

SECURITIES AND EXCHANGE BOARD OF INDIA.

DIRECTION UNDER SECTION 11B OF THE SEBI ACT, 1992 READ WITH REGULATION 11 and 13 OF THE SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 1995 READ WITH REGULATION 13 OF THE SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003 READ WITH REGULATION 44 OF THE SEBI (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 1997 AGAINST KRISHNA FILAMENTS LTD. AND ITS PROMOTERS / DIRECTORS AND ASSOCIATE CONCERNS / ENTITIES.

1.0 BACKGROUND :

1.1 Krishna Filaments Ltd. (hereinafter referred to as "KFL") was incorporated in July, 1988 as Orkays Rope Manufacturing Company Ltd. It came out with a public issue in March, 1994 of 24.5 lakh equity shares of Rs.10/- each at a premium of Rs.10/- per share aggregating to Rs.490 lakhs. Later, in April 1997, KFL came out with a public issue of 33,45,000 Optionally Fully Convertible Discounted Debentures (OFCD) of Rs. 200/- each for cash at a discounted price of Rs.160/- aggregating to Rs.5,352 lacs. Each OFCD was convertible into an equity share at the end of seventeen months from the date of allotment at a discount of 33.1/3% to the average daily closing prices for the previous six months at BSE subject to a maximum conversion price of Rs200/-.

1.2 An unusual spurt in price and volume in the scrip of Krishna Filaments Ltd. (KFL) was observed during the period May-June, 1998 at a time when both the BSE Sensex and the NSE Nifty fell sharply. The price of KFL increased from Rs.153/- on BSE and Rs.154/- on NSE on 15th May, 1998 to Rs.311/- on 9th June, 1998 on BSE and Rs.313/- on 4th June, 1998 on NSE.

2.0 INVESTIGATIONS BY SEBI :

2.1 On noticing this unusual price spurt, investigations were initiated by SEBI to look into the affairs relating to dealings in the scrip of KFL.

3.0 FINDINGS OF INVESTIGATION BY SEBI :**3.1 Violations of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 and the provisions of Section 77 of the Companies Act, 1956.**

3.2 It was observed from the investigation report that there were large purchases by a set of entities immediately prior to the conversion date of OFCD [As the OFCDs were allotted in April, 1997 the conversion after seventeen months was due on 13/11/98]. It was also observed that the price of the scrip of KFL was rigged by KFL & its associate entities to fix conversion price at a higher level. This conversion price was eventually fixed at Rs.144/- per share for non-promoters/ other shareholders and Rs.200/- for promoters and collaborators. It was revealed that a complicated web of various companies was created by KFL and its promoters / directors for making purchase of shares of KFL. These companies also provided smoke screen to hide out identity of persons (Promoters / Directors of KFL), who rigged the price of shares of KFL.

3.3 In this regard, I find that the Information was called from KFL regarding investments made by it and its group companies in the preferential shares. The KFL submitted details of its investment as on 31/3/1998 in 11% non-convertible redeemable cumulative preference shares of Rs.100/- each in Competent Trading, Dominance Trade and Precise Exports each amounting to Rs.3.50 crores i.e. Rs.10.50 crores in total. I find that Krishna Vinyl Ltd., (herein after referred as to KVL) an unlisted associate concern of KFL had also invested in 12% non-convertible redeemable cumulative preference shares of Rs.100/- each. It was revealed that KFL has invested in Competent Trading amounting to Rs.1.00 crore, Dominance Trade 1.50 crores and Precise Exports 1.00 crores i.e. Rs.3.50 crores in total by KVL. In short, Rs.17.50 crores was invested in unlisted companies. Investigations further revealed that this investment has not yielded a single paisa as interest or dividend till date. Resolution dated 20/3/1998 was passed by KFL authorising Mr.K.K.Agarwal to invest in 11% Non-Convertible Redeemable Cumulative Preference Shares of Rs.100/- in Competent Trading for Rs.3.50 crores, in Dominance Trade for Rs.3.50 crores and in Precise Exports for Rs.3.50 crores. Though the date of resolution passed by KFL is March 20, 1998, as per the information furnished by KFL it has shown funds transferred to Precise Exports from August, 1997 till the date of passing resolution as Share Application Money. The total amount transferred to Precise Exports by way of Share Application Money before passing the resolution amounts to Rs.65.35 lacs. Further, the funds have been transferred to Precise Exports in piecemeal but the preference shares have been shown as allotted on a single date March 25, 1998. Further, each time the funds were transferred to Precise Exports, the same amount was immediately paid by Precise Exports to sub-brokers against purchase consideration of KFL shares. It implies that KFL has purchased its own shares using its own funds, but the same has been camouflaged to show as an investment in preference shares of its front entity which has purchased KFL shares. Though preference shares worth Rs.350 lacs were shown as allotted by Competent Trading, Dominance Trade and Precise Export to KFL between 25/3/1998 and 30/3/1998, it was observed that form for allotment by all the three companies was filled with RoC only on 3/9/1998, after a gap of more than five months. All these funds transferred to the three companies have been used to purchase the shares of KFL and KVL from the set of companies under the control of Mr.N.R.Dalal and Mr.Anantnarayan Iyer. Besides the above investments of Rs.10.50 crores by way of preference shares in the three companies as on 31/3/1998, funds over Rs.16.50 crores were again transferred to these three companies by KFL and KVL during the financial year 1998-1999. These three companies have used the funds so received in 1998-1999 to purchase shares of KFL from the secondary market or have further lent to the four

companies Gainful Exports, Marvellous Trading, Responsive Plastics and Lyric Investments who in turn used this money for purchasing KFL shares. All the funds transfer from the seven entities to the broker / sub-broker have occurred on the same day on which the funds have initially been transferred from KFL/KVL to Competent Trading, Dominance Trade and Precise Exports.

3.4 Investigations further revealed that the funds so transferred to these three companies and receivable from them was adjusted as under :-

1. By showing allotment of preference shares worth Rs.350 lacs – by Competent Trading for Rs.100 lacs, by Dominance Trade for Rs.150 lacs and by Precise Exports for Rs.100 lacs to KVL on July 20,1998.
2. By showing further allotment of preference shares worth Rs.70 lacs – by Competent Trading for Rs.20 lacs and by Precise Exports for Rs.50 lacs to KFL on March 13,1999; and
3. By showing purchase of preference shares of Marellous Trading, Gainful Exports, Responsive Plastics and Lyric Investments worth Rs.1233 lacs by KFL from Competent Trading, Dominance Trade and Precise Exports on March 16,1999. The preference shares of Marvellous Trading, Gainful Exports, Responsive Plastics and Lyric Investments were all shown as allotted to Competent Trading, Dominance Trade and Precise Exports on March 13,1999.

On perusal of the Balance Sheet of KFL as on 31/3/1998, it was revealed that Rs.19,75,25,000 is appearing as shares application money under the head "Loans and Advances" on the assets side of the Balance Sheet. No adjustment has been made by KFL for allotment of preference shares, which have all been shown as allotted before 31/3/1998. The Balance Sheet of KFL for 1997-98 has been signed on 26/6/1998 and so adjustment should have been made by transferring all the share application money into investments. In fact, all the ROC forms for allotment of preference shares have actually been filed only in September,1998. Thus, the above adjustments by showing allotment/purchase of preference shares of the seven companies by KFL and KVL appear to be an afterthought after the raid of Income Tax Department on KFL in August,1998 and after investigations by SEBI had commenced.

3.5 Investigations showed that a large quantity of shares of KFL were purchased in 1998 by a set of seven companies, namely; 1) Competent Trading Pvt. Ltd., 2) Dominance Trade & Investment Ltd., 3) Precise Exports Pvt. Ltd., 4) Marvellous Trading Pvt. Ltd., 5) Lyric Investment & Trading Pvt. Ltd., 6) Responsive Plastics Pvt. Ltd. and 7) Gainful Exports Pvt. Ltd. (hereinafter referred to as 'said seven companies'). It was noticed that these purchases were mainly through off-market deals and the sellers and buyers were acting in a collusive manner.

3.6 Investigations into source of funding for purchase of shares revealed that the cornering of shares started much earlier. The purchases were funded from the money siphoned off from KFL. It was noticed that KFL siphoned off large funds by getting fictitious bills for machinery / spare parts etc. worth crores of rupees. It was observed that during 1.4.96 to 31.03.98, KFL obtained fictitious bills, for purchase of machinery and its spare parts, issued by the above mentioned seven companies or their group companies; namely, 1) Alankar Finance & Investments Pvt. Ltd., 2) Agnikamal Trading Pvt. Ltd., 3) Sanvy Trading Pvt. Ltd., 4) Navrang Trading Pvt. Ltd. 5) Repute Trading Pvt. Ltd. 6) Aganit Trading Pvt. Ltd. 7) Adhikash Finance 8) Dharmesh Trading Pvt. Ltd. 9) Renold Finance & Investment Pvt.Ltd. 10) Suraj Trading 11) Dharamraj Trading Pvt. Ltd. All these companies were controlled by Shri. Nalinesh R Dalal and Shri Anantnarayan Iyer. It was noticed that the money so credited in the accounts of the companies belonging to Mr. Dalal and Mr. Iyer for the above mentioned fictitious purchases was transferred back to the KFL Group. On going through the details of the sellers in these off-market deals, it was noticed that sellers and buyers were acting in concert and these transactions were not made through regular contract notes but through debit notes raised by sellers against buyers. Further, the price at which these transactions were shown had no co-relation with the market price.

3.7 It was further revealed that the funds siphoned off in this manner were used to purchase shares of KFL in the names of 1) Alankar Finance Pvt Ltd, 2) Agnikamal Finance Pvt Ltd, 3) Adhikash Finance and Trading Pvt.Ltd. 4) Kalpit Trading Pvt.Ltd., 5) Renold Finance & Investment Pvt.Ltd. and 6) Satyanand Prasad Finance Pvt. Ltd. [hereinafter referred to as "six companies"]. These companies made gross purchases of 6,39,500 shares and net purchases of 4,37,800 shares of KFL. The summary of gross purchases of shares of KFL from the funds siphoned off through fictitious purchases is as under :-

SUMMARY OF GROSS PURCHASES OF SHARES OF KFL FROM THE FUNDS SIPHONED-OFF THROUGH FICTITIOUS PURCHASES:

Name of the Company	Qty	Amt. (Rs.)
Alankar Finance and Investment Pvt.Ltd.	215500	24168198
Agnikamal Finance and Trading Pvt.Ltd.	77000	8758095
Adhikash Finance & Trading Pvt.Ltd.	54450	6044705
Kalpit Trading Pvt.Ltd.	65100	6884366
Satyanand Prasad Finance Pvt.Ltd.	161500	16350840
Renold Finance and Investment Pvt.Ltd.	65950	7044578
TOTAL	639500	69250782

- 3.8 Besides dealing in shares of KFL, these six companies also purchased shares of Krishna Vinyl Ltd. (KVL), an unlisted associate concern of Krishna Filaments Ltd., on behalf of Mr. K. K. Agarwal, Managing Director of KFL. Later these six companies (Alankar, Agnikamal, Adhikash, Kalpit, Renold, and Satyanand Prasad) sold these shares to another set of entities (No.3) in control of KFL viz. 1) Competent Trading Pvt.Ltd., 2) Dominance Trade and Investments Ltd. and 3) Precise Exports Ltd.
- 3.9 Investigations also brought out that the entire dealing of shares and arrangement of funds relating to purchase of shares by the above mentioned six companies was looked after by Mr. K. K. Agarwal, Managing Director of KFL, directly or through any one of his trusted employees and close confidants, Mr. Jiten Mehta / Mr. Deepak Thattee. It was gathered during the course of investigations that blank signed cheques were obtained from Mr. Dalal & Mr. Iyer by Mr. K. K. Agarwal. These cheques were used by Mr. K. K. Agarwal / his nominee for payment to the brokers and sub-brokers for purchase of shares of KFL /KVL and also for taking out sale consideration received from sale of these shares from the accounts of these companies. The above modus operandi was admitted by Mr. Dalal and Mr. Iyer in their statement recorded from time to time with SEBI.
- 3.10 Investigations with brokers and sub-brokers brought out that orders for purchases of shares of KFL and KVL in the names of the aforesaid six companies, were given by Mr. Jiten Mehta. It was also seen that brokers / sub-brokers received payment for these purchases from Jiten Mehta. Similarly, delivery of these shares (in the name of these six companies) were given by the brokers & sub-brokers to Mr. Jiten Mehta either at his office of KFL at Colaba or at his residence. It may be recalled that Mr. Jiten Mehta was an employee of KFL group and close confidante of Mr. K. K. Agarwal. Later he became consultant to the KFL group.
- 3.11 It was also noticed during the course of investigations that the correspondence addresses for these companies (Alankar, Agnikamal, Adhikash, Kalpit, Renold, and Satyanand Prasad) as per the its records of M/s. In-Time Spectrum Registry, the Registrar and KFL was the registered address of Krishna Filaments Ltd. i.e. Eucharistic Congress Building, Colaba, Mumbai. Further, it was revealed that the authorised signatory in most of these companies as recorded with the registrar was Mr.Lunkaran Kayal, who is a close relative of Mr.O P Agarwal, Chairman of M/s. Krishna Filaments Ltd. For the other companies, Mrs. Bhavna Mehta, an employee of Krishna Filaments Ltd. was the authorised signatory, which suggests that these are the front companies of KFL and were formed to give an illusion that the trades are being conducted by different entities than KFL.
- 3.12 It was also found during the course of investigations that so long shares were in physical form ; the shares purchased in the name of the six companies (Alankar, Agnikamal, Adhikash, Kalpit, Renold, and Satyanand Prasad) were taken by KFL from the registrar after getting it transferred in the name of these companies. After the shares were dematerialised, the control over them was still kept with M/s. Krishna Filaments Ltd. through DP accounts which were opened in the name of the nominees of KFL by Alankar Finance, Agnikamal Finance, Adhikash Finance, Kalpit Trading, Renold Finance & Investment, and Satyanand Prasad Finance with NSDL.
- 3.13 It was observed that 1) Competent Trading, 2) Dominance Trade and 3) Precise Exports were acting as fronts for KFL. These three companies showed purchase of shares of KFL and KVL from these six companies by raising debit notes i.e. in off-market deals which were not routed through any broker or any recognised stock exchange. It was observed that these companies had two sets of debit notes of same number. It was observed that these debit notes having the same numbers, issued on the same date but having different quantity and different rates were actually issued to justify the possession of shares, which were found during the course of Income Tax search. The I.T. search took place in August, 1997 but the debit notes were shown to have been raised in March, 1997. The statement of Mr. Iyer and Mr. Dalal were recorded to seek clarification about two sets of debit notes having same numbers and issued on the same date. They admitted that these debit notes were ante-dated and were actually issued after the I.T search at KFL. They further admitted that the shares were shown to have been sold at prices, which had no relevance with the then existing market price, as they concentrated on adjusting the physical quantity of the shares found during the course of I.T search. It shows that book entries were passed by the respective companies at the behest of KFL.
- 3.14 The summary of sale of shares of KFL by the companies of Mr. Dalal and Mr. Iyer such as Alankar Finance, Agnikamal Finance, Adhikash Finance, Kalpit Trading, Satyanand Prasad Finance and Renold Finance & Investment to other set of three front companies of KFL namely, 1) Competent Trading Pvt.Ltd., 2) Dominance Trade and Investments Ltd. and 3) Precise Exports Ltd., is given in the table as under :-

TABLE OF SUMMARY OF SALE OF SHARES OF KFL BY 6 FRONT COMPANIES OF SHRI DALAL AND SHRI IYER TO OTHER SET OF 3 FRONT COMPANIES OF KFL :-

Name of the Company	Qty.	Amt. (Rs.)
Alankar Finance and Investment Ltd.	162900	25157260
Agnikamal Finance Pvt.Ltd.	77000	8693320
Adhikash Finance & Trading Pvt.Ltd.	54450	6660290
Kalpit Trading Pvt.Ltd.	65100	6967070
Satyanand Prasad Finance Pvt. Ltd.	161500	16150000
Renold Finance and Investment Pvt. Ltd.	65950	4364158
TOTAL	586900	67992098

3.15 It was observed that during the period 01.09.1997 to 31.12.1998, KFL transferred funds to its three out of seven associate (front) entities namely; 1) Competent Trading Pvt. Ltd., 2) Dominance Trade & Investments Ltd. and 3) Precise Exports Ltd. which in turn transferred these funds to a set of other four front companies of KFL namely; 1) Responsive Plastics Pvt. Ltd., 2) Marvellous Trading Pvt. Ltd., 3) Gainful Exports Pvt. Ltd. and 4) Lyric Investment and Trading Pvt. Ltd. Funds so transferred to these seven front companies by KFL were used by these front companies mainly to corner the floating stock of KFL from the Secondary Market through various brokers.

3.16 Investigation also revealed that several amounts have been paid to as well as received from Directors of KFL, namely; Shri K.K. Agarwal, Shri R.K. Agarwal, Shri S.K. Agarwal and Shri O.P. Agarwal to/by the above mentioned companies controlled by Shri Nalinesh R. Dalal and Shri Anantnarayan Iyer. It was also noticed that the same amount which was received from the directors of KFL by various companies of Shri Dalal and Shri Iyer was later transferred back to KFL and its associate concerns. Thus, the funds received from the Directors of KFL were ploughed back to KFL/associate concerns through the medium of companies controlled by Shri Dalal and Shri Iyer. This shows that the companies controlled by Shri Dalal and Shri Iyer were used as a medium for transfer of funds.

3.17 **WEB OF SEVEN COMPANIES viz. M/s.Competent Trading Pvt.Ltd., M/s. Dominance Trade & Investment Ltd.,M/s. Precise Exports Pvt.Ltd., M/s. Gainful Exports Pvt.Ltd., M/s. Responsive Plastics Pvt.Ltd., M/s. Lyric Investments & Trading Pvt.Ltd. and M/s. Marvellous Trading Pvt.Ltd. CREATED BY KFL TO WHICH KFL HAS TRANSFERRED FUNDS FOR PURCHASING SHARES OF KFL AND IS CONTROLLING ALL THESE COMPANIES**

I find from the investigations that in the period 1/9/1997 to 31/12/1998, KFL transferred funds to a set of " said seven companies". These companies made purchases of only KFL and KVL shares. KFL also transferred all their acquisition of shares of KFL & KVL in the companies in control of Mr.N.R.Dalal / Mr. Iyer/Mr.Mahendra Joshi to these companies. These companies on 31st March,1999 were holding 13,48,000 equity shares of KFL, which comprises 17.31% of the enhanced equity share capital of KFL (after conversion of OFCDD on 13/11/1998). However, all these acquisitions were made before this date and comprises 29.31% of equity share capital before conversion of OFCDD.

3.18 The Summary of the dealings in shares of KFL by the seven companies is as under :-

SUMMARY OF DEALINGS IN SHARES OF KFL BY ITS `SEVEN' FRONT COMPANIES (ASSOCIATE CONCERNS)

Name of the Company	Purchases (No. of shares)	Sales (No. of shares)	No. of Shares held as on 31.03.1999
Competent Trading	424700	177400	247300
Dominance Trade	339100	123500	215600
Precise Exports	261500	84300	177200
Responsive Plastics	227300	200	227100
Marvellous Trading	263500	46800	216700
Gainful Exports	155000	400	154600
Lyric Investments	111900	2400	109500
Total	1783000	435000	1348000

It was also noticed that the funds have been transferred by KFL to Precise Exports Ltd. in piecemeal but the preference shares have been shown as allotted on a single date 25.03.1998. Funds amounting to Rs.65.35 Lacs were transferred to Precise Exports from August 1997 till the date of passing resolution (20.03.1998) as Share Application Money. Each time the funds were transferred to Competent / Dominance / Precise Exports, the same amount was immediately paid by these companies to sub-brokers against purchase consideration of KFL shares by these companies. Interestingly, though the shares have been allotted to these companies between 25.03.1998 and 30.03.1998, the form for this allotment was filed with Registrar of Companies (ROCs) only on 03.09.1998, by all the three companies.

3.19 Investigations have revealed that Shri Jiten Mehta was an employee of KFL and a close confidante of Mr.K.K.Agarwal, Managing Director of KFL. Mr. Dalal and Mr.Iyer stated on oath in their statements that though Mr.Jiten Mehta was never a director or a employee or a shareholder in any of their companies, they allowed Mr.Jiten Mehta to transact in the shares of KFL and KVL since they were given assurance by Mr.K.K.Agarwal that Mr.Jiten Mehta was his authorized person and employee of KFL and that Mr.Mehta would transact in shares of KFL and KVL on his behalf. They were also assured by Mr.Agarwal that all the funds for this purpose would be arranged by them. In return for these services, some funds were shown / given to Mr.Dalal and Mr.Iyer by showing profits from trading in Ropes and Chemicals in some of the companies in control of Mr.Dalal and Mr.Iyer viz.Repute Trading Pvt.Ltd., Navrang Trading Pvt.Ltd., Sanvy Trading Pvt.Ltd. and Aganit Trading Pvt.Ltd. with KFL,KVL and Krishna Organic Chemical Ltd. which is also a KFL group company. These alleged dealings in Ropes and Chemicals were also arranged by KFL Group which was handled by Mr.Jiten Mehta along with Mr.Deepak Thatte, employees and close confidantes of Mr.K.K.Agarwal. It was admitted by Mr.Dalal and Mr.Iyer that only the transactions were routed through these companies and profits out of these transactions amounting to approximately Rs.1 lac in each company was left which was withdrawn by Mr.Dalal and Mr.Iyer as director's remuneration over a period of time. Investigations also revealed that orders for the purchase of the shares of

KFL/KVL were placed by Shri Jiten Mehta and / or Shri Sunil Nair. The orders for the purchase of these shares were placed through various brokers. Investigations have also revealed that substantial payment for purchases of KFL shares by Competent Trading was made to the sub-broker Dharamshi Capital Services. Analysis of bank account of the sub-broker revealed that payments for purchase of shares by Competent Trading has been made directly by KFL to the sub-broker. It was seen that Dharamshi Capital Services has purchased 42,200 shares of KFL for Rs.108.71 lacs for Competent Trading, payment of which was received by it from KFL, H.D.Fire Protect Company and Competent Trading. Dharamshi revealed ten cheques directly from KFL totaling Rs.70 lacs on behalf of Competent Trading. Rs.30 lacs was received from H.D.Fire Protect company on behalf of KFL, who in turn were asked to pay by Competent for their purchases of KFL shares. HD Fire Protect Company had earlier taken loan from KFL of Rs.30 lacs and instead of repaying it back to KFL they have paid it to Dharamshi Capital Services Ltd.

- 3.20 It was noticed that Mr. M.B.Joshi, Mr.N.R.Dalal and Mr.Anantnarayan Iyer acted through the companies under their control viz. Alankar Finance Pvt.Ltd., Agnikamal Finance Pvt.Ltd., Adhikash Finance and Trading Pvt.Ltd., Kalpit Trading Pvt. Ltd., Renold Finance and Investment Pvt.Ltd. and Satyanand Prasad Finance Pvt.Ltd. who aided and abetted KFL and its directors in purchasing its own shares in violation of Section 77 of the Companies Act, rigging the price of KFL and violation of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations,1997 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations,1995. It was revealed that Smt.M.B.Shah of Kalpit Trading Pvt.Ltd. was a part of the group of companies involved in issuing fictitious bills for machinery and its spare parts to KFL and its associate companies. Later these companies issued blank signed cheques to Mr.K.K.Agarwal. Purchase of shares of KFL were made from funds received from KFL/its Directors in the name of these companies. The director of Kalpit Trading provided the façade and convenient mask to hide the identity of KFL and its Directors. These companies falsified their books of accounts and acted as fronts for KFL and its Directors and held these shares in its own name while the actual beneficiaries of these shares were KFL and its Directors.
- 3.21 It has been also observed that Mr.Sunil Nair was working for KFL and was given a salary under the garb of "consultation fee". It was observed that orders for purchases of shares of KFL were given to brokers by Mr.Sunil Nair and Mr.Jiten Mehta and delivery of these shares were also handed over to them. Investigations also revealed that the orders for the purchase of the shares of KFL/KVL were placed by Mr.Jiten Mehta and Shri Sunil Nair and the orders for the purchase of these shares were placed through various brokers. It was further revealed that part of funds for the purchase of shares of KFL/KVL were arranged by Shri Sunil Nair by taking loans from the Gupta family amounting to Rs.69.50 lacs in the name of Competent Trading, Dominant Trade and Precise Exports for a minimum return of 18% p.a. It was revealed that Mr.Sunil Nair made an arrangement to the effect that later on the funds would be received from Competent Trading directly and the same would be refunded to KFL. However, there was an Income Tax raid on KFL and its group concerns around August 1,1998. Mr.Sunil Nair expressed his inability to refund the money to KFL and in view thereof the receipt of funds from KFL was adjusted in the accounts of Competent by way of a single journal entry. It appears that the façade of companies was created merely to route funds from KFL to brokers / sub-brokers to circumvent provisions of Section 77 of the Companies Act,1956 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations,1995.
- 3.22 It was observed that the authorized signatory in most of these companies (such as Alankar, Agnikamal, Adhikash, Kalpit, Renold and Satyanand Prasad) as recorded with the registrar was Mr.Lunkaran Kayal, who is a close relative of Mr.O.P.Agarwal, Chairman of Krishna Filaments Ltd. From the submissions of documents and information gathered from the registrars of KFL, it appears that shares of KFL purchased in the name of these companies after transfer in the respective names, were handed over to the representatives of KFL at the request of Mr.K.K.Agarwal, MD of KFL. Mr.Lunkaran Kayal was the authorised signatory in all the aforesaid concerns. Hence, it is evident that the shares of KFL purchased in the names of all the above-mentioned companies were retained by KFL after endorsement by Intime and were at all time under the control and possession of KFL. As such, all these seven companies were at all time controlled by KFL through its employees / consultants. Thus, a coordinated web of various companies was created so that identity of persons carrying rigging of prices of the scrip of KFL is hidden behind smoke screen of these front companies.
- 3.23 Investigations have also revealed that substantial payment for purchases of KFL shares by Competent Trading was made to the sub-broker Dharamshi Capital Services. Analysis of bank account of the sub-broker revealed that payments for purchase of shares by Competent Trading has been made directly by KFL to the sub-broker. It was observed that Dharamshi Capital Services has purchased 42,200 shares of KFL for Rs.108.71 lacs for Competent Trading, payment of which was received by it from KFL, H.D.Fire Protect Company and Competent Trading. Dharamshi received ten cheques directly from KFL totaling Rs.70 lacs on behalf of KFL, who in turn were asked to pay by Competent for their purchases of KFL shares. H.D.Fire Protect Company had earlier taken loan from KFL of Rs.20 lacs and instead of repaying it back to KFL they have paid it to Dharamshi Capital Services. H.D.Fire Protect Company is a partnership concern of brother of Mr.Hiren Dharamshi. Rs.8.71 lacs were received directly from the account of Competent Trading. Mr.Hiren has stated that Mr.Sunil Nair had arranged this transfer of funds for all his purchases in Competent Trading. Mr.Hiren was asked to explain the fact that he received several cheques from KFL over the period 25/6/1998 to 31/7/1998 for the purchase of KFL shares by Competent Trading. However, the transfer of funds from KFL in the ledger account of Competent was by way of a single journal entry. Mr.Hiren clarified that as and when the cheques were received from KFL on behalf of Competent Trading they were initially credited to the ledger account of KFL. The arrangement was that later on the funds would be received from Competent Trading directly and the same would be refunded to KFL. This arrangement was made by Mr.Sunil Nair. However, there was an Income Tax Department raid on KFL and its group concerns around August 1,1998. Mr.Sunil Nair told Mr.Hiren that it was hence not possible to refund the money to KFL and so the receipt

of funds from KFL was adjusted in the accounts of Competent Trading by way of a single journal entry. This revealed that Dharamshi Capital Services aided and assisted in manipulation of the scrip of KFL.

3.24 It was observed that the entities such as Alankar Finance, Agnikamal Finance, Adhikash Finance, Kalpit Trading, Satyanand Prasad Finance and Renold Finance, besides dealing in shares of KFL also purchased shares of Krishna Vinyl Ltd.(KVL), an unlisted associate concern of Krishna Filaments Ltd. on behalf of Mr.K.K.Agarwal, Managing Director of KFL. Later, these companies sold these shares to another set of entities in control of KFL. It was gathered during the course of investigations that blank signed cheques were obtained from Mr.Dalal and Mr.Iyer by Mr.K.K.Agarwal. These cheques were used by Mr.K.K.Agarwal / his nominee for payment to the brokers and sub-brokers for purchases of KFL / KVL shares and also for taking out sale consideration received from sale of these shares from the accounts of these companies. The said modus operandi was admitted by Mr.Dalal and Mr.Iyer in their statement recorded from time to time with SEBI. Investigations with brokers and sub-brokers brought out that orders for purchases of shares of KFL and KVL in the name of the aforesaid six companies were given by Mr.Jiten Mehta. Similarly, delivery of these shares in the names of these six companies were given by the brokers and sub-brokers to Mr.Jiten Mehta either at his office of KFL at Colaba or at his residence. It was further noticed that during the course of investigations that shares held in the name of these six companies mentioned above (Alankar, Agnikamal, Adhikash, Kalpit, Renold and Satyanand Prasad) were later transferred to other set of front companies namely, Competent Trading, Dominance Trade and Precise Exports. These three companies were acting as front for KFL. These three companies showed purchase of shares of KFL and KVL from these six companies by raising debit notes i.e. in off-market deals which were not routed through any broker or any recognized stock exchange. Investigations showed that these debit notes were raised in order to justify possession of shares consequent to searches by Income Tax Department at KFL Group companies and their directors. It was observed that the funds transferred by KFL Group to the three companies have also been used to purchase the shares of KFL and KVL from the set of companies under the control of Mr.N.R.Dalal and Mr.Anantnarayan Iyer. The nexus between promoters of KFL and the above-mentioned six entities controlled by Mr. Iyer and Mr. Dalal and seven other entities (mentioned in the beginning paras) is further evident inasmuch as the investigations brought out that funds siphoned off by KFL were transferred to Alankar Finance and Renold Finance and which were used to buy shares of associate company / group company of KFL namely Krishna Vinyl Limited. Sale proceeds of these shares were used for purchase of KFL shares. The purchase was made not by directors of these companies but by K.K. Agarwal / his nominees. Investigations revealed that these two concerns purchased shares of KVL from Birla Global Finance Ltd.(BGFL). Inquiries were made with BGFL as to the nature of transaction in shares of KVL, the counter party involved, persons with whom negotiation had taken place and mode of payment. BGFL submitted that 378200 shares of KVL were allotted to them in a 'bought out deal'. This deal was lead managed by IDBI, which had appraised the project of KVL (formerly Anita Chemical Industries Ltd.) to produce Vinyl material sometime in 1995. IDBI funded the project by way of term debt and for equity portion organized a bought out deal and arranged substantial portion of funds. The balance portion was invested by BGFL and a set of investors. The understanding was that whenever any portion of the bought out deal is offered for sale it would be made at a substantially higher price than the subscription price. The subscription was made in Anita Chemicals (now KVL) on the assumption that the company would list its shares on the stock exchange within next 12 to 18 months by coming out with fresh issue of equity shares along with the offer for sale by investors in the bought out deal. When the envisaged public-cum-offer for sale did not come through even after one year, the management of KVL was requested to provide an exit to the investors in the bought out deal. As such the management organized for buying the shares of BGFL to provide an exit route to it. The disposal of these shares was arranged by Mr.K.K.Agarwal, promoter of KVL and was sold to Dharmesh Trading Pvt.Ltd. for a total consideration of Rs.317.775 lacs. However, the consideration for this was received by BGFL from Alankar Finance (Rs.200 lacs) and Dharmesh Trading Pvt.Ltd. (Rs.117.775 lacs). Details obtained from KVL revealed that out of 378200 shares sold by BGFL, 310100 shares were transferred in the name of Alankar Finance and 68100 shares were transferred in the name of Renold Finance. Later the shares held by Alankar Finance were transferred to Precise Exports and those held by Renold Finance were transferred to Dominance Trade. All these companies were in control of KFL. Investigations have shown that all the funds for purchase of shares of KFL and KVL by the above-mentioned 13 companies have come from KFL directly or indirectly through KVL to the accounts of these entities. The funds were transferred to seven companies by way of share application money for allotment of preference shares of Competent, Dominance Trade and Precise Exports or as loans /ICDs. It was seen that there was a transfer of Rs.76 lacs from KFL to KVL first which was subsequently used to subscribe to shares of Competent Trading. Similarly, Rs.34.41 lacs were transferred from KFL to KVL first which was subsequently used to subscribe to the shares of Dominant Trading. These funds were then used to purchase the shares of KFL and KVL.

4.0 VIOLATION OF SEBI (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS,1997

4.1 It was observed that KFL group companies and its promoters acquired large chunk of shares of KFL in violation of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations,1997. It was brought out during the course of investigation that 13,48,000 shares were acquired by KFL through its front entities, which constituted 29.31% of the then existing equity share capital. All this acquisition resulted in cornering of equity shares by promoters / directors of KFL and 82.76% equity was with them before conversion of OFCDDs. This is evident from the following table.

Particulars	No. of Shares	%age of Total No. of Shares
1. Directors and their relatives.	1943000	42,24

2. Associate concerns of KFL & holding of S.N.Agarwal not included in (1) above.	643100	13.98
3. Holding by seven corporates – Competent Trading, Dominance Trade, Precise Exports, Gainful Exports, Responsive Plastics, Marvellous Trading and Lyric Investments all controlled by KFL.	1160700	25.24
4. Shares purchased by Competent Trading, Dominance Trade, Precise Exports, Gainful Exports, Marvellous Trading but not transferred.	59800	1.30
Total of 1,2,3,4	3663600	82.76
Total Equity Share Capital of KFL as on 28/8/1998	4599400	

It appeared that the acquisition by promoters of KFL Group, which increased their holding in KFL from 56.22% to 82.76% without making a public announcement to acquire shares of KFL was in contravention of Regulation 11(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations,1997.

5.0 ISSUE OF SHOW CAUSE NOTICE

5.1 Show cause notices were issued to Krishna Filaments Ltd. and its Directors such as Shri O.P.Agarwal, Chairman, Shri K.K.Agarwal, Managing Director, Shri S.K.Agarwal and Shri R.K.Agarwal; M/s. Dharamshi Capital Services; M/s. Krishna Vinyls Ltd.; Smt.M.B.Joshi; M/s. Marvellous Trading Pvt.Ltd. and Its Directors such as Ramesh Chand Jain, Reena Jain, Nitin Deshpande, Sunil Radhakrishnan Nair, Murugan Pillai, Murari Poddar, Lunkaran Kayal, Vijayalakshmi Poddar, Siji Nair, Sundeep Kabra and Meenakshi Kabra; M/s. Precise Exports Ltd. and its Directors such as Ratneshchand Jain, Reena Jain, Renuka Motwani, Murugan Pillai, Sunil Nair, Murari Poddar, Lunkaran Kayal, Vijayalaxmi Poddar and Draupadi Kayal; M/s. Competent Trading Pvt.Ltd. and its Directors such as Ratnesh Chand Jain, Reena Jain, Renuka Motwani, Bhavna Mehta, Sunil Nair, Murugan Pillai, Murari Poddar, Lunkaran Kayal and Vijayalaxmi Poddar; M/s. Gainful Exports Pvt. Ltd. and its Directors such as Ratnesh Chand Jain, Reena Jain, Sunil Nair, Jiten Mehta, Murugal Pillai, Murari Poddar, Lunkaran Kayal, Vijayalaxmi Poddar, Rajashree Mehta, Pramila Mehta; M/S. Responsive Plastics Pvt.Ltd. and its Directors such as Ratnesh Chand Jain, Reena Jain, Jiten Mehta, Nitin Deshpande, Sunil Nair, Murugan Pillai, Murari Poddar, Lunkaran Kayal, Vijayalaxmi Poddar, Sushilkumar Agarwal and Babita Agarwal; M/s. Dominance Trade and Investments Ltd. and its Directors such as Kavita Jain, Bharti Jain, Bhavna Mehta, Murugan Pillai, Sunil Nair, Murari Poddar, Lunkaran Kayal, Vijayalaxmi Poddar, Subhalaxmi Pillai and Vishwanathan Pillai; M/s. Lyric Investment And Trading Pvt. Ltd. and its Directors such as Ratnesh Chand Jain, Mahendra Patole, Sanjay Kabra, Murugan Pillai, Lunkaran Kayal, Vijayalaxmi Poddar and Malalaxmi Pillai; Shri Jiten Mehta, Shri Sunil Nair, Shri Lunkaran Kayal as detailed below :-

5.2 On the basis of the aforesaid findings of the investigation report, a notice dated July 16, 2001 and September 5,2001 was issued to Krishna Filaments Ltd.(KFL) and its promoters / directors (at their office and residential addresses respectively) viz. Shri O.P. Agarwal, Chairman – KFL, Shri K.K.Agarwal, Managing Director, Shri S.K. Agarwal, and Shri R.K. Agarwal. to show cause as to why suitable directions under Section 11B of the SEBI Act,1992; Regulation 44 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations,1997 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations,1995 including directions prohibiting them from accessing the capital market and dealing in securities for a suitable period, making public announcement / open offer for acquiring the remaining KFL shares, getting its shares delisted from all the stock exchanges, should not be issued for the aforesaid violations.

Also notices dtd 27th September,2002 were issued to 1) Shri Jiten Mehta, 2) M/s. Dharamshi Capital Services Ltd., 3) M/s.Krishna Vinyls Ltd., 4) Smt.M.B.Joshi, 5) M/s. Marvellous Trading Pvt.Ltd. and its directors 6) M/s. Precise Exports Ltd. and its directors, 7) M/s. Competent Trading Pvt.Ltd. and its directors, 8) M/s. Gainful Exports Pvt.Ltd. and its directors, 9) M/s. Responsive Plastics Pvt.Ltd. and its directors, 10) M/s.Dominance Trade & Investments Ltd. and its directors, 11) Shri Sunil Nair, 12) Shri Lunkaran Kayal and 13) M/s. Lyric Investment & Trading Pvt.Ltd. and its directors for violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations,1995 and the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations,1997.

After seeking further time to file its reply, KFL, finally, filed its reply vide its letter dated 19.11.2001 through their Advocates, M/s. Little & Company.

- 5.3 Vide their letter dated 18.12.2001, Shri K. K. Agarwal, Shri S. K. Agarwal and Shri O. P. Agarwal authorised M/s. Dhebar & Shah, Advocates to act, appear and plead on their behalf. Shri R. K. Agarwal, however, did not reply to the show cause notice till date and as M/s. Dhebar & Shah vide their letter dated 18/1/2002 informed SEBI that Shri R.K. Agarwal is out of India since June 2000.
- 5.4 Shri S.K. Agarwal, Shri O.P. Agarwal, Shri K.K.Agarwal filed their reply after considerable long time on 04/02/2002.
- 6.0 Reply filed by eight entities out of eighteen entities such as M/s. Krishna Filaments Ltd. (Dtd. 19/11/2002), and its Promoters / Directors viz. Shri O.P.Agarwal (Dtd. 4/2/2002), Shri K.K.Agarwal (Dtd. 4/2/2002), Shri S.K.Agarwal (Dtd. 4/2/2002) and Shri R.K.Agarwal (Not Replied) and its associate entities / concerns, inter alia, such as Shri Jiten Mehta (Dtd. 28/11/2002), Shri Sunil Nair (Dtd. February 25,2004), M/s.Dharamshi Capital Services (Dtd. 5/12/2002), M/s. Krishna Vinyls Ltd. (Dtd. 29/1/2003).
- 6.1 Vide letter dated 4/2/2002, replying on behalf of Shri S.K. Agarwal and O.P. Agarwal, M/s. Dhebar & Shah, on behalf of Shri S.K. Agarwal & Shri O.P. Agarwal, submitted that the main allegations in the show cause notice issued by SEBI were against Shri K.K. Agarwal and as such they do not have any role in the alleged price manipulation. Without prejudice to this submission, they informed that Shri K.K. Agarwal, the Managing Director of KFL is filing a separate detailed reply to the show cause notice and as such they adopted the said reply filed by Shri K.K. Agarwal.
- 6.2 Shri K.K. Agarwal, the Managing Director of the Company filed his reply dated 4/2/2002 through M/s. Dhebar and Shah, after about 7 months from the date of show cause notice.
- 6.3 It was observed that both the replies filed by company as well as by Shri K.K. Agarwal were similar wherein all the allegations made in show cause notice were denied. They submitted that neither KFL nor any of its directors was involved in any manner whatsoever in unusual spurt of the price and volume of the scrip of KFL, if at all. They further denied that KFL or its promoters/ directors siphoned off any money from KFL and funded the front entities as alleged. It was further submitted that the 12 companies mentioned in the show cause notice as front companies of KFL are completely independent companies. They further stated that the bills issued by M/s. Dharmesh Trading Pvt. Ltd., Renold Finance & Trading Pvt. Ltd., Suraj Trading Pvt. Ltd., and Dharamraj Trading Pvt. Ltd. were issued against the genuine sale of fabricated/ assembled machines/ spare parts worth Rs.27.8 crores. It further stated that some of the said 12 companies have made payment to KFL for goods supplied to them by KFL and, thus, the allegations that the funds have been transferred back from the said 12 companies is incorrect.
- 6.4 It was also denied that there was any fictitious purchase or that or any funds were siphoned off as alleged in the show cause notice. It further denied that any of the entities mentioned in the show cause notice purchased shares of KFL on behalf of Shri K.K. Agarwal or that of KFL. It also denied that KFL had provided any funds for the purchase of these shares. As regards Shri Deepak Thatte it was submitted that Shri Thatte was only a financial advisor of KFL Group of companies. As regards Jiten Mehta it was submitted that he was only a financial consultant. Regarding statements made by Shri Dalal and Shri Iyer, KFL submitted that the said statements are false. Regarding the allegation that Shri Jiten Mehta was connected with the purchase of shares of KFL and KVL by the alleged front entity companies, KFL pleaded ignorance of the same and submitted that as Shri Mehta was an independent financial consultant, it is possible that he might have provided his services to the said companies as well.
- 6.5 Regarding the charge that all these companies had given their correspondence address as the addresses of KFL, KFL pleaded ignorance as to why the said companies gave their correspondence address as that of KFL. However, KFL tried to explain that as Shri Jiten Mehta had access to the office of KFL and he was connected with the purchase of KFL and KVL by the said companies it is possible that those companies would have given their address as that of KFL.
- 6.6 Regarding handing over the shares after transfer to KFL it was submitted that usually when the shares of KFL came to the Registrar of KFL for transfer the Registrar was forwarding those shares directly to the transferee. However, sometimes the Registrar had sent shares to KFL for onward dispatch. KFL pleaded ignorance as to what actually happened in the case of shares purchased by the said company. However, it denied it had given any instruction to the Registrar of KFL to deliver these shares to KFL.
- 6.7 Regarding pledging of shares held in the name of Agnikamal Finance and Reynold Finance to IDBI for a loan given by IDBI to KFL, it was submitted that the said companies had commercial relationship with KFL and, therefore, on account of said commercial relation, at the request of KFL, the said companies themselves pledged those shares to IDBI. For all these reasons stated in the reply to the show cause notice KFL denied that it used any of the said six entities to purchase its own shares or that at any time any of the said shares were either in possession or in control of KFL.
- 6.8 With regard to the charge that the funds provided to Competent, Dominance and Precise for purchasing the shares of KFL, KFL denied the charge and pleaded ignorance about the transfer of those amounts by the said companies to any company of Mr. Dalal or Mr. Iyer. It was stated that KFL received funds by the said six companies of Mr. Dalal and Mr. Iyer for goods sold to these companies by KFL. KFL further denied that it routed any funds or received back any funds through the circular route. It was submitted that KFL provided funds to Competent, Dominance and Precise for the purpose of investing in preference shares of the said three companies.

- 6.9 KFL further denied that Responsive Plastics or Marvellous Trading or Gainful Exports or Lyric Investments is a front company of KFL and stated that it was not aware that Competent, Dominance and Precise transferred the funds given by KFL to them for investing in their preference shares to Responsive, Marvellous, Gainful and Lyric Investment or as to whether any of the said seven companies used these funds to purchase any shares of KFL as alleged in the said para. It further stated that KFL invested in the preference shares of Competent, Dominance and Precise on the advice of its financial consultant Mr. Jiten Mehta and Mr. Sunil Nair. It further stated that these three companies had profit at the time of investment and, therefore, it denied that it was not justified in investing in the preference shares of these 3 companies.
- 6.10 As regards the table giving the summary of dealings in shares of KFL by the seven companies, as stated above, KFL denied that it purchased its own shares through these companies. It further stated that as Competent Trading, Dominance Trade, and Precise Exports, could not return the loan of Rs.12.50 crores given by KFL they offered to transfer to KFL the shares of Marvellous Trading, Lyric Investments, Responsive Plastics and Gainful Exports in view of the loan money. Therefore, in order to cut its losses, KFL had taken the preference shares of the said four companies from Competent, Dominance and Precise worth Rs.12.33 crores on March 16, 1999. It further stated that on 31.12.99, it sold the preference shares worth Rs.14.70 crores of Competent, Dominance and Precise and also the preference shares of Marvellous Trading, Lyric Investments, Responsive Plastics and Gainful Exports worth Rs.12.33 crores for a total sum of Rs.18.26 crores and, therefore, the question of redemption of shares does not arise at all.
- 6.11 Regarding payment of Rs.65.35 lacs to Precise and the allegation that each time the funds were transferred to Competent, Dominance and Precise, the same was immediately paid by these companies to sub brokers against purchase consideration of KFL shares, KFL pleaded ignorance. It further denied of having any knowledge about purchase of shares of KFL and KVL by these 3 companies from the companies under control of Mr. Dalal or Mr. Iyer. On the basis of the aforesaid while denying their involvement in price rigging, it was submitted that neither KFL nor its promoters / directors violated the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995.
- 6.12 KVL in its reply dated 29/1/2003 refuted the statements of Mr.Nalinesh R.Dalal and Mr.Anantnarayan Iyyer made to SEBI by them and refused that it assisted KFL in the alleged rigging share price. KVL further denied that it has purchased its own shares in contravention of Section 77 of the Companies Act,1956. KVL further submitted that it was denied an opportunity to cross-examine the persons on whose statement SEBI rely and that it was directed the KVL to make its submissions without first deciding its application for cross-examination of the aforesaid persons which amounted to a gross violation of principles of natural justice and contrary to the rights of KVL under the provisions of Article 14 of the Constitution of India. KVL further in its reply stated that the aforesaid six companies are completely independent companies and KVL or any of its directors or any member of the Agarwal family are neither directors nor shareholders in the said six companies. KVL further submitted that the said six companies which are completely independent companies, must have purchased the shares of KVL for their own reasons. KVL stated that the said three companies are completely independent companies with independent directors and independent shareholders and that none of the directors of KVL are either directors or shareholders of any of the said three companies. None of the members of the Agarwal family who control KVL are either directors or shareholders of any of the said companies. KVL pleaded ignorance in respect of certain transactions between the said companies of Mr.Dalal and Mr.Iyer on one hand and the said three companies on the other. KVL stated that KFL gave the referred amount to KVL as a returnable advance and that the said loan was subsequently repaid by KVL to KFL. KVL stated that, from time to time, it had surplus funds. Out of the surplus funds KVL stated that it made investments in the preference shares of Competent Trading and Dominant Trading. However, KVL stated that as the directors/promoters of KFL have not been involved in purchase of the shares of KFL, the question of them being aided and assisted in the same by KVL or any of its directors/promoters or of the same squeezing the already floating stock or leading to price rigging of shares of KFL does not arise at all.

7.0 Grant of personal hearings

- 7.1 Number of personal hearings were granted to the company and its directors but instead of extending cooperation, the company and its directors sought adjournments on one ground or the other and as such they never came forward for making submissions on merit of the case. For the hearing fixed on 19.12.01 M/s. Little & company, and M/s. Dhebar and Shah, Advocates of the KFL and directors, sought and granted adjournments. Further hearings were fixed on 07.02.02; 02.05.02; 17.08.02; 31.08.02, 14.01.2004, 25.03.2004, 19.04.04 but KFL and its directors and their associate concerns/entities failed to make submissions on merit of the case and kept on prolonging the issue on technical grounds. 1) Mr.M.S.Doctor represented Krishna Vinyls Ltd. during the hearings on 25/3/2004 and 19/4/2004 whereas Ms.Ructu Khatlawala, M/s. Little & Co.,Associate represented KVL during the hearing on 7/10/2003. 2) Mr.Jiten Mehta availed hearing on 7/10/2003 and 25/3/2004. 3) Mr.Hiren Dharamshi represented Dharamshi Capital Services during the hearing on 7/10/2003 and 25/3/2004 4) Mr.Sunil Nair availed hearing on 25/3/2004. 5) Ms.Kasbekar, M/s.Little & Co.,Associate represented Responsive Plastics Pvt.Ltd. and its directors on 7/10/2003 6) M/s.Dominance Trade availed the hearing on 7/10/2003 7) M/s. Lyric Investments availed the hearing on 7/10/2003. However, Smt.M.B.Shah, M/s.Marvellous Trading Pvt.Ltd. and its directors, M/s.Precise Exports Ltd. and its directors, M/s. Competent Trading Pvt.Ltd. and its Directors, M/s.Gainful Exports Pvt.Ltd., Responsive Plastics Ltd. & its directors, M/s.Dominance Trade & Investments Ltd. and its directors and Mr.Lunkaran Kayal and its directors failed to avail the hearing granted to them on 25th March,2004. They sought cross examination of certain persons before making their submissions. They were informed that they may complete their submissions on merit also so that an order can be passed including a decision on Cross examination. However, they failed to do so and sought adjournments on one pretext or the other. I find that the KFL and

its directors are not serious in making submissions and are playing dilatory tactics. Therefore, I proceed to pass this order on the basis of the findings of investigation and the submissions made by KFL and its directors.

8.0 FINDINGS :

A) VIOLATION OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 1997.

8.1 I have carefully considered the allegations in the show cause notices issued to the aforesaid entities such as Krishna Filaments Ltd. and its 4 directors (such as Shri O.P.Agarwal,Chairman-KFL; Shri K.K.Agarwal, Managing Director, Shri S.K.Agarwal and Shri R.K.Agarwal) and the associate concerns /entities of KFL (such as Shri Jiten Mehta, M/s.Dharamshi Capital Services, M/s. Krishna Vinyl Ltd., Smt.M.B.Joshi, M/s. Marvellous Trading Pvt.Ltd. and its directors, M/s.Precise Exports and its directors, M/s.Competent Trading and its directors, M/s.Gainful Exports and its directors, M/s.Responsive Plastics and its directors, M/s.Dominance Trade and its directors, Shri Sunil Nair, Shri Lunkaran Kayal, M/s. Lyric Investments) and the 'Replies' submitted by, out of the aforesaid entities, such as 1) KFL (dtd. 19/11/2001) and its four directors 2) Shri O.P. Agarwal dtd. 4/2/2003, 3) Shri K.K.Agarwal dtd. 4/2/2003, 4) Shri S.K.Agarwal dtd. 4/2/2003 and 6) M/s. Krishna Vinyl Ltd. (dtd. 29/1/2003), 7) Shri Jiten Mehta (dtd.28/11/2002), 8) M/s. Dharamshi Capital Services (dtd.5/12/2002); and 9) Shri Sunil Nair (dtd.25/2/2004). It was observed that the other associated entities of KFL namely; M/s. Marvellous Trading, M/s.Precise Exports, M/s. Competent Trading, M/s. Gainful Exports, M/s. Responsive Plastics, M/s. Dominance Trade & Finance, Shri Lunkaran Kayal, the show cause notices issued to them were returned 'undelivered' (which were pasted at their last known addresses) whereas two other entities such as Smt. M. B. Joshi and M/s. Lyric Investment & Trading Pvt.Ltd. and its directors failed to submit their reply to the SCN.

8.2 Regarding cross examination, I have considered the submissions made on behalf of the parties and have also perused the authorities cited by the learned Sr. counsel appearing for them. I do not find any merit in the claim of the parties of having right of cross examination of the person who cooperated with the authorities in investigation and gave all the required information. SEBI Act,1992 is a special Act enacted for the protection of the interest of investors in securities and for development, and regulation of the securities market. Under the provisions of the Act, SEBI has authority to call information from persons associated with the securities market including recording their statement. The rule of natural justice vary with the varying constitution of statutory bodies and the rules prescribed by the Act under which they function and the issue of natural justice has to be decided not under any pre-conceived notion but in the light of the statutory rules and provisions. SEBI Act,1992 nowhere provides the right to cross examine the person who has given the statement and, therefore, it would be a sufficient compliance of the rule of natural justice if a copy of the statement being relied upon by SEBI is given to the delinquent and he has been given opportunity to refute the same.

8.3 Now I shall proceed on the merits of the case.

On the basis of investigation, I find that a complicated web of various companies was created by KFL and its directors for making purchase of its own shares through the aforesaid entities in order to rig the price of KFL for their enrichment.

I also find that large quantity of shares of KFL were purchased in 1998 by a set of seven companies, namely 1) Competent Trading, 2) Dominance Trade, 3) Precise Exports, 4) Marvellous Trading, 5) Lyric Investments, 6) Responsive Plastics and 7) Gainful Exports which were front companies of KFL. I also find that the buyers were acting in collusive manner with the sellers namely Alankar Finance Pvt. Ltd., Agnikamal Finance Pvt. Ltd. Adhikash Finance and Trading Pvt.Ltd., Kalpit Trading Pvt.Ltd., Renold Finance Pvt.Ltd. and Satyanand Prasad Finance Ltd.

I also find that KFL siphoned off large funds by getting fictitious bills for machinery /its spare parts etc. worth crores of rupees. During 1.4.96 to 31.03.98, KFL obtained fictitious bills, for purchase of machinery and its spare parts, issued by the above mentioned six companies or their group companies; namely; 1) Alankar Finance & Investments Pvt. Ltd. 2) Agnikamal Trading Pvt. Ltd. 3) Sanvy Trading Pvt. Ltd. 4) Navrang Trading Pvt. Ltd. 5) Repute Trading Pvt. Ltd. and 6) Aganit Trading Pvt. Ltd., 7)Adhikash Finance and Trading Pvt.Ltd. 8) Dharmesh Trading Pvt. Ltd. 9) Renold Finance and Trading Pvt.Ltd. 10) Suraj Trading Pvt.Ltd. 11) Dharamraj Trading Pvt. Ltd. I also find that the money so credited in the accounts of the companies belonging to Mr. Dalal and Mr. Iyer for the above mentioned fictitious purchases was transferred back to the KFL Group.

8.4 It was further revealed that the money siphoned off in this manner by KFL was used to purchase shares of KFL in the names of 1) Alankar Finance Pvt Ltd. 2) Agnikamal Finance Pvt Ltd. 3) Adhikash Finance and Trading Pvt.Ltd. 4) Kalpit Trading Pvt.Ltd. 5) Renold Finance Pvt.Ltd. and 6) Satyanand Prasad Finance Pvt.Ltd. as mentioned in the table given at pre pages.

8.5 Besides dealing in shares of KFL, these six companies also purchased shares of Krishna Vinyl Ltd. (KVL), an unlisted associate concern of Krishna Filaments Ltd., on behalf of Mr. K. K. Agarwal, Managing Director of KFL. Later these companies (Alankar, Agnikamal, Adhikash, Kalpit, Renold, and Satyanand Prasad) sold these shares to another set of entities in control of KFL viz. Competent Trading, Dominance Trade and Precise Exports.

I also find that the entire dealing of shares and arrangement of funds relating to purchase of shares by the above mentioned six companies was looked after by Mr. K. K. Agarwal, Managing Director of KFL, directly or through any one of his trusted employees and close confidantes, Mr. Jiten Mehta / Mr. Deepak Thattee. It was also found that Mr. K. K. Agarwal obtained blank signed cheques from Mr. Dalal & Mr. Iyer and then Shri KK Agarwal/his nominee used them for payment to the brokers and sub-

brokers for purchase of shares of Krishna Filaments Ltd./KVL and also for taking out sale consideration received from sale of these shares from the accounts of these companies. The above modus operandi was admitted by Mr. Dalal and Mr. Iyer in their statement recorded from time to time with SEBI.

It was also found that the orders for the purchases of shares of Krishna Filaments Ltd. and KVL in the name of these six companies, were given by Mr. Jiten Mehta. It was also seen that brokers / sub-brokers received payment for these purchases from Jiten Mehta. Similarly, delivery of these shares (in the name of these six companies) were given by the brokers & sub-brokers to Mr. Jiten Mehta either at his office of KFL at Colaba or at his residence.

- 8.6 The explanation given by KFL with regard to the correspondence address of these six companies namely Alankar, Agnikamal, Adhikash, Kalpit, Renold, and Satyanand Prasad being the same as that of KFL is not acceptable as it is not possible at all that number of companies would give their correspondence address as that of any unrelated company. This fact alone is sufficient evidence to establish that all these companies were related /associated with KFL and were acting as front companies of KFL.

Further, I find that the shares purchased in the name of the six companies (Alankar, Agnikamal, Adhikash, Kalpit, Renold, and Satyanand Prasad) were taken by KFL from the registrar after getting it transferred in the name of these companies and after their dematerialization, the control over them was still kept with KFL by opening the same in the name of the employee or nominees of KFL. I also find that these authorised signatories were not connected at all with the six companies mentioned above and were acting as authorised signatory at the behest of KFL.

- 8.7 I also find that M/s. Competent Trading, M/s. Dominance Trade and M/s. Precise Exports were acting as fronts for KFL. These three companies showed purchase of shares of KFL and KVL from the above mentioned six companies by raising debit notes i.e. in off-market deals which were not routed through any broker or any recognised stock exchange. It is observed that these debit notes were raised in order to justify possession of shares consequent to searches by Income Tax Department at KFL group companies and their directors. It is evident from the two sets of debit notes having the same numbers and issued on the same date, but having different quantity and different rates that these debit notes were actually issued to justify the possession of shares, which were found during the course of Income Tax search. The Income Tax Deptt.'s search took place in August, 1997 but the debit notes were shown to have been raised in March, 1997. The statement of Mr. Iyer and Mr. Dalal recorded by SEBI to seek clarification about two sets of debit notes having same numbers and issued on the same date, suggests that these debit notes were ante-dated and were issued actually after the I.T search at KFL. These persons further admitted that the shares were shown to have been sold at prices, which had no relevance with the then existing market prices, as they concentrated on adjusting the physical quantity of the shares found during the course of I.T search. It shows that book entries were passed by the respective companies at the behest of KFL.

I also find that during the period 01.09.1997 to 31.12.1998, KFL transferred funds to Competent, Dominance and Precise which in turn transferred these funds to a set of other four front companies of KFL namely Responsive Plastics, Marvellous Trading, Gainful Exports & Lyric Investments. Funds so transferred to these seven front companies by KFL were used by these companies to corner the floating stock of KFL from the Secondary Market through various brokers. I also find that KFL and its directors namely Shri K.K. Agarwal, Shri S.K. Agarwal, Shri R.K. Agarwal and Shri O.P. Agarwal paid and received monies to the entities controlled by Shri Dalal and Iyer in order to buy its own shares with the intention of cornering and rigging the price of the shares of KFL. Thus, it is established that these companies were floated to hide the identity of the promoters of KFL, who rigged the prices of the shares of KFL. With this it is also established that KFL acted in violation of Section 77 of the Companies Act, 1956.

- 8.8 The reply of the company regarding pledging of the shares held in the name of Agnikamal Finance and Renold Finance by these companies themselves with IDBI for KFL for availing foreign currency loan, is also not acceptable.

It is pertinent to mention that both Mr. Dalal and Mr. Iyer admitted on oath in their statements recorded by SEBI that they were acting at the behest of Mr. K. K. Agarwal, MD of KFL. They stated that though Mr. Jiten Mehta was never a director or a employee or a shareholder in any of their companies, they allowed Mr. Jiten Mehta to transact in the shares of KFL and KVL since they were given assurance by Mr. K K Agarwal that Mr. Jiten Mehta was his authorized person and employee of KFL and that Mr. Mehta would transact in shares of KFL and KVL on his behalf. They were also assured by Mr. Agarwal that all the funds for this purpose would be arranged by Mr. Agarwal. In return for these services, some amounts were given to Mr. Dalal and Mr. Iyer by showing profits from trading in Ropes and Chemicals in some of the companies in control of Mr. Dalal and Mr. Iyer viz. Repute Trading Pvt. Ltd., Navrang Trading Pvt. Ltd., Sanvy Trading Pvt. Ltd. and Aganit Trading Pvt. Ltd., with KFL, KVL and Krishna Organic Chemical Ltd., which is also a KFL group company. It was found that these alleged dealings in Ropes and Chemicals were also arranged by KFL Group and handled by Mr. Deepak Thatte and Mr. Jiten Mehta, employees and close confidantes of Mr. K. K. Agarwal. It was admitted by Mr. Dalal and Mr. Iyer that only the transactions were routed through these companies and profits to the extent of approximately Rs.1 lac in each company was left which was withdrawn by Mr. Dalal and Mr. Iyer as director's remuneration over a period of time.

The fictitious nature of transactions i.e. purchase and sale of machineries / its spare parts is further evident from the fact that there was a net debit balance of about Rs.16.20 crores which Krishna Filament Group owed to the group of companies since the last 2/3 years. This amount was not claimed by companies of Dalal and Iyer from Krishna Filaments group as there were no

genuine claims by these companies against KFL group companies and these debits had merely arisen on account of issue of fictitious bills and creating book entries (without actual movement of goods).

- 8.9 It was further observed that funds from KFL to purchase its own shares first came to Competent, Dominance and Precise and on the same date they were transferred to sellers which were companies in control of Mr. Dalal and Iyer. The funds received by sellers were transferred back by them to KFL on the same day. Thus, no consideration was actually received by the sellers (Alankar, Agnikamal, Adhikash, Kalpit, Renold, and Satyanand Prasad; companies under the control of Mr. Dalal and Mr. Iyer) for apparent sale of these shares. It was observed that during this period the same fund was rotated several times for this purpose by KFL.
- 8.10 Therefore, I find that the purchases of the shares of KFL were made by KFL itself in the name of the above-mentioned seven entities. The funds for the purchase of shares of KFL, in some instances were given directly to brokers / sub-brokers by KFL itself; while at other times funds received from KFL were given to brokers after routing through these seven front entities. It was also seen that to provide funds to these front entities for purchase of shares of its own company, an illusion was created by KFL to show that it gave money to these companies for investment in preference shares of these front companies or ICDs. No prudent person would have invested in these companies. Of the said seven companies, four were having huge losses running in several lacs / crores or crores of rupees at the time of investment. While, the other three were having negligible profits to show. There was no justification for investment by KFL to the extent of Rs.27.03 crores by way of preference shares in the said seven companies. This investment in these unlisted companies did not yield a single paisa as interest or dividend to KFL. Shares have not been redeemed and considering the financial health of these companies there is no possibility of redemption at all for many years and at least for another 7/8 years. Orders for these purchases were given to brokers by Mr. Sunil Nair / Mr. Jiten Mehta and delivery of these shares were also handed over to them. It is pertinent to note that Mr. Sunil Nair was working for KFL and was given a salary under the garb of "consultation fee". It appears that this facade of companies was created merely to route funds from KFL to brokers / sub-brokers to circumvent the provisions of Section 77 of the Companies Act, 1956 and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 1995.
- 8.11 It is also found that all the equity shareholders and directors in all the said seven companies were always either relatives of promoters of KFL or its employees. Some relatives of promoters of KFL were common directors in all the companies and authorized signatory in all the companies. Details obtained from NSDL during the course of investigations revealed that the registered address of 1) Competent Trading 2) Dominance Trade 3) Precise Exports 4) Gainful Exports 5) Responsive Plastics and 6) Marvellous Trading was intimated to their common depository participant, Action Financial Services (India) Ltd. as that of the residential address of Mr. Lunkaran Kayal, a close relative of Mr. O. P. Agarwal, a director of KFL. In the account opening form with the Depository, all the six companies except Lyric gave their correspondence address as that of KFL. Thus, it is established that all these seven companies were at all time, controlled by KFL through its employees / consultants. As mentioned above, funds for the purchase of shares of KFL were provided by KFL only and a complicated web of various companies was created so that identity of persons carrying rigging of prices of the scrip of KFL is hidden behind smoke screen of these front companies.
- 8.12 It was also noticed that the funds have been transferred by KFL to Precise Exports in piecemeal but the preference shares have been shown as allotted on a single date 25.03.1998. Funds amounting to Rs.65.35 Lacs were transferred to Precise Exports from August 1997 till the date of passing resolution (20.03.1998) as Share Application Money. Each time the funds were transferred to Competent / Dominance / Precise Exports, the same amount was immediately paid by these companies to sub-brokers against purchase consideration of KFL shares. Interestingly, though the shares have been allotted to these companies between 25.03.1998 and 30.03.1998, the ROC form for this allotment was filed only on 03.09.1998, by all the three companies. This clearly shows that KFL has purchased its own shares in the name of front companies by using its own funds from the Secondary Market. This transfer of funds has been camouflaged as an investment in preference shares of these three companies (Precise / Dominance / Competent) from KFL to these companies.
- 8.13 The balance Sheet of KFL as on 31.03.1998, reveals that Rs.19,75,25,000 is appearing as share application money under the head "Loans and Advances" on the assets side. No adjustment has been made by KFL for allotment of preference shares, which have all been shown as allotted before 31.03.1998. The Balance Sheet of KFL for 1997-98 has been signed on 26.06.1998 and so adjustment should have been made by transferring all the share application money into investments. The above adjustments by showing allotment / purchase of preference shares of the seven companies by KFL is an afterthought to explain the reason of movement of funds from KFL group to these seven front companies to Income Tax authorities.
- 8.14 The explanation that KFL invested in the preference shares of Competent Trading, Dominance Trade and Precise Exports to have consistent dividend every year since the company had surplus money and wanted regular income every year is not tenable. All the preference shares issued by the seven companies are of cumulative nature (i.e., no regular income by way of dividend every year) and further, the Balance Sheets of KFL for the year 1997-98 and 1998-99 also shows an increase in loan liability with no surplus funds.
- 8.15 Besides the above shown investments of Rs.10.50 crores in preference shares of Competent, Dominance and Precise by KFL group, an additional amount of Rs.16.50 crores were further transferred to these three companies. These funds have been used to purchase shares of KFL from the secondary market directly or through Gainful Exports, Marvellous Trading, Responsive Plastics and Lyric Investments. The funds were first transferred to these four companies by Competent, Dominance and Precise,

which in turn was used by Lyric, Responsive, Gainful and Marvellous to purchase KFL shares. All these book entries in the name of these companies were created to hide the identity of KFL. This is evident from the fact that all fund transfer from the seven entities to the broker / sub-broker have occurred on the same day on which the funds were initially received from KFL group.

- 8.16 Shri Sunil Nair vide its reply dated 25th February, 2004 has also submitted that the entire operations of buying /selling of KFL shares was controlled and managed completely by Mr.K.K.Agarwal. Mr.Nair submitted that he represented the front companies of Mr.K.K.Agarwal. Mr.Nair submitted that he was an employee of KFL Group and not a broker or a sub-broker or a chartered accountant. Mr.Nair submitted that he was forced by Mr.K.K.Agarwal to represent his front companies and further submitted that he had no option to obey Mr.K.K.Agarwal's orders as he feared them.
- 8.17 As regard the role of KVL, I find from the details obtained from KVL which revealed that out of 378200 shares sold by BGFL, 310100 shares were transferred in the name of Alankar Finance and 68100 shares were transferred in the name of Renold Finance. Later, the shares held by Alankar Finance were transferred to Precise Exports and those held by Renold Finance were transferred to Dominance Trade which companies were in control of promoters of KFL. I find that the funds for purchase of shares of KFL and KVL by the afore-mentioned 13 companies have come from KFL directly or indirectly through KVL to the accounts of these entities. The funds were transferred to seven companies by way of share application money for allotment of preference shares of Competent, Dominance Trade and Precise Exports or as loans/ICDs. It was further observed that there was a transfer of Rs.76 lacs from KFL to KVL first of which was subsequently used to subscribe to shares of Competent Trading. Similarly, Rs.34.41 lacs were transferred from KFL to KVL first which was subsequently used to subscribe to shares of Dominance Trading. These funds were then used to purchase the shares of KFL and KVL.
- 8.18 It is observed that the promoters were having large chunk of shares with them and whatever little floating stock was available, the same was cornered by the company and its directors through continuous purchases settlement after settlement through their front entities. This cornering enabled the promoters of KFL to rig the price of KFL so that a higher conversion price of its OFCDD could be fixed. The prices artificially rose from Rs. 153/- to Rs. 311/- and this rigging enabled KFL to fix the OFCDD price at Rs. 144/- per share. This was in violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995.
- 8.19 The above acts and omissions of KFL, its directors and associate entities / concerns are in contravention of regulations 4 (a),(c), (d) and (e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.

From the aforesaid facts and circumstances, I find that KFL and its directors as well as the associate entities of KFL as mentioned *ibid*, have indulged in manipulative trading by creating artificial volumes and price in the scrip of KFL and interfered with the smooth functioning of the market. It acted in a manner, which erodes the confidence of the investors and adversely affects the integrity and healthy growth of the securities market.

- 8.20 The explanation of KFL that it did not purchase its own shares in violation of Section 77 of the Companies Act, 1956 is also not acceptable in view of the above findings. However, it is not essential to give conclusive finding on the violation of Section 77 of the Companies Act, 1956 as such violation is beyond the purview of directions to be issued under Section 11B of the SEBI Act, 1992. It is suffice for the present proceedings to consider the violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 through several means or devices deployed by KFL including the prohibited route of financing its own shares under Section 77 of the Companies Act, 1956.

9.0 VIOLATION OF THE SEBI (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 1997 :

- 9.1 On the basis of the aforesaid findings of the investigations, it was alleged in the show cause notice that KFL group companies and its promoters /directors acquired a large chunk of shares of KFL in violation of Takeover Regulations. 13,48,000 shares were acquired by KFL through its front entities, which constituted 29.31% of the then existing equity share capital.
- 9.2 At this juncture, I would like to clarify that there was an inadvertent typographical mistake in the figures (%) with respect to the number of shares held by Associate concerns of KFL & holdings of Shri S N Agarwal, in row number 2 of the Table of para 29 of the Show cause notice, which was 13.98% of the total no. of shares instead of 25.24% as mentioned in the show cause notice. Consequently, 82.76 % and not 94% of the equity was with the promoters group before conversion of OFCDDs, as per the following table :-

Particulars	No. of shares	% of total No. of shares
Directors and their relatives	1943000	42.24
Associates concerns of KFL & holding of S N Agarwal not included in (1) above.	643100*	13.98*
Holding by seven corporates - Competent Trading, Dominance Trade, Precise Exports, Gainful Exports, Responsive Plastics, Marvellous Trading and Lyric Investments all controlled by KFL	1160700	25.24
Shares purchased by Competent Trading, Dominance Trade, Precise Exports, Gainful Exports, Marvellous Trading	59800	1.30

but not transferred		
Total of 1, 2, 3 and 4	3806600*	82.76*
Total Equity share capital of KFL as on 28/8/98	4599400	

9.3 The changes in the figures have been shown with (*) mark. However, the change of figures will not make any material difference so far as the violation by promoters of KFL and allegations made in the show cause notice against them are concerned. Therefore, I do not think it necessary to issue another show cause notice only to highlight the modified figures as long as the modified figure also suggests that they have violated the provisions of law. As a matter of fact, the acquisition by promoters of KFL, which increased their holding in KFL from 56.22% to 82.76% without making a public announcement to acquire shares of KFL was in contravention of Regulation 11(2) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

9.4 Pursuant to the show cause notice, KFL and its promoters while reiterating that they have not acted through the front entities as alleged denied the charge of violation of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

I have considered the findings of the investigation report which suggest that large quantities of shares of KFL were purchased from the market and also through off market deals during March, 1998 by a set of seven companies, namely Competent Trading, Dominant Trade, Precise Exports, Marvellous Trading, Lyric Investments, Responsive Plastics and Gainful Exports. As per the records, the promoter group of KFL/associates of KFL were already holding more than 51% stake in the company. The records also indicated that the above mentioned seven companies acted as "Front Companies" to the promoters of KFL and were "persons acting in concert" with the promoters within the meaning of Regulation 2(e) of the said Regulations. The promoter of KFL group increased their shareholding from 56.22% to 82.76% without making public announcement to acquire shares of KFL which was in contravention of sub-regulation (2) of regulation 11 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

9.5 I have taken into consideration the facts of the case, the written submissions/reply to the show cause notice on behalf of the promoters/directors and I am of the view that promoters / directors through their front entities have violated the provisions of sub-regulation (2) of regulation 11 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 which requires that no acquirer who, together with persons acting in concert with him has acquired, in accordance with the provisions of law 75% of the shares of voting rights in a company, shall acquire either by himself or through persons acting-in-concert with him any additional shares or voting rights, unless such acquirer makes a public announcement to acquire shares in accordance with the Regulations. Further, in terms of sub-regulation (1) of regulation 14 of the said Takeover Regulations, the public announcement is required to be made by the acquirer not later than 4 (four) working days of entering into an agreement for acquisition of shares or voting rights or deciding to acquire shares or voting rights exceeding the respective percentage.

The promoters /directors have triggered the said Regulations, and, thus, by not making any public announcement and, thereby, not giving the existing shareholders an exit opportunity, they have violated sub-regulation (2) of regulation 11 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

9.6 **Violations of provisions of A) SEBI (Prohibition of Fraudulent And Unfair Trade Practices Relating to Securities Market) Regulations,1995 and B) SEBI (Substantial Acquisition Of Shares And Takeovers) Regulations,1997:**

A) **Violation of Regulations 4(a),(c),(d) and (e) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 :**

Regulations 4(a),(c),(d) and (e) read as follows :-

"4. *Prohibition against market manipulation:-*

(a) effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising depressing the prices of securities and thereby inducing the sale or purchase of securities by any person ;

(b)

(c) indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transacti

(d) enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to op only as a device to inflate, depress, or cause fluctuations in the market price of securities.

(e) pay, offer or agree to pay or offer, directly or indirectly, to any person any money or money's worth for including and person to purchase or sell any security with the sole object of inflating, depressing, or causing fluctuations in the market pric securities.

B) **Violation of Regulation 11(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations,1997 :**

" **11(2)** - No acquirer who, together with persons acting in concert with him has acquired, in accordance with the provisions of law, 75% of the shares or voting rights in a company, shall acquire either by himself or through persons acting in concert with him any additional shares or voting right, unless such acquirer makes a public announcement to acquire shares in accordance with the regulations.

I note that Regulation 13 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 reads as under :-

"Repeal and savings

13. (1) The Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 is hereby repealed.

i. Notwithstanding the repeal of the Securities and Exchange Board of India ((Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, any violation of regulations 3, 4, 5 and 6 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 shall be investigated and proceeded against in accordance with the procedure laid down in these regulations.

ii. Notwithstanding the repeal of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, any investigation pending, at the commencement of these regulations shall be continued and disposed of in accordance with the procedure laid down in these regulations."

10.0 DIRECTIONS

After taking into consideration the facts and the submissions and the evidence on record with regard to the aforesaid entities and their directors, I find that the Krishna Filaments Ltd. and its promoters/directors such as Shri O.P. Agarwal, Chairman of KFL; Shri K.K. Agarwal, Managing Director of KFL; Shri S.K. Agarwal; and Shri R.K. Agarwal have violated the provisions of Regulation 4(a),(c),(d) and (e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. By providing funds to the companies under the control of Shri Nalinesh R. Dalal and Shri Anantnarayan Iyyer, KFL induced them to purchase the shares of KFL in violation of Regulation 4(e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 Regulations. Further KFL and its aforesaid directors acting-in-concert have also violated the provisions of sub-regulation (2) of regulation 11 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

Therefore, in exercise of the powers conferred upon me under sub-section (3) of Section 4 read with Section 11B and Section 11 of the Securities and Exchange Board of India Act, 1992 read with regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 read with regulation 13 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, I hereby, in order to protect the interests of investors in securities, prohibit M/s. Krishna Filaments Ltd. and its Managing Director Shri K.K. Agarwal, from accessing the capital market and dealing in securities respectively for a period of 5 (five) years, except for discharging their obligation to give public announcement as mentioned hereinbelow.

Further, as remaining directors of KFL and the associate companies/promoters and directors also have to assume their responsibility of the acts of omissions and commissions in the securities market, I hereby prohibit other directors of KFL such as Shri S.K. Agarwal, R.K. Agarwal and O.P. Agarwal and the associate concerns / entities of KFL such as 1) Shri Jiten Mehta, 2) M/s. Dharamshi Capital Services, 3) M/s. Krishna Vinyls Ltd., 4) Smt. M.B. Joshi, 5) M/s. Marvellous Trading Pvt. Ltd. And Its Directors such as Ratnesh Chand Jain, Reena Jain, Nitin Deshpande, Sunil Radhakrishnan Nair, Murugan Pillai, Murari Poddar, Lunkaran Kayal, Vijayalakshmi Poddar, Siji Nair, Sundeep Kabra and Meenakshi Kabra; 6) M/s. Precise Exports Ltd. and Its Directors such as Ratnesh Chand Jain, Reena Jain, Renuka Motwani, Murugan Pillai, Sunil Nair, Murari Poddar, Lunkaran Kayal, Vijayalakshmi Poddar and Draupadi Kayal; 7) M/s. Competent Trading Pvt. Ltd. and its Directors such as Ratnesh Chand Jain, Reena Jain, Renuka Motwani, Bhavna Mehta, Sunil Nair, Murugan Pillai, Murari Poddar, Lunkaran Kayal and Vijayalakshmi Poddar 8) M/s. Gainful Exports Pvt. Ltd. and its Directors such as R.C. Jain, Reena Jain, Sunil Nair, Jiten Mehta, Murugan Pillai, Murari Poddar, Lunkaran Kayal, Vijayalakshmi Poddar, Rajashree Mehta, Pramila Mehta; 9) M/s. Responsive Plastics Pvt. Ltd. and its Directors such as Ratnesh Chand Jain, Reena Jain, Jiten Mehta, Nitin Deshpande, Sunil Nair, Murugan Pillai, Murari Poddar, Lunkaran Kayal, Vijayalakshmi Poddar, Sushilkumar Agarwal And Babita Agarwal; 10) M/s. Dominance Trade And Investments Ltd. and its Directors such as Kavita Jain, Bharti Jain, Bhavna Mehta, Murugan Pillai, Sunil Nair, Murari Poddar, Lunkaran Kayal, Vijayalakshmi Poddar, Subhalaxmi Pillai And Vishwanathan Pillai; 11) M/s. Lyric Investment And Trading Pvt. Ltd. and its Directors such as Ratnesh Chand Jain, Mahendra Patole, Sanjay Kabra, Murugan Pillai, Lunkaran Kayal, Vijayalakshmi Poddar, Malalakshmi Pillai 12) Shri Sunil Nair and 13) Shri Lunkaran Kayal from accessing the capital market and dealing in securities for a period of 5 (five) years for aiding, abetting and assisting in manipulation in the scrip of Krishna Filaments Ltd. 1) in contravention of regulation 4(a),(c),(d) and (e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 read with regulation 13 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003,, and 2) for acting-in-concert in violation of the regulation 11(2) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 except for discharging their obligation to give public announcement as mentioned hereinbelow.

Further in exercise of the powers conferred upon me in terms of regulations 44 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, I hereby direct the directors of the Krishna Filaments Ltd. namely; 1) Shri O.P. Agarwal, Chairman; 2) Shri K.K. Agarwal, Managing Director, 3) Shri R.K. Agarwal, Director and 4) Shri S.K. Agarwal, Director and the

associate concerns / entities of KFL and their directors, namely; 1) M/s. Marvellous Trading Pvt.Ltd. and its Directors namely; Ratnesh Chand Jain, Reena Jain, Nitin Deshpande, Sunil Radhakrishnan Nair, Murugan Pillai, Murari Poddar, Lunkaran Kayal, Vijayalakshmi Poddar, Siji Nair, Sundeep Kabra and Meenakshi Kabra; 2) M/s. Precise Exports Ltd. and its Directors namely; Ratnesh Chand Jain, Reena Jain, Renuka Motwani, Murugan Pillai, Sunil Nair, Murari Poddar, Lunkaran Kayal, Vijayalaxmi Poddar and Draupadi Kayal; 3) M/s. Competent Trading Pvt. Ltd. and its Directors namely; Ratnesh Chand Jain, Reena Jain, Renuka Motwani, Bhavna Mehta, Sunil Nair, Murugan Pillai, Murari Poddar, Lunkaran Kayal and Vijayalaxmi Poddar; 4) M/s. Gainful Exports Pvt.Ltd. and its Directors namely; R.C. Jain, Reena Jain, Sunil Nair, Jiten Mehta, Murugal Pillai, Murari Poddar, Lunkaran Kayal, Vijayalaxmi Poddar, Rajashree Mehta, Pramila Mehta; 5) M/s. Responsive Plastics Pvt. Ltd. and its Directors namely; Ratnesh Chand Jain, Reena Jain, Jiten Mehta, Nitin Deshpande, Sunil Nair, Murugan Pillai, Murari Poddar, Lunkaran Kayal, Vijayalaxmi Poddar, Sushilkumar Agarwal and Babita Agarwal; 6) M/s.Dominance Trade And Investments Ltd. and its Directors namely; Kavita Jain, Bharti Jain, Bhavna Mehta, Murugan Pillai, Sunil Nair, Murari Poddar, Lunkaran Kayal, Vijayalaxmi Poddar, Subhalaxmi Pillai and Vishwanathan

Pillai; 7) M/s. Lyric Investment And Trading Pvt.Ltd. and its Directors namely; Ratnesh Chand Jain, Mahendra Patole, Sanjay Kabra, Murugan Pillai, Lunkaran Kayal, Vijayalaxmi Poddar and Malalaxmi Pillai 8) Shri Jiten Mehta 9) Shri Sunil Nair 10) Shri Lunkaran Kayal 11) Krishna Vinyl Ltd. 12) Dharamshi Capital Services and 13) Smt.M.B.Joshi to make public announcements as required under Chapter III of the said Regulations in terms of sub-regulation (2) of regulation 11 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations,1997 taking March 31, 1998 as the reference date for calculation of offer price. The public announcement shall be made within 45 (forty five) days of passing of this Order.

Further, in terms of sub-regulation (12) of regulation 22 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations,1997, the payment of consideration to the shareholders of the KFL has to be paid within 30 (thirty) days of the date of closure of the offer. The maximum time period provided in the said Regulations for completing the offer formalities in respect of an open offer is 120 days from the date of public announcement. The public announcement in the instant case ought to have been made taking March 31, 1998 as a reference date and thus the entire offer process would have been completed latest by July 29, 1998. Since no public announcement for acquisition of shares of KFL has been made, which has adversely affected the interests of shareholders of KFL, it would be just and equitable to direct the acquirer to pay interest @ 10% per annum on the offer price. The acquirer viz. KFL is hereby directed to pay interest @ 10% (ten per cent) per annum to the

shareholders for the loss of interest caused to the shareholders from July 30, 1998 till the date of actual payment of consideration for the shares to be tendered in the offer directed to be made by the Acquirer.

This order shall come into force with immediate effect

PLACE : MUMBAI

DATE: 10.09.2004

G.N. BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA