

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

IN THE MATTER OF NOVA PETROCHEMICALS LTD.

In respect of Nova Petrochemicals Ltd.

ORDER

Under Section 11, 11B and 11(4) of the Securities and Exchange Board of India Act, 1992 read with Regulation 11 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003.

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted investigations into the alleged irregularities in the scrip of Nova Petrochemicals Ltd. (hereinafter referred to as 'Nova') to ascertain any violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as 'PFUTP Regulations'). The investigation was conducted for the period, November 28, 2005 to March 31, 2006, *inter-alia*, on the unusual price rise in the scrip of Nova. During this period, the price of the scrip increased from Rs.96.95 at Bombay Stock Exchange (hereinafter referred to as 'BSE') and Rs.91.80 at National Stock Exchange (hereinafter referred to as 'NSE') as on January 23, 2006 to Rs.146.85 and Rs.147.85 respectively (intra day high) as on March 08, 2006. Investigation revealed that the Nova made misleading announcements and had aided and abetted the entities related to it to offload shares in the market.
2. Nova was incorporated on December 23, 1993 in Gujarat and promoted by companies viz. Gupta Synthetics Ltd., Gupta Silk Mills Pvt. Ltd., Chiripal Twisting & Sizing Pvt. Ltd. and Shanti Processors Ltd. Nova came out with a public issue of equity shares, in the year, 1995, at a premium aggregating to Rs.13.69 crores and the scrip was listed at BSE, NSE and Ahmedabad Stock Exchange (hereinafter referred to as 'ASE'). During the investigation period, the management of Nova comprised of Mr. Vedprakash Chiripal (Chairman),

Mr. Shyam Gupta (Managing Director), Mr. Jyotiprasad Chiripal, Mr. Mohan Gupta, Mr. R.S. Rathore, Mr. Sunil Kumar Gupta, Mr. Brijmohan Chiripal, Mr. R.C. Jain, Mr. B.C. Rastogi, Mr. V.D. Gupta and Mr. S.N.L. Agarwal (all Directors).

3. On completion of the investigations, SEBI issued show cause notice dated June 01, 2009 (hereinafter referred to as 'SCN') to Nova under Section 11, 11(4) and 11B of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as 'SEBI Act') read with Regulation 11 of PFUTP Regulations. The SCN alleged that the acts of Nova were in violation of Section 12A of SEBI Act read with Regulation 3 (c), 3 (d), 4 (1), 4 (2) (k) and (r) of PFUTP Regulations. It called upon the noticee to show cause as to why suitable directions under Section 11, 11(4) and 11B of SEBI Act read with Regulation 11 of PFUTP Regulations should not be passed against it. The company was advised to reply within 21 days of the receipt of the SCN.
4. Nova vide its letter dated June 26, 2009 sought extension of time for one month to reply to the SCN. However, it failed to reply to the SCN. Thereafter, reminders dated July 13, 2009 and August 12, 2009 were issued to Nova, advising it to reply. Again, vide letter dated August 19, 2009, Nova sought time till September 15, 2009, to file its submission but failed to do so till date. I note that the SCN was duly served on the noticee. However, no reply has been received from the noticee till date despite of giving various reminders, which duly served upon it. I have seen the conduct of the noticee, during the course of investigation as there also it sought extension of time on various occasions; however it failed to provide the desired information. I note that sufficient opportunities have been given to Nova to explain its stand in the proceedings. It appears that Nova has nothing to say in its defence and is only gaining time by the delaying the proceedings. Taking note of this, I am compelled to proceed with the matter *ex-parte*, on the basis of material available on record, as against Nova, having complied with the principles of natural justice.

5. I have carefully considered the SCN and material available on record. The issues arises for my consideration are:
- Whether Nova had made misleading corporate announcements and thereby benefited the related entities to offload their holdings?
 - Whether Nova had declared non-genuine financial results?
6. Whether Nova had made misleading corporate announcements and thereby benefited the related entities to offload their holdings?
- a. I note that Nova had made corporate announcement on February 20, 2006, that the meeting of Board of Directors will be held on March 04, 2006, to consider expansion plan of Poly Condensation and Power Unit. Nova also informed stock exchanges on March 06, 2006 that Extra-ordinary General Meeting (hereinafter referred to as 'EGM') was held on March 04, 2006 and discussed the expansion plan and constituted a committee of directors to finalize the details. I note that pursuant to making of these announcements, the price of the scrip of Nova moved up from Rs.102.50 (opening price as on February 20, 2006) to Rs.146.85 (as on March 08, 2006) along with substantial increase in volumes.
 - b. I note that during the investigations, when Nova was enquired about the expansion plan and status of its implementation, no reply was received from it despite of several reminders. However, when SEBI obtained a copy of the minutes of EGM dated March 4, 2006 from BSE, the same was found to be silent about the discussion on the expansion plan. Further, I note that the annual report of Nova for the year 2005-06 and 2006-07, also does not reflect any information about the expansion plan being undertaken or executed by it.
 - c. During the time when corporate announcement were made by Nova, a sudden surge in trading volume was seen in the scrip. Investigating Authority vide its letter dated March 12, 2008 sought details of trading done

by persons acting in concert (hereinafter referred to as 'PAC'), during the period of January, 2005 to March, 2006 from Nova. Nova replied to this, vide its letter dated March 23, 2008, and provided a list of 21 PAC's. I observe that all these 21 persons had sold the shares of Nova between February 27, 2006 to March 16, 2006. I note that this exactly falls after the making of corporate announcement of expansion plan and intimation thereof to the stock exchange.

- d. Nova vide its letter dated March 23, 2008, also submitted that these PAC's had together sold 3,18,443 shares of Nova through broker Religare Securities Ltd. I note that when the Investigating Authority tried to cross-check the submissions of Nova, it received the information from the broker Religare Securities Ltd. vide its letter dated May 29, 2008, stating therein that 21 PACs as named in the letter of Nova, sold 8,33,433 shares of Nova which constituted 6.17% of its total share capital.
- e. Further, Nova vide its another letter dated August 10, 2008, submitted another list of 5 entities, out of these 5 entities 4 sold a total of 1,82,000 shares of Nova during the period of November, 2005 to March, 2006 through broker S.P. Jain Securities Pvt. Ltd. I note that these were the entities stated to be of Gupta group and can be considered as PAC. I note that all these 25 entities, appearing as PAC of Nova had together sold 10,15,443 shares, which accounted for 12.80% of traded volume (both at BSE and NSE) during the period January 23, 2006 to March 31, 2006 i.e. 7.52% of total paid up capital of the company which directly corresponds to the period when misleading announcements were made by Nova, pertaining to the expansion plan as discussed above.
- f. In light of these facts, it is clear that the corporate announcement made by Nova were not genuine and were misleading in nature, solely to lure innocent investors to trade in the scrip of Nova.

- 7. Whether Nova had declared non-genuine financial results?

- a. I note that huge variation had been found between the audited and unaudited results of Nova. A summary of the financial results and quarterly results of Nova has been brought out below in tabular format for ready reference:

(Rs. in Crore)

Description	FY ended Mar 31, 2006	Quarter ended Mar., 2006	Quarter ended Dec., 2005	Quarter ended Sept., 2005	Quarter ended June., 2005
	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Total Income	483.69	120.62	169.16	128.34	83.51
Expenditure	442.66	108.57	155.34	117.80	74.74
Net Profit (Loss)	(5.23)	1.05	2.39	0.03	(2.09)
Equity	13.5	13.5	13.5	13.5	13.5
EPS	-4.07	-	1.77	0.02	-1.54

I note from the above table that Nova had registered a net loss of Rs.2.09 crores for the quarter ended June, 2005, a net profit of Rs.3 lakhs for the quarter ended September, 2005, Rs.2.39 crores for the quarter ended December, 2005 and Rs.1.05 crores for the quarter ended March, 2006. By analyzing the unaudited figures for the quarter ending June, 2005 to March, 2006 shows a profit of Rs.1.38 crore. However, the audited result shows that Nova incurred a loss of Rs.5.23 crore as on March 31, 2006. I note that the financial results for quarter ended December, 2005, were made public on February 02, 2006 and these were published in the business dailies like Business Standard.

- b. Nova has failed to provide any justification for this huge variation between the audited and unaudited results as required under Clause 41 of the listing agreement pertaining to the discrepancies in financial results. I note that no explanation has been provided by Nova to BSE regarding this variation. In view of this, I find that Nova has failed to comply with the requirement of Clause 41 of the listing agreement which provides as under:

*“... The unaudited results should not be substantially differ from the audited results of the company. If the sum total of the First, Second, Third and Fourth quarterly unaudited results in respect of any item given in the same proforma **varies by 20 percent***

when compared with the audited results for the full year the company shall explain the reasons to the Stock Exchanges."

- c. Further, from the reply of Nova (during the course of investigation) pertaining to discrepancies in the financial result, I note that, it has mentioned about a proposal to the bank for reduction of rate of interest. Nova submitted that because of this proposal, it provided the interest at reduced rates in the unaudited financial results and also made reference to some expenditure which was disqualified by the Income Tax authorities.
 - d. I note that this submission of Nova is not worth consideration as firstly, without any confirmation from the bank about their agreeableness on reduction of rate of interest, there was no reasons at all for them to prepare accounts on reduced rate of interest and secondly, it has failed to submit any documentary proof viz. copy of correspondence with banks, copy of assessment made by the Income Tax authorities, though these were specifically asked by SEBI. Therefore, claim of Nova cannot be sustained.
8. From the aforesaid discussion, I find that entities related to Nova sold their stake in the market when it was making misleading announcement and non-genuine results. Thus, it can be concluded that the company has aided and abetted such entities to play a fraud on gullible investors and in turn has violated the provisions of Regulation 3 (c), 3 (d), 4 (1), 4 (2) (k) and (r) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 2003. In view of the conduct of Nova, I find it necessary to take action against Nova in order to protect the interest of genuine investors.
9. Now therefore, I in exercise of the powers conferred upon me under Sections 19, read with Sections 11, 11B of the Securities and Exchange Board of India Act, 1992 and Regulation 11 of the Securities and Exchange Board of India (Prohibition of fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, I do hereby restrain Nova Petrochemicals Ltd.

(PAN: AAACN 5419K) from buying, selling and dealing or accessing the securities market directly or indirectly in any manner whatsoever for a period of two years from the date of the order.

- 10.** This order shall come into force with immediate effect.

DATE : 12.01.2010
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA