

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

ORDER

{Under Section 11B and 11(4) of the Securities and Exchange Board of India Act, 1992 and Regulation 11 and 12 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995 in the matter of Prakash Fotran Softech Limited against the company, Prakash Fotran Softech Limited and its directors viz Shri P.C. Jain, Shri Rajesh Jain, Shri Pramod Jain, Shri Rakesh Jain, Shri Ganesh Singh Jhabua, Shri Mago J B Singh and Shri Sanjay Shah.}

1. Securities and Exchange Board of India (hereinafter after referred to as “SEBI”) conducted investigations during the period from October 4, 1999 to December 30, 1999 on observing spurt in the volumes and price rise in the scrip of Prakash Fotran Softech Limited. Investigations inter alia revealed that the board of directors of the company declared 10% interim dividend on November 19, 1999 which was subsequently withdrawn by the board of directors in their meeting held on March 27, 2000, stating unexpected contingencies without giving any satisfactory explanations. The company had not filed Quarterly Results for the quarter ended December, 1999 and the Annual Report for the financial Years 1997 onwards. The company was not reachable at the address obtained from the Exchanges and BSE suspended the trading of the scrip of the company for non-compliance and notified the company as unknown company.

2. Investigations revealed that Top Cassettes Ltd was the major shareholder in the company with more than 17% holding. Immediately after the misleading announcement of interim dividend, the related entities of Top Cassettes Ltd

namely Pivotal Stoxare Ltd and Coverage and Consultants together offloaded around 9% of the total listed shares in the price range of Rs 22/- to Rs 41/- with an intention to create artificial market. It was observed that the intention of the company, Prakash Fotran Softech Limited and its directors namely Shri P.C. Jain, Shri Rajesh Jain, Shri Pramod Jain, Shri Rakesh Jain, Shri Ganesh Singh Jhabua, Shri Mago J B Singh and Shri Sanjay Shah (these entities/persons are hereinafter collectively referred to as 'the Noticees' and singularly by their individual name) to announce interim dividend was to induce the innocent investors to trade in the scrip. They were thus alleged to have violated the provisions of Regulation 3, 5(1)(a) &(b) and 6(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (hereinafter referred to as "PFUTP Regulations") for issuing misleading announcement of interim dividend, designed to defraud and influence the investment decisions of the investors.

3. Show cause notices dated April 05, 2006 were issued to the Noticees namely Promod Jain and Rajesh Jain. Further, the show cause notices dated April 19, 2007 were issued to the Noticees viz. Shri P.C. Jain, Shri Rakesh Jain, Shri Ganesh Singh Jhabua, Shri Mago J B Singh and Shri Sanjay Shah. Subsequently, show cause notice dated April 20, 2007 was issued to the company, Prakash Fotran Softech Limited advising them to show cause as to why directions under Section 11B of the Securities and Exchange Board of India Act, 1992 read with Regulation 11 of PFUTP Regulations including debarring them from accessing the capital market and trading in securities should not be issued against them for the violations mentioned at paragraph no. 5 above.

4. Shri Mago J B Singh replied to the show cause notice stating that he acted as a technical director of the company and resigned from the directorship w.e.f January 15, 1996 and also submitted form no.32 in this regard. The other Noticees did not respond to the show cause notices.

5. An opportunity of personal hearing was granted to the Noticees on June 07,

2007 and August 16, 2007 before me at SEBI's office at Mumbai which were not availed by them. However, Shri Mago J B Singh and Shri Sanjay Shah filed written submissions stating that they resigned from the directorship prior to the alleged violations.

6. On a carefully examination of the matter, I find that price of the scrip at BSE rose from Rs.21.40/- on October 03,1999 to a maximum of Rs.46.50/- on November 26, 1999 (an approximate increase of 117%) before closing at Rs.26.65/- on December 30, 1999. Volumes were unusually high during the investigation period at a level of 403200 shares on a single day (December 14, 1999). Details of the price and volumes in the scrip at BSE prior to the investigation period are given hereunder:

Month/(No. of days traded)	Price range (Open, High, Low, Close) in Rs.	Volume (No. of shares)
June/(11)	19.75, 20.00, 18.25, 20.00	2300 shares
July/(10)	22.00, 24.00, 22.00, 23.50	2500 shares
August/(6)	24.00, 25.25, 23.05, 23.25	1300 shares

Following table gives the details of price and volumes in the scrip at BSE during the period of investigation:

DATE	OPEN	HIGH	LOW	CLOSE	%CHANGE	NO.OF TRADES	QTY TRADED	TURNOVER (Rs.)
10/15/1999	23.05	23.25	23.05	23.25	0	2	200	4630
10/18/1999	21.45	21.45	21.4	21.4	-7.96	2	200	4285
10/20/1999	20	20.9	20	20.9	-2.34	4	2100	42630
10/21/1999	22.55	22.55	22.55	22.55	7.89	52	22200	500610
10/22/1999	24.3	24.3	22.6	24.3	7.76	38	23200	563405
10/25/1999	26.2	26.2	26.2	26.2	7.82	14	20100	526620
10/26/1999	28.25	28.25	28.25	28.25	7.82	69	38100	1076325
10/27/1999	30.5	30.5	27.5	27.9	-1.24	131	55600	1651365
10/28/1999	29.5	30.1	27	30.1	7.89	91	46700	1368145
10/29/1999	32	32.45	28	32.45	7.81	98	50800	1606550
11/1/1999	35	35	30	30.75	-5.24	76	26500	902455
11/2/1999	30	33.2	30	33.2	7.97	29	7200	233700
11/3/1999	35.8	35.8	33.5	34.75	4.67	66	16100	560665
11/4/1999	35.95	37	32	35	0.72	84	29200	1020810
11/5/1999	37	37.5	35.5	36.6	4.57	62	11900	433610
11/7/1999	38	39.5	37.75	38.95	6.42	23	5100	197100

DATE	OPEN	HIGH	LOW	CLOSE	%CHANGE	NO.OF TRADES	QTY TRADED	TURNOVER (Rs.)
11/9/1999	42.05	42.05	37	37.6	-3.47	127	37700	1516635
11/11/1999	40.5	40.55	34.6	34.85	-7.31	86	23900	896890
11/12/1999	35	35	32.1	32.45	-6.89	48	8400	275225
11/15/1999	34.9	35	34	34.25	5.55	49	15800	551015
11/16/1999	36.95	36.95	36.95	36.95	7.88	104	52200	1928790
11/17/1999	39.85	39.85	39.85	39.85	7.85	202	101700	4052745
11/18/1999	42.95	43	36.7	36.8	-7.65	242	58500	2306085
11/19/1999	39.5	39.5	35.1	37.4	1.63	193	40600	1516510
11/22/1999	40.3	40.35	38.5	40.3	7.75	118	35000	1390295
11/24/1999	42.5	43.5	39	43.15	7.07	174	40600	1724025
11/25/1999	46.5	46.5	39.8	40.65	-5.79	168	37500	1555795
11/26/1999	42	43	39.5	40	-1.6	159	37700	1557860
11/29/1999	42.75	43.15	41	41.2	3	192	53600	2280480
11/30/1999	42.9	43.35	38	38.5	-6.55	172	37300	1486245
12/1/1999	40	40	35.5	35.7	-7.27	122	30300	1096265
12/2/1999	36.5	36.5	32.85	32.85	-7.98	134	34500	1146445
12/3/1999	31	33	30.25	30.25	-7.91	188	58600	1808355
12/6/1999	32.65	32.65	32.65	32.65	7.93	173	74200	2422630
12/7/1999	35.25	35.25	32.3	33	1.07	324	99000	3352735
12/8/1999	33.8	34.45	30.4	30.7	-6.97	150	40300	1306120
12/9/1999	30.95	30.95	28.5	28.5	-7.17	122	33100	958530
12/10/1999	26.65	30.7	26.65	28	-1.75	201	59600	1688505
12/13/1999	30.2	30.2	30.2	30.2	7.86	189	100000	3020000
12/14/1999	32.6	32.6	32.6	32.6	7.95	474	403200	13144320
12/15/1999	35.15	35.15	32.6	35.15	7.82	797	357000	12166785
12/16/1999	37.05	37.85	35.1	35.3	0.43	563	256200	9225695
12/17/1999	36.8	37.2	33.5	34.7	-1.7	333	99300	3483120
12/20/1999	36.9	37.25	33.75	35.3	1.73	604	188900	6736710
12/21/1999	36.3	37.2	34.55	34.75	-1.56	387	116500	4156225
12/22/1999	35.8	36.9	33.5	33.95	-2.3	430	238700	8366895
12/23/1999	35.4	35.4	31.25	31.55	-7.07	231	71300	2319870
12/24/1999	30.25	32	29.05	29.05	-7.92	301	122800	3759475
12/27/1999	30.5	30.5	28.25	30.15	3.79	210	121800	3562560
12/28/1999	30.8	32	28.1	29	-3.81	453	171700	5020700
12/29/1999	29.75	30	27.8	29.95	3.28	336	101600	2901815
12/30/1999	30.5	31.5	27.9	29.65	-1	540	165300	4755065

7. As is evident from the above tables, the scrip was infrequently traded in low volumes prior to the investigation period. Volumes were unusually high during the investigation period. Average volume traded were 74600 (approx.), whereas the average volume traded prior to the investigation period were a few hundred shares. Traded Volumes were as high as 403200 on December 14, 1999. Price Movement during the investigation Period is given hereunder:

Open	Close	High	Low
Rs.23.05 (15.10.99)	Rs.29.65 (30.12.99)	Rs.46.50 (25.11.99)	Rs.20.00 (20.10.99)

8. The reasons for such sudden spurt in price and volume can reasonably be attributed to the misleading announcement of interim dividend. Prakash Fotran Softech Ltd, a manufacturing company of seasoned and treated secondary wood and value added items like doors, window frames, furniture articles etc had also decided to diversify its activities to the development and trading of software and it changed its name to Prakash Fotran Softech Ltd., w.e.f. April 14, 1999. The change of name of the company to Prakash Fotran Softech Ltd was also a device to attract the innocent investors. During the year 1999 and onwards, any company related to IT, Software etc., was having a dream run in the share market, especially in BSE. Many companies, picking the opportunity had changed their name and objectives to take benefit of the prevailing circumstances.

9. The company vide its letter dated the May 27, 1998, as part of compliance of clause 41 of the listing agreement had informed that the company has not started any production after the public issue made in December 1995 as the existing and new project was being taken over by M.P. Financial Corporation w.e.f. March 11, 1996. This was reported on the day after major objective of the company was changed. The company, while complying with BSE in the change of name, failed to do so with ASE, the regional stock exchange, whose listing was considered to be one of the pre-requisite to get the company listed in BSE at the relevant time.

10. The Madhya Pradesh Financial Corporation, Indore in their letter dated February 07, 2000 had stated they had advanced three term loans to the company against mortgage of prime security i.e., assets at its plant located at 130-131 Industrial Area, Sector -I, Pithampur. Due to default (total outstanding as on March 30, 1996 was to the tune of Rs. 86.40 lacs approx.) the assets of

the unit were taken over on March 11, 1996 by the corporation under section 29 of the State Financial Corporation's Act. However the same could not be sold for want of suitable offers. At the time of takeover, Plant and Machinery worth Rs.36 lakhs were found missing and a police complaint and a private criminal complaint was lodged by the corporation before the district court, Dhar.

11. It was observed that the declaration of exceptional performance by the company came just prior to the spurt in the price and volume in the scrip. The company had announced the results of quarter ended September 1999, showing exceptional performance. On November 19, 1999 the company announced interim dividend of 10%. This was also informed to BSE and was disseminated to the public. Subsequently, the Board of the Directors in their meeting held on March 27, 2000 decided to withdraw the interim dividend i.e. after more than four months of the announcement stating unexpected contingencies without giving any satisfactory explanations. Taking into consideration the fundamentals of the company whose plant was taken over by the financier, the declaration of dividend and subsequent withdrawal of the interim dividend appear suspicious. It is important to mention here that the 10% interim dividend declared on November 19, 1999 was withdrawn on March 27, 2000 with out following the specifications of dispersal of dividend prevailing at that time. Further, during this time the price of the scrip rose from Rs.21.40/- on October 03, 1999 to a maximum of Rs.46.50/- on November 26, 1999 (an approximate increase of 117%). It is thus quite clear that the price of the scrip increased due to the misleading announcement by the company.

12. Details of the entities who sold the shares were analysed and it was observed that most of them were related to each other and with Top Cassettes Ltd, (a major shareholder of the company with more than 17% holding). Shri Rajesh Jain, a director in both Prakash Fotran Softech Ltd. and Prakash Ceramics Ltd., had heavily traded in Top cassettes Ltd. through Mafatlal Securities Ltd. individually as well as through the companies where he was a director in a subsequent period with similar pattern of trading. Top Cassettes Ltd

had an agreement with Prakash Ceramics Ltd for the purchase of an additional Factory premises. Shri Himansu Trivedi a director of Pivotal Stoxare Ltd was also a first director as mentioned in the Memorandum and Articles of Association of Coverage Consultants Ltd., and a director of Top Cassettes Ltd. There is clearly an association between these three companies. According to the company's address (from the website) and other correspondences from BSE, the office address of Top Cassettes is found to be same as that of Coverage and Consultants Ltd. (203, Apollo Towers, M.G Road, Indore), even though Top Cassettes Ltd is registered in Maharashtra. The following table throws light on the links observed between various clients who were having common address /directors with Top Cassettes Ltd dealt in the scrip, Prakash Fotran Softech Ltd:

Name of the Entity	Relationship
Pivotal Stoxare Ltd	Shri. Himansu Trivedi is a common Director.
Coverage and Consultants Ltd	
Top Cassettes Ltd	
Top Cassettes Ltd	Common Address at 203, Apollo Towers, M.G Road, Indore
Coverage & Consultants Ltd	

Entity	Number of Shares of Prakash Fotran Softech Ltd. sold by the entity during the investigation period	Price range
Pivotal Stoxare	734800	30.36 to 33.37
Coverage Consultants	220000	22.45 to 41.25
Miral Financial Consultants	185800	22.45 to 41.25

13. It was observed that the entities related to Top cassettes Ltd namely Pivotal Stoxare Ltd & Coverage and consultants together offloaded around 9% of the total listed shares in the price range of Rs 22 to Rs 41 (Approx.). After the price reached at a highest level, the related entities started selling shares which resulted in fall in prices to Rs.26.65/- on December 30, 1999.

14. On analysing all aspects of the matter as also submissions by the directors, I find that the Noticees namely Shri Mango J.B Singh and Shri Sanjay Shah have submitted that they had resigned from the directorship of Prakash Fotran Softech Ltd w.e.f January 15, 1996. They have also furnished form no.32 to support their stand. From the copy of this Form 32 addressed by the company

to RoC, it is observed that along with Shri Mago J. B Singh and Sanjay Shah two other directors namely Shri Pramod Jain and Shri Ganesh Singh Jhabua had also resigned from the company with effect from January 15, 1996. Considering the fact that they had resigned from the company prior to the impugned announcement of interim dividend, the charges levelled against them are not sustainable.

15. As regards other Noticees, I find that they had committed fraud on shareholders of Prakash Fotran Softech Ltd by first issuing misleading announcement of interim dividend when they were not eligible to make such commitment as per financials of the company as also their failure to take any conclusive action thereon. Making use of the misleading announcement, the related entities offloaded shares in the market. The action on the part of Noticees to lure innocent investors by publishing misleading announcement tantamount to defrauding them as it was aimed at manipulating the price and volume in trading of the scrip. All such actions can be termed as frauds under Regulation 2(c) of PFUTP Regulations. These Noticees have accordingly violated the provisions of Regulation 3, 5(1) (a) & (b) and 6(a) of PFUTP Regulations reproduced hereunder:

Prohibition of certain dealings in securities

3. No person shall buy, sell or otherwise deal in securities in a fraudulent manner.

Prohibition of misleading statements to induce sale or purchase of securities

5. (1) No person shall make any statement, or disseminate any information which -

(a) is misleading in a material particular; and

(b) is likely to induce the sale or purchase of securities by any other person or is likely to have the effect of increasing or depressing the market price of securities, if

when he makes the statement or disseminates the information-

(i) he does not care whether the statement or information is true or false; or

(ii) he knows, or ought reasonably to have known that the statement or information is misleading in any material particular.

Prohibition of unfair trade practices relating to securities

6. No person shall -

(a) in the course of his business, knowingly engage in any act, or practice which would operate as a fraud upon any person in connection with the purchase or sale of, or any other dealing in, any securities;

16. I find that the price and volume of the scrip went up after the misleading announcement of interim dividend. This would have induced the innocent investors to invest in the scrip. After creating artificial market by picking up price at a highest level, the related entities started selling. After the investigation period, the scrip traded up to January 10, 2000 at BSE when the closing price was Rs 22.60. The trading of the company was suspended by BSE for the period January 11, 2000 to January 13, 2000 and from January 17, 2000 until further notice for not resolving investor complaints. Another concurrent suspension was imposed by BSE w.e.f January 7, 2002 for non-payment of listing fees. There was no trading in scrip at BSE after January 10, 2000. Hence, the innocent investors who were lured into the trading in the scrip on account of the misleading advertisement and resultant price rise, must have suffered loss. I have also noted that adjudication proceedings were initiated against the company and Shri Rajesh Jain for their non co-operation with the investigation. In the light of all facts and circumstances of the case, I am of the view that this is a

fit case to impose prohibition with a view to protect the interest of investors so that it acts as a deterrent for similar actions in the securities market in future.

17. Therefore, taking into consideration facts and circumstances of the case and in exercise of the powers conferred upon me under Sections 19 of the SEBI Act read with Sections 11B of Securities and Exchange Board of India Act, 1992 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, I hereby dispose of the show cause notices issued to Shri Mago J. B Singh, Shri Sanjay Shah, Shri Pramod Jain (PAN No AEDPJ0601H) and Shri Ganesh Singh Jhabua (PAN No AADHG9116L) without any direction. At the same time, I hereby restrain the Noticees viz. Prakash Fotran Softech Limited (PAN No AABCT 8027 E) and its directors viz. Shri P.C. Jain, Shri Rajesh Jain (PAN No ABAPJ 2869 B) and Shri Rakesh Jain from buying, selling and dealing or accessing the securities market in any manner for a period of one year.

18. This order shall come into force with immediate effect.

Place: Mumbai

Date: January 11, 2008

V. K. CHOPRA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA