rs. 25 Lacs in 5% non-cumulative redeemable preference shares of Rs. 10/- each of Signet Industries Limited. The certificate is enclosed.*
- f) Certificate from M/s Avance Technologies Limited certifying investment of Rs. 155 Lacs in 5% non-cumulative redeemable preference shares of Rs. 10/- each of Signet Industries Limited. The certificate is enclosed.*
- g) Memorandum & Articles of Association of M/s Dhanus Technologies Limited. Copy of MOA is enclosed.*
- h) Memorandum & Articles of Association of M/s Avance Technologies Limited. Copy of MOA is enclosed.*

2. *Based on perusal of the records available and accounting records we hereby declare:*
 - a) *That the Company have no transaction with M/s Dhanus Technologies Limited & M/s Avance Technologies Limited except as shown in para 1 above.*
 - b) *That we are not aware of any other entity directly and indirectly connected or associated with M/s Dhanus Technologies Limited & M/s Avance Technologies Limited, and*
 - c) *That Mr. Shirish Chandrakant Shah is not known to us.*
3. *Statement of employees on location wise Roll of the Company (511 persons) giving the Name, Designation, Category (Senior Management/ Middle Management & Junior Management), Date of Joining, Qualifications, Experiences, Provident Fund deductions and gross monthly remuneration is enclosed.*

We are also enclosing statement showing the Provident Fund contribution made by the Company during last 3 financial years 2104- 15, 2015-16 & 2016-17.
4. *Statement showing Permanent Account Numbers (PAN) of the Promoters and entities associated with the Promoters/ Promoter Directors. The Statement is enclosed.*

Hearing and Reply:

13. Pursuant to the decision of Hon'ble SAT that the communication of SEBI dated August 7, 2017 is in the nature of quasi-judicial order, SEBI vide communication dated September 05, 2017, granted an opportunity of hearing to SIL on September 08, 2017. SIL vide emails dated September 05, 2017, September 06, 2017, September 07, 2017, September 08, 2017 and September 11, 2017 requested for the adjournment of hearing on the ground that CMD (Mr. Mukesh Sangla) of the company has been diagnosed with Dengue and was admitted in hospital. Accordingly, the hearing was rescheduled and SEBI vide communication dated September 11, 2017, granted an opportunity of hearing to SIL on September 27, 2017. On September 27, 2017, Mr. Somsekhar Sundaresan, Advocate, Ms. Garima Kapoor, Advocate, Mr. Mukesh

Sangla and Mr. J C Paliwal, Authorized Representatives (hereinafter referred to as “ARs”) appeared for SIL and made oral submissions which are as under:

- (a) The company is a going concern and cannot be termed as a shell company in any sense of the term.*
- (b) The only possible cause for the company being featured in the list of 331 companies could be the past income tax disputes.*
- (c) The company has been in business for 32 years and has a continuous track record of profits and tax payments.*
- (d) The company has duly complied with all the applicable laws.*
- (e) The company is well appraised by banks and financial institutions and its debt is well serviced.*
- (f) The company is registered with various government agencies for various projects.*

The company was asked to provide the information / response on the following points (supported by documentary evidence) as early as possible and latest by October 4, 2017:

- 1. The relevant extracts of ITAT’s order pertaining to the transactions of the company with Avance Technologies Ltd and Dhanus Technologies Limited.*
- 2. Affidavit from Mr. Mukesh Sangla, in his personal capacity, on the following:*
 - a) Whether he has ever known or contacted or been in touch with Mr. Shirish Chandrakant Shah; if yes, what was it pertaining to?*
 - b) During the period March 2017- June 2017, whether promoter & promoter group bought or sold any shares of SIL; if yes, explain the nature of transaction.*
 - c) Whether Mr. Mukesh Sangla is aware of any person who is/was associated with Dhanus Technologies; if yes, explain nature of association of Mr. Mukesh Sangla with that person.*
- 3. In the Financial Statement for the year 2015-16, the company has Cash & bank Balance amounting to approx 34 crore. Provide all the backup documents including bank statements adding upto this amount.*

14. SEBI vide email dated September 28, 2017 has also advised SIL to furnish the aforesaid information by October 04, 2017.

15. SIL vide its letter dated October 04, 2017 submitted the information sought by SEBI at the time of hearing and vide email dated September 28, 2017 which are *inter alia* as under:

“.....

In this connection, as desired we submit as follows

(a) Affidavit dated October 03, 2017 duly executed and notarized.

(b) Relevant extracts from ITAT order dated 27th January, 2016 pertaining to the transactions of the company with Avance Technologies Limited and Dhanus Technologies Limited being annexed as shown in the affidavit.

(c) Details & supporting of cash & Bank Balances as at 31.03.2016 as indicated in the affidavit.

(d) Annual report of the company for the year 2015-16.

.....”

16. Pursuant to SEBI's letter dated August 9, 2017, NSE submitted its report vide letter dated August 29, 2017 stating that, Company has complied with five clauses of Standard Operating Procedures under LODR Regulations, Company has submitted the Auditor Certificate. As per the Auditor Certificate, the company is a going concern and is engaged in manufacturing of plastic products, PVC pipes, HDPE pipes, Micro irrigation, drip irrigation, etc. The Auditor has certified that there have been no current / past defaults on account of repayment of interest or principal as per the agreements entered into with banks/ financial institutions. As on June 30, 2017, the number of shareholders are 11,217. NSE recommended that in view of the compliance record and other details submitted by the company as per SEBI prescribed format, the company may be allowed to trade on NSE.

Consideration:

17. On perusal of the materials available on record, the following prima facie/potential issues arise for consideration.

- (a) Whether there is prima facie evidence of misrepresentation including of its financials and/or its business and possible violation of LODR Regulations by the company.*
- (b) Whether there is prima facie evidence to show that the company is misusing the books of account/funds including facilitation of accommodation entries to the detriment of minority shareholders and therefore the board, controlling shareholders and KMP are reneging on the fiduciary responsibility cast on them.*
- (c) In view of the determination on the above issues, pursuant to SAT Appeal and the order of SAT in the said appeal, whether, in view of the representation of the Company, the action envisaged in SEBI letter dated August 7, 2017 needs reconsideration.*

18. On the basis of documents available on record, my observations on above issues are as under:

Issue No. 1. *Whether there is prima facie evidence of misrepresentation including of its financials and/or its business and possible of violation of LODR Regulations by the company.*

Issue No. 2. *Whether there is prima facie evidence to show that the company is misusing the books of account/funds including facilitation of accommodation entries to the detriment of minority shareholders and therefore the board, controlling shareholders and KMP are reneging on the fiduciary responsibility cast on them.*

19. Based on the replies given by the company in response to SEBI's queries, prima facie observations are as under:

(a) Vide affidavit dated October 03, 2017, Mr. Mukesh Sangla stated as under:

- (i) He does not know any individual named Mr. Shirish Chandrakant Shah, and does not remember having been in touch with anyone by that name.
- (ii) There have been some inter-se transfer of shares between promoters during the period March 2017 and June 2017. As a result of inter-se transfers the overall promoter holding in the company remained at a constant 73.39% until April 02, 2017. On April 03, 2017, April 05, 2017, April 06, 2017 and April 13, 2017 there were further transfers of 0.05 crore, 0.12 crore, 0.50 crore and 0.50 crore shares respectively from Mukesh Sangla (HUF) (seller) in open market. As a result of this sale, the promoter holding in the company stood reduced to 69.61% from 73.39% as on April 13, 2017 and also upto June 30, 2017. LODR Regulations & other compliances have also been made in respect of all above transactions.
- (iii) Dhanus Technologies Ltd. (Dhanus) is preference shareholder of SIL. Dhanus was introduced to the company by its corporate and Sr. taxation advisor one Mr. Devendra Mehta, Mumbai who passed away in year 2015. Apart from Dhanus being one of the subscribers to preference shares issued by the company, there is no association with either Dhanus or anyone representing Dhanus.
- (iv) Relevant extracts from Income tax Appellate Tribunal, Indore (ITAT) order dated January 27, 2016 have been provided wherein it has been held that monies received from Avance Technologies Ltd. and Dhanus Technologies Ltd. establishes identity and genuineness of the transactions and thus, could not be added as unexplained cash credits.

(b) For cash and bank balances amounting to approximately Rs. 34,22,67,947/- appearing in Balance Sheet of SIL dated March 31, 2016, the company has submitted the break-up and back-up documents such as Bank Confirmation for fixed deposits, Bank Reco & statement for bank balances, letters of cashiers of various local office dated March 31, 2016 for cash balance, etc.

(c) It is noted that SIL has received a sum of Rs. 25,00,000/- on January 31, 2011 through RTGS from Dhanus Technologies Ltd. (Dhanus) towards application for allotment of

2,50,000 - 5% non-cumulative redeemable preference shares of SIL of Rs. 10/- each. With respect to the said transaction of SIL with Dhanus the ITAT order dated January 27, 2016 states that “.....*From the bank statements filed by the company, it is evident that all the transaction relating to unsecured loan carried out through banking channels and no cash was deposited in the bank account. The duly confirmed copies of accounts are also placed on record. These facts establish the identity and creditworthiness of the company and genuineness of the transaction.....*”. In support of it, SIL has submitted the copy of application for allotment of ‘5% non-cumulative redeemable preference shares of SIL’, copy of board resolution dated November 30, 2010 of Dhanus to invest in the shares of ‘5% non-cumulative redeemable preference shares of SIL’, copy of Memorandum & Articles of Association (MOA) of Dhanus and certificate from Dhanus certifying the said investment.

- (d) It is noted that SIL has received a sum of Rs. 1,55,00,000/- in the month of September 2010 and March 2011 through RTGS from Avance Technologies Ltd (Avance) towards application for allotment of 15,50,000 - 5% non-cumulative redeemable preference shares of SIL of Rs. 10/- each. With respect to the said transaction of SIL with Avance the ITAT order dated January 27, 2016 states that “.....*From the bank statements filed by the company, it is evident that all the transaction relating to unsecured loan carried out through banking channels and no cash was deposited in the bank account. The duly confirmed copies of accounts are also placed on record. These facts establish the identity and creditworthiness of the company and genuineness of the transaction.....*”. In support of it, SIL has submitted the copy of application for allotment of ‘5% non-cumulative redeemable preference shares of SIL’, copy of board resolution dated August 27, 2010 of Avance to invest in the shares of ‘5% non-cumulative redeemable preference shares of SIL’, copy of MOA of Avance and certificate from Avance certifying the said investment.

20. In view of substantive documentation and explanations provided by SIL during the hearing and in its replies in respect of all the queries, I do not find any *prima facie* evidence nor suspicion of misrepresentation by the company, misuse of books of accounts / funds of the company or violation of LODR Regulations.

Issue No. 3. *In view of the determination on the above issues, pursuant to SAT Appeal and the order of SAT in the said appeal, whether, in view of the representation of the Company, the action envisaged in SEBI letter dated August 7, 2017 needs reconsideration.*

21. In absence of *prima facie* evidence / suspicion of misrepresentation by the company, misuse of the books of accounts / funds of the company or violation of LODR Regulations, there is no reasonable ground to further verify the financials of the Company warranting an audit. I am, therefore, of the considered view that the actions envisaged in SEBI's letter dated August 7, 2017 against SIL are liable to be revoked.

ORDER

22. In the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Sections 11, 11(4), 11A and 11B read with Section 19 of the Securities and Exchange Board of India Act, 1992, hereby, revoke the actions envisaged in SEBI's letter dated August 07, 2017 and the consequential actions taken by Stock Exchanges against Signet Industries Limited.

23. Accordingly the representation dated August 08, 2017 is disposed of.

24. Copy of this Order shall be forwarded to the recognised stock exchanges and depositories for information and necessary action.

25. A copy of this Order shall also be forwarded to the Ministry of Corporate Affairs and Serious Fraud Investigation Office for their information.

-Sd-

DATE: OCTOBER 25, 2017

PLACE: MUMBAI

**MADHABI PURI BUCH
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**