

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: PRASHANT SARAN, WHOLE TIME MEMBER**

IN THE MATTER OF SOUNDCRAFT INDUSTRIES LTD.

In respect of Soundcraft Industries Ltd., Raj Kumar Basantani, Vishnu Basan, Ramesh Verma, Babu Basan, Manorama Trading Ltd., Million Investrade Ltd., Mastermind Mercantile Co-op. Ltd., Panna Agro Fin. Pvt. Ltd., Jasrani Equifin Pvt. Ltd., Kalbadevi Fin. Pvt. Ltd., Patwa Agrimpex Pvt. Ltd., Aravali Hsg. & Fin. Pvt. Ltd., Structure Housing & Finance Pvt. Ltd., Jugnu Securities Pvt. Ltd., Raj Kumar Basantani (as Trading Member)

ORDER

Under Section 11B and 11(4) of the Securities and Exchange Board of India Act, 1992

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted investigations into the buying, selling or dealing in the scrip of Soundcraft Industries Limited (hereinafter referred to as 'SIL') for the period December 03, 2003 to February 20, 2004 upon receiving complaints regarding irregularities by SIL and its promoters, *inter alia*, to ascertain the possible violation of the provisions of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as 'SEBI Act') and various Rules and Regulations framed thereunder. During the period of investigation, the scrip of SIL was listed on Bombay Stock Exchange (hereinafter referred to as 'BSE') and National Stock Exchange of India Limited (hereinafter referred to as 'NSE').

2. Upon receiving complaints, SEBI advised BSE and NSE to examine the matter and submit a report of the same. NSE submitted its report for the period from December 03, 2003 to February 20, 2004. BSE submitted its report for the period from July 26, 2004 to August 17, 2004. In light of the findings of the reports, received from BSE and NSE, SEBI vide an ad-interim ex-parte order dated September 30, 2004, restrained 58 entities from buying, selling or dealing in any other manner in the shares of Kolar Biotech Ltd., SIL and Adam Comsof Ltd. pending investigations and further prohibited them from buying, selling, transferring, pledging, disposing off or

dealing in any other manner in the shares of these companies, directly or indirectly. The directions issued vide order dated September 30, 2004 were confirmed vide order dated February 18, 2005.

3. During the course of investigation, SEBI received a copy of investigation report from Serious Frauds Investigation Office (hereinafter referred to as 'SFIO'), Ministry of Company Affairs, Government of India vide letter dated May 26, 2006 detailing therein the affairs of SIL with regard to the manipulation of its share prices through circular trading and misuse of funds lent by banks and financial institutions. Vide this report, SFIO inter-alia stated that Raj Kumar Basantani (Chairman, SIL) was absconding and a red-corner notice had been issued against him by Interpol. Thereinafter, SEBI, in the light of various complaints received against SIL and its promoters, observations made by SFIO, NSE and BSE reports, initiated full fledged investigation in the scrip of SIL.

4. On completion of the investigations, SEBI issued a common Show Cause Notice dated April 29, 2009 (hereinafter referred to as 'SCN') to the 16 entities viz. SIL, Shri Raj Kumar Basantani, Shri Vishnu Basan, Shri Ramesh Verma, Shri Babu Basan, Manorama Trading Ltd. (hereinafter referred to as 'Manorma'), Million Investrade Ltd. (hereinafter referred to as 'Million'), Mastermind Mercantile Co-op. Ltd. (hereinafter referred to as 'Mastermind'), Panna Agro Fin. Pvt. Ltd. (hereinafter referred to as 'Panna'), Jasrani Equifin Pvt. Ltd. (hereinafter referred to as 'Jasrani'), Kalbadevi Fin. Pvt. Ltd. (hereinafter referred to as 'Kalbadevi'), Patwa Agrimpex Pvt. Ltd. (hereinafter referred to as 'Patwa'), Aravali Hsg. & Fin. Pvt. Ltd. (hereinafter referred to as 'Aravali'), Structure Housing & Finance Private Ltd. (hereinafter referred to as 'Structure'), Jugnu Securities Pvt. Ltd. (hereinafter referred to as 'Jugnu') and Raj Kumar Basantani as Trading Member (hereinafter collectively referred to these entities as 'Noticees') under Section 11B and 11(4) of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as 'SEBI Act'). The SCN alleged that SIL had issued misleading announcements regarding the bonus issue as it had failed to implement the issue within the stipulated time period. Further, the announcement regarding bonus issue was made by SIL at a time, when its financial

position was not sound with an objective to create investor interest in the scrip of SIL. It was alleged that Sh. Raj Kumar Basantani, Chairman, SIL fraudulently off loaded 25.69 lakh shares, amounting to 3.17% of the share capital of SIL between June 30, 2003 and March 15, 2004 without making the required disclosures. The SCN further alleged that during the period from December, 2003 to March, 2004, Raj Kumar Basantani was the major trading member on NSE and accounted for 23.98% of gross volumes in the scrip of SIL during this period. The related / connected entities of Raj Kumar Basantani (trading member and Chairman of SIL) and SIL viz., Manorama, Jasrani, Million, Structure, Jugnu, Patwa, Panna, Aravali, Kalbadevi and Mastermind had altogether sold about 104 lakh shares trading through the member broker Raj Kumar Basantani against the backdrop of false and misleading information regarding bonus issue. Accordingly, it called upon the Noticees to show cause as to why suitable directions under Sections 11B and 11(4) of SEBI Act, should not be issued against them. The Noticees were advised to file their written submissions within a period of 15 days of the receipt thereof. It was also informed that in case of failure, it would be presumed that they had no explanation to offer and SEBI shall be free to take such action in the manner as it deemed fit.

5. The said SCN were sent to the Noticees by way of Registered Post, Acknowledgement Due at their last known addresses. However, the same were returned undelivered by the postal department with remarks like “left without information/ left-not known/ office always closed”. Thereafter, attempts had been made to serve the SCN through courier also. Since, the Noticees were not found at their last known address, the said SCN was hosted on the SEBI website under the head “Unserved Summons/ Notices” so as to enable the Noticees to submit their reply. I have seen that adequate steps have been taken by SEBI to serve the SCN to the Noticees, who are not traceable at their last known addresses.

6. In the absence of any reply, SEBI issued a newspaper advertisement in the local and national daily newspapers about the SCN, requiring thereby, the Noticees to reply to the SCN within 15 days of the publication. I note that, the newspaper advertisement was issued as a mode of substituted service on the Noticees, with an

advice that in absence of any reply to the SCN, the matter would be proceeded *ex-parte*. As the stipulated period mentioned in the publication has expired and no response has been received from any of the Noticees. I have seen the substituted service report and find that the principles of natural justice have been duly complied with, further it appears that the Noticees have concealed themselves and are not interested in submitting their stand in the present proceedings. In view of this, I am compelled to proceed with the matter *ex-parte* based on the material available on record.

7. I have carefully considered the SCN dated April 29, 2009 and other material available on record. After having examined the said documents, following issues arise for my consideration:

- a. Whether SIL had made misleading announcements regarding the issue of bonus shares.
- b. Whether Raj Kumar Basantani (Chairman, SIL and trading member on NSE) had off-loaded the shares of SIL through its front entities. Whether Raj Kumar Basantani (major shareholder, SIL) had offloaded his shareholding without making the required disclosures.
- c. Whether the noticees by their act and conduct had contravened the provisions of Section 12A (a),(b) and (c) of SEBI Act, Regulation 3(a),(b),(c),(d),4(1), 4(2)(f),(k), and (r) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as 'PFUTP Regulations'), Regulation 7(1A) of SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997 (hereinafter referred to as 'SAST Regulations'), Regulation 13(4) of SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as 'Insider Trading Regulations') and Clause 15.1.6 of SEBI (Disclosure of Investor Protection) Guidelines, 2000 (hereinafter referred to as 'DIP Guidelines').

The aforesaid issues are dealt with in the following paragraphs.

8. Whether SIL had made misleading announcements regarding the issue of bonus shares.

- a. I note that the investigation in the scrip of SIL was initiated by SEBI upon receiving complaints reporting major irregularities in the scrip of SIL by its promoters. It was noticed that during the period December 03, 2003 to February 20, 2004, the price of the scrip opened at Rs. 11.4/- on December 3, 2003 touched a high of Rs. 20.70 on December 09, 2003 and closed at Rs. 4.1/- on February 20, 2004 (accounting for a fall of around 64 % over 55 trading days) with significant increase in the traded volumes. The price volume data in the scrip of SIL during the period of investigation has been tabulated below for ready reference:

Table - A

Date	Open Price	High Price	Low Price	Close Price	Total Traded Quantity
3-Dec-03	11.4	11.4	11.4	11.4	25
4-Dec-03	13.7	13.7	12.8	13.7	55063
5-Dec-03	14	16.45	13.95	16	212990
8-Dec-03	18.9	19.2	18	19.05	320935
9-Dec-03	19	20.7	16.8	17	275707
10-Dec-03	16.1	17	13.8	14.05	363154
11-Dec-03	14.6	15.5	12	12.45	558777
12-Dec-03	12.95	13.95	12.9	13.9	182856
15-Dec-03	15	15.25	14	14.75	181793
16-Dec-03	16.5	16.5	14.25	15	169575
17-Dec-03	15.5	15.5	14.1	14.35	186581
18-Dec-03	14.75	14.85	14	14.25	197793
19-Dec-03	14.95	15	13.8	14.05	179773
22-Dec-03	15.9	15.9	12.5	13.35	285747
23-Dec-03	14.5	14.5	12.5	12.7	219291
24-Dec-03	14	14	12.75	13.3	184257
26-Dec-03	14.5	14.5	12.5	12.95	183749
29-Dec-03	13	13.2	12.8	12.95	252436
30-Dec-03	13.45	13.45	12	12.25	234100
31-Dec-03	12.45	12.45	11.25	11.55	150716
1-Jan-04	11.1	11.85	9.75	10.35	459230
2-Jan-04	10.75	10.8	9.4	9.5	458785
5-Jan-04	10	10	9	9.05	549285
6-Jan-04	9.4	9.4	8.4	8.55	316851
7-Jan-04	8.6	8.75	6.95	7.05	594445
8-Jan-04	7.6	8.4	6.8	7.3	1060372
9-Jan-04	7.75	7.8	5.95	6.05	829563

12-Jan-04	6.1	6.5	4.85	4.85	1254876
13-Jan-04	5	5.85	4.9	5.85	703350
14-Jan-04	6.25	7.05	6.25	7.05	925330
15-Jan-04	7.75	7.95	6.45	6.6	823994
16-Jan-04	6.6	6.65	5.9	6.05	344986
19-Jan-04	6.4	6.4	5	5.55	549742
20-Jan-04	5.75	6	5	5.2	524488
21-Jan-04	5.3	5.3	4.6	4.7	421303
22-Jan-04	5	5.1	4.4	4.5	489588
23-Jan-04	4.6	5.05	4.4	4.95	486784
27-Jan-04	5.25	5.25	4.5	4.6	348600
28-Jan-04	5	5.2	4.5	4.7	781627
29-Jan-04	5	5.05	4.65	4.85	644902
30-Jan-04	5.2	5.65	4.75	4.8	818734
3-Feb-04	5.05	5.15	4.25	4.35	546717
4-Feb-04	4.35	4.65	3.8	4	529697
5-Feb-04	4	4.3	3.9	3.95	417072
6-Feb-04	4.05	4.15	3.75	3.95	279746
9-Feb-04	3.55	4.2	3.55	3.95	296318
10-Feb-04	4	4.05	3.75	3.8	288167
11-Feb-04	3.4	4.1	3.4	3.95	313527
12-Feb-04	4	4	3.65	3.7	408098
13-Feb-04	3.8	3.85	3.65	3.75	411550
16-Feb-04	3.8	4.5	3.75	4.3	642801
17-Feb-04	4.75	4.8	4	4.25	779440
18-Feb-04	4.25	4.5	4.25	4.3	414196
19-Feb-04	4.5	4.55	3.85	3.95	555468
20-Feb-04	4.15	4.25	3.85	4.1	631490

From the above table, it can be seen that there was a sudden increase in the traded volumes along with large fluctuations in the price of shares of SIL during the period under investigation.

- b. From the findings of investigations, I note that SIL was a trading firm engaged in export of various articles. The promoter's holding as on June, 2003 was around 30% of the equity of SIL. As per the annual report of SIL for the year 2002-2003 Sh. Raj Kumar Basantani was the Chairman, Sh. Babu Basan, Sh. Vishnu Basan and Sh. Ramesh Verma were the directors of SIL. I note that as per the information provided by SFIO, SIL had falsely inflated its accounts by improper invoicing and showing the closing stock at higher values. I further note that investigations have found SIL to be a loss making entity.

- c. I note that, SIL had made an announcement of bonus issue on December 05, 2003 to its shareholders in the ratio of 2:1. The same was ratified in annual general meeting (hereinafter referred to as 'AGM') held on December 31, 2003 of SIL. Further, February 24, 2004 was fixed as record date and the bonus shares were allotted on March 15, 2004. Pursuant to this, SIL approached NSE and BSE for listing of these shares. SIL had failed to submit the necessary documents (like confirmation of dispatch of physical share certificates relating to the bonus issue, distribution schedule and profile of directors) within stipulated six months of declaring of the bonus issue to BSE. At NSE, SIL failed to submit the copies of board resolution, notice of AGM, resolution passed at AGM, certificate from auditors regarding compliance of SEBI guidelines etc. Hence, failure of SIL to comply with the formalities / obtain relaxation for the delay from SEBI despite reminders by the exchanges resulted in suspension of trading of its scrip at NSE on September 01, 2004 and at BSE on September 13, 2004.
- d. I note that, the scrip of SIL was illiquid and very thinly traded before the period of investigation as is evident from the fact that there was no trading activity in the scrip from February 01, 2002 to December 03, 2003. On the date of announcement of bonus issue shares i.e. December 05, 2003, on NSE, the price of the scrip opened at Rs.14, touched a high of Rs.20.70 on December 9, 2003 and declined to close at Rs.11.55 on December 31, 2003 i.e. the date of AGM. The price of the scrip further fell to Rs. 4.10/- (closing price) on February 20, 2004, i.e. a fall of around 70.71% over 53 trading days. From the investigations, I find that the price of the scrip continued to decline and on the date of suspension of trading, the price of the scrip was 60 paise. In the light of the above and the details mentioned in Para '8 a', I observe, that the movement in the scrip increased with the announcement of bonus issue. However, as per the investigation report, supported by the submissions made by the exchanges and complaints from investors, the bonus shares were never dispatched to the shareholders. Further, SIL had failed to submit any proof of

such dispatch. I note that, the fact of not dispatching the bonus shares to the shareholders of SIL has also been confirmed by the SFIO in its report.

- e. I note that, none of the noticees have submitted their replies to counter the allegations leveled in the SCN. Taking a view of this and considering the facts stated above, I conclude that the announcement of issue of bonus shares was false and misleading and the only reason for the announcement regarding the bonus issue appears to be creation of investor interest in the scrip of SIL and thereby creating liquidity to allow the off-loading of SIL shares by the related / connected (front) entities of Raj Kumar Basantani in the market. This has resulted in violation of Regulation 4(2)(k) and 4(2)(r) of PFUTP Regulations and Clause 15.1.6 of DIP Guidelines by SIL, Sh. Raj Kumar Basantani, Sh. Babu Basan, Sh. Vishnu Basan and Sh. Ramesh Verma.
9. Whether Raj Kumar Basantani (Chairman, SIL and trading member on NSE) had off-loaded the shares of SIL through its front entities. Whether Raj Kumar Basantani (major shareholder, SIL) had offloaded his shareholding without making the required disclosures.
- a. As per the investigations report, Raj Kumar Basantani Chairman of SIL was the major trading member on NSE in the scrip of SIL, who accounted for 23.98% of the market gross for the relevant period. I note from the investigation report that the entities / clients as listed in Table-B below had traded through Sh. Basantani and were related / connected to him and SIL.

Table B: Details showing inter-linkages / connection between SIL / Raj Kumar Basantani and their front entities.

Sr. No.	Major selling Client	Link with SIL	Link with Raj Kumar Basantani	Trading done through broker Raj Kumar Basantani on NSE (after the announcement of bonus issue)	Other
1.	Manorama		- Front entity - Authorized signatory was Basantani as per its demat account opening form.	Bought 2,87,124 and sold 12,85,476 shares of SIL	It also transferred 2,75,000 shares to Jaitra Estate Developers Ltd. in off-market transactions.

2.	Structure	Correspondence address same	• Front entity • Its directors were employees of Basantani.	Bought 19,243 shares and sold 10,12,988 shares of SIL	It also sold 30,000 shares on BSE during the period of investigation .
3.	Million	Correspondence address same	• Front entity	Bought 3,736 shares and sold 11,98,625 shares of SIL	
4.	Mastermind	Correspondence address same	• Front entity	Bought 15,546 shares and sold 4,09,546 shares of SIL	
5.	Jugnu		• Front entity • Correspondence address same • Basantani was its introducer in KYC	Bought 12,025 shares and sold 11,05,461 shares of SIL	
6.	Panna		• Front entity	Bought 21,328 shares and sold 7,11,269 shares of SIL	Its director was common as that of Structure Housing, Manorma Trading, Jugnu Securites and Million Investrade.
7.	Jasrani	Correspondence address same	• Front entity • Basantani was its introducer in KYC	Bought 60,604 shares and sold 11,36,920 shares of SIL	
8.	Kalbadevi	Correspondence address same	• Front entity • Basantani was its introducer in KYC	Bought 2,250 shares and sold 4,75,775 shares of SIL	
9.	Patwa		• Front entity • Basantani was its introducer in KYC	Bought 56,513 shares and sold 8,84,513 shares of SIL	
10.	Aravali		• Front entity • Basantani was its introducer in KYC	Bought 2,600 shares and sold 6,22,583 shares of SIL	

From the above table, it can be seen that the clients / entities who were directly or indirectly connected/ associated with/ to SIL/ Raj Kumar Basantani were also connected / associated amongst themselves on account of having common correspondence addresses, same introducer, common director etc. These entities had traded through Raj Kumar Basantani and all together sold about 104 lakh shares during the period of December, 2003 to March, 2004 against the backdrop of false and misleading information regarding the issue of bonus shares in violation of the provisions of Section 12A (a),(b) and (c) of SEBI Act, Regulation 3(a),(b),(c),(d) and 4(1) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.

- b. I note that, as per the shareholding pattern of SIL as on June 30, 2003, Shri Raj Kumar Basantani, was the major shareholder and was holding about 90.96

lakh shares accounting for 11.22% of the share capital of SIL. Further, from the investigations and the distribution schedule (post issue) submitted by SIL for listing of allocated shares of the bonus issue dated March 15, 2004, I note that the total post issue capital of SIL was 2,432.40 lakh shares and holdings of Raj Kumar Basantani had been shown around 195.81 lakh shares. I further note that as per the distribution schedule (pre issue) as on February 20, 2004 and also by applying the claimed bonus ratio of 2:1 in the scrip of SIL, the pre-bonus issue holding of Sh. Basantani was around 65.27 lakh shares which was about 8.05% of the share capital as on February 20, 2004. I find from the above analysis that about 3.17% of the share capital amounting to 25.69 lakh shares of SIL were sold by Raj Kumar Basantani between June 30, 2003 and February 20, 2004.

- c. These acts of Raj Kumar Basantani as Chairman and major shareholder of SIL and in the capacity of trading member on NSE are hence in violation of Regulation 3(a),(b),(c),(d) and 4(2) (f) and 4 (2) (r) of PFUTP Regulations. Further as per the investigation it was observed that Sh. Basantani had failed to make necessary disclosure as required under Regulation 7(1A) of SEBI (SAST) Regulations and Regulation 13(4) of SEBI (PIT) Regulations.

10. Whether the noticees by their acts and conduct had contravened the provisions of Section 12A (a),(b) and (c) of SEBI Act, Regulation 3(a),(b),(c),(d),4(1), 4(2)(f),(k), and (r) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as 'PFUTP Regulations'), Regulation 7(1A) of SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997 (hereinafter referred to as 'SAST Regulations'), Regulation 13(4) of SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as 'Insider Trading Regulations') and Clause 15.1.6 of SEBI (Disclosure of Investor Protection) Guidelines, 2000 (hereinafter referred to as 'DIP Guidelines').

- a. I find that the acts of the noticees as explained above, of making misleading announcements regarding bonus issue, off-loading SIL shares through front entities viz. Manorama, Jasrani, Million, Structure, Jugnu, Patwa, Panna, Aravali, Kalbadevi and Mastermind through Shri Raj Kumar Basantani (trading member, NSE) against the backdrop of misleading announcements, offloading of shareholding by Shri Rajkumar Basantani (Chairman and major shareholder, SIL) without required disclosures to the exchanges makes it clear that the noticees had entered into manipulative transactions aimed at creating false market in the scrip of SIL. Further I also note that, the announcement regarding the bonus issue, the sudden rise in volume in the scrip of SIL, and not completing the process of issuing of bonus issue clearly shows the manipulative intention of SIL, its management and the front entities of Sh. Raj Kumar Basantani to defraud the genuine investors, as clearly brought out above.
- b. On the pretext of bonus issue the related / connected (front) entities of SIL and Sh. Raj Kumar Basantani had off-loaded their holdings to the detriment of genuine investors. During the relevant period i.e. December, 2003 to March, 2004, related / connected entities of Sh. Rajkumar Basantani and SIL had offloaded about 104 lakh shares of SIL trading through the member broker Rajkumar Basantani on NSE. I find that the trades of the noticees had impacted the share price of SIL during the investigation period and the acts of noticees had also resulted in suspending of the trading in the scrip of SIL. Thus, from the aforesaid acts of omission and commission of the noticees, I am of the view that the charges against the noticees of violating the provisions of Section 12A (a) to (c) of SEBI Act, 1992 and Regulation 3(a), (b), (c), (d), 4(1), 4(2) (f),(k), and (r) of PFUTP Regulations, Regulation 7(1A) of SAST Regulations, Regulation 13(4) of Insider Trading Regulations and Clause 15.1.6 of DIP Guidelines stands established.
11. Therefore, taking into consideration the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Sections 19 of the SEBI Act read

with Sections 11B and 11(4) of SEBI Act, 1992, do hereby restrain Soundcraft Industries Ltd., Sh. Raj Kumar Basantani, Sh. Vishnu Basan, Sh. Ramesh Verma, Sh. Babu Basan, Manorama Trading Ltd., Million Investrade Ltd., Mastermind Mercantile Co-op. Ltd., Panna Agro Fin. Pvt. Ltd., Jasrani Equfin Pvt. Ltd., Kalbadevi Fin. Pvt. Ltd., Patwa Agrimpex Pvt. Ltd., Aravali Hsg. & Fin. Pvt. Ltd., Structure Housing & Finance Private Ltd., Jugnu Securities Pvt. Ltd. and Raj Kumar Basantani as Trading Member from buying, selling or dealing in securities and from associating in securities market in any manner whatsoever for a period of 1 year from the date of this order.

12. A copy of this order shall be served on all recognized stock exchanges and depositories.

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

Place: Mumbai
Date: 16/10/2009

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA