

SECURITIES AND EXCHANGE BOARD OF INDIA

DIRECTION UNDER 11B OF SEBI ACT, 1992 READ WITH REGULATION 12 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 1995 AGAINST SHRI KARTHIK, PROMOTER OF EONOUR TECHNOLOGIES LTD. AND EONOUR TECHNOLOGIES LTD.

CO/ /2002/IES/FUTP

- 1.1 Investigations were conducted into the price movement in the scrip of M/s. Eonour Software Ltd. (hereinafter referred to as ESL) which had witnessed substantial movement both in terms of price and volume at BSE during the period June 2000 to December 2000. Prior to this, the scrip of ESL (earlier known as Mikugura Software Ltd and now known as Eonour Technologies Ltd.) witnessed sharp price movement in Madhya Pradesh Stock Exchange, Indore, wherein the price spurted from Rs.31/- (as on December 1999) to touch Rs 401 (as on March 2000). It was found during the course of investigation that the price movement in MPSE was witnessed immediately after the existing business of Mikugura Software Ltd. was taken over by Shri Karthik. Investigations also revealed that at MPSE, Indore about seven brokers had formed a cartel and indulged in circular trading in the scrip, which pushed up the scrip price to unrealistic levels. It was also noticed that prior to November 1999 the scrip of Mikugura Software Ltd. was not actively traded in the Exchanges.
- 1.2 Although the scrip of ESL got listed at BSE on March 13, 2000, the first trade was reported in the scrip at the exchange only on June 12, 2000 (at a price of Rs 520). The price of the scrip at BSE had gone up from Rs.520 to Rs.634.75 during the period when the investigation was carried out (from 12.06.2000 to 07.07.2000).

- 1.3 During the investigation, it was found that the earlier company Mikugura Software Ltd. was taken over by Shri R. Karthik from its previous promoters in the month of November 1999. Immediately after the completion of open offer formalities the scrip witnessed substantial price rise at MPSE. Investigation also revealed that at BSE, a common set of clients traded substantially in the scrip which had resulted in its price movement. The entities named Jem Fiscal Ltd. and Hakeem Auto Ltd along with a cartel of brokers managed to manipulate the scrip of ESL by indulging in circular trading.
- 1.4 Investigations also disclosed that the promoter, Shri Karthik had entered into certain transactions (including loan transactions) with Jem Fiscal Ltd., Hakeem Auto Ltd and Veronica Financial Services Ltd (all entities belonging to Shri Nazir Hakeem) immediately prior to the price movement at BSE. It has also been found that the funds received by the promoter from these entities were transferred to the accounts of the company immediately.
- 1.5 Investigations had also revealed that the clients who had traded in the scrip did not have a genuine investment motive. Whereas volumes in the scrip were generated by the clients in thousands the delivery based business of the clients was insignificant. It was also found that the clients who had traded in the scrip at BSE were connected to each other and had traded with a common objective. The entire series of transactions that had taken place only indicated that the exercise was master minded by Jem Fiscal Ltd and all the clients were either employees of Jem Fiscal and / or were associated with Jem Fiscal in some way or other.
- 1.6 Shri.Karthik, promoter of Eonour Software Ltd. was also found, during investigation to have deceived the Financial Institutions by giving them a false picture as regards the market value / liquidity of the scrip and securing loans from them. Substantial quantities of shares of ESL were

pledged as collateral security by the promoter of ESL for availing loans / finance from Banks / Financial Institutions.

1.7 Shri.Karthik was found during the investigation to be responsible for creating a false / artificial market for the scrip and that the brokers / clients such as Jem Fiscal, Hakeem Auto & Veronica Financial Services had aided and abetted him. Shri.Karthik being the main promoter was found during the investigation to be vitally interested in the promotion of the scrip of his company and the clients master minded by Jem Fiscal had aided him in such practice. Investigations also brought out that Shri Karthik had entered into business transaction with one Shri N K R Shanmugan of Pondicherry. In the said transaction, Shri Karthik had sold 1,24,000 shares from his account to Shri Shanmugan. According to Shri Karthik, Shri.Shanmugan did not honour his business commitment, and had not paid for the same. However, the said shares were sold to Jem Fiscal during June 2000. The transaction between Shri Karthik and Hakeem Auto and the one between Shri Shanmugan and Jem Fiscal took place around the same period i.e. June 2000 implying that Shri Karthik was instrumental in arranging the transaction between Jem Fiscal and Shri. NKR Shanmugan. Both Jem Fiscal and Hakeem Auto were controlled by Shri Nazir Hakeem. In respect of these business transaction agreements were seen entered into with the lenders on plain white paper and not on stamp paper.

2.1 In view of the above findings, a show cause notice was served on Shri.R. Karthik, Chairman and CEO of Eonour Technologies Ltd. vide our letter dated 25.6.2002. Shri Karthik was required to show cause as to why suitable directions should not be issued under Section 11B of SEBI Act, 1992 read with Regulations 11 and 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 for the alleged violation of Regulation 4(a), (b), (d) and (e) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities

Market) Regulations, 1995. Shri Karthik was asked to submit his reply alongwith necessary records or evidences, vide the afore stated notice.

- 3.1 In response to the aforesaid show cause notice, Shri Karthik sent a reply dated 8.7.2002. In his reply, he mentioned that the deal with Shri .N .K. R. Shanmugan was a placement and not a pledge. It was denied that Shri Karthik had forced Shri Shanmugan to sell the shares to Jem Fiscal Ltd. According to Shri Karthik, Shri Shanmugan had returned 17,80,000 shares in Jan, 2002 and 70,510 in Feb, 2002 and that he had taken a loss for the balance shares and returned off the same. Shri Karthik said that he was unaware of any other transaction with Shri. Shanmugan and the allegation that the agreements have been created were incorrect. No consideration was received by Shri Karthik from Shri Shanmugan and a copy of the agreement dated 30.1.02 between Shri Karthik and Shri Shanmugan was produced.
- 3.2 Regarding the MPSE price movements Shri Karthik stated to have no connection with any broker there and stated that he was not responsible for the price movements that had taken place. He also said that criminal action has been initiated against Shri Ravindra Khajanchi and that he had sent a letter to the Chairman, SEBI regarding the harassment from MPSE - Indore. This, according to Shri Karthik would show that the company and the promoter are unconnected at any price movement at MPSE.
- 3.3 In so far as his connection with Mr Hakeem was concerned, Shri Karthik said that the same was only a loan on shares transactions by Hakeem Auto LTd (HAL) and Veronica Financials(VSFL) for 25 Lakhs each and since there was no liquidity in the scrip, the deal had been structured on the book value at approximately 50% margin (which according to him was common in unlisted companies). According to Shri Karthik since investment climate was bad and there was downturn in industry, the transaction had to be done as loan under transfer in order to protect the

interest of the lender. The funds received from HAL and VFSL were transferred to the company's account in order to meet the working capital requirements. He also denied the company's involvement and any link in the price rise. It was his case that they had taken money from the first source available although they had tried at various sources without any positive response. He also said that he was forced to accept the terms and conditions of the loan since there was downturn in the software industry and money could be obtained only on these grounds. As regards the finding of the agreement being in blank paper, it was his reply that they sign contracts with international clients and domestic clients on blank papers and not on stamp papers.

3.4 Shri Karthik mentioned that he had informed SEBI that in December 2000, they had availed loan of Rs.24 lakhs from Mardia Sons Holdings Ltd. and Mansi Finance (Chennai) Ltd. on 50% margin at a base price of Rs.50 per scrip as the share was still illiquid. According to him, it is not a conventional practice for someone to lend on a static price of illiquid scrip and such deals happens only on book value or near to book value.

3.5 In his reply to the show cause notice Shri Karthik also denied that raising the loan from Canara Bank was one of the objectives behind price rise. The original sanction of the loan, Shri Karthik said, was based on the company's shares and the collateral of the shares (19,54,000) which is normal initial condition of the bank. The shares of the company were illiquid when the loan agreement was signed and the shares could not have been the main base for the loan, according to Shri Karthik. Shri Karthik also said that he had negotiated to lower the number of shares to be pledged to 5,00,000 as 12.5 lakh shares could not be pledged since the same was under lock. Shri Karthik also said that their account with Canara Bank is rated as S1, the highest asset rating and the facility is purely on the company's strength. Regarding the allegation that the last traded prices prior to June was more than Rs.500, it was said that prior to

the agreement with VSFL and HAL, the scrip was illiquid and subsequently scrip became "illiquid" after some initial trading in BSE. Shri Karthik denied any connection with the price movement either prior or after the signing of the agreement. Shri Karthik said that he was not responsible for the illiquidity of the scrip either prior or after signing of the agreement and the facilities enjoyed by the company was purely for its credibility and strength.

- 3.6 Regarding the allegation about the fundamentals of Eonour Software Ltd. and the promoters not having any major track record to boast about, Shri Karthik stated in the month of June 2000, the company had signed a triparte agreement with two world majors and that the company and the management had strived to grow in the worst times in the industry and successfully combat the recession. It was also stated by Shri Karthik that the company had closed March 2000 with sales of Rs.12.95 crores and a profit of Rs.3.7 crores, March 2001 sales of Rs.47.34 crores and a profit of Rs.16.04 crores.
- 3.7 It was also mentioned in his reply to the show cause by Shri Karthik that his is a growing company with lot of families dependent on them and any adverse action would have a direct impact on the company and its operations. On the basis of the above, he requested to review the case against him and drop action whatever proposed against them.
- 3.8 In the month of June 2002, Shri Karthik had addressed a letter to SEBI in which he had said that he was being subjected to harassment from Shri Ravindra Khajanji who is the member of MPSE. In the said letter, Shri Karthik also mentioned that the shares he had acquired upon his acquisition of the company were partly paid up and when the company resolved to call for the unpaid call monies, it was noticed that there was excess money received than what was due from the shareholders. The company had also received some disputed share certificates along with

share transfer forms dated March 28, 2000. When the company was going for dematerialisation of shares, it noticed that the disputed shares had been received under the open offer by the Registrars of the Open offer (MS Systamatix Corp. Services Ltd.). The company also received a certificate from the Registrar that the payment was made duly to the shareholder who surrendered the certificate under the open offer.

3.9 Since, the original share certificates were already surrendered for dematerialisation to the company there could not be parallel certificates existing. Shri Karthik mentioned in his letter that after he received parallel certificates, Shri Khajanji called Shri Karthik on the phone and had intimidated him that unless he was paid sufficient consideration, he would attempt to implicate Shri Karthik for all sort of alleged violations for which he was charged with and that Shri Khajanji claimed to be in control of the MPSE. According to Shri Karthik attempts were being made to intimidate him to make unlawful gains by creating records, by Shri Khajanji who required Shri Karthik to give Rs.18 lakh as consideration for remaining quiet in relation to the affairs of the company.

3.10 The disputed shares, according to Shri Karthik were share certificate which were not genuine since the same could not parallelly exist as it was surrendered pursuant to the open offer. The instances of parallel certificates that were existing was brought to the notice of Shri.Karthik on March 2000. However, he chose to lodge a police complaint in the subject matter only in June 2002 i.e. after almost two years. Further, it was also noticed that Shri.Ravindra Khajanji was among the seven brokers who had formed a cartel at MPSE and were involved in 'circular trading' in the scrip during the period December 1999 to March 2000.

4.1 Shri Karthik was granted a personal hearing on 26.10.02 before me, which was communicated to him vide our letter dated 24.09.2002. The hearing was postponed for 28.10.02 which was informed vide our letter dated

01.10.02. Shri Karthik was present for the hearing that was held on 28.10.02. Shri Karthik reiterated his submissions made in his reply dated 08.07.2002 to the show cause notice. Although he admitted that fictitious transactions had taken place in the market, he said that the company was not responsible in any manner for whatever that had taken place. He also admitted that the facts pertaining to circular trading was undisputed and regarding the loan transactions, he said that since no one was willing to finance on the market value of the shares the same had to be undertaken on the book value of the shares. He also mentioned about his being intimidated by Shri Ravindra Khajanji and mentioned about the fake shares that was circulated in the market.

- 5.1 I have carefully examined the findings of the investigation, the show cause notice and the reply sent by Shri Karthik, promoter ESL as also the submissions made during the hearing. I find from the distribution schedule dated 10.02.2000 furnished by the company that Shri Karthik, the main promoter of the company was holding 22,44,200 shares of the company constituting approximately 75% of the paid up capital of the company. However, a perusal of distribution schedule dated 29.09.2000 showed that the shareholding of Shri Karthik had decreased to 19,54,200 shares and also one Shri Shanmugham NKR who was holding 1,24,000 shares of the company on 10.02.2000 was not holding any shares on 29.09.2000. A further analysis of distribution schedule dated 29.09.2000 also showed that three corporate bodies based at Mumbai viz. Veronica Financial Services Ltd., Hakeem Auto Ltd. and Jem Fiscal Pvt. Ltd. were holding 1,45,000 shares, 1,44,334 shares and 1,24,000 shares of the company respectively. The combined holding of these three entities in the scrip of Eonour Software Ltd. is approximately 13.77 % of the paid up capital of the company. The contact person of all the three entities was Shri Nazir Hakeem.

5.2 It was observed from the price volume detail submitted by M P Stock Exchange that the price of the scrip which was Rs.31.50 on 01.12.1999 rose to Rs.401 on 09.03.2000. Prior to November 1999, the scrip of Mikugura Software Ltd. (Eonour Software Ltd.) was not actively traded and the scrip was considered highly illiquid. At Stock Exchange, Mumbai the first trade was reported on 12.06.2000 and the price was Rs.520 which went upto Rs.634.75 on 07.07.2000. It was also noticed that Jem Fiscal Ltd and its Director Shri Nazir Hakeem was mainly instrumental behind the price movement at BSE and the records revealed that all the other clients aided and abetted Jem Fiscal Ltd in the manipulation of the scrip. The promoter of Eonour Software Ltd had entered into loan transaction with Jem Fiscal just prior to the market movement witnessed at BSE.

5.3 At MP Stock Exchange, it was observed that trading in the scrip was concentrated among seven members of the Exchange during the period December 1999 to March 2000. The names of the brokers along with their position is given below :

Name of Broker	Purchases	%age of Total	Sales	%age of Total	Gross
Mohan Malpani, President MPSE	65,900	26.67	66,300	26.83	132200
Shaifali Khajanchi	65,600	26.55	65,500	26.50	131100
Ravindra Khajanchi	57,100	23.10	56,800	22.99	113900
Dilip Bhandari	30,100	12.18	30,100	12.18	60200
Vijay Vyas	23,100	9.34	23,100	9.34	46200
Anil D. Bhandari	4,000	1.61	4,000	1.61	8000
Sharad Bhandari	1,300	0.52	1,300	0.52	2600
Total	2,47,100	100.00	2,47,100	100.00	494200

The above mentioned brokers without actually taking or giving delivery, have jacked up the price of the scrip at MP Stock Exchange from Rs.31/- to Rs.401/-. It is also found that they have reversed the position among themselves and indulged in rampant "circular trading" in the scrip so as to register artificial volumes and also to jack up the scrip price. The brokers were found to have done the trades in their own account.

6.1 From the details submitted by Shri Karthik, the promoter of Eonour Software Ltd., it was noticed that there had been transactions with M/s Veronica Financial Services Ltd. (VFSL) and M/s Hakeem Auto Ltd (HAL) and it was also noticed that Shri Karthik had entered into an agreement for a loan of Rs.25 lakhs each with the above mentioned companies on 05.06.2000 by pledging the shares of Eonour Software Ltd. The salient features of the "Agreement for pledge of shares" were as follows:

- ? On request of the pledger i.e the promoter of Eonour, VFSL and HAL have sanctioned a loan of Rs. 25 lac each on security of 1.45 lac shares each.
- ? The shares transferred will not have any lien marked and shares shall be fully transferred to VFSL and HAL.
- ? VFSL and HAL had the right to attend meeting of any class of members or meeting of creditors or debenture holders of ESL and to exercise the voting rights in respect of the shares pledged.
- ? If the interest amount and all the other moneys involved remain unpaid, VFSL and HAL will have right to sell the shares and no payment shall be made to the pledger. The pledger agreed to this since the shares of ESL were not actively traded and were illiquid in the market. The fact that the shares of Eonour Software was illiquid was also mentioned in the agreement copy.
- ? The said loan was given based on the book value of shares and the total amount of the book value for 1.45 lac shares was approx. Rs. 47 lacs. It is also stated that in case the book value of the share goes down, the pledger would pledge additional shares by way of security to make good the deficit. In case the pledger fails to comply with this condition, VFSL and HAL shall be entitled to discontinue the loan granted to the Borrower.

- ? Once the loan amount is paid back alongwith the interest in full, the shares shall be returned to the borrower.

6.2 I have come across the details regarding the agreements entered into by Shri Karthik with Shri Nazir Hakeem, Chairman of Veronica Financial Services Ltd. who is also the Chairman cum Managing Director of Hakeem Auto Ltd and director of Jem Fiscal Ltd. The agreements had been executed on plain paper and not on a stamp paper. Although the agreements were seen to have entered into on 05.06.2000 by both the parties, the payments of the loan amount of Rs.25 lakhs have been credited into the account of Shri Karthik on 07.08.2000 and 06.09.2000. It was also found that immediately after receipt of money, the amount was seen transferred to the company's current account which clearly indicates the involvement of the company in the manipulative dealings with Jem Fiscal Ltd., Hakeem Auto Ltd., Veronica Financials Services Ltd., Shri Nazir Hakeem etc. Shri Karthik had submitted to the investigating team that the money was used by the company for meeting their working capital requirements. The investigating team had obtained two letters dated 06.05.2000 written by Shri Karthik to Veronica Financial Services Ltd. and Hakeem Auto Ltd. stating his inability to repay the loan amount and also requesting them to take right over the shares and treat the loan as cancelled in consideration for the shares. It is pertinent to note that the loan transaction had taken place on 05.06.2000. Also that the agreement was made on plain paper. From the series of events it appears that, the parties involved have created these documents in order to justify their transactions at Rs.17.75 per shares, once they received the letter from SEBI.

6.3 Investigations have also revealed that the company has availed the loan of Rs.2.5 crore from Canara Bank towards working capital against book

debts. The security for the loan included lien on the shares held by Shri Karthik and personal guarantee of Shri Karthik. The market price of the shares was considered as Rs.600 per share in the above transaction. It is noteworthy that the loan transactions with VFSL and Hakeem Auto Ltd. was at Rs.17 per share. This also indicates that VFSL and HAL had acted in concert with Shri Karthik, promoter of the company in order to create artificial volumes in the scrip and also to jack up the price of the scrip in the secondary market. But for the misleading picture created as regards the market value of the shares the loan from Canara Bank would not have come through. Thus the promoter of Eonour Software Ltd. had managed to deceive the Financial Institutions by giving them a false picture as regards the market value / liquidity of the scrip. Investigations have confirmed that both the scrip price and the liquidity were achieved by rampant "circular trading" in the scrip master minded by Jem Fiscal Ltd. At BSE, all the other clients were acting in concert with Jem Fiscal Ltd. It was also found during the investigation that Shri Karthik has availed a personal loan of Rs.24 lakhs from two private companies against a pledge of One lakh shares of Eonour Software Ltd. in the month of December 2000. In so far as the liquidity of the scrip is concerned, the promoter of Eonour Software Ltd. (ESL) himself had admitted that the scrip was illiquid in nature. This supported by the business / loan transactions which he had entered into with the entities of Shri Nazir Hakim immediately prior to the price movement at BSE clearly supports the fact that he had colluded with the entities of Shri Nazir Hakim so as to register artificial / false market for the scrip of his company.

- 6.4 As regards Shri Shanmugan who was one of the top shareholders, it was found that the shares were already transferred to JEM Fiscal Ltd. in June 2000 which was confirmed by the Depository Statement of Account of Jem Fiscal with SHCIL. From the letters exchanged between Shri Shanmugan and Shri Karthik it appeared that Shri Shanmugan has not yet made the payments to Shri Karthik for the purchase of 1.24 lakh shares of ESL. It

appeared as if that Shri Karthik was making all possible efforts to receive the payments from Shri Shanmugan. However, as explained earlier, the shares had already been transferred to Jem Fiscal Ltd. It also appears that the consideration towards the same paid by Jem Fiscal to Shri Shanmugan were passed on to Shri Karthik / Eonour Software Ltd. and this transactions had taken place under the sole instruction of Shri Karthik. It appeared from the submissions made by Shri Karthik to the investigation team that he had forced Shri Shanmugan to sell the 1,24,000 shares to Jem Fiscal during June 2000. It cannot be a mere coincidence that the transaction between the promoter of ESL with the entities of Jem Fiscal and the transactions between Shri Shanmugan with Jem Fiscal had taken place almost around the same period. Thus, Shri Karthik and / or his company Eonour Software who was the beneficiary in respect of this transaction and Shri Shanmugan have aided / abetted the promoter of Eonour Software in this transaction. The consideration for the same seem to have been passed on to ESL. Thus from the records it is evident that Shri Shanmugan has lied to the investigating team and the letters stated to have been exchanged between him and the promoter, Shri Karthik are documents that were created so as to deceive the investigating team.

- 6.5 Therefore, it is clear from the above that the scrip of Eonour Software Ltd. which has been illiquid suddenly showed an increase in the price which was due to the circular trading that had taken place. There was nothing special about the fundamentals of Eonour Software for such a movement in the scrip price especially at MPSE. The promoter was a first generation entrepreneur without any major track record to boast about. Thus the price movement at MPSE was artificial and created by the promoter in connivance with the brokers as mentioned above. There was persuasive evidence to suggest that Shri Karthik had entered into an arrangement with Jem Fiscal Ltd / Shri Nazir Hakeem to manipulate the market. This is clear from the fact that although the scrip of ESL was listed at BSE on March 13, 2000 the first trade in the scrip was reported at the Exchange

only on June 12, 2000 i.e. after Shri Karthik had entered into business transaction with HAL, VFSL and Jem Fiscals Ltd. Jem Fiscal Ltd had alongwith a cartel of brokers / clients manipulated the scrip price from Rs.520/- to Rs.634.75 during the period 12.6.2000 to 7.7.2000 by way of 'circular trading' in the scrip. The trading pattern of the clients at BSE clearly suggested that there was no investment motive and the client masterminded by Jem Fiscal were indulging in a complete churning out activity in the scrip so as to register artificial volumes and price. Thus, Shri Karthik is guilty of violating the provision of Regulation 4(a), (b), (d), and (e) of SEBI (Prohibition of Fraudulent and Unfair Trades Practices Relating to Securities Market) Regulations, 1995.

- 7.1 Therefore, in exercise of the power conferred upon me under Section 4(3) read with Section 11B of SEBI Act, 1992 and Regulation 11 and 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, I hereby direct Shri Karthik R, promoter of Eonour Technologies Ltd. and Eonour Technologies Ltd not to deal in Securities in any manner for a period of 3 years. This order shall come into force with immediate effect.

G. N. Bajpai
Chairman
Securities & Exchange Board of India

Place : Mumbai
Date : February 10 , 2003