

## SECURITIES AND EXCHANGE BOARD OF INDIA

## ORDER

Under Sections 11(1), 11(4) and 11B of the Securities and Exchange Board of India Act, 1992

In the matter of trading in the shares of Palred Technologies Limited

In respect of –

Sl. No	Noticees	PAN	Authorised Representative
1.	Palem Srikanth Reddy	AAMPP9497N	Adv. R.S Loona
2.	P. Soujanya Reddy	AAQPP2729R	Adv. R.S Loona
3.	Ameen Khwaja	ARFPK4315A	Adv. R.S Loona
4.	Noorjahan A. Khwaja	ACAPK3460G	Adv. R.S Loona
5.	Ashik Ali Khwaja	ADMPA1271E	Adv. R.S Loona
6.	Rozina Hirani Khwaja	ABQPH3900B	Adv. R.S Loona
7.	Shefali Ameen Khwaja	ADTPV2598L	Adv. R.S Loona
8.	Shahid Khwaja	ATXPK3630J	Adv. R.S Loona
9.	Kukati Parvathi	ACIPP8586G	Adv. R.S Loona
10.	Pirani Aryn Abdul Aziz	AONPP0697R	Self
11.	Karna Ramanjula Reddy	APAPK7847J	-----
12.	Umashankar S.	ANUPS2006D	Adv. Vijay Ranjan
13.	Raja Lakshmi Srivaiguntam	BOPPS3150H	Adv. Vijay Ranjan
14.	Prakash Lohia	ABTPL5701F	Adv. Prakash Shah
15.	Mohan Krishna Reddy Aryabumi	ABLPA2405R	Adv. R.S Loona

1. The Securities and Exchange Board of India (hereinafter referred to as ‘SEBI’) conducted an investigation into the scrip of Palred Technologies Limited (hereinafter referred to as ‘PTL’ or ‘the Company’) for the period of September 18, 2012 to November 30, 2013 (hereinafter referred to as ‘the investigation period’), to ascertain the possible violation of the provisions of the SEBI Act, 1992 (hereinafter referred to as ‘SEBI Act’) and SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as ‘PIT Regulations’).

2. PTL was incorporated in the year 1999. The Company had changed its name from Four Soft Limited to PTL w.e.f. December 09, 2013. The scrip of PTL is listed on National Stock Exchange Limited (hereinafter referred to as 'NSE') and Bombay Stock Exchange (hereinafter referred to as 'BSE').
3. The names of the directors during the investigation period are as follows:

<b>Directors 01-Sep-2012 to 31-Mar-2014</b>			
<b>Name</b>	<b>Designation</b>	<b>Date of Joining</b>	<b>Date of Cessation</b>
Palem S. Reddy	Chairman & Managing Director	24.12.1999	NA
A. Mohan Krishna Reddy	Non-Executive Independent Director	19.06.2009	NA
T.R.Sivarama Krishnan	Non-Executive Independent Director	06.02.2009	NA
Edara Srinivas Prasad	Non-Executive Independent Director	19.03.2009	NA
Prof.Janat Shah	Non-Executive Independent Director	12.11.2010	01.10.2013
K.V.Ramakrishna	Nominee Director	11.10.2005	30.09.2013
P Soujanya Reddy	Non-Executive Director	09.08.2011	13.10.2013
A.Sridhar	Company Secretary and Compliance Officer	10.08.2012	09.03.2013
M. Raghuram		09.03.2013	NA

4. Based on the preliminary investigation, SEBI vide order dated February 4, 2016 as an *interim* measure, impounded the alleged gains under Section 11(4)(d) of the Securities and Exchange Board of India Act, 1992 and the same was issued against all the Noticees except Noticee No. 3. The relevant paragraphs of the interim impounding order is as follows:-

*“Considering the facts and circumstances of the case, the balance of convenience lies in favour of SEBI. With the initiation of investigation and quasi-judicial proceedings, it is possible that the noticees may divert the unlawful gains (subject to the adjudication of the allegation on the merits in the final order), which may result in defeating the effective implementation of the direction of disgorgement, if any to be passed after adjudication on merits. Non-interference by the Regulator at this stage would therefore result in irreparable injury to interests of the securities market and the investors.*

*Accordingly, as an interim measure, an ad-interim ex-parte Order for impounding such alleged gains under Section 11(4)(d) of the Securities and Exchange Board of India Act, 1992 needs to be issued against the following:*

.....

*In view of the foregoing, I, in exercise of the powers conferred upon me by virtue of Section 19 read with Sections 11(1), 11(4)(d) and 11(B) of the SEBI Act, 1992, hereby order to impound the alleged unlawful gains of a sum of ₹2,22,14,383 (alleged gain of ₹1,65,59,129 + interest of ₹56,55,254 from the date of buy transactions to January 31, 2016), jointly and severally from the persons tabulated in the paragraph above. If the funds are found to be insufficient to meet the figure of unlawful gains, as directed above, then the securities lying in the demat account of these persons shall be frozen to the extent of the remaining value.”*

5. Investigation revealed that PTL made a corporate announcement of slump sale on August 10, 2013 of its software solutions business to Kewill group and a one-time special dividend post the closure of sale transaction on October 14, 2013. Both these informations being price sensitive information, it was alleged in the investigation report that Palem Reddy (Noticee No. 1), the Chairman and Managing Director (MD) of PTL, employees of PTL, past employees of PTL and certain other entities known to Palem Reddy traded during the UPSI period that preceded the actual announcement to the public, Noticee No. 1, acquired shares from the beginning of discussions till the signing of non-binding offer between the Company and the buyers and stopped trading thereafter. Moreover, it was alleged that he communicated directly or indirectly the UPSI to other Noticees, who began trading in PTL shares beginning from June 2013 onwards and bought 4,25,615 shares till the announcement on August 10, 2013.
6. SEBI in its SCN placed the UPSI under two heads i.e., UPSI in respect of Slump sale of software solution business to Kewill group ('UPSI-I') and UPSI in respect of Declaration of Interim Dividend of Rs. 29 per share and reduction of 50% of the capital of the Company by paying a value of Rs. 29 per share ('UPSI-II'). As per the SCN, UPSI-I came into existence on September 18, 2012, when the non-disclosure agreement ('NDA') was executed, and continued till the decision of the slump sale of the business was announced by the Company on August 10, 2013. Similarly, UPSI-II came into existence on September 12, 2013 and continued till October 14, 2013. Thus, the alleged UPSI- I period was September 18, 2012 to August 10, 2013, and the alleged UPSI-II period was September 12, 2013 to October 14, 2013.
7. It was alleged in the SCN that the Noticee No. 1 being the MD of the company (PTL) had traded in the scrip, soon after the execution of the NDA and had passed on the UPSI to Ameen Khwaja

(Noticee No. 2) and certain other Noticees, who were the past employees of PTL. It was further alleged in the SCN that Ameen Khwaja had passed on UPSI to his relatives (Noticee Nos. 4 to 8) and that they had traded in the scrip during the UPSI period. The Noticee Nos. 10 to 15 were allegedly connected to Noticee No. 1 and that they had traded on the basis of the UPSI obtained from Noticee No. 1.

8. Accordingly, the common Show Cause Notice (SCN) issued against Palem Srikanth Reddy, P. Soujanya Reddy, Ameen Khwaja, Noorjahan A. Khwaja, Ashik Ali Khwaja, Rozina Hirani Khwaja, Shefali Ameen Khwaja, Shahid Khwaja, Kukati Parvathi, Pirani Ameen Abdul Aziz, Karna Ramanjula Reddy, Umashankar S., Raja Lakshmi Srivaiguntam, Prakash Lohia and Mohan Krishna Reddy Aryabumi (hereinafter collectively referred to as 'the Noticees') alleged that the Noticees at Sr. Nos. 1, 2 and 4 to 15 had violated Sections 12A(d) and 12A(e) of SEBI Act, 1992 and Regulations 3(i), and 3(ii) of SEBI (PIT) Regulations, 1992 read with Regulation 12 of SEBI (PIT) Regulations, 2015. For Noticee no 3, the common SCN alleged that he had violated Sections 12A(d) and 12A(e) of SEBI Act, 1992 and Regulation 3(ii) of SEBI (PIT) Regulations, 1992 read with Regulation 12 of SEBI (PIT) Regulations, 2015. The said provisions are as follows:-

**Section 12A(d) and 12A(e) of SEBI Act, 1992**

*CHAPTER VA*

*PROHIBITION OF MANIPULATIVE AND DECEPTIVE DEVICES, INSIDER TRADING AND SUBSTANTIAL ACQUISITION OF SECURITIES OR CONTROL*

*Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.*

*12A. No person shall directly or indirectly—*

*(a).....;*

*(b).....;*

*(c).....;*

*(d) engage in insider trading;*

*(e) deal in securities while in possession of material or non-public information or communicate such material or non-public information to any other person, in a manner which is in contravention of the provisions of this Act or the rules or the regulations made thereunder;*

*(f) .....*

**Regulation 3(i), and 3(ii) of SEBI (PIT) Regulations, 1992**

*CHAPTER II*

*PROHIBITION ON DEALING, COMMUNICATING OR COUNSELLING*

*Prohibition on dealing, communicating or counselling 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 19[when in possession of] any unpublished price sensitive information; or*

*(ii) communicate or 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 :*

*Provided that nothing contained above shall be applicable to any communication required in the ordinary course of business or profession or employment or under any law.*

9. In response to the SCN the Noticees *inter-alia* submitted as follows:-

**a) Palem Srikanth Reddy :-**

- i. In compliance with the aforesaid directions in the interim impounding order, the said persons including himself have deposited the alleged unlawful gains made by each of them in the specially created escrow account on February 15, 2016.
- ii. In transactions like Slump sale, there are many steps involved before signing of any binding agreement. Till the execution of final agreement, there may be a possibility of withdrawal of the offer/interest at any stage by any party.
- iii. SEBI has not considered the above steps of events involved in any general transaction and proceeded on wrong assumption that the disclosure of Non-Disclosure Agreement dated September 18, 2012 ('NDA') having a confidentiality clause could be considered as UPSI. This assumption has no legal basis.
- iv. NDA merely provided for sharing of 'Evaluation Material' by the Company with Kewill Group for evaluating a possible transaction between them. Since the Evaluation Material could contain price sensitive information, the NDA provided that the Kewill Group or its representatives or consultants shall keep all such information confidential. Hence UPSI was contained in the Evaluation Material and not in the NDA. The disclosure of NDA's contents as such did not have any impact on the deal or price of the Company's equity and therefore could not be the starting point for origination of UPSI.

- v. While the NDA is binding on the confidentiality of the Evaluation Material, it was not binding on the transaction. No legally binding transaction was envisaged by the NDA which specifically provided as under:
- "You agree that unless and until a final definitive agreement regarding a transaction between the Company and you has been executed and delivered, neither the Company nor you will be under any legal obligation of any kind whatsoever with respect to such a transaction by virtue of this letter agreement except for the matters specifically agreed to herein. You further acknowledge and agree that the Company reserves the right, in its sole discretion, to reject any and all proposals made by you or any of your Representative with regard to a transaction between the Company and you, and to terminate discussions and negotiations with you at any time."*
- vi. A Preliminary and Non-Binding Indication of Interest on the transaction was subsequently signed on May 10, 2013 which was followed by a legally binding agreement (Acquisition Agreement) on August 10, 2013. If the NDA was a binding agreement on the transaction in September 2012 it would have not been followed up by a Preliminary and Non-Binding Indication of Interest in May 2013. The fact that a Preliminary and Non-Binding Indication of Interest was established on the transaction in May 2013 clearly proves that the NDA was not binding on the transaction. SEBI has wrongly assumed the NDA to be a binding agreement on the transaction and that PSI of slump sale had come into existence on September 18, 2012.
- vii. The NDA recorded that *"Except insofar as this letter agreement restricts the actual use and disclosure of the Evaluation Materials, this Agreement shall not prevent you or your affiliates from (a) engaging in or operating any business, (b) entering into any agreement or business relationship with any third party, (c) evaluating or engaging in investment discussion with, or investing in, any third party, whether or not competitive with the Company or its affiliates, or (d) acting as a financial source to any third party that has executed a confidentiality agreement (similar to this agreement) with the Company."*
- viii. NDA further recorded that *"You agree that unless and until a final definitive agreement regarding a transaction between the Company and you has been executed and delivered, neither the Company nor you will be under any legal obligation of any kind whatsoever with respect to such a transaction by virtue of this letter agreement except for the matters specifically agreed to herein."*

- ix. This final definitive agreement is the Acquisition Agreement ('AA') which was signed on August 10, 2013, subsequent to a Preliminary and Non-Binding Indication of Interest in May 2013 and detailed due diligence over three months. There was no certainty whatsoever of this transaction during the period prior to Acquisition Agreement. The certainty of the transaction could not be established by the Noticee or the Board of Four Soft, it was established only when Board of Kewill approved the transaction.
- x. Pursuant to the NDA Synergy discussions were held between the parties when preliminary information about the Company, its products and financials was exchanged. After these discussions and evaluation of preliminary information, Kewill Group vide its Preliminary and Non-Binding Indication of Interest dated November 28, 2012 made a Preliminary and Non-Binding Indication of Interest, as per formula i.e. EV/EBITDA multiple of 9.0 x to the EBITDA in the fiscal year to March 2013. The said Preliminary and Non-Binding Indication of Interest, was promptly rejected by the Company vide its email dated December 05, 2012.
- xi. With the rejection of Preliminary and Non-Binding Indication of Interest, made by the Kewill Group, the negotiations pursuant to NDA practically came to an end which were revived at the instance of Kewill Group when they requested for further information for conducting product due diligence and thereafter made a revised Preliminary and Non-Binding Indication of Interest, of purchase price of USD 42.5 Million on May 09, 2013. The said Preliminary and Non-Binding Indication of Interest, was subject to satisfactory completion of detailed due diligence on the Company's business including customary third party due diligence. The said Preliminary and Non-Binding Indication Of Interest letter also clearly stated that, "the terms of this proposal are not intended to be legally binding and we must emphasise that this letter does not constitute an agreement, agreement in principal, agreement to agree, decision or commitment on the part of FP to purchase any part or the whole of the share capital of the Company".
- xii. In view of the non-binding nature of the Preliminary and Non-Binding Indication Of Interest subject to satisfactory completion of due diligence, the said letter dated May 09, 2013 of Kewill Group also could not be viewed as providing certainty of the transaction and thereby amounting to UPSI. It is submitted that a document can be viewed as UPSI depending upon the probability of the proposed transaction to become a reality. In the

instant case, NDA as well as Preliminary and Non-Binding Indication of Interest, did not indicate any certainty of transaction.

- xiii. In this connection, it may be relevant to refer to the case of Samir C. Arora where the charge against Arora was that he had inside information that the board meeting of Digital Globalsoft on May 12, 2003 would announce the merger ratio which was going to have an adverse impact on the value of the scrip and that on the basis of this insider information he sold the entire holdings of ACMF as well as ACM between May 8, 2003 and May 12, 2003. After analyzing the facts of case, the Hon'ble Securities Appellate Tribunal held as under:

*"In respect of the third charge of insider trading, we have come to the conclusion that even the price sensitive information which the appellant is alleged to have somehow accessed did not turn out to be correct information because the merger was not announced on May 12, 2003. Information which finally turns out to be false or at least uncertain cannot even be labeled as information. The sale of securities prior to the board meeting therefore, can only be considered as based on his analysis and assessment of the information available in the public domain."*

- xiv. Based on the above submissions neither the NDA dated September 18, 2012 nor the non-binding indication of interest dated May 09, 2013 can be treated as UPSI by the very nature of non-binding clauses in them and the uncertainty of the transaction at that stage. This is further supported by communication received from one of the Partners of Francisco Partners (Kewill Group) Mr. Deep Shah wherein he has delved upon uncertainty surrounding the transaction till signing of Business Transfer Agreement.
- xv. The Preliminary and Non-Binding Indication Of Interest of Kewill Group also could not be taken seriously in view of the fact that though Kewill Group had shown interest in the Company even in January 2007 also, it ultimately fizzled out soon after synergy discussions.
- xvi. Pursuant to the Preliminary and Non-Binding Indication Of Interest dated May 09, 2013, Kewill Group undertook multiple levels of detailed due diligence involving their own management as well as third parties (lawyers, auditors and technical consultants) spread over a three month period during which there was uncertainty of transaction at several points in time. This was followed by elaborate negotiations on the contents of the draft acquisition agreement till August 08, 2013. While the transaction required only the



approval of the Board of Directors of the Company, the buyer required approvals of Investment Committee of Francisco Partners, Lenders Approval and approval of Board of Directors of Kewill (Transport I.T. Solutions Private Limited). The Investment Committee of Francisco Partners approved the execution of acquisition agreement on August 08, 2013. The Board of Directors of Kewill approved the execution of acquisition agreement on August 08, 2013. The lenders gave their approval to the transaction on August 09, 2013. It may thus be observed that the UPSI originated only on August 08, 2013 when the transaction was approved/confirmed by the Investment committee of Francisco Partners and Board of Directors of Kewill and this decision of acquisition agreement was communicated to the Company.

- xvii. It is incorrect that the Noticee has traded in the Company's shares while in possession of UPSI. In this connection, it is respectfully submitted that the Noticee is the founder promoter of the Company and has been consistently consolidating his shareholding by acquiring further shares since 2007 for which he has been making necessary disclosures to NSE/BSE. Even in the financial year of 2011-12, the Noticee had purchased 52,861 shares. In FY 2008-09, the Noticee had purchased 3,93,018 shares of the Company from the market which was much higher than the present acquisition of 2,09,968 shares. The Noticee has always been purchasing the shares of his company only and has never traded in the shares of any other company.
- xviii. As stated above, the Preliminary and Non-Binding Indication of Interest, given by Kewill Group vide their letter dated November 28, 2012 was rejected by the Company vide its e-mail dated December 05, 2012. The Noticee however continued to purchase shares even after December 05, 2012. If the intention of the Noticee was to acquire shares based on the UPSI regarding Slump Sale then he would have stopped purchasing shares after the rejection of Kewill Group's Preliminary and Non-Binding Indication of Interest by the Company on December 05, 2012 but he continued to purchase consistently till May 06, 2013. Revised Preliminary and Non-Binding Indication of Interest of Kewill Group was received by the Company on May 09, 2013 which was followed by synergy discussions and detailed due diligence. Though the received Preliminary and Non-Binding Indication of Interest was also subject to satisfactory outcome of Synergy discussions and detailed Due Diligence, the Noticee, however did not purchase any share after receipt of revised Preliminary and Non-Binding Indication of Interest dated May 09, 2013 from Kewill Group.

- xix. Noticee has been consistently trying to consolidate his shareholding by acquiring further shares from the market. In 2012, the Noticee surrendered his permanent residence in Singapore and received an amount of approx. Rs. 2 crores directly from his Singapore bank account. After the receipt of said money, the Noticee purchased about 2 lakhs shares spread over a period of six months from November 2012 to May 2013 at an aggregate cost of about Rs. 28 lakhs. If the Noticee was trading based on UPSI then he would have purchased much more shares but he did not do so as he utilized a much larger amount of the money for social causes than the amount spent on acquiring the shares of the Company.
- xx. The Noticee has been acting as Chairman and Managing Director of the Company and during the initial period of the Company's listing i.e. from 2004 to 2010 the Noticee had taken only a meagre and token salary of Rs. 20,000 per month. The shareholders of the Company had approved salary and performance allowance of Rs. 96 lakhs per annum for the Noticee w.e.f. 01.04.2010 but the Noticee had drawn salary of only Rs. 30 lakhs per annum. If the intention of the Noticee was to make money, he could have very well taken his entire salary at the rate of Rs. 96 Lakhs per annum and nobody would have questioned him for taking this money. The undue gain allegedly made by the Noticee by way of insider trading is far lower than that the Noticee could have legally taken as salary from the Company.
- xxi. As per SEBI Notice, PSI-II i.e. UPSI regarding Dividend originated on September 12, 2013 when the decision to refund by capital reduction was first initiated and the same remained UPSI till October 14, 2013 i.e. the day on which decision of the board of directors' meeting held on October 13, 2013 approving the payment of dividend of Rs.29/-- share and reduction of the capital to the extent of 50% of paid up capital by paying Rs.29 per share, was notified to the stock exchange. In this regard, it is submitted that the decision for distributing excess funds lying with the Company to the shareholders after determining the amount required to be retained for meeting existing obligations and day-to-day expenses and after considering the amount required for investment in new / emerging areas was taken by the Company's board of directors at its meeting held on August 10, 2013 which decision was communicated to the stock exchanges on the same day. Hence, it was in public domain that the shareholders would be distributed excess funds after completion of the sale of the business undertaking and investments. What was

not in public domain was only the exact quantum of dividend. BMR Advisors, the Investment Banker for the Slump Sale transaction, had calculated the same based on the actual receipt of Slump sale proceeds on October 04, 2013 and sent the workings of dividend and capital reduction on October 07, 2013 (2.49 PM). The Board of Directors of the Company had accordingly approved the one-time dividend of Rs. 29/- per share at its meeting held on October 13, 2013. The said decision was informed to stock exchanges on the same day, in other words, the UPSI came into existence on October 07, 2013 and remained as UPSI till October 13, 2013 only.

- xxii. The exact amount of dividend can be decided "after" the exact amount is received from the sale proceeds. The date of such a decision can only be "after" the date of receiving such proceeds. Clearly as per acquisition agreement, the success of the transaction (closure) was based on meeting conditions precedent (CP). Firstly, there was uncertainty about meeting those conditions, which implies, that if certain conditions were not met, the transaction would have failed even at that stage. Secondly, there was neither certainty about the amount to be received (based on the conditions met) nor certainty about the date of meeting these conditions. These conditions were met on September 30, 2013 and the closure was achieved on October 04, 2013. Kewill group withheld a sum of USD 3.0 Million for not meeting the condition relating to novation of customer contract of Fedex on the date of payment i.e. October 04, 2013. Any decision, to calculate the exact dividend could have occurred only after October 04. SEBI has wrongly assumed that the exact amount of INR 29 for dividend as PSI was available with the management & board on 12 Sep 2013. Based on the above facts, it is impossible for such PSI to come into existence any day, before October 04, 2013 and it actually came into existence on October 07, 2013.
- xxiii. The Noticee has not traded at any time during the period of alleged UPSI regarding Dividend and hence such UPSI is not relevant for the trading done by the Noticee. By SEBI's own admission UPSI about Dividend came into existence only on September 12, 2013 and the Noticee has not traded at any time after September 12, 2013.
- xxiv. UPSI cannot exist as a definite information and remain out of public domain for a long period, uncertain information cannot be viewed as UPSI. In the instant case, NDA which was far from the execution of Definitive Agreement has been wrongly treated as UPSI, thereby making the period of UPSI -I unduly long period of 11 months from September 18, 2012 to August 10, 2013 which had several uncertain events.

- xxv. The SEBI Notice has also alleged that the investigation has revealed that the Noticee has communicated/counselled, directly or indirectly, the UPSI to one Mr. Ameen Khwaja, his relative Mrs. Kukati Parvathy, Uma Shankar and Prakash Lohia. In response to this the Noticee wishes to submit that SEBI has not produced any documentary evidence whatsoever to show that the Noticee has communicated or counselled the UPSI to any other Noticee. The whole basis of the Notice rests upon conjectures and surmises. There is no motive, benefit, evidence directly or indirectly to Noticee.
- xxvi. As stated above, in terms of the SEBI Notice Mr. Ameen Khwaja was supposed to be in possession of UPSI being an insider and connected person (on account of Pal providing 'search engine' services to the Company) and that he further communicate/counselled the said UPSI to his relatives of Khwaja Group and Mr. Aziz. Therefore, it is vehemently denied that Mr. Aziz dealt in the scrip of the Company on the basis of UPSI communicated/counselled by Mr. Ameen Khwaja through the Noticee.
- xxvii. It is submitted that the Noticee has no relation/contacts with any of the Khwaja Family members except Mr. Ameen Khwaja. Further on a question about the involvement of Ameen Khwaja/Khwaja Family members in the discussion/negotiation regarding the slump sale, PTL has rightly submitted that Ameen Khwaja was only interacting with marketing Department of PTL as a consultant on Search Engine Services and he had neither participated in any meeting/discussion relating to Slump sale nor was he informed about the transaction.
- xxviii. While it is correct that the Noticee and Mr. Ameen Khwaja were the common directors of POMPL and POMPL had provided services relating to 'search engine' to the Company during the period September 2011 to May 2013 but it is totally baseless and incorrect that the Noticee had ever communicated/counselled directly or indirectly the UPSI to Mr. Ameen Khwaja. SEBI has not provided any evidence whatsoever to show that the Noticee has communicated/counselled the UPSI to Mr. Ameen Khwaja. In fact, the relevant part of the Notice pertaining to Ameen Khwaja states that due to Pal providing search engine services to the Company, he was allegedly an 'insider' and 'connected person' in terms of regulations 2(e) and (c) of PIT Regulations. The SEBI Notice further states that the trading pattern of the Khwaja Group suggest that they had traded on PSI from Mr. Ameen Khwaja. Thus, it may be observed that there is no allegation that the

UPSI was communicated/counselled by the Noticee to Mr. Ameen Khwaja. On the contrary, as per SEBI's Notice Mr. Ameen Khwaja is supposed to be in possession of UPSI being an insider and connected person and that he further communicated/counselled the said UPSI to his relatives in the Khwaja Group and Mr. Pirani Ameen Abdul Aziz (Mr. Aziz). Therefore, it is strongly denied that through the association of the Noticee, Ameen Khwaja was aware of the plans of the Company.

- xxix. It is submitted that the Noticee was not in any form of contact whatsoever with Mr. Prakash Lohia and Mr. Umashankar S., former employees of the Company, during the Investigation Period. There is no intent, motive or benefit to the Noticee in communicating the UPSI to the aforesaid employees and it is strenuously denied that the Noticee had ever communicated/counselled, directly or indirectly, the UPSI to the aforesaid employees. SEBI has not provided any proof to establish that the Noticee has communicated/counselled any UPSI to the said former employees. Receipt of a congratulatory note through an email from Umashankar S. and Prakash Lohia after the announcement of Slump sale cannot be construed that the Noticee had communicated any UPSI to them. The Noticee further states that he has no connection whatsoever with Ms. Raja Lakshmi Shrivaiyuntam who is stated to be wife of one of the said employees.
- xxx. The Noticee submits that Ms. Kukati Parvathi is a distant relative i.e. cousin of the Noticee's mother, who is 80 years old widow and lives in Nellore. There are rare occasions when the Noticee gets the chance to interact with her and the Noticee did not have any contact with her regarding the UPSI at any point in time whatsoever. It is totally baseless that the Noticee had communicated/ counselled UPSI to her based on which she had traded. There is no intent, motive or benefit to the Noticee in communicating the UPSI to Ms. Kukati Parvathi and denied that the Noticee had ever communicated/counselled, directly or indirectly, the UPSI to Ms. Kukati Parvathi. SEBI has not provided any evidence whatsoever to show that the Noticee has ever communicated/counselled the UPSI to Ms. Kukati Parvathi.
- xxxi. The Noticee has no comments in respect of contents of para 41 dealing with Ms. P Soujanya Reddy as she was an insider in her own right being non-executive director of the Company and trading, if any, in the scrip of the Company was done by her in her individual capacity and the Noticee has nothing to do with the same.

- xxxii. SEBI has wrongly considered October 14, 2013 as a base date for calculating undue profits. It is alleged that the Noticee had traded while in possession of UPSI regarding Slump Sale and such UPSI was made public by the Company on August 10, 2013 and therefore assuming (but not admitting) that the SEBI alleged date of UPSI is September 18, 2012 then the base date for calculating undue gains should be August 12, 2013 (immediate working day after the announcement of UPSI) and not October 14, 2013. The price of the Company's scrip on August 12, 2013 was Rs. 18.80/- (substantially lower than the price on October 14, 2013) and the alleged undue profits of the Noticee would come to Rs.11,47,716 and not 53,11,074 (as calculated by SEBI).
- xxxiii. The Noticee being main promoter of the Company has been all throughout consolidating his shareholding by acquiring shares of the Company from the market. The Noticee have acquired 9.17 Lakh shares from FY 2006 to the date in question at total aggregate value of 4.09 crores. The Noticee acquired at an average of 1.31 lakh shares per year from last seven years which is consistent and not unique or unusual in this period. The total amount paid by Noticee in last seven years is Rupees 2.43 crores to acquire 9 Lakh shares and the Investment by Noticee in these shares as per Income Tax rules with indexation is Rupees 4.09 Crores. As SEBI is taking into consideration the rate of Rs.39.20/- per share for determining the gains and calculated the total gains. As per Income Tax Act the Noticee have actually made a loss of 50 Lakhs by purchase of the Company's shares while the allegation is the Noticee have earned 50 Lakh profit by trading in these shares.

**b) P. Soujanya Reddy:-**

- i. The Noticee is a 75 year old respectable senior citizen of the country. She is a high net worth individual having assets of over 26 crores. The alleged gains from the trading in the shares of the Company is a meagre amount of 4 lakhs. This is the first time that such an allegation involving a financial impropriety has been made against the Noticee in her 75 years of life by any authority, organization or individual.
- ii. The Noticee was a non-executive director of the Company and was not involved in day to day business of the Company and therefore she had no knowledge whatsoever about the UPSI regarding Slump Sale till the date of board meeting i.e. August 10, 2013.

- iii. The information with regard to proposed declaration of interim dividend and the refund by the capital reduction was in public domain since August 10, 2013 and hence no UPSI in relation thereto existed prior to October 13, 2013. At the board meeting on October 13, 2013, no new policy decision with regard to dividend or refund of excess capital was taken, the said meeting only decided the exact quantum of dividend as also the reduction of capital to the extent of 50% of the paid-up capital by paying Rs.29 per share.
- iv. It is respectfully submitted that the Noticee is part of promoter group of the Company and has been consistently trading in the securities market including the scrip of the Company. The Noticee is a high net worth individual and regular trader in the securities. She has been actively trading in 40-50 Companies at any given point of time in last 5 years with a portfolio value of more than Rs. 2 crores. Since the Noticee is a high net worth individual with a history of regular trading, the Noticee would have purchased a much larger chunk of securities of the Company during the Investigation Period instead of purchasing merely 17,500 shares if the intention was to acquire shares of the Company based on UPSI.
- v. As stated above, the Noticee has been buying and selling the shares of the Company in the previous years also. In the financial year 2007-08 and financial year 2010-11, she had purchased 28,001 shares and 33,536 shares respectively which were much higher in number as compared to 17,500 shares purchased by her during the Investigation Period.
- vi. It is also pertinent to note that the Noticee had been dealing in shares of the Company immediately before and after the Investigation Period, for e.g., she had sold 3000 shares of the Company on April 07, 2011 and purchased 211 shares on April 09, 2012, 789 shares on April 10, 2012 and 2000 shares on April 16, 2012 i.e. prior to the commencement of Investigation period from September 2012. Further, she had purchased 2000 shares of the Company on December 23, 2013 and 1025 shares on December 26, 2013 i.e. after the Investigation Period ending on November 30, 2013. It clearly establishes that the Noticee has been buying and selling the shares of the Company during Investigation Period in normal course of her trading in the securities market.

- vii. The Noticee was a Non-Executive Director and she was not involved in any talks with Kewill Group. The Noticee came to know about the transaction only at the time of Board Meeting. Therefore, it is unjust and against principles of natural justice to consider purchase of shares 8 months prior to Board Meeting approving sale of business, as violation of Insider Trading Principles.
- viii. The Noticee had traded a total value of Rupees 30 crores in the shares of other Companies during the Investigation Period. The value of shares traded in the Company is a mere 0.07% of the total trading she has done during the Investigation Period. If the Noticee had intention to make undue profit based on UPSI then she being an active securities market trader and a high net worth individual would have purchased much more shares of the Company instead of purchasing large number of shares of other companies during the investigation period.
- ix. SEBI has wrongly assumed that the Noticee has made undue profit when the Noticee has actually not sold the shares on October 14, 2013. There cannot be any notional gain on equity investment on any particular day on notional basis as the price is likely to fluctuate from day to day. Further, the Noticee has not traded at any time during the period of alleged UPSI regarding Dividend and hence such UPSI is not relevant for the trading done by the Noticee.

**c) Ameen Khwaja, Noorjahan A. Khwaja, Ashik Ali Khwaja, Rozina Hirani Khwaja, Shefali Ameen Khwaja and Shahid Khwaja:-**

**Ameen Khwaja**

- i. SEBI has wrongly drawn an inference that the Noticee becomes an 'Insider' and 'Connected Person' based on the fact that he was a common director with Mr. Palem Srikanth Reddy or that both of them appear in the promoter category of Pal. It is submitted that a person being a common director or a common promoter in another company with an insider of a company cannot be treated as an 'Insider' or 'Connected Person' during the Investigation Period as per the provisions of regulation 2 (e) and/or 2 (c).
- ii. The Noticee also cannot be considered as an 'Insider' and 'Connected Person' in terms of regulation 2 (c) and 2 (e) based on the allegation that the Noticee was part of the discussions started on December 19, 2013 (i.e. after the investigation period) with regard to the merger of Paired Media and Entertainment Private Limited and Pal with the Company. Any such discussions which have taken place after the Investigation Period can



have no relevance for determining the status of person as an 'Insider' or 'Connected Person' in terms of regulation 2 (c) and 2 (e) of PIT Regulations.

- iii. The Noticee was one of the directors of Pal and was not actively involved in providing the 'Search Engine' services by Pal and as such the Noticee in his individual capacity was not holding any position involving a professional or business relationship between himself and the Company. Any such relationship, if at all, that existed between the Company and Pal and not between the Noticee in his individual capacity and the Company.
- iv. Even if it is assumed (without admission) that the Noticee was an 'Insider' and 'Connected Person' of the Company during the relevant period, the Noticee could not be reasonably expected to have an access to UPSI in relation to that company as the nature of job being done by Pal for the Company had nothing to do with UPSI regarding Slump Sale and UPSI regarding Dividend. Pal was providing 'Search Engine' services to the Company which are programs that search documents for specified keywords and returns a list of the documents where the keywords were found.
- v. The allegation that Mr. Palem Srikanth Reddy had communicated/counselled directly or indirectly the UPSI to the Noticee is without any basis as SEBI has not produced any *evidence* whatsoever to this effect. A sweeping and vague allegation cannot be accepted for proving the serious charge of insider trading.
- vi. Noticee did not have in his possession any UPSI relating to the Company and therefore the question of his communicating such UPSI to the members of Khwaja Group and Mr. Aziz does not arise. Secondly, there is no evidence whatsoever to show that the Noticee has communicated any UPSI to the Khwaja Group and Mr. Aziz.
- vii. The Noticee was providing 'Search Engine' services during the period from September 2011 to May 2013 and being an 'Insider' and 'Connected Person' he was allegedly to be in possession of UPSI. If so, then why such UPSI was not communicated by the Noticee to the Khwaja Group and Mr. Aziz during that period i.e. September 2011 to May 2013 and why Khwaja Group and Mr. Aziz had not traded during that period. What was the logic for Khawaja Group and Mr. Aziz to have traded in the Company's scrip from June

2013 onwards. Why they did not trade earlier when price of the Company's scrip was much lower. This factual position contradicts the SEBI's own case.

**Other Noticees of the Khwaja family**

- i. An employee or director of the company providing services cannot be treated as deemed connected person. The Regulations have clear cut provisions in terms of which any director or employee of a company can be treated as a “deemed connected person”. It may be observed that an employee or director of certain entities/organizations such as an intermediary, stock exchange, clearing corporation/ house, merchant banker, asset Management Company, public financial institution, self-regulatory organization, etc. can be treated as a deemed connected person under regulation 2(h). The said provisions of regulation 2(h), however, do not treat the employee or director of a company providing professional services or having business relationship with the company as a deemed connected person. In fact, it is not the case of SEBI that Ameen Khwaja was a deemed connected person but it has treated him as connected person even though it was POMPL having an agreement with the Company to provide the services.

**d) Kukati Parvathi**

- i. The Noticee is an old lady of about 80 years and happens to be a distant aunt of Srikanth Reddy (Noticee No.1). She lives in Nellore.
- ii. According to SEBI's investigation, she had traded based on UPSI which was communicated to her by Srikanth Reddy. Besides making this bald statement, SEBI has not provided any evidence to prove communication of UPSI by Srikanth Reddy to Kukathi Parvathi. On this ground alone, SEBI's case against her cannot sustain.
- iii. Investigation has also alleged that her trading value is disproportionate to her income. Investigation had relied on KYC form given to stock broker where she had stated her income to be in the range of Rs. 1 to Rs. 5 Lakh. SEBI had however not bothered to ask her about income tax returns filed by her.

- iv. That the Noticee No. 9 has filed her Tax Returns as filed with the Income Tax for more than 40 years and that she has been having agricultural land in Nellore and residential premises in prime area in Nellore and has sufficient funds and amounts to invest in securities and has a portfolio of trading of about Rs 15 Lakhs
- v. That SEBI has wrongly assessed her income to be in the range of Rs. 1 lakhs to Rs.5 lakhs based on KYC submitted to trading members. It is requested to consider the income tax filings from 2010-11, 2011-12 to 2012-13 which clearly indicate her income between 7 lakhs to 13.85 lakhs. Investment of Rs. 5.70 lakhs in 2012-2013 as against income of Rs. 10.46 lakhs in 2012 and 13.85 lakhs in 2013 cannot be considered as excess of reported income. The Noticee No. 9 has invested in other scrips as well during the trading period
- vi. That Noticee No. 1 has neither communicated nor counselled Noticee No. 9 and have been meeting on extremely rare occasions on account of Noticee No. 1's commercial obligations and therefore the question of having communicated the UPSI doesn't arise;

**Miscalculation of undue profits:**

- vii. The Noticee No. 9 had purchased shares of the company during UPSI-1. But undue profits have been arrived at by considering the closing price of UPSI-II, If closing price of August 12, 2013 is taken, the undue profit of Noticee No. 9 would be only Rs. 87,478/- as against Rs. 7,99,430/- as determined by SEBI.
- viii. That the Noticee was holding the shares during the investigation period and had sold the same only in September 2014, therefore question of undue profits does not arise in the present case.

**e) Pirani Ameen Abdul Aziz,**

- i. SEBI has wrongly drawn an inference that he becomes an 'Insider' and 'Connected Person' based on his association to Mr. Ameen Khwaja through Facebook. It is submitted that a person being a Friend on Facebook with an insider of a company cannot be treated as an 'Insider' or 'Connected Person' as per the provisions of regulation 2 (e) and/or 2 (c).

- ii. He was not privy to any UPSI nor was he connected or related to Mr. Ameen Khwaja or any other member of Paired Technologies Limited. He was connected to Mr. Ameen Khwaja only through mutual friends on Facebook. He has more than one thousand (1,144) friends on his Facebook profile and it is impossible to know many of them personally. SEBI has made an allegation that he has traded based on UPSI received from Mr. Ameen Khwaja. This allegation is entirely based upon surmises and hypothesis. SEBI has not produced any evidence to show that Mr. Ameen Khwaja or any other member of Paired Technologies Ltd has communicated/counselled any UPSI to him.
- iii. He has used his own personal savings and savings from his family to purchase the shares of Paired Technologies Limited. He had an income of 5 to 7 lakhs per annum including yearly bonuses. He has been working since 2008 and he has saved money for investment in shares or buying assets. He wanted to invest in Stock Market and he knew Paired Technologies Limited as successful Product Development Company from Hyderabad. The investment was made purely on his own analysis of the Company and its background & financials available in the public domain and was not based on any UPSI.
- iv. Because of the allegation by SEBI, he was terminated from Deloitte Tax Services India Private Limited and not able to find Job in any other Company. He also lost an opportunity to take up a job in the US, he was an H1B Visa holder and the US Company did not want to hire him as he was under investigation for Insider Trading. It has been very trying time for him and his family and since he is unemployed they are going through huge financial difficulties.

f) **Karna Ramanjula Reddy,**

- i. He is a M. Com. Initially he joined Four Soft Limited (Now Paired Technologies Ltd.) on 16.09.2009 as an accounts executive and his job profile was taking cash, bank vouchers and booking of expenses into system. He was promoted to assistant manager in the month of April 2012 during regular process of appraisal with same job profile reportable to manager. Though he was promoted to assistant manager from accounts executive there was no change in his job profile. He was working at lower level in the organization.
- ii. During the year 2013, he was planning to buy a residential apartment and for this purpose he had pooled all his savings to the tune of Rs.3,00,000/- and for the remaining balance he intended to take housing loan from bank. He started searching for the property somehow it

was getting delayed then he thought to invest the available amount of Rs.3,00,000/- to get some return. He had gone through various options but at last he felt investment in equity market is the best option as he can readily sell the shares and can realize the amount as and when he required it to give advance to his house. For the purpose of investment into shares, he opened demat account with Kotak securities in the month of May 2013 as already he had salary account with Kotak bank. He requested Kotak securities to give recommendations for investment Kotak executive has advised companies but somehow, he was not convinced as he was new to market after giving some thoughts he felt that it's better to invest in Four Soft Limited where he was working instead of investing in unknown companies and he started investing in the company as he had immense faith in the ability of the Company's management who would take the company to greater heights.

- iii. In the month of August 2013 Company announced about deal with Kewill group. Until public announcement, he was not aware of anything about the deal. He never participated in management meetings and not participated in any activities pertaining the deal as my position is at entry level only. This was just coincidental. He never had any information about the deal nor discussed about the same with anyone in the office. After announcing the deal, the company again announced about dividend also about this also he did not have any prior information. The Company confirmed this fact vide Annexure 2 & 2A attached to Show Cause Notice wherein his name does not figure in the list of people who are aware of the price sensitive information. It clearly proves that he not aware of any UPSI.
- iv. In the meantime, he searched for house rigorously during the month of June 2014 and confirmed one house which is within his budget of Rs.21.5 Lacks. He started his negotiation with builder in the month of July and confirmed the price in the month of September 2014. He had promised to the builder to make the advance payment in the month September 2014 end and he sold his shares and remitted the amount to builder. For the remaining balance, he obtained loan from LIC and EMI started in the month of October 2014 itself. He had started repayment of loan and now he has no savings left to invest. Hence, he had not invested again in the market.

**g) Umashankar S., Raja Lakshmi Srivaiguntam :-**

- i. Umashankar Saketharaman and Rajalakshmi are husband and wife and Umashankar only dealt in the aforesaid scrip, on behalf of Raja Lakshmi.

- ii. He is a MBA Finance and ICWA and he is passionate about investing in securities market since 1990.
- iii. He submitted that he was employed with PTL from August 2007 to January 2010 and at the time of his resignation he was Vice President Product Management. He was reporting directly to Palem Srikanth Reddy, Chairman and Managing Director till October 2007 and after the appointment of Rajshekhar Roy, CEO of PTL, he started reporting to him.
- iv. He submitted that 70 % of the purchase was during the non UPSI period and he submitted list of scrips in which he had invested from 2005 onwards. After leaving PTL he had never been in contact with any other employee of PTL. The congratulatory email which the SCN is relying was volunteered by him to SEBI.
- v. He submitted that even assuming without admitting that he was in touch with the chairman of PTL, the “frequent communication and regular touch” was incorporated in the SEBI (PIT), Regulations only in 2015 and it was missing in SEBI (PIT) Regulations, 1992, under which the two noticees are charged and penal provisions should be strictly interpreted. Therefore, the same is not applicable against him. He pleaded that a lenient view may be taken as any punishment who severely consequence on his employability.

**h) Prakash Lohia**

- i. He was a shareholder of PTL since 2007 and was also an employee of PTL from January 2007 to April 2011.
- ii. He resigned from PTL in April 2011 and was not associated with PTL in any manner whatsoever which would have the effect of him having access to unpublished price sensitive information.
- iii. He had not contacted Mr. Reddy after leaving PTL in April 2011 and his decision to buy shares was not in any way influenced by Mr. Reddy. As a law abiding citizen of India who has fully cooperated with the regulatory authorities, He had suo-moto provided the details regarding email sent by me to Mr. Reddy post slump sale announcement to the Investigating Authority at SEBI during the course of investigation.

- iv. He had sent email to Mr. Reddy congratulating him after learning about the PTL slump sale announcement on August 11, 2013. As he was not sure as to his email id at that time, he had sent an email to four different email ids.
- v. The allegation that his investment in the scrip of PTL was considerable is without any basis and without comparing it with his gross salary, his bank balance as on the date of investment and his investment in other securities exactly around the same period. His gross annual salary in June 2013 was Rs. 27,50,000/- and the total balance in my bank accounts as on June 01, 2013 was around Rs. 23,76,0411- out of which he invested a sum of Rs. 8,30,000/- in mutual funds and only Rs. 3,76,070/- in the shares of PTL. Hence, the percentage of investment in the shares of PTL out of total funds available with me as on June 01, 2013 was only 15.83% and the total investment in mutual funds was around 34.93% of the total investable funds available with him and the same is tabulated below:

<b>Period</b>	<b>Mutal Funds (Rs.)</b>	<b>PTL Shares (Rs.)</b>	<b>Total (Rs.)</b>
Jun-13	530,000	172,555	702,555
Jul-13	300000	132,544	432,544
01/08/2013 (upto August 10, 2013)	-	70,971	70,971
Total	830000	376070	1206070
% of investible funds as on June 01, 2013	34.93%	15.83%	

- vi. Reason for his investment in shares of PTL during June-August 2013: PTL had posted highest profit in the year ending March 2013 as compared to last three years. All my investments in PTL shares during 2013 was after announcement of the annual results on May 30, 2013. Significantly improved annual financial performance by PTL for the year ended on March 31, 2013 was a major contributing factor for me to invest a small portion of my surplus funds in the Company where I had worked for more than four years and understood the business fundamentals.
- vii. The Company was professionally managed with marquee investors like Kotak Fund holding more than 10% shareholding in PTL and reputed customers like DHL, CEVA,

DB Schenker, Panasonic, Flyjac (Hitachi Transport System Group Company) and Geodis Wilson in the transport and logistics industry.

- viii. The consolidated EPS of the company was around Rs. 3 and Price Earnings Ratio (PE Ratio) was very low around 4.64 making the stock attractive for purchase. The PE ratio of PTL was 10.63 as on May 31, 2010, 18.69 as on May 31, 2011 and only 4.64 as on May 31, 2013. This compared with PE ratio of S&P BSE TECK was much lower and hence provided significant upside possibility in the price of PTL

<b>Year ended on March 31 of Year</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Consolidated Net Profit (Rs. Lakhs)	766.55	309.42	-4263.8#	1152.56
EPS (Rs.) – A	1.98	0.8	-11	2.97
Share price on May 31 of year	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Share price (Rs.) B	21.05	14.95	7.8	13.77
Price Earning Ration (B/A)	10.63	18.69	NA	4.64
S&P BSE TECK PE RATIO for the year	21.11	25.99	25.93	23.09
PE ratio of PTL to S&P BSE Teck in %	50%	72%	NA	20%
# - As per note 1 to the annual result for the year ended on March 31, 2012, the consolidated profit after tax excluding the exceptional item (impairment of goodwill - Rs. 5,000 lakhs) was Rs. 736.20 lakhs				

- ix. As can be seen from above, net profit of PTL had increased considerably and its shares were trading at huge discount in 2013 compared to S&P BSE TECK PE Ratio. This further strengthened his view of investing in PTL for higher upside compared to any other technology company.
- x. In May 2010, he was awarded 45,000 PTL shares at the rate of Rs. 10/- per share under Employee Stock Option Purchase Scheme (hereinafter, "ESOPS") vesting over a period of 3 years starting from May 2011 to May 2013, subject to PTL's performance. However, as he had resigned from PTL, those options were unvested and had lapsed.



- xi. With improved financial performance of PTL and funds available with him, he had purchased shares of PTL at an average price of Rs. 14.55 during the alleged UPSI-1 period, which when compared to exercise price of Rs. 10 for those ESOPS was higher by only Rs. 4.55 per share (including taxes, the difference would be less than Rs. 4.55 per share). In addition, for exercise of ESOPS, tax at the rate of 30% on the difference in average market price and exercise was payable.
- xii. The inference alleged in the said notice that he had traded based on UPSI, has completely ignored the event that in fact after corporate announcement of slump sale by PTL on August 10, 2013, he had purchased additional 3,500 shares worth Rs. 72,251/- on August 16, 2013 and 7,500 shares worth Rs. 1,99,708/- on August 22, 2013 (Total 11,000 shares for Rs. 2,76,933).
- xiii. The investments in equity shares of PTL was not unusual or out of context in light of my past (two years prior to purchase of PTL shares) long association with the Company which helped me understand the business model and fundamentals of the Company and better results in Financial Year 2012-13 looked like a perfect opportunity to acquire some shares in PTL, which he would have been eligible and invested under ESOPS, had he been associated with the Company. It is natural for an investor to make investment in a Company which he understands better compared to other scrips. There was no need for him to have any insider information for understanding the performance of the Company as the published financial results were available in public domain.
- xiv. He had not sold any shares for a period exceeding 2 months after the end of alleged UPSI-1 period which establishes that he had invested in the scrip in the ordinary course as an investor and not on being privy to UPSI. In fact, he had purchased more shares after the announcement of slump sale which establishes that the allegation of insider trading is flawed and misconceived. He had sold the shares only in October 2013 as the existing business was sold in slump sale.

**i) Mohan Krishna Reddy Aryabumi :-**

- i. Noticee was independent director of the company. He purchased the company shares on September 13, 18, 19 and 22 of 2013;

- ii. The proposed declaration of dividend and Capital reduction were in public domain since August 10, 2013 when the Company's Board considered these proposals and made the public announcement.
- iii. The Company's Board at its meeting on October 13, 2013 had only approved the exact quantum of Dividend of Rs. 29/- per share. There was no new policy decision. UPSI-II came into existence only on October 10, 2013 when the Board proposal was firmed up by the management and notice for closing the trading window was given.
- iv. Noticee is an acknowledged professional and high net worth individual. He is also a regular trader in the securities. He has been actively trading in many Companies since last two decades with a portfolio value of more than Rs. 70 Lakhs. Since the Noticee No. 15 is a high net worth individual with a history of regular trading, the Noticee would have purchased a much larger chunk of securities of the Company during the Investigation Period instead of purchasing merely 9,300 shares if the intention was to acquire shares of the Company based on UPSI.
- v. Miscalculation of undue profits: That the Noticee was holding the shares during the investigation period and had sold the same only in April 2015. Since the Noticee was holding the shares till April 2015 i.e. for about one and half year after the investigation period (which concluded on October 14, 2013), the question of undue profits does not arise in the present case

**Issues Framed:**

**I. Issue 1: Which period should be demarcated for the following two UPSI events?**

- i. **PSI-I:** Slump sale of software solutions business to Kewill group.
- ii. **PSI-II:** Declaration of Interim dividend of Rs. 29 per share and reducing 50% of capital by paying a value of Rs.29 per share.

**II. Issue 2: Whether the trading pattern shows that the noticees had violated Insider trading Regulations using the two aforesaid UPSI?**

**Consideration:-**

**Issue 1: Which period should be demarcated for the following two UPSI events?**

- i. **PSI-I:** Slump sale of software solutions business to Kewill group.
- ii. **PSI-II:** Declaration of Interim dividend of Rs. 29 per share and reducing 50% of capital by paying a value of Rs.29 per share.

**SCN**

10. SCN alleged that PSI – I, came into existence on September 18, 2012 when the Non-Disclosure Agreement (hereinafter referred to as ‘**NDA**’) was executed between Buyers and PTL. Since the NDA (having a confidentiality clause) which was a legal contract binding on both parties, if disclosed, would have an impact on the deal, the day the contract was entered into was treated as the period when the Unpublished Price Sensitive Information came into existence, in the SCN. PTL informed BSE on August 10, 2013 at 13:01 hrs that the BoD at their meeting held on August 10, 2013 had approved the slump sale of software solutions business to Kewill group. Therefore the PSI for sale of business become public on August 10, 2013 at 13:01 hrs. Thus, the period of UPSI - I was alleged to be from September 18, 2012 (date on which NDA was signed) to August 10, 2013 (date on which the information regarding slump sale was made public) in the SCN. PTL informed that the trading window was closed from August 08, 2013 to August 13, 2103.

**Reply of Noticee No. 1:-**

11. In response to the said allegation Noticee No. 1 has submitted that before the signing of a binding agreement there were several steps involving a possibility of withdrawal of offer / interest at any stage by any party. SEBI wrongly presumed the disclosure of NDA dated September 18, 2012 having a confidentiality clause as UPSI. The Preliminary and Non-Binding Indication of Interest received on November 28, 2012 was rejected vide email dated December 5, 2012. The negotiation was again revived and thereafter a revised Preliminary and Non-Binding Indication of Interest of purchase price of USD 42.5 Million on May 09, 2013 was received, the terms of which were not intended to be legally binding. The Noticee has further submitted that after the Preliminary and Non-Binding Indication of Interest multiple levels of detailed due diligence were involved, followed by elaborate negotiations on the contents of the draft acquisition agreement and the approval by the Investment Committee of Francisco Partners and Board of Directors of Kewill for the execution of acquisition agreement on August 08, 2013. Thus, the UPSI originated only on August 08, 2013.

### **Consideration**

12. I have considered the allegation in the SCN and the submissions of Noticee No. 1. In terms of Regulation 2(ha) (ii) & (vi) of SEBI (Prohibition of Insider Trading) Regulations, 1992, the “price sensitive information” (hereinafter referred to as ‘PSI’) includes “intended declaration of dividend (both interim & final)” & “disposal of the whole or substantial part of the undertaking” respectively. Therefore, the following announcements made by PTL are definitely PSI :
- PSI-I:** On August 10, 2013 - Slump sale of software solutions business to Kewill group.
  - PSI-II:** On October 14, 2013 - Declaration of Interim dividend of Rs. 29 per share and reducing 50% of capital by paying a value of Rs.29 per share.
13. Investigations revealed that Transport I.T Solutions Pvt. Ltd., a Kewill Group Company owned by Francisco Partners, proposed to acquire PTL's business of providing new technology-based software solutions for supply chain and logistics operational processes on a slump sale basis. It also proposed to acquire PTL's entire investments in the share capital of its foreign subsidiaries viz., Four Soft B.V., Four Soft Singapore Pte Ltd. & Four Soft USA Inc. Kewill Group is a leading software solutions provider that enables enterprises and logistics providers to manage the movement of goods and information across the globe. PTL negotiated with Transport I.T. Solutions Pvt. Ltd. for the slump sale of its business, for a lump sum cash consideration of US\$22.5 million. PTL also agreed to sell or otherwise transfer its entire investments in the share capital of its foreign subsidiaries as follows:

<b>Name of the foreign subsidiaries</b>	<b>Consideration amount (USD Million)</b>
Four Soft Singapore Pte Ltd.	1.35
Four Soft B.V.	19.29
Four Soft USA, Inc.	0.25

14. Investigation further revealed that these proposals were put forward at the Board meeting of PTL held on August 10, 2013 and the Board of PTL noted that the aggregate consideration of USD 43.4 million represented a premium of 187% and 278% over the book value as at June 30, 2013 & market capitalization of the Company as at August 08, 2013. During the meeting of Board of Directors held on August 10, 2013, the possible utilization of funds accruing to PTL post sale of business undertaking and investments, the need to further distribute the excess funds lying with PTL to the shareholders after determining the amount required for meeting existing obligations

and day-to-day expenses and after considering the amount required for investments in new / emerging areas were discussed. The Board agreed that post the completion of the sale, such amount as the Board may determine at the appropriate time, should be distributed to the shareholders by way of onetime special dividend and or buy back or other means.

15. The chronology of events relating to slump sale of software solutions business of PTL to Kewill group, declaration of Interim dividend of Rs 29 per share and capital reduction by 50% as submitted by PTL is as follows:

<b>Date</b>	<b>Event</b>
05.09.12	Initiation of discussion between the buyers and Palem S. Reddy, Biju Nair, KV Ramakrishna & BMR Advisors for slump sale of its software business.
18.09.12	Non-Disclosure Agreement (NDA) executed between Buyers and the Company in the presence of buyers and Palem S. Reddy, Biju Nair, KV Ramakrishna & BMR Advisors w.r.t. a possible transaction with Four Soft Ltd. and/or its subsidiaries or affiliates.
24.09.12 to 05.12.12	Sharing of information memorandum with Buyers and additional information /clarifications as requested by Francisco Partners. Receipt of Non-binding offer from buyers on 28.11.2012 which was rejected by Foursoft on December 5, 2012.
12.01.13 to 27.03.13	On 12-Jan-13, visit of Francisco Partners team to Four Soft Office and meetings. On 14-Jan-13 - follow on data request from Kewill. On 18-Jan-13 - submission of information for follow-up on data request. On 8-Mar-13 - discussion on Product Due diligence dates. From 8-Mar-13 to 15-Mar-13 - arranging various documents for Kewill team visit for Due diligence. On 25-Mar-13 to 27-Mar-13 - submission of information post product due diligence.
09.05.13	Receipt of revised Non-binding offer from buyers
11.05.13	Acknowledgment of Non-binding offer by Foursoft.
09.05.13 to 19.07.13	Commission of due diligence by the company and conduct of the same by Deloitte Touche Tomatsu India Pvt. Ltd for financial due diligence and by Dua Associates for legal due diligence.
04.06.13 to 19.07.13	Series of interactions between Buyers & the company for business, legal and tax understanding.
Jul'13 - Aug'13	Discussion and negotiation of definitive agreements

01.08.13 (Thursday)	Agenda for the Board Meeting scheduled on August 10, 2013 put together by Palem S. Reddy (Chairman & MD), Biju Nair (CFO), M. Raghuram (Company Secretary) in consultation with BMR Advisors
02.08.13 (Friday)	Notice of Board Meeting to be held on August 10, 2013 sent to BSE and NSE.
02.08.13 (Friday)	Agenda for Board Meeting scheduled on August 10, 2013 circulated to Board Members.
10.08.13	Foursoft informed the announcement with respect to slump sale to BSE and NSE.
10.08.13 @13:01 hrs (Saturday)	Corporate Announcement on BSE stating that Board discussed and approved proposal for slump sale and signing of Acquisition Agreement and also post the completion of the sale of the Business Undertaking and Investments, such amount as the Board may determine be distributed to shareholders by way of onetime special Dividend and or buy back or other means.
12.08.13	Corporate announcement on NSE stating that the Board of Directors have approved slump sale of the business of providing software solutions for supply chain and logistics operational processes and sale of certain investments of the company and to consider one-time special dividend for shareholders.
16.08.13	Dispatch of notice and postal ballot forms to shareholders
18.09.13	Disclosure of voting results of postal ballot to stock exchanges
04.10.13	Completion of sale of business and investments in foreign subsidiaries

16. At the outset, I would like to place reliance on the provisions of the PIT Regulations 2015, though it is subsequent to the period of the alleged violations, for the limited purpose of understanding the nature and scope of a NDA in the context of potential insider trading it can give rise to. I note that in the PIT Regulations 2015, specific provision regarding NDA is available, which reads as follows:-

*“For purposes of sub-regulation (3), the board of directors shall require the parties to execute agreements to contract confidentiality and non-disclosure obligations on the part of such parties and such parties shall keep information so received confidential, except for the purpose of sub-regulation (3), and shall not otherwise trade in securities of the company when in possession of unpublished price sensitive information.”*

Non-Disclosure Agreements are for facilitating and conducting ‘Due Diligence’ exercise. It protects misuse of proprietary information (generally not known to public) such as designs, targets, business plans, strategies, data, technical information etc. by recipient while conducting Due Diligence. In order to keep a level playing field, it is absolutely necessary for the party conducting Due Diligence to keep the information so received confidential and not to trade in

the scrip using the said information. However, the signing of the NDA does not signify that the deal is clinched. In fact, in the instant case since NDA signified only the commencement of due diligence process, there was every possibility of the deal being scrapped anytime during the due diligence process. Therefore, in my view the stance taken in the SCN that the PSI emanated on September 18, 2012 is not correct. The relevant portion of SCN is as follows:-

*“From the chronology of events tabulated above, investigations observed that PSI - I came into existence on September 18, 2012 when the Non-Disclosure Agreement (hereinafter referred to as ‘NDA’) was executed between Buyers and PTL. Since the NDA (having a confidentially clause) which was a legal contract binding on both parties, if disclosed, would have an impact on the deal, the day the contract was entered into was treated as the period when the Unpublished Price Sensitive Information came into existence.”*

Moreover, the very fact that the offer received from Kewill was rejected by PTL on December 05, 2012 indicates that the signing of NDA cannot be considered as a watershed event signifying concretization of the deal. Therefore, in my view the PSI –I came into existence on May 9, 2013 when the Non-binding offer was given by the buyers which was of USD 43.4 million representing a premium of 187% and 278% over the book value as at June 30, 2013 & market capitalization of the Company as at August 08, 2013, which was accepted by PLT. Before this positive PSI came into existence, the offers received by PTL were very low, which the company rejected immediately. Thus, the UPSI –I, regarding Slump sale of software solutions business, came into existence on May 9, 2013 and continued till August 10, 2013.

#### **Allegation regarding PSI-II in the SCN**

17. Investigation revealed that after the announcement of slump sale of software solutions business to Kewill group on August 10, 2013, the price of the scrip was found to have moved from a close of Rs.17.95 on August 08, 2013 to a high of Rs. 42.15 on October 15, 2013 i.e., registered a rise of 135% in 44 trading days on NSE. Similar movement in the price of the scrip was observed on BSE. Similarly, after the announcement of declaration of dividend on October 14, 2013, the price of the scrip moved from a close of Rs. 38.25 on October 11, 2013 to a close of Rs. 42.15 on October 15, 2013 (rise of 10.2% in 2 trading days).
18. As observed from the chronology of events tabulated above, on August 10, 2013, PTL informed BSE that BoD discussed and agreed that post completion of sale of the Business Undertaking and Investments, such amount as the Board may determine at the appropriate time, should be distributed to the shareholders by way of onetime special Dividend and or buy back or other

means. Investigation alleged that PTL submitted that the decision to refund by capital reduction was first initiated on September 12, 2013. The same was again discussed in BoD held on October 13, 2013 wherein the BoD members approved reduction of capital to the extent of 50% of paid up capital by paying Rs.29/- per share. The quantum of dividend of Rs. 29/- per share to shareholders was also discussed and approved in the BoD held on October 13, 2013. Based on this, investigations concluded that the PSI- II came into existence on September 12, 2013.

19. PTL informed BSE on October 14, 2013 at 08:55 hrs that the BoD at their meeting held on October 13, 2013 had approved the dividend of Rs.29/- per share and reduction of capital to the extent of 50% of paid up capital by paying Rs.29/- per share. Therefore the PSI -II for declaration of dividend and reduction of capital become public on October 14, 2013 at 08:55 hrs. Thus, the period of UPSI - II: was considered to be September 12, 2013 to October 14, 2013. PTL informed that the trading window was closed from October 10, 2013 to October 15, 2013. The chronology of the events relating to this are as follows:

Date	Event
September 12, 2013	Initiation of working on the quantum of dividend and capital reduction by BMR Advisors (investment advisor).
October 13, 2013 (Sunday)	The board of PTL discussed and approved the declaration of dividend of ₹29 per share. Record date for payment of dividend was fixed as October 18, 2013.
October 14, 2013 @08:55 hrs.	Corporate announcement on BSE that the board of PTL had discussed and approved dividend of ₹29 per share and fixed the record date for payment of dividend as October 18, 2013.

20. The price movement during the announcements relating to slump sale and declaration of dividend, capital reduction at one exchange i.e. NSE is as follows:

(Source: NSE)

Sr. No.	Exported Date & Time	Announcement	Price Impact/Shares Traded	Remarks										
1	12-Aug-2013 11:20 hrs (Monday)	The BOD of PTL in their meeting held on August 10, 2013 considered and approved the slump	<b>08-Aug-2013(Thursday)</b> <table border="1"> <tr> <td>Exc h.</td><td>O</td><td>H</td><td>L</td><td>C</td></tr> <tr> <td>NSE</td><td>16.8</td><td>17.95</td><td>16.8</td><td>17.95</td></tr> </table>	Exc h.	O	H	L	C	NSE	16.8	17.95	16.8	17.95	On <b>12.08.13</b> , at <b>NSE</b> , the scrip opened at 4.74% higher than the previous day closing price and closed at
Exc h.	O	H	L	C										
NSE	16.8	17.95	16.8	17.95										



Sr. No.	Exported Date & Time	Announcement	Price Impact/Shares Traded	Remarks																														
		sale of its software solutions business to Kewill group. PTL will also consider distributing a one - time special dividend post the closure of sale transaction.	<p><b>No. of shares traded:12,516(NSE)</b></p> <p><b>12-Aug-2013(Monday)</b></p> <table border="1"> <tr> <td>Exc h.</td><td>O</td><td>H</td><td>L</td><td>C</td></tr> <tr> <td>NSE</td><td>18.8</td><td>18.8</td><td>18.8</td><td>18.8</td></tr> </table> <p><b>No. of shares traded:4,578(NSE)</b></p> <p><b>13-Aug-2013 (Tuesday)</b></p> <table border="1"> <tr> <td>Exc h.</td><td>O</td><td>H</td><td>L</td><td>C</td></tr> <tr> <td>NSE</td><td>19.7</td><td>19.7</td><td>19.7</td><td>19.7</td></tr> </table> <p><b>No. of shares traded:8,056(NSE)</b></p>	Exc h.	O	H	L	C	NSE	18.8	18.8	18.8	18.8	Exc h.	O	H	L	C	NSE	19.7	19.7	19.7	19.7	<p>4.74% higher than the previous day closing price.</p> <p>On <b>13.08.13</b>, at <b>NSE</b>, the scrip opened at 4.79% higher than the previous day closing price and closed also at 4.79% higher than the previous day closing price.</p>										
Exc h.	O	H	L	C																														
NSE	18.8	18.8	18.8	18.8																														
Exc h.	O	H	L	C																														
NSE	19.7	19.7	19.7	19.7																														
2.	07-Oct-2013 10:08 hrs (Monday)	PTL, referring to their early communication dated August 10, 2013 relating to slump sale of its software solutions business, informed NSE vide their letter dated Oct 04, 2013 that the aforementioned deal has been closed and completed on October 04, 2013.	<p><b>04-Oct-2013(Friday)</b></p> <table border="1"> <tr> <td>Exc h.</td><td>O</td><td>H</td><td>L</td><td>C</td></tr> <tr> <td>NSE</td><td>30.75</td><td>32.7</td><td>30.75</td><td>31.9</td></tr> </table> <p><b>No. of shares traded:16,026(NSE)</b></p> <p><b>07-Oct-13 (Monday)</b></p> <table border="1"> <tr> <td>Exc h.</td><td>O</td><td>H</td><td>L</td><td>C</td></tr> <tr> <td>NSE</td><td>33.45</td><td>33.45</td><td>33.45</td><td>33.45</td></tr> </table> <p><b>No. of shares traded:10,928 (NSE)</b></p> <p><b>08-Oct-13 (Tuesday)</b></p> <table border="1"> <tr> <td>Exc h.</td><td>O</td><td>H</td><td>L</td><td>C</td></tr> <tr> <td>NSE</td><td>35.1</td><td>35.1</td><td>35.1</td><td>35.1</td></tr> </table> <p><b>No. of shares traded:7,899 (NSE)</b></p>	Exc h.	O	H	L	C	NSE	30.75	32.7	30.75	31.9	Exc h.	O	H	L	C	NSE	33.45	33.45	33.45	33.45	Exc h.	O	H	L	C	NSE	35.1	35.1	35.1	35.1	<p>On <b>07.10.13</b>, at <b>NSE</b>, the scrip opened at 4.86% higher than the previous day closing price and closed also at 4.85% higher than the previous day closing price.</p> <p>On <b>08.10.13</b>, at <b>NSE</b>, the scrip opened at 4.93% higher than the previous day closing price and closed also at 4.85% higher than the previous day closing price</p>
Exc h.	O	H	L	C																														
NSE	30.75	32.7	30.75	31.9																														
Exc h.	O	H	L	C																														
NSE	33.45	33.45	33.45	33.45																														
Exc h.	O	H	L	C																														
NSE	35.1	35.1	35.1	35.1																														

Sr. No.	Exported Date & Time	Announcement	Price Impact/Shares Traded	Remarks																														
3.	15-Oct-2013 13:56 hrs (Tuesday)	The BOD of PTL in their meeting held on October 13, 2013 have considered and approved Interim Dividend at Rs.29 per share which will be paid on or after October 22, 2013 to the shareholders holding shares as on record date i.e. October 18, 2013. On 15 October 2013, PTL also reported to the exchange about the proposed reduction in the capital of PTL.	<b>14-Oct-2013(Monday)</b> <table border="1"> <tr> <td>Exc h.</td><td>O</td><td>H</td><td>L</td><td>C</td></tr> <tr> <td>NSE</td><td>40.15</td><td>40.15</td><td>40.15</td><td>40.15</td></tr> </table> <b>No. of shares traded:42,224(NSE)</b> <b>15-Oct-13 (Tuesday)</b> <table border="1"> <tr> <td>Exc h.</td><td>O</td><td>H</td><td>L</td><td>C</td></tr> <tr> <td>NSE</td><td>42.15</td><td>42.15</td><td>42.15</td><td>42.15</td></tr> </table> <b>No. of shares traded:1,35,719(NSE)</b> <b>17-Oct-13 (Thursday)</b> <table border="1"> <tr> <td>Exc h.</td><td>O</td><td>H</td><td>L</td><td>C</td></tr> <tr> <td>NSE</td><td>13.80</td><td>13.80</td><td>13.80</td><td>13.80</td></tr> </table> <b>No. of shares traded:16287 (NSE)</b>	Exc h.	O	H	L	C	NSE	40.15	40.15	40.15	40.15	Exc h.	O	H	L	C	NSE	42.15	42.15	42.15	42.15	Exc h.	O	H	L	C	NSE	13.80	13.80	13.80	13.80	<p>On <b>15.10.13</b>, at <b>NSE</b>, the scrip opened at 4.98% higher than the previous day closing price and closed also at 4.98% higher than the previous day closing price.</p> <p>On <b>17.10.13</b>, at <b>NSE</b>, the scrip opened at 67.26% lower than the previous day closing price and closed also at 67.26% lower than the previous day closing price</p>
Exc h.	O	H	L	C																														
NSE	40.15	40.15	40.15	40.15																														
Exc h.	O	H	L	C																														
NSE	42.15	42.15	42.15	42.15																														
Exc h.	O	H	L	C																														
NSE	13.80	13.80	13.80	13.80																														

21. Based on the above facts, it is alleged in the SCN that some of the noticees traded between September 12, 2013 to October 14, 2013 using UPSI – II making use of the information relating to Declaration of Interim dividend of Rs. 29 per share and reduction of 50% of capital by paying a value of Rs.29 per share.

### **Reply of the Noticees**

22. In response to the said allegation noticees submitted that the decision for distributing excess funds lying with the Company to the shareholders after determining the amount required to be retained for meeting existing obligations and day-to-day expenses and after considering the amount required for investment in new / emerging areas was taken by the Company's board of directors at its meeting held on August 10, 2013. This decision was communicated to the stock

exchanges on the same day. Hence, it was in public domain that the shareholders would be distributed excess funds after completion of the sale of the business undertaking and investments. What was not in public domain was only the exact quantum of dividend. BMR Advisors, the Investment Banker for the Slump Sale transaction, had calculated the same based on the actual receipt of Slump sale proceeds on October 04, 2013 and sent the workings of dividend and capital reduction on October 07, 2013 (2.49 PM). The Board of Directors of the Company had accordingly approved the one-time dividend of Rs. 29/- per share at its meeting held on October 13, 2013. The said decision was informed to stock exchanges on the same day; in other words, the UPSI came into existence on October 07, 2013 and remained as UPSI till October 13, 2013 only.

23. The decision of payment of dividend and capital reduction can be considered as Price sensitive information only "after" the date of receipt of the deal consideration. Clearly as per the acquisition agreement, the success of the transaction (closure) was based on meeting conditions precedent (CP). Firstly, there was uncertainty about meeting those conditions, which implies, that if certain conditions were not met, the transaction would have failed even at that stage. Secondly, there was neither certainty about the amount to be received (based on the conditions met) nor certainty about the date of meeting these conditions. These conditions were met on September 30, 2013 and the closure was achieved on October 04, 2013. Kewill group withheld a sum of USD 3.0 Million for not meeting the condition relating to novation of customer contract of Fedex on the date of payment i.e. October 04, 2013. Any decision, to calculate the exact dividend could have occurred only after October 04, 2013. SEBI has wrongly assumed that the exact amount of INR 29 for dividend as PSI was available with the management & board on 12 Sep 2013. Based on the above facts, it is impossible for such PSI to come into existence any day, before October 04, 2013 and it actually came into existence on October 07, 2013.

**Consideration:-**

24. I have considered the allegation in the SCN and the submissions of the Noticees. I note that the Acquisition Agreement for slump sale was approved by the board of PTL on August 10, 2013. In the said board meeting, it was also agreed that post completion of sale, the Board may distribute onetime Special Dividend. Thus on August 10, 2013, the information regarding onetime Special Dividend was in public domain. On October 14, 2013 the board of PTL declared interim dividend of Rs. 29 per share. I note that a sum of Rs. 2,50,35,09,073 was received by PTL on October 4, 2013 from the buyers. As per the submission of the company, the money was utilized as under:-

Particulars	Amount
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Transaction Cost	12,97,72,434
Capital gains tax payable on the transaction	33,80,00,000
Amount to be distributed to Shareholders as dividend	1,13,20,72,130
Dividend Distribution tax payable on Dividend	19,23,95,658
Amount to be distributed to shareholders by way of capital reduction	56,60,36,065
Amount to be retained by the company	14,52,32,786
<b>Total</b>	<b>2,50,35,09,073</b>

25. Thus, I agree with the submissions of the noticees that amount of money to be distributed to shareholders as dividend was dependent on the amount of money received by PTL from the buyers, which materialized only on October 4, 2013. All other information regarding special dividend payment was already in public domain from August 10, 2013.
26. I note that as per PTL's own submission, vide email dated August 20, 2015, the decision to refund by capital reduction was first initiated on September 12, 2013, when BMR Advisors were asked by PTL to compute the approximate calculations as per the Companies Act. After receiving the money on October 4, 2013, the exact figures could be arrived at. The same was again discussed in the Board meeting held on October 13, 2013 wherein the Board members approved reduction of capital to the extent of 50% of paid up capital by paying Rs.29/- per share. Thus, it appears that the preliminary decision of capital reduction was taken on September 12, 2013, but the actual quantum of reduction was discussed and approved by BoD on October 13, 2013. Therefore, in the facts and circumstances of the case, I conclude that PSI-II came into existence on October 4, 2013, and remained till October 14, 2013 (at 08:54 hrs), when the information was disclosed to the Stock Exchanges.

**Issue 2: Whether the trading pattern shows that Noticees No. 1-15, had violated Insider trading Regulations using the two aforesaid UPSI?**

27. SCN on the basis of investigation alleged that noticees traded in the scrip of PTL based on the two UPSI. The trades carried out during UPSI-I & II period by the noticees are provided below:

**UPSI-I Period (18.09.2012-10.08.2013):**

Sr. No.	Name	During UPSI-I	PSI-I	Post PSI-I	Total
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		18.09.2012 to 10.08.2013 @13:00 hrs		10.08.2013 @13:01 hrs to c.o.b.		18.08.2013 to 20.08.2013		18.09.2012 to 20.08.2013	
		Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell
1	Srikanth Palem Reddy	209968	5399	0	0	0	0	209968	5399
2	Noorjahan A Khwaja	120972	2456	0	0	0	0	120972	2456
3	Khwaja Ashik Ali	64193	0	0	0	0	0	64193	0
4	Rozina Hirani	43014	0	0	0	0	0	43014	0
5	Shefali Ameen Khwaja	45000	0	0	0	0	0	45000	0
6	Shahid Khwaja	50822	0	0	0	0	0	50822	0
7	Pirani Amyr Abdul Aziz	32305	0	0	0	0	0	32305	0
8	Karna Ramanjula Reddy	13954	0	0	0	0	0	13954	0
9	Umashankar S	6000	5000	0	0	0	0	6000	5000
10	Raja Lakshmi Srivaiguntam	16955	200	0	0	0	0	16955	200
11	K Parvathi	34900	0	0	0	0	0	34900	0
12	Prakash Lohia	25972	2000	0	0	3500	0	25972	5500
13	Soujanya Reddy	17500	0	0	0	0	0	17500	0

Day-wise trading details of these entities in the scrip of PTL during the UPSI - I period.

**UPSI - II Period (12.09.2013 - 14.10.2013(till 08:54 hrs)) -**

*(12th & 13th Oct was not a trading day)*

Sr · N o.	Name	During UPSI-II		PSI-II		Post PSI-II		Total	
		12.09.2013 to 11.10.2013		14.10.2013 @08:56 hrs to c.o.b.		15.10.2013 to 30.11.2013		12.09.2013 to 30.11.2013	
		Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell
1	Mohan Krishna Reddy Aryabumi	9300	0	0	0	11600	0	20900	0
2	Umashankar S	4450	0	0	0	0	31700	4450	31700
3	Karna Ramanjula Reddy	2296	0	0	0	7550	0	9846	0

Day-wise trading details of these entities in the scrip of PTL during the UPSI - II.

28. Investigation revealed the connection amongst noticees, based on KYC Documents, MCA website and submissions made by these noticees are as under:

Group	Sr	Name	Connection details
Khwaja (Noticees 3 to 8)	1	Noorjahan A Khwaja	<ul style="list-style-type: none"> <li>It was observed in the Annual Report 2012-13 of PTL, it was mentioned that Company Pal Premium Online Media Pvt Ltd (POMPL) was an enterprise influenced by Key Managerial Persons or its relatives.</li> </ul>
	2	Khwaja Ashik Ali	
	3	Rozina Hirani	<ul style="list-style-type: none"> <li>As per MCA details of POMPL, Ameen Khwaja, one of the directors had his residential address -Flat No. 4B, Subhodaya Apt., Boggulkunta, Abids, Hyderabad – 500001 which is similar to the address of entities from 1-5.</li> <li>PTL has also mentioned that its promoter &amp; MD - Palem S. Reddy is also a director of POMPL in which Ameen Khwaja is a director. Thus, entities at sr. no.1-5 are related to the company PTL.</li> </ul>
	4	Shefali Ameen Khwaja	
	5	Shahid Khwaja	
	6	Ameen Khwaja	<ul style="list-style-type: none"> <li>Entity no.6 is the director of POMPL &amp; PWSPL and has common address with entities at sr.no.1-5 - Flat No. 4B, Subhodaya Apt., Boggulkunta, Abids, Hyderabad – 500001.</li> </ul>
	7	Pirani Ameen Abdul Aziz	<ul style="list-style-type: none"> <li>Entity no. 7 is acquainted to Ameen Khwaja, one of the directors of POMPL through social media (Facebook) network.</li> </ul>
Palred (Four Soft) Employee	8	Mohan Krishna Reddy Aryabumi	<ul style="list-style-type: none"> <li>As per 2013-14 Annual Report of PTL, entity no. 8 was Non-Executive and Independent director of the company. Hence he is related to the Company</li> </ul>
	9	Karna Ramanjula Reddy	<ul style="list-style-type: none"> <li>It was observed that as per the undertaking submitted by entity no.9, he was an employee of PTL and working in Finance Department as an Assistant Manager. Hence, he is related to the Company</li> </ul>
	10	Umashankar S	<ul style="list-style-type: none"> <li>As per the undertaking submitted by entity no.10, he was an employee of Four Soft Limited for 2.5 years till January 2010.</li> <li>As per the KYC of entity no.11, entity no.10 is her spouse.</li> </ul>
	11	Raja Lakshmi Srivaiguntam	
Relative of MD	12	Kukati Parvathi	<ul style="list-style-type: none"> <li>She has submitted that Palem S. Reddy, Chairman &amp; MD of PTL is her cousin sister's son. Thus, entity at sr. no.12 is related to the company.</li> </ul>
Others	13	Prakash Lohia	<ul style="list-style-type: none"> <li>Entity at sr. no.13 is identified based on their trading activity. No apparent connection/ relationship could be established.</li> </ul>

			<ul style="list-style-type: none"> <li>• As per KYC documents of entity at sr.no.13, it is observed that he is not connected to the company/ promoters/ directors of PTL.</li> <li>• As per the submissions made by PTL, entity no. 13 was an ex-employee of PTL who resigned in February 2011.</li> </ul>
	14	Palem Srikanth Reddy	<ul style="list-style-type: none"> <li>• Entity at sr. no. 14 is the MD of the Company, related to entity No.6 and both were Directors of POMPL. As per corporate announcement made by the Company on January 08, 2014 the BoD of the Company approved the merger of POMPL) with the Company and acquisition of Deals15.com from Premium Web Services Pvt. Ltd. (PWSPL). One of the directors of POMPL is observed to be Ameen Khwaja who is also the director of PWSPL.</li> </ul>
	15	Soujanya Reddy	<ul style="list-style-type: none"> <li>• Entity no.15 is the Promoter, Non-Executive Director of PTL and mother-in-law of entity no.14.</li> </ul>

29. Noticees No. 3 to 8 were related to Ameen Khwaja & share common address with him.

- a) Ameen Khwaja is Director of Pal Premium Online Media Pvt Ltd, (POMPL) in which the MD of PTL - Palem S. Reddy is also director. As per shareholding pattern submitted by PTL, Palem S. Reddy and Ameen Khwaja are shown as in promoter category.
- b) From Annual Report of 2012-13 of PTL, POMPL was shown as "Enterprise significantly influenced by KMP or their relative" and Ameen Khwaja was director of POMPL. It is also relevant to note that POMPL provided services to PTL during the period September 2011 to May 2013(during UPSI period) in the nature of search engine related services and was in contact with the Narendra P. Nargundkar, Senior Marketing Officer at PTL.
- c) As per submissions made by PTL, PTL had informed shareholders in the Board meeting held on August 10, 2013 itself that PTL after sale of business would venture into the Media and Entertainment Industry. Further the fact that post the slump sale of business by PTL to Kewill group, discussions pertaining to merger of Palred Media and Entertainment Pvt. Ltd. (PMEPL) and POMPL with PTL began on December 19, 2013 which got approved by BoD and public announcement made on 08-Jan-2014. It is thus found that Ameen Khwaja was having knowledge of UPSI and subsequent plans of PTL.

- d) As per corporate announcement made by PTL on January 08, 2014, PTL acquired Deals15.com from Premium Web Services Pvt. Ltd. (PWSPL) where Ameen Khwaja is Managing Director and entities of Khwaja group, his relatives, i.e., mother Noorjahan Ashik Khwaja and father - Ashik Ali Khwaja, were directors of PWSPL.
- e) The income levels of these 5 entities as noted from their KYC varies from Rs. 1 lac to Rs. 5 lacs.

**Reply of the noticees and consideration:**

30. **Palem Srikanth Reddy-** In response to the said allegation Noticee No. 1 submitted that he has been consistently consolidating his shareholding by acquiring shares from the market from 2007. Noticee has always been purchasing the shares of his company only and has never traded in the shares of any other company. In 2012, the Noticee surrendered his permanent residence in Singapore and received an amount of approx. Rs. 2 crores directly from his Singapore bank account. The Noticee purchased about 2 lakhs shares spread over a period of six months from November 2012 to May 2013 at an aggregate cost of about Rs. 28 lakhs. If the Noticee was trading based on UPSI then he would have purchased much more shares but he did not do so as he utilized a much larger amount of the money for social causes than the amount spent on acquiring the shares of the Company.
31. The shareholders of the Company had approved salary and performance allowance of Rs. 96 lakhs per annum for the Noticee w.e.f. 01.04.2010 but the Noticee had drawn salary of only Rs. 30 lakhs per annum. If the intention of the Noticee was to make money, he could have very well taken his entire salary at the rate of Rs. 96 Lakhs per annum and nobody would have questioned him for taking this money. The undue gain allegedly made by the Noticee by way of insider trading is far lower than that the Noticee could have legally taken as salary from the Company.

**Consideration**

32. I have considered the allegations against the noticee and his response to the same. I note that Palem Srikanth Reddy had bought 2,09,968 shares and sold 5,399 shares of PTL during the period of November 2012 to May 2013. The details of his trading in the scrip of PTL are as under:

Date	Buy Qty.	Sell Qty.	Avg. Buy price	Avg. Sell price	Buy Amount	Sell Amount
05/11/2012	4,550	0	10.71	0.00	48,747.50	0.00



06/11/2012	13,950	0	10.48	0.00	1,46,161.42	0.00
07/11/2012	9,150	0	10.64	0.00	97,327.50	0.00
15/11/2012	4,000	0	10.66	0.00	42,635.29	0.00
16/11/2012	2,000	0	10.75	0.00	21,507.50	0.00
19/11/2012	2,000	0	10.45	0.00	20,891.60	0.00
21/11/2012	6,000	0	10.52	0.00	63,146.50	0.00
22/11/2012	8,700	0	10.76	0.00	93,635.45	0.00
23/11/2012	8,300	0	10.81	0.00	89,721.15	0.00
26/11/2012	3,150	0	11.17	0.00	35,172.50	0.00
27/11/2012	5,000	0	11.80	0.00	58,985.99	0.00
29/11/2012	20,000	0	11.94	0.00	2,38,880.52	0.00
06/12/2012	8,850	0	12.90	0.00	1,14,154.19	0.00
13/12/2012	7,800	0	15.77	0.00	1,22,981.36	0.00
21/12/2012	10,000	0	20.36	0.00	2,03,600.00	0.00
24/01/2013	553	0	19.55	0.00	10,811.15	0.00
25/01/2013	288	0	19.00	0.00	5,472.00	0.00
04/03/2013	6,200	0	13.42	0.00	83,201.00	0.00
05/03/2013	4,800	0	13.79	0.00	66,193.00	0.00
06/03/2013	1,103	0	13.90	0.00	15,336.25	0.00
07/03/2013	4,200	0	15.28	0.00	64,166.01	0.00
08/03/2013	8,799	5399	16.82	16.98	1,47,989.11	91650.72
08/04/2013	100	0	14.70	0.00	1,470.00	0.00
09/04/2013	1,000	0	14.61	0.00	14,613.00	0.00
10/04/2013	2,100	0	14.52	0.00	30,488.00	0.00
12/04/2013	9,000	0	14.54	0.00	1,30,818.18	0.00
15/04/2013	2,000	0	15.15	0.00	30,291.71	0.00
16/04/2013	2,000	0	14.97	0.00	29,944.00	0.00
17/04/2013	1,900	0	15.05	0.00	28,599.55	0.00
18/04/2013	2,300	0	14.68	0.00	33,757.10	0.00
22/04/2013	2,675	0	14.59	0.00	39,034.25	0.00
23/04/2013	1,200	0	14.47	0.00	17,360.50	0.00
25/04/2013	3,000	0	14.64	0.00	43,924.06	0.00
26/04/2013	8,300	0	14.46	0.00	1,20,023.70	0.00
29/04/2013	10,000	0	14.42	0.00	1,44,162.85	0.00

30/04/2013	10,000	0	14.15	0.00	1,41,455.70	0.00
02/05/2013	5,000	0	13.85	0.00	69,262.50	0.00
06/05/2013	10,000	0	13.38	0.00	1,33,760.00	0.00
	<b>2,09,968</b>	<b>5,399</b>			<b>27,99,682.09</b>	<b>91,650.72</b>

I have also noted the fact that noticee has consistently consolidated his holding since 2007, as brought out in his reply. Noticee had also purchased shares of PTL on March 20, 2014, i.e. after the investigation period. During the investigation period, on March 8, 2013 also (the only day on which noticee sold shares during the investigation period), noticee purchased 8,799 shares and sold 5,399 shares. Thus on March 8, 2013 also, he is a net purchaser. Noticee had neither sold any shares of PTL nor any other scrip, other than 27 shares of Reliance power on February 18, 2014. Noticee had drawn salary of Rs. 30 lakhs per annum from 01.04.2010, whereas the shareholders of the Company had approved salary and performance allowance of Rs. 96 lakhs per annum for the Noticee. This fact is in sharp contrast to the allegation of a notional gain of Rs. 53.11 lakhs made in the SCN. I have also noted the fact that all purchases by Noticee were during the period prior to May 9, 2013 (day on which PTL received the non-binding agreement from the buyer), i.e. period prior to the coming of UPSI I. He had not traded during UPSI II. Considering the above factors in their entirety, I am of the view that Noticee No. 1, Palem Srikanth Reddy cannot be held to have violated Regulation 3(i) of SEBI (Prohibition of Insider Trading) Regulations, 1992, as he has not traded using inside information. However, the question as to whether he can be held liable for communication of insider information under Reg. 3(ii) of the PIT Regulations, 1992 would depend on the consideration as to whether the other Noticees traded on the basis of the inside information obtained from Palem Srikanth Reddy and the same is being dealt with in the later part of the order.

33. **P. Soujanya Reddy-** In response to the allegation of insider trading noticee No. 2, had *inter alia* submitted that she is a high net worth individual having net worth of Rs. 26 crores and investment in more than 50 scrips at a point of time. She is 75 years old and a promoter- cum- non-executive director of the company. The Noticee had traded for a total value of Rs. 30 crores in the shares of other Companies during the Investigation Period. The value of shares traded in the Company is a mere 0.07% of the total trading she has done during the Investigation Period. If the Noticee had the intention to make undue profit based on UPSI, then she being an active securities market trader and a high net worth individual would have purchased much more shares of the Company instead of purchasing large number of shares of other companies during the investigation period.

34. I have considered the allegation against the noticee P. Soujanya Reddy in the SCN and her submissions. The trading details of the noticee during the investigation period is as under:-

Day Date	Buy Quantity	Avg Buy price	Buy Amount
13-Nov-2012	1050	10.20	10,710.00
15-Nov-2012	6000	10.38	62,293.40
21-Nov-2012	1000	10.20	10,200.00
13-Nov-2012	5000	10.401	52005.490
14-Dec-2012	3000	17.640	52920.000
18-Dec-2012	1450	19.168	27795.000
<b>Total</b>	<b>17,500</b>		<b>2,15,924</b>

From the above table, it is noted that Noticee No. 2, had traded in 2012, prior to May 9, 2013, being the date on which PTL received Non-binding offer from the buyers. As noticee no. 1, she has been consolidating her holding in the scrip of PTL since 2007 as a promoter. She also had not sold during the investigation period. I have noted that during the investigation period she had traded in the scrip of ITC, Dr. Reddy, HCL, Infosys, and SBI etc. and she still has her investments in more than 60 scrips. Considering her financial capacity and the pattern of her trading in the scrip of PTL, where she purchased only 17,500 shares worth little over 2 lakhs, it cannot be said that the acquisition is on account of UPSI –I. She had not traded during UPSI II. Considering all above factors in entirety, I am of the view that Noticee No. 2, has not violated Regulation 3(i) and 3(ii) of SEBI (Prohibition of Insider Trading) Regulations, 1992 and Section 12A(d) and 12A(e) of SEBI Act, 1992 read with regulation 12 of SEBI (Prohibition of Insider Trading) Regulations, 2015.

35. **Ameen Khwaja, Noorjahan A. Khwaja, Ashik Ali Khwaja, Rozina Hirani Khwaja, Shefali Ameen Khwaja and Shahid Khwaja:-** On the basis of the investigation, SCN alleged that aforesaid Khwaja Group entities purchased substantial quantity of shares of PTL during UPSI-I and sold only few shares during UPSI-I. SCN alleged that the amount invested in purchase of PTL shares is considerably higher than their annual income. For instance, as per KYC records (submitted with TM-India Infoline), annual income of Noorjahan Khwaja is stated to be less than Rs.1 lac whereas PTL shares worth Rs. 16.62 lacs has been purchased by her during UPSI-I period.

36. In response to the allegations in the SCN, Noticees submitted that SEBI has wrongly drawn an inference that the Noticees come within the definitions of 'Insider' and 'Connected Person' based on the fact that Ameen Khwaja was a common director with Mr. Palem Srikan Reddy or that both of them appear in the promoter category of POMPL. Ameen Khwaja in his individual capacity was not holding any position involving a professional or business relationship between himself and the Company. Any such relationship, if at all, existed between the Company and POMPL and not between the Noticee in his individual capacity and the Company. Ameen Khwaja did not have in his possession any UPSI relating to the Company and therefore the question of his communicating such UPSI to the members of Khwaja Group and Aziz does not arise. Secondly, there is no evidence whatsoever to show that the Noticee No. 1, has communicated any UPSI to the Khwaja Group and Mr. Aziz.

37. The Noticees (Khwaja Group) have also stated that they received money from sale of property and their family was discussing about investing in shares. As PTL is a well-known and one of the few successful product companies from Hyderabad and since they wanted to invest in stocks, they chose PTL. They submitted that since they had surplus cash in fixed deposits, investment were made and that they continued to hold shares in the scrip.

38. Noticees have contended that Ameen Khwaja is not an insider or connected person. The definition of Insider as defined in Regulation 2(e) of SEBI PIT, Regulations, 1992 is as under:-

“insider” means any person who

- (i) is or was connected with the company or is deemed to have been connected with the company and is reasonably expected to have access to unpublished price sensitive information in respect of securities of a company, or
- (ii) has received or has had access to such unpublished price sensitive information ;

The definition of “Connected Person” in Regulation 2(c) of SEBI PIT, Regulations, 1992 is as under:-

“connected person” means any person who—

- (i) is a director, as defined in clause (13) of section 2 of the Companies Act, 1956 (1 of 1956), of a company, or is deemed to be a director of that company by virtue of sub-clause (10) of section 307 of that Act or
- (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:  
(emphasis supplied)

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;

39. In my view, Ameen Khwaja is a promoter director of Pal Premium Online Media Pvt Ltd, (POMPL) with Palem S. Reddy who was also a promoter-director of POMPL. POMPL was rendering professional services related to IT to PTL. As Palem Reddy and Ameen Khwaja were co-promoters and co-directors of POMPL, I am of the view that there existed a business relationship between the two promoters and by extending services of POMPL to PTL, Ameen Khwaja can also be stated to have had a business relationship with the company because the service contract between the two companies would be a reflection of the understanding exchanged between these two promoters. In this case, one cannot distinguish between the company and its promoter because the very identity of POMPL for availing services has arisen out of the connection that existed between the two promoters. Thus, in the facts and circumstances of the case it can be reasonably presumed that the UPSI regarding Slump sale was passed on to the Khwaja group by none other than Palem S. Reddy.

40. In the SCN, Ameen Khwaja has been made a noticee on the ground that he had communicated the information which he obtained from Palem Reddy to his relatives, forming part of the Khwaja Group. In view of the same, I find both Noticee No 1 and Noticee No. 3 liable for communication of UPSI with respect to the PTL. Hence they have violated Section 12A(d) and 12A(e) of SEBI Act, 1992 and Regulation 3(ii) of SEBI (PIT) Regulations, 1992 read with regulation 12 of SEBI (PIT) Regulations, 2015.

41. All the members of Khwaja group and their relationship with Ameen Khwaja is as under:-

Sr.no.	Name of family members	Relationship
1	Noorjahan A Khwaja	Mother of Ameen Khwaja
2	Khwaja Ashik Ali	Father of Ameen Khwaja
3	Shefali Ameen Khwaja	Wife of Ameen Khwaja
4	Shahid Khwaja	Brother of Ameen Khwaja
5	Rozina Hirani	Brother's wife of Ameen Khwaja

With respect to the aforesaid Noticees, as they have contended that they are not “deemed connected” for the purposes of the PIT Regulation, the definition pertaining to “deemed connected” has been examined.

**Definition of deemed to be connected person and Relative as per PIT Regulations, 1992-**

2 (b) “person is deemed to be a connected person”, if such person—

- (i) to (vii) ....
- (viii) relatives of the connected person; or

2(i) “relative” means a person, as defined in section 6 of the Companies Act, 1956.

**Definition of relative as per section 6 of the Companies Act, 1956**

*Section 6. Meaning of "relative"*

*A person shall be deemed to be a relative of another, if, and only if, -*

- (a) they are members of a Hindu undivided family; or*
- (b) they are husband and wife; or*
- (c) the one is related to the other in the manner indicated in Schedule IA."*

*List of relative as defined in Schedule I A Section 6 of the Companies Act, 1956.*

• **Father**

• **Mother** (including step-mother)

• **Son** (including step-son)

• **Son's wife**

• **Daughter** (including step-daughter)

• **Father's father**

• **Father's mother**

• **Mother's mother**

• **Mother's father**

• **Son's son**

• **Son's son's wife**

• **Son's daughter**

• **Son's daughter's husband**

• **Daughter's husband**

• **Daughter's son**

• **Daughter's son's wife**

• **Daughter's daughter**

• **Daughter's daughter's husband**

• **Brother** (including step-brother)

• **Brother's wife**

- *Sister (including step-sister)*
- *Sister's husband*

From the above definition it is seen that the members of the Khwaja family, by virtue of their relationship with Ameen Khwaja squarely fall with the definition of “deemed connected” under the PIT Regulations, 1992.

42. I have considered the allegations against the above noticees (Khwaja Group) in the SCN and their submissions to the said allegations. I note that during the UPSI- I period, Khwaja group bought 3,24,001 shares of PTL for a value of Rs. 49,25,124. The details of the purchases by individuals of the Khwaja group are as follows:-

<b>Trades of Khwaja group entities in PTL</b>					
	<b>Buy Vol.</b>	<b>Buy value in ₹</b>	<b>Sell Vol.</b>	<b>Sell value in ₹</b>	<b>Unsold shares till UPSI 14.10.2013</b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E=A-C</b>
Noorjahan A Khwaja	1,20,972	16,61,672	2456	52634	1,18,516
Khwaja Ashik Ali	64,193	10,10,859	0	0	64,193
Rozina Hirani	43,014	6,36,791	0	0	43,014
Shefali Ameen Khwaja	45,000	7,01,666	0	0	45,000
Shahid Khwaja	50,822	9,14,136	0	0	50,822
<b>Total</b>	<b>3,24,001</b>	<b>49,25,124</b>	<b>2,456</b>	<b>52,634</b>	<b>3,21,545</b>

43. I note that trading accounts with India Infoline Limited were opened by 4 members of the Khwaja family, except Noorjahan, on 26-Jun-2013, 27-Jun-2013, 10-Jul-2013 and 12-Jul-2013 i.e. during UPSI period for the specific purpose of investing in the scrip of PTL. I have noted that the said four notices, except Noorjahan A Khwaja, belonging to the Khwaja group had not traded at all in any scrip from 01.04.2011 to 17.09.2012. During this period, Noorjahan had traded in seven scrips other than PTL, and the maximum purchase value in BSE/NSE was Rs.2.13 lacs. This is in sharp contrast to the amount of Rs. 16.62 lacs that she invested in the scrip of PTL, which was a not-so-frequently traded scrip during the relevant period. Further, subsequent to trading in PTL shares, Noorjahan Khwaja has not traded in any other scrip during period January 1, 2013 to December 9, 2013. The overall pattern of trading of the Khwaja group in PTL, where in a short period of two and half months, the group invested more than Forty Nine Lakh rupees for 3,24,001 shares of PTL along with the connection of Ameen Khwaja with Palem Reddy

confirms the distinct likelihood of the trades being based on the communication of UPSI-I relating to the scrip. In my view, this aberration of trading pattern cannot be without knowledge of UPSI-I, regarding slump sale. I have considered the fact that the Khwaja group started trading in the scrip from June 20, 2013 i.e. after the receipt of revised Non-binding offer from buyers on May 9, 2013 by PTL and stopped trading in PTL from August 7, 2013 i.e. just before the announcement by PTL to the BSE and NSE. Considering all these factors and the quantum of trades carried out by Khwaja group entities during a short period without any justification/rationale to invest in a relatively illiquid scrip, for the first time by four members, excluding Noorjahan Khwaja's purchase of 2000 shares of PTL in 2012), it is reasonable to draw the inference that the Khwaja group had received the UPSI regarding the Slump sale.

44. PTL had informed shareholders in the Board meeting held on August 10, 2013 itself that PTL after the proposed slump sale would venture into the Media and Entertainment Industry. Further the fact that post the slump sale of business by PTL to Kewill group, discussions pertaining to merger of Palred Media and Entertainment Pvt. Ltd (PMEPL) and POMPL with PTL began on December 19, 2013 which got approved by BoD and public announcement was made on January 08, 2014. As per corporate announcement made by PTL on January 08, 2014, PTL acquired Deals15.com from Premium Web Services Pvt. Ltd. (PWSPL) where Ameen Khwaja is Managing Director and entities of Khwaja group, his relatives, i.e., mother Noorjahan Ashik Khwaja and father - Ashik Ali Khwaja, were directors of PWSPL. Thus even from the events that followed the UPSI period, it is evident that Ameen Khwaja was closely associated with the plans of PTL and Palem S. Reddy, because after the slump sale, major business of PTL was transferred to the buyers and PTL wanted to shift their line of business to Media and Entertainment and they utilized the amount received from Slump sale for this purpose after few months for purchasing PWSPL.

45. In the context of the contention of the Noticees that there is no proof of receipt of insider info or the trading being based on such information, I find it relevant to rely on the decision of the the Hon'ble Supreme Court in the matter SEBI v. Kishore R. Ajmera (2016) 6 SCC 368. The Hon'ble SC considering the standard of proof required while imposing civil liabilities under SEBI Act, 1992 or the regulations framed there under stated thus:

*"It is a fundamental principle of law that proof of an allegation levelled against a person may be in the form of direct substantive evidence or, as in many cases, such proof may have to be inferred by a logical process of reasoning from the totality of the attending facts and circumstances surrounding the allegations/charges made and levelled. While direct evidence is a more certain basis to come to a conclusion, yet, in the absence thereof the Courts cannot*



*be helpless. It is the judicial duty to take note of the immediate and proximate facts and circumstances surrounding the events on which the charges/allegations are founded and to reach what would appear to the Court to be a reasonable conclusion therefrom. The test would always be that what inferential process that a reasonable/prudent man would adopt to arrive at a conclusion.... The test, in our considered view, is one of preponderance of probabilities so far as adjudication of civil liability arising out of violation of the Act or the provisions of the Regulations framed thereunder is concerned. Prosecution under Section 24 of the Act for violation of the provisions of any of the Regulations, of course, has to be on the basis of proof beyond reasonable doubt...*"(emphasis supplied)

46. Thus, I am of the view that Ameen Khwaja has violated Sections 12A(d) and 12A(e) of SEBI Act, 1992 and Regulation 3(ii) of SEBI (PIT) Regulations, 1992 read with regulation 12 of SEBI (PIT) Regulations, 2015, and Noorjahan A. Khwaja, Ashik Ali Khwaja, Rozina Hirani Khwaja, Shefali Ameen Khwaja and Shahid Khwaja have violated Sections 12A(d) and 12A(e) of SEBI Act, 1992 and Regulations 3(i) and 3(ii) of SEBI (PIT) Regulations, 1992 read with regulation 12 of SEBI (PIT) Regulations, 2015.
47. **Kukati Parvati** - In the SCN, it is alleged that Kukati Parvathi is a relative of Palem S. Reddy, MD of PTL (Palem S. Reddy was her cousin sister's son). SCN further alleged that Kukati Parvathi's income was in the range of Rs.1 to Rs. 5 lacs as per the KYC, but she bought 34,900 shares during UPSI-I and invested Rs.5.70 lacs approx. which is far in excess of her reported income. Further, it was observed that she had purchased 9000 PTL shares in Sep-2011 and 2500 PTL shares in Dec.2012. She also bought 9000 shares in GVK Power in May 2012. Other than these, no major purchases in any other scrip was observed since April 2011 till June 2013. Upon seeking reason/rationale for trading in PTL, source of funds, funding by third party, connection with company/promoters/ directors/other suspected entities, Kukati Parvathi replied that the purchases in PTL were made after selling shares in scrip-GVK Power wherein she received Rs. 1.27 lacs approx. She stated that other sources were her own funds i.e. rents & agriculture income.
48. SCN alleged that the huge investment in a not-so-frequently traded company at the relevant period pointed to the fact that it could have been on the basis of specific insider information. Based on her trading pattern in PTL and her background, SCN alleged that she had specific source of information and that Palem S. Reddy communicated or counselled, directly or indirectly, the UPSI to Kukati Parvathi, who in turn has traded in the shares of PTL. Therefore, it is alleged in the SCN that Kukati Parvathi, has dealt in the shares of PTL on the basis of UPSI communicated or counselled by Palem S. Reddy.

49. In response to the said allegation Kukati Parvathi submitted that she had sufficient funds/income to invest in the shares of the Company during the investigation period as can be observed from the following table:

Source of income	2010	2011	2012	2013
Rents	4,35,000	4,20,000	7,80,000	10,85,000
Agricultural Income	1,86,100	1,60,500	1,80,000	1,80,000
Interest	61,264	1,20,499	8,287	12,673
Dividends	56,700	47,250	49,713	11,436
Profit on sale of investment		6,13,812	28,142	
Income Tax Refund				96,250
<b>Total</b>	<b>7,39,064</b>	<b>13,62,061</b>	<b>10,46,142</b>	<b>13,85,359</b>

She submitted that her income was commensurate with the investment of Rs. 5,39,167 made by her in the shares of the Company. However, SEBI has wrongly considered the Noticee as an insider. As regards her relationship with Palem S. Reddy, it has been submitted by the Noticee that Palem S. Reddy was the son of her cousin and on rare occasions she had the chance to interact with him. Further, it has been submitted by the Noticee that she did not have any contact with Palem S. Reddy regarding the UPSI at any point of time.

50. I have considered the allegations against Kukati Parvati in the SCN and her submissions. I note that she had purchased shares of PTL shares prior and after the alleged period also as under:-

S. No	Year	No. of shares of PTL purchased
1.	2009	9,900
2.	2011	9,000
3.	2012	2,500
4.	2013	35,100
5.	2014	6,700
6.	2015	46,000

From the above table, it is clearly seen that Kukati Parvati had been purchasing shares of PTL from the market. After the investigation period, in 2015 also she purchased 46,000 shares of PTL. She had submitted her income tax return for the financial year 2011-12, 2012-13 and 2013-14. From the income tax statement and the attached balance sheet, it cannot be said that her income is not commensurate with the investment of Rs. 5,39,167 made by her in the shares of

PTL. I have also noted that she had been a constant investor in the securities market prior to and after the investigation period in different scrips. During the period between 2012 to 2015, she invested in shares of Adani Port, Amaraja Batteries, Ashok Leyland, Dena bank, Vijaya bank, Suzlon, MTNL, IDBI, IFCI and Infosys, etc. Moreover, the degrees of relationship with Palem are not so proximate for me to consider her to be one amongst the persons to whom Palem Reddy could be reasonably expected to have passed on the UPSI. Considering all these factors, I am of the view that Kukati Parvathi had not violated Regulation 3(i) and 3(ii) of SEBI (Prohibition of Insider Trading) Regulations, 1992 and Section 12A(d) and 12A(e) of SEBI Act, 1992 read with regulation 12 of SEBI (Prohibition of Insider Trading) Regulations, 2015.

51. **Pirani Aziz** – SCN alleged that Pirani Ameen Abdul Aziz (Noticee No. 10) is connected to Ameen Khwaja through mutual friends on Facebook and he is employed with Deloitte Tax Services India Pvt. Ltd, a group company of Deloitte Touche Tohmatsu India Pvt. Ltd. which conducted the due diligence of PTL during the slump sale. His KYC details show that his income was in the range of Rs. 7.5 lakhs to Rs. 10 lakhs and he purchased 32305 shares of PTL worth more than Rs. 5 Lakhs during UPSI-I. He also sold 32305 shares post UPSI-II. On the basis of investigation, it is alleged in the SCN that from his bank statements it was observed there were a series of cash deposit ranging from Rs. 40000 to Rs. 50000 in his account, and subsequently after each cash deposit he made payment to his broker for transacting in PTL.
52. SCN further alleged that Pirani had transacted only in the scrip of Cummins India for 3 shares for an amount Rs. 1330/- which he bought and sold during July 2013. Further, he had not traded in any scrip since April 2011 except investing Rs. 5 lacs approx. in PTL shares from June 2013 onwards, i.e., during the UPSI-I period. From KYC details, it was observed that he opened his trading account with HDFC Securities Limited on 25-Jun-2013, which was just one day prior to his trading in PTL shares as his first transaction of acquisition of PTL shares was on 26-Jun-2013.
53. In response to the said allegations, Pirani submitted that he was not privy to any UPSI nor was he connected or related to Mr. Ameen Khwaja or any other member of Palred Technologies Limited. He further submitted that he had more than one thousand (1,144) friends on his Facebook profile and it is impossible for him to know many of them personally. The allegation of SEBI is entirely based upon surmises and hypothesis. Pirani has used his own personal savings and savings from his family to purchase the shares of Palred Technologies Limited. He has been working since 2008 and he had an income of Rs. 5 to 7 lakhs per annum including yearly bonuses. He has saved money for investment

in shares or buying assets. He wanted to invest in Stock Market and he knew Palred Technologies Limited as a successful Product Development Company from Hyderabad. The investment was made purely on his own analysis of the Company and its background & financials available in the public domain and was not based on any UPSI. He also submitted that because of the allegation by SEBI, he was terminated from Deloitte Tax Services India Private Limited and not able to find a Job in any other Company. He also lost an opportunity to take up a job in the US though he was an H1B Visa holder. He stated that the US Company did not want to hire him as he was under investigation for Insider Trading.

54. I have considered the allegations in the SCN and the submissions of the noticee. I note that prima facie the circumstantial evidence- namely, the kind of transactions carried out by Pirani i.e. trading in the scrip of PTL just before UPSI, opening demat account just one day prior to trading in PTL, the volume of trade in PTL and no significant transaction before and after the purchase of PTL shares till March 2015, show that he had the information regarding UPSI. Nevertheless, I note that the SCN alleged that “*Pirani Ameen Abdul Aziz is connected to Ameen Khwaja through mutual friends on Facebook*”, I note that it appears that even on facebook, Pirani and Ameen Khwaja are not direct friends and they are connected through Mutual friends. In this context, the Facebook connection allegedly arising out of mutual connection cannot be the sole justification for inferring possession of UPSI. While the use of Social Media Network service providers such as Facebook contains public information and can be used in investigations, in this instant case, the chain of friends’ friend cannot itself lead to a conclusion of mutual connection. The Investigation has not produced any evidence of Pirani having obtained UPSI as alleged in the interim order, except assuming that he had so by virtue of the said facebook connection. Although facebook connection backed by trading pattern raises a cloud of suspicion, this by itself, is not sufficient to hold someone guilty of a serious violation like Insider Trading. I am, therefore, of the view that Pirani Ameen cannot be held to have violated Regulation 3(i) and 3(ii) of SEBI (Prohibition of Insider Trading) Regulations, 1992 and Section 12A(d) and 12A(e) of SEBI Act, 1992 read with regulation 12 of SEBI (Prohibition of Insider Trading) Regulations, 2015.

55. **Karna R. Reddy**- He was an employee of PTL and was working in Finance Department as an Assistant Manager during the period of UPSI. His annual income was stated to be in the range of Rs. 1 to Rs.5 lakhs and his monthly salary was Rs. 35,000. Karna Reddy bought shares of PTL worth 2.25 lakhs (during the months of May-Aug 2013) during UPSI-I and post announcement of PSI-II. SCN alleged that he did not transact in any other scrip since April 2011 except PTL during the UPSI period.

56. In response to the said allegation, the said noticee submitted that in the year 2013, he was planning to buy a residential apartment and for this purpose he had pooled all his savings to the tune of Rs.3,00,000/- and for the remaining balance he intended to take housing loan from bank. He started searching for the property and somehow it was getting delayed, after which he thought to invest the available amount of Rs.3,00,000/- to get some return. He had gone through various options but at last he felt investment in equity market is the best option as he can readily sell the shares and realize the amount as and when he is required to give advance to his house. For the purpose of investment into shares, he opened a demat account with Kotak securities in the month of May 2013 as already he had his salary account with Kotak Bank.
57. He requested Kotak securities to give recommendations for investment, but he was not convinced with the advice. He invested in Four Soft Limited where he was working instead of investing in unknown companies as he had immense faith in the ability of the Company's management. He was not aware of anything about the deal of PTL with Kewill group.
58. I have considered the allegations in the SCN and the submissions of the noticee. The main submission of the noticee is that he invested in the scrip of PTL as an investment option as he was not able to finalize the purchase of his flat. This submission is not convincing. Investment in a not so frequently traded scrip of PTL expecting liquidity to meet the payment requirement associated with a flat purchase, is not appealing to logic. The purchase of PTL shares coupled with the fact that he was working in the finance department of PTL and the fact that he started purchasing scrip of only PTL and that too, only after May 2013, during the UPSI period is sufficient to draw a conclusion that he had traded on the basis of UPSI. Therefore, in my view, Karna Reddy has violated Section 12A(d) and 12A(e) of SEBI Act, 1992 and Regulation 3(i) of SEBI (PIT) Regulations, 1992 read with regulation 12 of SEBI (PIT) Regulations, 2015.
59. **Mohan Krishna Reddy**-He was the non-executive and Independent Director of PTL from June 19, 2009 till August 14, 2015 and had traded in the scrip of PTL during the UPSI of 'dividend declaration' when the trading window was closed. During the course of investigation, Mr. Mohan Krishna Reddy Aryabumi has submitted that he was having a professional relationship with Mr. Palem Srikanth Reddy as a director in PTL and had purchased the shares of PTL for investment. As per the SCN it alleged that as a member of the Board of PTL, he was in possession of unpublished price sensitive information relating to slump sale and dividend payout.

60. In response to the said allegation Mohan Krishna Reddy submitted that he is an acknowledged professional and high net worth individual and a regular trader in the securities. He has been actively trading in many Companies since last two decades with a portfolio value of more than Rs. 70 Lakhs. Since he was a high net worth individual he would have purchased a much larger chunk of securities of the Company during the Investigation Period instead of purchasing merely 9,300 shares if the intention was to acquire shares of the Company based on UPSI. The proposed declaration of dividend and Capital reduction were in public domain since August 10, 2013 when the Company's Board considered these proposals and made the public announcement.
61. Mohan Krishna Reddy is an independent director and he purchased 9,300 shares in the month of September 2013. The remaining 11,600 shares were purchased on November 1, 2013 (10,000 shares) and November 6, 2013 (1,600 shares). The agenda for the board meeting of October 14, 2013 was may circulated on October 7, 2013. Thus, there is nothing on record to show that Mohan Krishna Reddy had awareness and knowledge about exact payment of dividend prior to October 7, 2013 when the board agenda was circulated. As found in the earlier paragraphs, information regarding payment of dividend was already in public domain since August 10, 2013. In the facts and circumstances of the case the earliest date on which the dividend could be exactly calculated was on October 4, 2013, when the money was received by PTL from the buyers. There are no purchases by Mohan K. Reddy between October 4, 2013 to October 14, 2013. In view of the same, I am of the view that Mohan K Reddy cannot be held to have violated Regulation 3(i) and 3(ii) of SEBI (Prohibition of Insider Trading) Regulations, 1992 and Section 12A(d) and 12A(e) of SEBI Act, 1992 read with regulation 12 of SEBI (Prohibition of Insider Trading) Regulations, 2015.
62. **Prakash Lohia, Umashankar S. and Raja Lakshmi Srivaiguntam:** Prakash Lohia [ January 2007 – April 2011] and Mr. Umashankar S. [August 2007 to January 2010] were the former employees of PTL. During the course of investigation, both these persons were alleged to be in contact with the Managing Director of PTL, Mr. Palem Srikanth Reddy. Ms. Raja Lakshmi Srivaiguntam is the wife of Mr. Umashankar S.
63. It is alleged in the SCN that the major transactions of Mr. Umashankar S. and his wife were only in the scrip of PTL during the period of UPSI. They are found to have invested in the scrip of PTL after borrowing the funds. The analysis of the trading pattern of Mr. Prakash Lohia revealed

that 100% of his trading activity was in the shares of PTL since April 2011. The pattern of the trading of Mr. Umashankar S., Ms. Raja Lakshmi Srivaiguntam and Mr. Prakash Lohia suggests possession of PSI. The investigation has alleged Mr. Umashankar S. and Mr. Prakash Lohia to be an 'insider' in terms of SEBI PIT Regulation. Raja Lakshmi Srivaiguntam being relative of the connected person is 'deemed to be connected person' in terms of the provisions of Regulation 2(h)(viii) of the PIT Regulations and is also an 'insider'.

64. In response to the said allegation the three Noticees *inter-alia* submitted that they were regular traders in the market and based on the public information, specially the financial result declared on May 30, 2013, in which PTL was shown to double its profit in annual result 2012-13 they had traded in the scrip of PTL. They had no UPSI with them. They were not in touch with any employee of PTL after they left PTL, except the congratulatory email sent to the MD after the announcement of Slump sale.

65. I have considered the allegation in the SCN and the reply of the noticees. The trade details of Umashankar, Raja Lakshmi and Prakash Lohia in the scrip of PTL is as under

**Umashankar S.**

Day Date	Buy Quantity	Sell Quantity	Avg Buy price	Avg Sell price	Buy Amount	Sell Amount
14-Jun-2013	1000	0	12.46	0.00	12,457.50	0.00
03-Jul-2013	50	0	13.55	0.00	677.50	0.00
05-Jul-2013	4950	0	14.74	0.00	72,969.80	0.00
10-Jul-2013	0	5000	0.00	14.35	0.00	71,746.15
27-Aug-2013	4000	0	28.00	0.00	1,11,994.05	0.00
28-Aug-2013	11200	0	26.59	0.00	2,97,755.15	0.00
29-Aug-2013	7000	0	26.85	0.00	1,87,950.00	0.00
30-Aug-2013	4000	0	29.30	0.00	1,17,200.00	0.00
03-Sep-2013	900	0	32.25	0.00	29,025.00	0.00
19-Sep-2013	428	0	27.53	0.00	11,784.00	0.00
30-Sep-2013	1000	0	33.47	0.00	33,470.00	0.00

01-Oct-2013	1000	0	33.05	0.00	33,050.00	0.00
03-Oct-2013	2022	0	32.44	0.00	65,595.00	0.00
22-Oct-2013	0	31700	0.00	15.90	0.00	5,04,030.00

**Rajalakshmi**

Day Date	Buy Quantity	Sell Quantity	Avg Buy price	Avg Sell price	Buy Amount	Sell Amount
10-Jul-2013	5000	0	14.35	0.00	71,750.00	0.00
19-Jul-2013	1000	0	18.15	0.00	18,150.00	0.00
22-Jul-2013	1000	0	17.20	0.00	17,200.00	0.00
23-Jul-2013	2000	0	17.77	0.00	35,530.00	0.00
24-Jul-2013	1000	0	16.95	0.00	16,950.00	0.00
25-Jul-2013	750	0	16.95	0.00	12,712.50	0.00
26-Jul-2013	1250	0	18.43	0.00	23,039.85	0.00
29-Jul-2013	2000	0	17.73	0.00	35,450.00	0.00
07-Aug-2013	1525	0	16.85	0.00	25,698.75	0.00
08-Aug-2013	1430	200	17.91	16.80	25,608.50	3,360.00

**Prakash Lohia**

Day Date	Buy Quantity	Sell Quantity	Avg Buy price	Avg Sell price	Buy Amount	Sell Amount
26-Dec-2012	0	2000	0.00	18.95	0.00	37,900.00
12-Jun-2013	2000	0	12.75	0.00	25,500.00	0.00
13-Jun-2013	1000	0	12.60	0.00	12,600.00	0.00
14-Jun-2013	2000	0	12.44	0.00	24,875.00	0.00
17-Jun-2013	2500	0	11.96	0.00	29,900.00	0.00
18-Jun-2013	1000	0	11.75	0.00	11,750.00	0.00
19-Jun-2013	1204	0	11.94	0.00	14,376.60	0.00
24-Jun-2013	1000	0	12.90	0.00	12,900.00	0.00
25-Jun-2013	2100	0	12.58	0.00	26,420.00	0.00
27-Jun-2013	1000	0	13.38	0.00	13,375.00	0.00



05-Jul-2013	1500	0	14.77	0.00	22,150.00	0.00
15-Jul-2013	1000	0	15.10	0.00	15,100.00	0.00
19-Jul-2013	500	0	18.80	0.00	9,400.00	0.00
22-Jul-2013	2200	0	17.17	0.00	37,771.80	0.00
23-Jul-2013	1000	0	17.70	0.00	17,700.00	0.00
24-Jul-2013	1750	0	17.01	0.00	29,762.50	0.00
06-Aug-2013	2000	0	16.20	0.00	32,400.00	0.00
07-Aug-2013	2218	0	17.15	0.00	38,042.50	0.00

66. I note that the trades of Umashankar are mostly during the period when information regarding slump sale was in public domain (August 27, 2013 to 30 August 2013). In June & July 2013, during the UPSI-I period, he purchased 6,000 shares of PTL and sold 5,000 shares. Thus the pattern of trading of Umashankar does not show that he was trading with a UPSI of Slump Sale. As far as trades of Umashankar's wife, Rajalakshmi is concerned it is noted from the above table that all her trades were from July 10, 2013 onwards. She purchased 16955 shares of PTL during the period till August 8, 2013 and unlike Umashankar, she sold only 200 shares of PTL. Her trading was only in the scrip of PTL during this period. I have also noted the fact that after the announcement of Slump sale on August 10, 2013, Rajalakshmi purchased 19,545 (15,000 shares on August 22, 2013; 1,000 shares on August 23, 2013 and 3,545 shares on August 28, 2013) shares of PTL. In reply, she had justified her purchase with the argument that she anticipated substantial dividend and/or buyback. Umashankar and Rajalakshmi submitted that calculating the amount of money received in slump sale and total equity, they expected a dividend in the range of Rs. 36 to Rs. 70.

67. I also note that both Umashankar and Prakash Lohia resigned from PTL in January 2010 and April 2011 respectively. Apart from the congratulatory message sent by them to their previous MD after the announcement of Slump Sale there is nothing on record like constant telephonic connection, email exchanges, fund movement etc. to show that Umashankar and Prakash Lohia were in constant connection with Palem Reddy. In my opinion, for proving serious charges like insider trading, the charges should be backed with some minimum credible evidence, beyond assumptions, against the alleged offender. The Investigation has not produced any evidence of Umashankar, Rajalakshmi and Prakash Lohia obtaining UPSI as alleged in the interim order, except assuming that they had done so by virtue of their previous employment. In view of the same, I am of the view that Umashankar, Rajalakshmi and Prakash Lohia had not violated Regulation 3(i) and 3(ii) of SEBI (Prohibition of Insider Trading) Regulations, 1992 and Section

12A(d) and 12A(e) of SEBI Act, 1992 read with regulation 12 of SEBI (Prohibition of Insider Trading) Regulations, 2015.

### **Conclusion**

68. Upon appraisal of the facts involved in the case, I am of the view that Palem Reddy has not traded on the basis of UPSI, but has been involved in the communication of UPSI to Ameen Khwaja, his co-director in POMPL. As seen from the foregoing paragraphs, Ameen Khwaja has not traded in the shares of PTL during the relevant UPSI period. Accordingly, though he cannot be held to have traded on the basis of UPSI, he is liable for communication of UPSI to the Khwaja group (Noticee nos. 4 to 8). As regards Soujanaya Reddy, a non-executive director of PTL since, all her trades were prior to the period identified as relevant UPSI period in this order. Accordingly, I am inclined to drop the proceedings against her. From the facts and circumstances as brought out above, I am of the view that Kukati Parvati in her capacity as a distant relative of Palem Reddy cannot be said to have had UPSI at the time of her trades. Likewise, Pirani Aziz, who shared a mutual friend with Palem Reddy on Facebook cannot be held liable for insider trading. As regards Karna Ramanjula Reddy (Noticee no. 11), an ex-employee of PLT, I am inclined to hold him liable for insider trading considering that the period of acquisition of PLT shares by him was proximate to the relevant UPSI period, and his unconvincing explanation of investment in the shares of PLT as an intermittent alternative to investment in immovable properties. As regards Umashankar S. and Prakash Lohia, both ex-employees of PLT, who were allegedly in contact with Palem Reddy during the UPSI period, upon examination of their trading pattern, it is seen that most of their trades were after the PSI became public. Moreover, there is no proof of them having received UPSI and traded on the basis of such UPSI. Therefore, they cannot be held liable. Likewise, Raja Lakshmi Srivaiguntam, the wife of Umashankar S., though, may fall within the definition of 'insider', cannot be held liable for the violation of the PIT Regulations, 1992. As far as Mohan Krishna Reddy Aryabumi is concerned, in his capacity as the non-executive Independent Director of PTL, I do not find that there were any purchases done by him during the relevant UPSI period. In view of the above, I am inclined to drop the proceedings against Noticee Nos. 2, 9, 10, and 12 to 15, and accordingly the direction contained in the interim impounding order dated February 04, 2016 against the said Noicees ought to be recalled. As regards, Noticee nos. 1 and 3, it is seen that they have not traded on the basis on UPSI and hence, the directions in the impounding order dated February 04, 2016 against them needs to be vacated. However, both Noticee Nos. 1 and 3 are liable for Insider Trading violation as the facts establish that they were responsible for communicating the UPSI, which need to be met with suitable directions. Further, I am of the view that the interim directions of impounding

passed against Noticee nos. 4 to 8 (the Khwaja Group excluding Ameen Khwaja) and Noticee no. 11 (Karna Ramanjula Reddy) should finally culminate in disgorgement.

### **Disgorgement of profits**

69. Notice no. 11, Karna Ramanjula Reddy has disputed the computation of profits determined in the Interim order dated February 04, 2016. He has submitted that a) illegal gain would accrue only on the date of sale and not on the date of purchase; and b) calculation of interest from the date of purchase is untenable and unjustifiable. A consideration of the issues raised by Noticee no. 11 is relevant for certain other Noticees also, against whom disgorgement is being directed.

70. In this regard, reference is made to Table-8 appearing at paragraph no. 9 of the interim order dated February 04, 2016, indicating separately the profits made by each of the Noticees, along with interest computation. The relevant part of the table is extracted below:

<b>Noticee No.</b>	<b>Entity Name</b>	<b>Profit (₹)</b>	<b>Interest 12% p.a.</b>	<b>Total (₹)</b>
4	<b>Ms. Noorjahan A. Khwaja</b>	30,36,789	9,53,469	39,90,258
5	<b>Mr. Ashik Ali Khwaja</b>	15,05,507	4,67,243	19,72,750
6	<b>Ms. Rozina Hirani Khwaja</b>	10,49,358	3,25,675	13,75,032
7	<b>Ms. Shefali Ameen Khwaja</b>	10,62,334	3,29,003	13,91,337
8	<b>Mr. Shahid Khwaja</b>	10,78,086	3,29,629	14,07,715
11	<b>Mr. Karna Ramanjula Reddy</b>	3,40,760	1,12,031	4,52,791

I note that in the Interim Order the closing price on October 14, 2013 i.e. ₹39.20 has been considered as the reference price for calculating the profits made, and interest has been calculated on the profits made from the individual date of buy transaction till January 31, 2016.

71. In my view, the submission that profits would accrue only if sale is effected is not sustainable. In a case of insider trading, profit is made when any trade is effected on the basis of UPSI i.e. either a purchase before the price rise or a sale before the slump in the price of the scrip. In the instant

case, the Noticees who bought shares on the basis of UPSI could buy the shares at a price lower than the price they would have had to otherwise pay, had the information been public. By acquiring on the basis of UPSI, the above-mentioned Noticees made profits with respect to the acquisition by not having to incur the additional cost as they would have had to bear, had they bought the shares subsequent to the UPSI becoming public. Therefore, in my view, in the facts of the instant case, the profits can be said to accrue at the time when purchases were made, irrespective of whether or not the noticees sold the same; the levy of interest on the profits made by the above-mentioned noticees from the date of purchase also stands justified accordingly. The table below depicts the illegal gains made by the Noticees by purchasing the shares by avoiding the additional cost. The interest on the illegal gains of the Noticees is shown in a separate column.

72. To summarise the earlier findings with respect to UPSI-I and UPSI-II; it is stated that UPSI-I is during the period May 09, 2013 to August 10, 2013 and UPSI –II is during October 04, 2013 to October 14, 2013. However, as the interim impounding directions by way of interim order dated February 04, 2016 was based on the UPSI-I and UPSI-II periods indicated in the SCN, which are different from the dates indicated above, it is imperative to recompute the profits of the Noticees to align it with the identified period of UPSI. Further, I note that the reckoning price of the scrip was different for UPSI-I and UPSI-II (i.e, Rs 19 being the price on August 10/12, 2013 and Rs. 39.2 being the reckoning price on October 14, 2013). I note that at the interim impounding order stage, the amounts were impounded by applying the uniform price of Rs. 39.2 as the reckoning price across both the UPSI periods. In my opinion, the trades in the two UPSI periods, as identified, ought to be based on the price reckoned on the basis of the respective UPSI period.

73. Accordingly, the recomputed table with respect to the profits made by the above Noticees, which are liable to be disgorged by the respective Noticees, is placed hereunder:

### **Recomputation of Profits**

**Table-I**

Profits made by the Khwaja Group by trading in PTL shares during UPSI-I (May 09, 2013 to August 10, 2013)										
	Buy Vol.	Buy value in ₹	Sell Vol.	Sell value in ₹	Shares unsold on 10.08.2013	Reckoning price (closing price on August 12, 2013)*	Value of shares	Gain (₹)	Interest 12% p.a. **	Total (₹)
	A	B	C	D	E=A-C	F	G=E*F	H=G+D-B	I	J = I + H

Noorjahan A Khwaja***	120972	1661672.5	500	6500	120472	19	2288968	633795.55	197209.26	831005
Khwaja Ashik Ali****	61193	953859.25	0	0	61193	19	1162667	208807.75	64205.8	273014
Rozina Hirani	43014	636791.42	0	0	43014	19	817266	180474.58	55458.57	235933
Shefali Ameen Khwaja	45000	701655.78	0	0	45000	19	855000	153344.22	47080.96	200425
Shahid Khwaja *****	35822	624910.26	0	0	35822	19	680618	55707.74	16927.77	72636

\* The reckoning price is the closing price on August 12, 2013 as it is the most immediate day of trading of PTL shares after UPSI-I became public, i.e. August 10, 2013.

\*\* Interest calculated on profits from the individual date of buy transaction till January 31, 2016.

\*\*\* Recomputed profits excluding sale made on January 03, 2013, which is outside the UPSI-I period.

\*\*\*\* Trade made on July 19, 2013 excluded from the computation of profits as the buy price for such trade is the same as the Reckoning price.

\*\*\*\*\* Trades made on July 17 and July 18, 2013 have been excluded from the computation of profits as the buy price for such trades is more than the Reckoning price.

**Table - II**

Profits made by Karna Ramanjula Reddy by trading in PTL shares during UPSI-I (May 09, 2013 to August 10, 2013)										
	Buy Vol.	Buy value in ₹	Sell Vol.	Sell value in ₹	Shares unsold on 10.08.2013	Reckoning price (closing price on August 12, 2013) #	Value of shares	Gain (₹)	Interest 12% p.a. ##	Total (₹)
	A	B	C	D	E=A-C	F	G=E*F	H=G+D-B	I	J = I + H
Karna Ramanjula Reddy###	13884	224622.21	0	0	13884	19	263796	39173.79	11842.62	51016
Profits made by Karna Ramanjula Reddy by trading in PTL shares during UPSI-II (October 04, 2013 to October 14, 2013)										
	Buy Vol.	Buy value in ₹	Sell Vol.	Sell value in ₹	Shares unsold 14.10.2013	Reckoning price (closing price on October 14, 2013)####	Value of shares	Gain (₹)	Interest 12% p.a. *	Total (₹)
	A	B	C	D	E=A-C	F	G=E*F	H=G+D-B	I	J = I + H

Karna Ramanjula Reddy	300	9660	0	0	300	39.2	11760	2100	586.15	2686
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Total profits made by Karna Ramanjula Reddy : 53703

*# The reckoning price for trades carried out during UPSI-I period is the closing price on August 12, 2013 as it is the most immediate day of trading of PTL shares after the UPSI-I became public, i.e. August 10, 2013.*

*##Interest calculated on profits from the individual date of buy transaction till January 31, 2016.*

*###Recomputed profits excluding trades made outside UPSI period (May 06, 2013 and September 16, 2013 to October 03, 2013). Trade made on July 17, 2013 excluded from the computation of profits as the buy price for such trade is more than the Reckoning price.*

*#### The reckoning price for trades carried out during UPSI-II period is the closing price on October 14,2013 i.e. the day UPSI-II became public.*

### **Directions**

74. In view of the above, I, in exercise of the powers conferred upon me under section 19, read with sections 11(1), 11(4) and 11B of the Securities and Exchange Board of India Act, 1992, hereby issue the following directions:-

- (i) Noticee nos. 1, 3, 4 to 8, and 11, namely Palem Srikanth Reddy, Ameen Khwaja, Noorjahan A. Khwaja, Ashik Ali Khwaja , Rozina Hirani Khwaja , Shefali Ameen Khwaja, Shahid Khwaja, and Karna Ramanjula Reddy –
- shall be restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities, directly or indirectly for a period of three years, and
  - shall not associate with any listed company in the capacity of a director or otherwise for a period of three years,

The above named Noticees may liquidate their existing holdings, except PTL , during the said debarment/restraint period of 3 years.

- (ii) Noticee nos. 4 to 8 and 11, namely Noorjahan A. Khwaja, Ashik Ali Khwaja , Rozina Hirani Khwaja , Shefali Ameen Khwaja, Shahid Khwaja , and Karna Ramanjula Reddy–
- shall individually disgorge the amounts indicated in the tables appearing at paragraph no. 73, in terms of this order,
  - shall pay the said amounts within 15 days from the date of this Order either by way of demand draft drawn in favour of “Securities and Exchange Board of India”, payable at Mumbai or by e-payment # to SEBI account as detailed below:

Name of the Bank	Branch Name	RTGS Code	Beneficiary Name	Beneficiary Account No.
Bank of India	Bandra Kurla Branch	BKID 0000122	Securities and Exchange Board of India	012210210000008

# Noticees who are making e- payment are advised to forward the details and confirmation of the payments so made to the Enforcement department of SEBI for their records as per the format provided in Annexure A of

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

Press Release No. 131/2016 dated August 09, 2016 which is reproduced as under:

- (iii) Noticee nos. 4 to 8 and 11 shall be at liberty to withdraw the difference between the amount deposited by them in escrow accounts opened pursuant to the directions passed in the interim order dated February 4, 2016 and the recomputed amount of disgorgement with respect to the said Noticees, as indicated in the tables appearing at paragraph no. 73;
- (iv) the directions of impounding contained in Para. 11 of the interim order dated February 04, 2016 against Noticee nos. 1, 2, 3 9, 10, and 12 to 15 herein, namely Palem Reddy, P. Soujanya Reddy, Ameen Khwaja, Kukati Parvathi, Pirani Ameen Abdul Aziz, Umashankar S., Raja Lakshmi Srivaiguntam, Prakash Lohia, and Mohan Krishna Reddy Aryabumi shall stand revoked with immediate effect, and the said noticees shall be at liberty to withdraw the amounts deposited by them respectively, along with accrued interest, if any, from the escrow account opened pursuant to the directions passed in the interim order dated February 4, 2016; and
- (v) Noticee no. 1 shall be at liberty to withdraw the amount deposited by him, along with accrued interest, if any, from the escrow account opened pursuant to the directions passed in the interim order dated February 4, 2016.

75. The above directions shall come into force with immediate effect.

76. A copy of this order shall be served upon the Noticees immediately. A copy shall be served on the stock exchanges, the depositories and the banks for necessary action.

**Place: Mumbai**

**Date: August 13, 2019**

**G. MAHALINGAM**

**WHOLE TIME MEMBER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**