

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

In the matter of SMR Universal Softech Ltd., Shri Mubeen Ur Rehman, Shri A. X. N. Prabhu, Shri K. R. Kumaresan, Shri S. Moorthy, Shri R. Palaniappan, Net Axis Software Ltd., Laxmi Agro Ltd., Mega Channel Computers Ltd., Golden Palms India Ltd., Fore C Software Ltd., Shri Pradeep Kumar Jain , Shri I Srinivasan and Shri K Prakash

In the scrip of SMR Universal Softech Ltd (current name: Asia HR Technologies Ltd.)

DATE OF HEARING: 26.10.2007

APPEARANCES:

FOR THE NOTICEES:

1. Shri R Muralidharan and Shri Uday Khedka, Directors of Asia HR Technology Ltd (erstwhile SMR Universal Softech Ltd)
2. Shri R Palaniappan, former chairman of SMR Universal Softech Ltd

FOR SEBI:

1. Mrs Barnali Mukherjee, DGM.
2. Shri Narendra Rawat, Assistant General Manager.
3. Shri Mohamed Rahaz P. M., Legal Officer.

ORDER

Under Section 11B of the SEBI Act, 1992 and Regulation 11 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI") noticed certain advertisements published during the month of June and July 2002 in various newspapers projecting bright and rosy picture of certain

companies future growth by making announcements that Board of Directors of the companies were about to consider buy back of shares and issue of bonus shares etc. It was further noticed that as a result of these advertisements, there was unusual price and volume movement in the shares of the companies whereas prior to the advertisements, the shares were thinly traded. Apparently, the purpose of such advertisements was to attract investor interest and thus induce them to trade in such illiquid scrips.

2. One of such companies was SMR Universal Softech Ltd. (hereinafter referred to as "SMR") for which advertisements proposing buy back of shares were issued in four business dailies by the company. The scrip of SMR was listed at the Bombay Stock Exchange Ltd. (hereinafter referred to as "BSE") and the Madras Stock Exchange (hereinafter referred to as "MSE.") SMR issued an advertisement on June 26, 2002 informing the public about the meeting of its Board of Directors to be held on July 3, 2002 proposing buyback of 20,00,000 shares at the price of Rs. 30 per share whereas the prevailing market price of the scrip at that point of time was Rs 11. Later on, SMR informed the respective Stock Exchanges that the said proposal was dropped. At the time of advertisement, the overall management of SMR was vested in the Board of Directors with Dr. R.Palaniappan as Chairman. The other members of Board of Directors were Shri K.N.Kumaresan, Shri S.Moorthy, Shri AXN Prabhu and Shri Mubeenur Rehman. It was found that the directors of SMR and related entities viz. Net Axis Software Ltd., Laxmi Agro Ltd., Mega Channel Computers Ltd., Golden Palms India Ltd., Fore C Software Ltd., Shri Pradeep Kumar Jain, Shri I Srinivasan and Shri K Prakash bought partly paid up shares of SMR from the market and fraudulently converted them into fully paid up shares and then offloaded the said shares in the market through Parklight Investments Pvt. Ltd. and its associates.

3. In view of the advertisements that had appeared in the newspapers on June 26, 2002 and the trading pattern in the scrip of SMR prior to and after the issuance of these advertisements, SEBI conducted investigation into the trading in SMR scrip for the period April 1, 2002 to July 31, 2002 to ascertain as to whether SMR has violated any provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as "PFUTP Regulations.")
4. On the basis of the findings of the Investigation Department, Show Cause Notices dated November 23, 2004 under Section 11B and 11(4) of the SEBI Act, 1992 were issued to SMR, Dr. R.Palaniappan, Shri K. R. Kumaresan, Shri S.Moorthy, Shri AXN Prabhu and Shri Mubeenur Rehman, Net Axis Software Ltd., Laxmi Agro Ltd., Mega Channel Computers Ltd., Golden Palms India Ltd., Fore C Software Ltd., Shri Pradeep Kumar Jain, Shri I Srinivasan and Shri K Prakash advising them to show cause as to why appropriate directions including debarring them from accessing the capital market and trading in securities should not be issued against them for the alleged violations of Regulations 3 and 6(a) of PFUTP Regulations
5. SMR vide letter dated December 16, 2004 replied to the said Show Cause Notice and stated the following:
 - a. SMR's maiden public issue was launched with the main objective of acquiring an existing software developing company based in Malaysia. The issue was for 100 lakh equity shares of Rs 10 each. Out of this, 55 lakh shares were allotted to the promoters and their friends and remaining 45 lakh shares were allotted to the public.
 - b. The agenda of the impugned board meeting was only to conduct discussion on the possibilities of buy back, which is not illegal. The proposal for buy-back of shares was considered in the Board Meeting held

- on July 3, 2002 with a genuine intention to assess the possibilities of buyback and the advertisement was not issued with any intention to mislead the public investors.
- c. SMR or its directors had no role in the publication of impugned advertisement and one of its employees, Shri Chandrasekharan was the person behind the idea of advertisement. Sri Chandrasekharan had already left SMR and his selfish motives and undesirable connections with the brokers involved in the matter came to light only after the publication of the advertisement by him in the name of SMR.
 - d. Since the management of SMR was not well versed or expert in matters relating to compliance with Regulations made under the SEBI Act, 1992, they appointed Shri Mubeenur Rehman and Shri A. X. N Prabhu as directors of SMR. Shri A. X. N Prabhu, in his effort to save SMR from legal issues, gave lot of contradicting replies to stock exchanges and SEBI.
 - e. The price and volume of the scrip prior to and after the period of advertisement would show that the advertisement had no impact on the public investors.
 - f. The entities shown as promoter entities and business partners of SMR were not really so but they were entities with whom SMR had only business relationship.
 - g. SMR had also no control on or any connections with those persons and entities who allegedly committed manipulation and thus requested SEBI to take a lenient view in the matter.
6. An opportunity of personal hearing was granted to all the entities on October 26, 2007. Shri R Muralidharan and Shri Uday Khedka, Directors SMR and Shri R Palaniappan, former chairman of SMR attended the hearing and reiterated that Shri Chandrasekharan, an ex employee of SMR had issued the advertisement without authorization from SMR as he was under influence of

some people possibly from the Parklight Group.

7. I have carefully examined the Show Cause Notices, the replies thereto and the materials on record and note that SMR issued advertisements proposing Buyback of shares in the business dailies viz. Economic Times, Business Standard, Financial Express and Business Line on June 26, 2002. It was stated in the advertisement that *"Shareholders of SMR Universal Softech Ltd. are informed that a meeting of Board of Director of the company is to be held on 3rd July, 2002, Wednesday at 5.00 pm at the registered office of the company for considering the possibility of Buy Back of 20,00,000 (20% of Equity) shares of the company at a price of Rs. 30 per share"*.
8. In the advertisement certain phrases - 'Sound Progress', 'Astounding Success', 'Strong Financial Foothold', 'Moving ahead of Times', etc. were highlighted in bold to attract the attention of gullible investors. SMR informed the Stock Exchanges about the Board meeting on June 24, 2002 and had further forwarded a copy of the aforesaid advertisement to the Stock Exchanges on June 27, 2002.
9. On June 24, 2002, SMR intimated the stock exchanges on the proposed buy-back of shares and sent another letter on June 27, 2002 enclosing copy of the advertisement. The said two letters were signed by the then Managing Director Shri K. R. Kumaresan. In reference to the above, MSE vide letter dated July 8, 2002 sought explanation/reasons for publishing the number of shares proposed for buyback and the price thereof, which was replied by SMR stating that advertisement was intended only to inform the public about the proposal of buy back. SMR had given the same reply to BSE and Ahmedabad Stock Exchange (hereinafter referred to as "ASE.") However on July 26, 2002 they wrote two letters to MSE regarding the issue which were

contradictory in nature. In one letter, they said that this advertisement was not approved by the directors and the advertisement was published by mistake of their employee whereas in another letter they said that the directors of SMR decided to comply with listing requirement and published the advertisement as it was pertinent to share market. Subsequently, pursuant to the Board meeting on July 3, 2002, the proposal of buyback was dropped.

10. Shri Kumaresan vide letter dated September 7, 2002 informed the Investigating Authority that the decision of the Board of Directors to buyback the shares was vetoed by the audit committee purely on technical reasons. Later on, as the Board also found that the Audit Committee was right in its opinion it rejected the proposal of buy back. This explanation, in my view, is not acceptable especially in view of the fact that though SMR is attributing the charges to one of their ex-employee, they have not taken any action against him for the alleged misconduct. Further, the fact remains that the proposal of the buyback of shares is not required to be published in the initial stage itself.

11. I find that that the Articles of Association of SMR did not provide for buyback of shares and all the shares proposed for buyback were not fully paid up shares. Hence, SMR did not meet the requirement under Section 77A of the Companies Act, 1956 to be eligible to buyback its own shares. When SMR itself was not eligible to buyback its shares, then the very question of considering the possibility of buyback does not arise. Thus, undoubtedly, the information disseminated by SMR with regard to the Board meeting to consider the possibility of buyback its shares was misleading. Apart from that the paid up capital and Reserves and Surplus of SMR, as per the audited Balance Sheet for the year ended March 31, 2002 were Rs 6,62,53,000.00 and Rs 81016500.81 (comprising of share premium – Rs 55000000 and P&L A/c –

Rs 26016500.81) respectively. According to its financial position, SMR was eligible to employ not more than Rs 3, 68,17,375.20 (25% of the paid up capital + free reserve) for buying back its sharers as per Section 77A (2)(c) of the Companies Act, 1956. As against that, as per the advertisement issued by SMR and if the proposal for buyback would have been approved, SMR would have required Rs 6 crores for the buyback. Hence, the number of shares for buy back and the price for the same as mentioned in the advertisement were not in conformity with the provisions of the Companies Act, 1956.

12. Further, the argument put forth by SMR that the advertisement was not authorised by SMR does not stand good as SMR itself filed a copy of the advertisement with the exchanges vide their letter dated June 27, 2002. The letter was signed by the director, Shri K N Kumaresan. Moreover according to the statement of Shri A. X. N. Prabhu dated June 4, 2003, at the time when the advertisements were issued, the affairs of SMR at Chennai were managed by director Shri K. N. Kumaresan and manager, Shri Chandrasekaran. Shri Palaniappan, another director submitted that Shri Chandrasekaran was the person behind the advertisement. I have already observed that SMR did not take any action or file any complaint against Shri Chandrasekaran for the alleged fraud committed by him in the name of SMR. Hence, it can be reasonably concluded that SMR and its directors were behind the advertisements and the plea that they have no role in the impugned advertisements in the newspapers are only an afterthought.

13. I find that the entities related to the promoter, directors, and employees of SMR had purchased partly paid up shares from the market and converted them into fully paid up shares and transferred them into the account of the broker, Parklight Investment Pvt. Ltd. (PIPL). Details of the same are given hereunder:

Name of the shareholder	Relationship with SMR	Client ID	No. of shares	Credited on Demat A/c(Fully paid-up)	Transferred on	Nos of Shares transferred
Mubeen Ur Rahaman	Director	11778069	119900	15/07/02	18/07/02	57300
Mrs P Nishath Alam	Wife of Mubeen	11778052	120300	15/07/02	18/07/02	120300
Muralidharan R.	Employee of SMR	22314718	120700	28/06/02	13/07/02	120700
Sivakumar P.S.	Employee of SMR	22314775	120200	28/06/02	16/07/02	120200
Vijay Kumar	Employee of SMR	22314759	120300	28/06/02	13/07/02	120300
Hariraj J.	Employee of SMR	22314767	120100	28/06/02	13/07/02	120100
Vivek Katakwar	Employee of SMR	22315016	120600	28/06/02	13/07/02	120600

14. The shares came into the account of promoter entities Golden Palms and Laxmi Agro from the original allottees of partly paid up shares in physical format. These shares were then dematerialised and 1, 00,000 shares were transferred from the account of Laxmi Agro to the account of Parklight Investment Pvt. Ltd. Details of these transactions is given below:

Name of the shareholder	Client ID	No. of shares (partly paid up)	Credited on Demat A/c(partly paid-up)	Transferred on	Transferred to	# of Shares
Golden Palms India Ltd.	22314443	1,73,100	27/06/02	In A/c		
Laxmi Agro Exports Ltd.	22314452	3,51,400	27/06/02	12/07/02	PIPL	100000

15. I find that the address of Laxmi Agro Ltd., Golden Palms India Ltd, Net axis Software, Mega Channel Computers and Fore C Software was the same as the address of SMR Universal. Shri Pradeep Kumar Jain is the authorized signatory of Laxmi Agro Ltd., Golden Palms India Ltd and Net Axis Software. He is also the authorized signatory of Gigo Softlogic, Gagan Media and Parque Food and Exports Ltd., entities which has bought partly paid up shares from the market and converted them into fully paid up shares. Further, Shri Pradeep Kumar's phone no (6604547) according to the BSNL

Chennai directory belongs to IAMP Corporate Consulting Pvt. Ltd. It is pertinent to note that IAMP Corporate Consulting Pvt. Ltd belonged to promoter group and had same address as SMR.

16. As stated above, the business partners of SMR viz. Net Axis Software Services, Mega Channel Computers and Fore C Software had acquired the partly paid up shares of SMR from the original allottees. Details of these transactions are as under:

Names	No. of shares	Seller	Date of Acquisition	Date of Payment	Amount Paid
Net Axis Software Services Ltd.	192200	Manish Bafna and Bhanu Bafna	26/09/01	26/09/01 & 19/01/02	1000000
	484400	Dolia and Dolia	06/11/01	06/11/01, 13/11/01 & 17/11/01	55,01,517
Mega Channel Computers Ltd.	4,32,400	Dolia and Dolia	05/11/01	From 06/11/01 to 21/11/01	61,88,621
Fore C Software Ltd.	4,80,400	Dolia and Dolia	03/11/01	06/11/01	6875725

17. Shri Pradeep Kumar Jain, Shri Srinivasan and Shri K Prakash were the authorized signatory of Net Axis Software Services, Mega Channel Computers and For C software respectively. They have not filed any reply to the show cause notice and did not avail the opportunity of personal hearing. After acquiring the partly paid up shares, these entitles paid the call arrears and converted the shares into fully paid up shares and transferred to their ultimate clients as described below:

Name of the shareholder	Client ID	No. of shares (partly paid up)	Credited on Demat A/c(Fully paid-up)	Transferred on	Transferred to	No of Shares
Net Axis Software	22267880	4,84,400	18/05/02	18/05/02	Coverage and	300000

Services Ltd.		192200	28/06/02	19/06/02	Consultant	180000
				03/07/02	Tushar Jhaveri Munoth Financial	1000
				25/06/02	Evergrowth	200000
Mega Channel Computers Ltd.	22282284	4,32,400	25/06/02	25/06/02	PIPL	100000
				25/06/02	Chauhan Jagadish Savaji	100000
				25/06/02	Orbit	30000
				26/06/02	Jay Shah	100000
Fore C Software Ltd.	22282276	4,80,400	25/06/02	26/06/02		

18. It is clear from the above tables that the aforementioned entities related to SMR bought partly paid shares of SMR in off market transactions from shareholders who were allotted these shares during the IPO process. These persons/ entities then paid the call money arrears and converted these partly paid shares into fully paid up shares and subsequently dematerialized them. After the dematerialization, these shares were sold directly/indirectly in off market deals to the ultimate clients who then disposed off these shares in the market to gullible investors. This entire sequence of events i.e. from transfer of shares in their own names, payment of call money, dematerialization of shares and then transferring to the ultimate clients was effected within three months i.e. from May to July of 2002. Analysis of the bank statement of SMR revealed the following details about the call arrears paid to convert partly paid up shares into fully paid up shares:

Names	Information to RTA about payment of call arrears	Call arrears paid (Rs)
Net Axis Software Services Ltd.	16/05/02	36,33,000
Mega Channel Computers Ltd.	15/06/02	32,43,000
Fore C Software Ltd.	15/06/02	36,03,000
Ashok Kumar	18/06/02	461250
Raghul Jain	18/06/02	429000
Gaurav Khimsura	18/06/02	459000

Names	Information to RTA about payment of call arrears	Call arrears paid (Rs)
Sourav Jain	18/06/02	459750
Rajesh Khimsura	18/06/02	460500
Rupesh Jain	18/06/02	471750
Ankit Jain	18/06/02	463500
Ajit Khimsura	18/06/02	460500
Goyal R.K.	18/06/02	460500
Abhishek	18/06/02	461250
Deepak Jain	18/06/02	460500
Subash Jain	19/06/02	473250
Prem Kumar	19/06/02	459750
Muralidharan R.	19/06/02	905250
Sivakumar P.S.	19/06/02	901500
Vijay Kumar	19/06/02	902250
Hariraj	19/06/02	900750
Vivek Katakwar	19/06/02	904500
Mubeen Ur Rahaman	19/06/02	899250
Mrs P Nishath Alam	19/06/02	902250
Ravi Immanuel	19/06/02	903750
Parque Foods & Exports Ltd	19/06/02	2876250
Gagan Media Pvt. Ltd	19/06/02	900000
Gigo Softlogic Pvt. Ltd	19/06/02	900000
Grand Total		2,83,55,250

19. Further, bank accounts of SMR with ICICI Bank, Gangadeeswarar Kol Street, Purasawalkam, Chennai; Corporation Bank and Andhra Bank, Sowcarpet Branch, Chennai were analysed and it was found that find that during the period June 2002 to July 2002 there was circular flow of funds between SMR and its associated entities. The money was going out from the account of SMR on the pretext of purchasing software and coming back same day as share allotment money. From the fund flow, it was observed that share allotment money was not coming from the account of entities who had paid the call arrears. Hence, it can be reasonably concluded that SMR fraudulently converted partly paid up shares into fully paid up shares and transferred it to ultimate clients who disposed these shares to gullible investors during the time period prior to the publication of the misleading advertisements during

which period there were substantial downward price movements also seen in the scrip.

20. I have also noted that between May 2002 and July 2002, there was sudden increase in the number of tradable shares of the SMR. The price of the scrip on June 26, 2002 when SMR came out with an advertisement that they were going to consider buy back of 2,00,000 shares at Rs. 30 per shares was Rs. 11. This signalled to the market that SMR genuinely believed that the fair value of its shares was much more than prevailing market price. Subsequently, pursuant to the Board meeting on July 3, 2002, the proposal to buyback the share was dropped. The announcement of buyback of shares in normal circumstances would indicate confidence on the part of management of SMR and it has to be taken as good news for shareholders. This obviously would have induced the investors to buy shares.

21. It can therefore be inferred that the motive behind the above advertisement was to deceive the investors by way of disseminating false information. The process of announcing buy-back of shares and its subsequent withdrawal must have resulted in a pecuniary loss to the investors who were influenced to purchase shares on the basis of the advertisement. Hence SMR had committed fraud on shareholders by first issuing misleading advertisement when they were not eligible/ required to make commitment of buy-back as also their failure to take any conclusive action thereon. The action on the part of related entities to lure innocent investors by publishing misleading statement/ advertisement amounts 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. All they Noticees have therefore violated the provisions of Regulation 3 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 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;

22. Therefore, taking into consideration all the material facts and circumstances of the case and in exercise of the powers conferred upon me under Section 11B read with Section 19 of the SEBI Act, 1992 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, I hereby restrain SMR Universal Softech Ltd. (current name: Asia HR Technology Ltd) (PAN No. AAEC56616B), Shri Mubeen Ur Rehman, Shri A. X. N. Prabhu, Shri K. R. Kumaresan, Shri S Moorthy, Shri R Palaniappan, Net Axis Software Ltd., Laxmi Agro Ltd., Mega Channel Computers Ltd, Golden Palms India Ltd., Fore C Software Ltd., Shri Pradeep Kumar Jain, Shri I Srinivasan and Shri K Prakash from buying, selling and dealing or accessing the securities market in any manner for a period of two years.

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

Date: February 25, 2008

Place: Mumbai

**V. K. CHOPRA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF
INDIA**