

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: SHRI V.K. CHOPRA, WHOLE TIME MEMBER

**IN THE MATTER OF M/S. RANSI SOFTWARE INDIA LTD., SHRI V.
SRINIVAS, SHRI MAHENDRA A. SHAH, SHRI KUNARAM
CHAUDHARY AND SHRI KISHORE THAKKAR**

DATE OF HEARING: 02.11.2007

Appearance:

For Noticee : Shri V. Srinivas
Shri Chaitanya Vyas, Advocate

For SEBI : Mrs. Barnali Mukherjee, Deputy General Manager
Shri. Mridul Rastogi, Manager
Shri Mohamed Rahaz, Legal Officer

ORDER

**UNDER SECTIONS 11 AND 11B OF SECURITIES AND EXCHANGE
BOARD OF INDIA ACT, 1992**

1. M/s Ransi Software India Ltd. (hereinafter referred to as 'RSIL') was incorporated on March 28, 1994 as a private limited company as Ransi Roadways Ltd. The name of the Company was changed to Ransi Cargo India Ltd. vide fresh certification of incorporation dated

August 23, 1995. The company again changed its name to Ransi Software India Ltd. and reportedly diversified its activities in Software Development from the transport business w.e.f. March 20, 1999.

2. The shares of RSIL were listed on the Bombay Stock Exchange (hereinafter referred to as 'BSE') and Ahmedabad Stock Exchange (hereinafter referred to as 'ASE'). RSIL changed its registration from ASE to Vadodara Stock Exchange (hereinafter referred to as 'VSE') on December 07, 2001 on change of registered office to Vadodara.
3. During March 2002, a sudden spurt in the volume of the scrip of RSIL was noted by BSE. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted investigation in respect of the trading in the scrip of RSIL for the period March 01, 2002 to April 16, 2002, based on the corporate announcements made by RSIL and failure to follow the same later.
4. The investigation revealed that RSIL has acquired 100% equity of the companies M/s Madho Agro Farms Pvt. Ltd. and M/s Patel Green Wood Pvt. Ltd. by issuing 5,00,00,000 shares at par worth Rs. 50 crores. The shares were issued based on a valuation which was certified by auditor D.V.Dave and Co. However, during investigation, BSE got the valuation done by another auditor who valued the two companies at Rs. 5 crores only, indicating gross over

valuation by RSIL, apparently for the purpose of issuing preferential shares, thereby violating the provisions of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (hereinafter referred to as 'DIP Guidelines').

5. It was also found that RSIL vide letter dated March 14, 2002 had informed BSE that the meeting of the Board of Directors was scheduled to be held on March 26, 2002 to consider a proposal to issue bonus shares and to consider negotiations for acquiring a US based software firm, which was later rescheduled to April 05, 2002. An advertisement had also appeared in the newspapers stating manifold increase in revenue and profit of the company and getting new projects. RSIL failed to follow up with these corporate announcements.
6. Further the investigations revealed that RSIL violated the provisions of DIP Guidelines for the Bonus Issue as the company did not have genuine profit (The profit stated for the financial year 2000-01 is only Rs.1.92 lakh) and reserves and surplus (for the year 2000-01 reported as nil) for the proposed Bonus issue as well as the proposed dividend of 10% on an expanded capital after the issuance of preferential allotment totaling to Rs. 6.02 crores.
7. In addition to this, RSIL on January 28, 2002 and February 13, 2002 reported to BSE that it has bagged an export order of Rs. 19.65 crores

from Canada-based V Karya & Company and Shri M.A. Shah, director of the company said that the company is on the verge of bagging another export order of Rs. 6.28 crores from a US-based company and it has also initiated negotiations with a company in Singapore for a software development contract worth Rs. 12.21 crores. It was found in the investigation that RSIL did not give any response on the matter and it appeared as if the information was given to create interest in the scrip. Thus, the publishing of advertisement to disseminate false information and allotment of preferential shares to the shareholders/ promoters of the two other companies and the promoter of RSIL acting in a fraudulent manner resulted in violation of Regulations 3, 5(1) and 6(a) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations').

8. Investigations also revealed that the financial results filed by RSIL for the quarters ended June 2001 and September 2001 showed an increase of 100%. The result of the company reported for year ended March 2002, showed a 10 times increase in income from the previous year. Also the company failed to file the quarterly results after September 2001, leading to a suspicion of dressing up the financial statements and giving incorrect information to the public at large.

9. RSIL submitted different shareholding patterns for the same date with different figures for promoter's holdings vide letters of various dates. In all these reports, the promoter's holding only comprises of shares held by three individuals viz. Shri Mahendra A Shah, Shri Kunaram Choudhari and Shri V. Srinivas. SEBI also received a complaint letter dated July 17, 2002 alleging Shri Mahendra Shah's involvement in manipulation of various scrips including RSIL.
10. Further, it was seen during the period of investigation that the preferential allottees transferred their unlisted shares to Shri Kishore Thakkar's demat account and offloaded the same in the secondary market through him and some of the net selling clients who were related to each other. Thus as the overvaluation of the acquired companies was done for the purpose of issuing preferential shares without receiving adequate consideration for the same and off-loading them in the secondary market and as Shri Kishore Thakkar aided and abetted the same, these trades resulted into the violation of Regulation 3 of the PFUTP Regulations.
11. On the basis of the findings of the Investigation Report, SEBI issued a common show cause notice dated June 06, 2005, communicating the alleged violations of the DIP Guidelines and PFUTP Regulations to RSIL, Shri Mahendra A Shah, Shri Kunaram Choudhari and Shri V. Srinivas. SEBI issued a separate show cause notice dated October 12, 2006 to Shri Kishore Thakkar communicating the alleged

violations of the PFUTP Regulations committed by him. These show cause notices were issued requiring the noticees to show cause as to why appropriate directions should not be issued against them for the alleged violations.

12. Shri V. Srinivas alone replied to the show cause notice vide letter dated June 20, 2005 denying the alleged violations or contraventions of any of the provisions of the DIP Guidelines and PFUTP Regulations.
13. Shri V. Srinivas submitted that through some misrepresentation his signature was obtained to show him as one of the directors of RSIL. He further submitted that when he came to know about his name being mentioned as one of the directors of the company, he resigned from the post of the director on February 05, 2000. He also added that he never received any remuneration from RSIL, and neither had access to any books of accounts, bank accounts or funds of the company nor has held any shares of the company.
14. The show cause notice dated June 06, 2005 sent to Shri Mahendra A Shah and Shri Kishore Thakkar through registered AD were returned back undelivered with a remark "Left". Subsequently, SEBI sent the said show cause notice to them through ASE which was served upon them. As regards Shri Kunaram Choudhari the show cause notice dated June 06, 2005 was served upon him by way

of posting it on the SEBI's website as it was returned back undelivered by registered AD and from ASE. Despite serving the show cause notice to them through several means, no reply was received from the other noticees namely Shri Mahendra A Shah, Shri Kunaram Choudhari and Shri Kishore Thakkar. RSIL also failed to reply in spite of service of the show cause notice dated June 06, 2005.

15. Vide letter dated September 07, 2007 an opportunity of personal hearing was given to the noticees on October 03, 2007. Despite service of the notice of personal hearing through several means, the noticees except for Shri V. Srinivas neither appeared on the said date nor sought for an adjournment. In above circumstances, I proceed ex parte against the noticees namely, RSIL, Shri Mahendra A Shah, Shri Kunaram Choudhari and Shri Kishore Thakkar. Shri V. Srinivas however, sought an adjournment for November 01, 2007, as he was unable to attend the hearing on the said date due to his father's death.

16. Accordingly vide letter dated October 09, 2007 another opportunity of personal hearing was given to Shri V. Srinivas on November 02, 2007. On the said date, he attended the hearing along with his representative and reiterated his earlier submissions.

17. I also note that on the basis of the Investigation Report, SEBI vide order dated May 12, 2005 appointed an Adjudicating Officer under

Rule 5 of the Securities and Exchange Board of India (Procedure for Holding Enquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as 'Adjudicating Rules'), to adjudicate the violations alleged to have been committed by Shri V. Srinivas by not complying with the summons issued by SEBI seeking information regarding his dealings in the scrip of RSIL and violating the provisions of Regulations 3, 5(1) and 6(a) of the PFUTP Regulations in his capacity as a promoter of the company.

18. The Adjudicating Officer vide his order dated August 31, 2005, found that Shri V. Srinivas cannot be held liable for the irregular preferential issue and for the incorrect and misleading statements disseminated by RSIL with regard to the business orders bagged by the company, as he ceased to be the Director of RSIL w.e.f February 05, 2000. Therefore, the Adjudicating Officer held that it cannot be concluded that Shri V. Srinivas had violated the provisions of Regulations 3, 5(1) and 6(a) of the PFUTP Regulations.
19. I note that Adjudicatory proceedings were also initiated against the other noticees namely, Shri Mahendra A. Shah, Shri Kunaram Chaudhary and Shri Kishore Thakkar wherein the Adjudicating Officer vide order dated September 30, 2005 imposed a penalty of Rs. 54 lakhs each upon Shri Mahendra A. Shah and Shri Kishore Thakkar and vide order dated February 26, 2007 imposed a penalty of Rs. 54 lakhs also upon Shri Kunaram Chaudhary.

20. I have carefully examined the investigation report, show cause notices, reply of Shri V. Srinivas, his submissions made at the time of hearing and the Adjudicatory Order passed against him.

21. Now I shall deal with the charges alleged and record my findings thereon as under:

VIOLATION OF DIP GUIDELINES:

22. The moot question that arises for consideration in this matter is as to whether the preferential issue made by RSIL is in accordance with the DIP Guidelines.

Irregular preferential allotment

23. RSIL acquired 100% equity of the companies M/s Madho Agro Farms Pvt. Ltd. and M/s Patel Green Wood Pvt. Ltd. by issuing 5,00,00,000 preferential shares at par worth Rs. 50 crores, based on a valuation which was certified by auditor D.V. Dave and Co. However, when BSE got the valuation done from another auditor, both the companies were valued at Rs. 5 crores only. This shows that RSIL indulged in gross overvaluation of shares for the purpose of preferential allotment, which resulted in the violation of Guideline 13.5.1 (c) of the DIP Guidelines, which reads as under-

“13.5 Other requirements

13.5.1 (a)

(b)

(c) In case of preferential allotment of shares to promoters, their relatives, associates and related entities, for consideration other than cash, valuation of the assets in consideration for which the shares are proposed to be issued shall be done by an independent qualified valuer and the valuation report shall be submitted to the exchanges on which shares of the issuer company are listed.

Explanation. – For the purpose of this clause the word valuer shall have the same meaning as assigned to the term under clause (r) of sub-regulation (1) of regulation 2 of the SEBI (Issue of Sweat Equity) Regulations, 2002.”

Irregular bonus issue

24. I observe that RSIL without having free reserves proposed to issue bonus shares in violation of Guideline 15.1.1 of DIP Guidelines. Guideline 15.1.1 reads as under-

“15.0 A listed company proposing to issue bonus shares shall comply with the following:

15.1 (a)

(b)

15.1.1 The bonus issue shall be made out of free reserves built out of the genuine profits or share premium collected in cash only.”

It is clear from the above that bonus shares can be issued only out of free reserves (reserves not set apart for any specific purpose) built out of the genuine profits or share premium collected in cash only. From the investigations of SEBI it is observed that the profit declared for the financial year 2000-01 was only Rs.1.92 lakh and reserves and surplus for the year 2000-01 was reported as nil. Therefore it is clear that RSIL, without having genuine profit proposed to issue bonus shares in violation of Guideline 15.1.1 of DIP Guidelines.

VIOLATION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO REGULATIONS:

Dissemination of false information

25. RSIL made many corporate announcements and later on not followed the same resulting into violation of Regulations 3, 5(1) and 6(a) of the PFUTP Regulations. In this regard, it is pertinent to analyse the provisions of these regulations. Regulations 3, 5(1) and 6(a) read as under-

“3. Prohibition of certain dealings in securities.-

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

“5. Prohibition of misleading statements to induce sale or purchase of securities.-

(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.

Nothing in this sub-regulation shall apply to any general comments made in good faith in regard to - (a) the economic policy of the Government,

(b) the economic situation in the country,

(c) trends in the securities markets, or

(d) any other matter of a similar nature,

whether such comments be made in public or in private.”

"6. Prohibition on unfair trade practice relating to securities.-

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;

.....

....."

26. I observe that RSIL on January 28, 2002 and February 13, 2002 reported that it has bagged an export order of Rs. 19.65 crores from Canada-based V Karya & Company and Shri M.A. Shah, director of the company said that the company is on the verge of bagging another export order of Rs. 6.28 crores from a US-based company and it has also initiated negotiations with a company in Singapore for a software development contract worth Rs. 12.21 crores. Further RSIL did not provide any reply on the matter. This indicates that RSIL disseminated this information merely to create an interest in its scrip, thereby violating Regulations 3, 5(1) and 6(a) of the PFUTP Regulations.

27. I also observe that approximately 60 lakh shares (**Table-1**) were dematerialized by some preferential allottees which were connected to each other (**Table-2**) and who transferred these shares to demat account of Shri Kishore Thakkar and then these shares were delivered from his account to the account of net seller and in some

instances, directly to the account of the broker of the net seller. Shri Kishore Thakkar transferred approximately 54 lakh shares through market and off-market deals violating the provisions of Regulations 3, 5(1) and 6(a) of the PFUTP Regulations and corresponding provisions of Regulation 3(a) of the PFUTP Regulations, 2003.

Table-1

Date	Shares transferred from		To	No. of shares
	Name of Entity	Demat Account No.	Demat Account No.	
15/03/2002	Bhavana V Lokhandwala	12043905	12382601	400000
15/03/2002	Parul P Shah	12043876	12382601	200000
15/03/2002	Kunal S Shah	12043817	12382601	400000
15/03/2002	Bhanu Bhai Shah	12043948	12382601	1000000
15/03/2002	Pritesh C Shah	12043930	12382601	1000000
15/03/2002	Saroj D Kapadia	12043923	12382601	600000
27/02/2002	Shashi Kant C Shah	12043843	12382601	800000
27/02/2002	Hemant P Shah	12043850	12382601	900000
27/02/2002	Geeta B Shah	12043914	12382601	700000
				60,00,000

Table-2

Name of Entities	Related entities
Shashi Kant C Shah	Kunal S Shah, Hemant P Shah and Kiran P Shah
Hemant P Shah	Kunal S Shah and Kiran P Shah
Geeta B Shah	Parul P Shah and Jajesh Shah
Saroj D Kapadia	Darmendra Solanki, Nilesh J Modi and Bhavana V Lokhandwala
Kunal P Shah	Hemant P Shah, Kiran P Shah and Shashi Kant C Shah
Parul P Shah	Geeta B Shah, Pritesh C Shah and Jajesh Shah
Bhavana V Lokhandwala	Darmendra Solanki and Nilesh J Modi
Falguni P Panchole	Rajesh P Panchole, Gaurang Shanti Bhai Zaveri and Mukesh N Gajjar

Dressing up of Financial Statements

28. I also observed that RSIL filed erroneous financial statements giving incorrect information to the public at large. This is indicative from the financial results filed by the company reporting income for the quarter ending June 30, 2001 as Rs. 26.20 lakhs and for quarter ending September 30, 2001 as Rs. 54.95 lakhs, while the annual income showing only Rs. 54.95 lakhs. The result of the company reported for year ended March 2002 showed a 10 times increase in

income from the previous year. The rise in the profit of the company within four months, i.e., June-September increased more than 125%. RSIL failed to file the quarterly results after September 2001. All this is indicative of dressing up the financial statements by RSIL to give incorrect information to the public at large in order to create interest in its scrip.

29. I also observed that RSIL submitted different shareholding patterns for the same date with different figures for promoter's holdings vide letters of various dates. This is indicative from the Table given below:

Promotor's Holding	Total no. of Issued Shares	As on Date	Letter Dated
27,20,340	1,02,00,000	31.03.2001	16.05.2002
27,20,340	1,02,00,000	30.06.2001	16.05.2002
27,20,340	1,02,00,000	30.09.2001	16.05.2002
27,20,340	1,02,00,000	31.12.2001	16.05.2002
1,38,92,303	6,02,00,000	31.03.2002	16.05.2002
1,26,78,120	6,02,00,000	30.06.2002	03.08.2002
61,00,000	1,02,00,000	31.10.2001	27.08.2002
61,00,000	6,02,00,000	31.12.2001	27.08.2002

From the above Table it is evident that from March 31, 2001 till December 31, 2001, RSIL has shown 27,20,340 shares as Promotor's

holding under various quarterly reports submitted on May 16, 2002. However, on August 27, 2002 under the listing application for the preferential shares, the Promotor's holding was shown as 61,00,000 shares for the same period, despite their disclosure that no allotment was made to the promoters under preferential issue. In all these reports, the promoter's holding only comprises of shares held by three individuals viz. Shri Mahendra A Shah, Shri Kunaram Choudhari and Shri V. Srinivas.

30. It is also pertinent to note that the Managing Director Shri Mahendra A Shah failed to comply with the summons and appear before the Investigating Officer despite many reminders. SEBI also did not receive any reply to the SCNs issued to RSIL and its directors, except from Shri V. Srinivas. This indicates non-cooperation and indifferent attitude towards the market regulator on the part of RSIL and its directors.

31. I also note that SEBI has received various complaints alleging Shri Mahendra A. Shah's involvement in manipulation of various scrips including RSIL. Several other investor complaints have been received by SEBI alleging non receipt of dividend, non receipt of shares duly transferred, non receipt of credit with DP, etc. from the company.

32. As regards Shri V. Srinivas, I note that it is very strange that he was not aware of his name being used as the director of the company for a period of five years, without his knowledge and consent. However, from the material available and also from the findings of the Adjudicating Officer, I note that sufficient material is not available on record to show that Shri V. Srinivas had a role with the offeror in the irregular preferential allotment. Therefore it may not be appropriate to hold that Shri V. Srinivas had violated the provisions of Regulations 3, 5(1) and 6(a) of the PFUTP Regulations. As regards the other noticees, in the absence of any defense being put forth by them inspite of various opportunities, I am forced to draw an adverse inference against them.

33. From the foregoing, I am of the view that in the present case, the dealings of RSIL and its directors namely, Shri Mahendra A Shah and Shri Kunaram Choudhari in transferring shares in large quantities by the entities related to the company/preferential allottees and disseminating information relating to the attractive corporate activity by RSIL in order to create interest in the scrip of the company and failure to follow the same later indicates the malafide intention of RSIL and its directors. Thus, RSIL and its directors failed to comply with the provisions of DIP Guidelines. In addition to this, the violation of the provisions of Regulations 3, 5(1) and 6(a) of the PFUTP Regulations, 1995 has clearly been established against all the noticees.

34. Therefore, taking into consideration all the facts, circumstances and other materials available on record, in exercise of the powers conferred upon me under Section 11 and 11B of SEBI Act, 1992 read with corresponding provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations and the SEBI (Disclosure of Investor Protection) Guidelines, 2000, I hereby, restrain M/s Ransi Software India Ltd. (PAN No: N/A), Shri Mahendra A Shah (PAN No: N/A), Shri Kunaram Choudhari (PAN No: N/A) and Shri Kishore Thakkar (PAN No: AAXPT92986) from accessing the securities market and also prohibit them from buying, selling or otherwise dealing or associating with the securities market in any manner whatsoever, for a period of two years.

35. As regards Shri V. Srinivas (PAN No: AASPV0625Q), in view of the special facts and circumstances of the case, as recorded supra, I hereby direct him to be cautious and ensure that his name is not being used by others in any manner whatsoever for any dealings in securities market in future.

36. This order shall come into with immediate effect.

Place: Mumbai

V.K. CHOPRA

Date: February 06, 2008

WHOLE TIME DIRECTOR

SECURITIES AND EXCHANGE BOARD OF INDIA