

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: DR. K. M. ABRAHAM, WHOLE TIME MEMBER**

ORDER

DIRECTIONS UNDER SECTIONS 11, 11(4) AND 11B 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 SECURITIES MARKET) REGULATIONS, 2003 AND REGULATION 44 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 1997 IN RESPECT OF INDIA POLYSPIN LIMITED, MR. ARJUNLAL N. UTTAMCHANDANI, MR. NILESH G. UTTAMCHANDANI, MR. SURESHKUMAR N. UTTAMCHANDANI, MR. MAHESHKUMAR N. UTTAMCHANDANI, MR. SHANKERLAL N. UTTAMCHANDANI, MR. JIVANLAL N. UTTAMCHANDANI, MR. HITENDRA J. UTTAMCHANDANI, MS. KAMLABEN S. UTTAMCHANDANI, MS. REKHABEN M. UTTAMCHANDANI, MR. SHAILESH G. UTTAMCHANDANI, MS. LAXMIBEN S. UTTAMCHANDANI, RIGHT FINSTOCK PRIVATE LIMITED AND CAVALIER SECURITIES LIMITED IN THE MATTER OF INDIA POLYSPIN LIMITED

1. The Securities and Exchange Board of India (hereinafter referred to as SEBI), on noticing unusual price-volume movement in the shares of India Polyspin Limited (hereinafter referred to as the company) for the period between December 5, 2003 and January 28, 2004 (hereinafter referred to as the investigation period), had conducted an investigation. The brief facts of the case as given in the show cause notice dated June 26, 2008 are as follows. It was noticed that the shares of the company were trading irregularly and the

price was in the range- ₹ 0.98/- to ₹ 2.82/- before the investigation period. During the investigation period, the shares of the company were traded on the Bombay Stock Exchange Limited (hereinafter referred to as BSE) in 32 days for 8,38,426 shares and the share price had increased from ₹ 1.93/- to reach the peak of ₹ 14.40/- on January 16, 2004. It was observed that the company had not submitted the quarterly results for the period July to September 2003, to BSE and that it had in its Board Meeting held on January 14, 2004 took on record, the un-audited quarterly results for the quarter ending December 31, 2003. The said results were informed to BSE by the company on January 16, 2004. From the available quarterly results, the full year result for 2003-04 and the report of BSE it appeared that the company had given a different financial position in the un-audited quarterly results for the quarter-October to December 2003. From an analysis of price/volume data, it was observed that the shares of the company were thinly traded upto the end of 2003. It started trading actively from January 2004 and the major volume was observed on January 15 and 16, 2004. It was also observed that the promoters of the company had transferred 30,77,200 shares of the company to entities namely, Right Finstock Private Limited (14,14,200 shares, accounted for 25.45% of the equity capital of the company) and Cavalier Securities Limited (16,63,000 shares, accounted for 29.93% of the equity capital of the company) on January 8, 2004 and January 9, 2004. It was also observed that Right Finstock Private Limited and Cavalier Securities Limited had offloaded shares of the company during the investigation period. The said entities, subsequently, transferred 24,23,296 shares back to the promoters during July 2004. In view of the above, it was alleged that:

- i. the company, Mr. Arjunlal N. Uttamchandani (Chairman and Managing Director) and Mr. Nilesh G. Uttamchandani have violated Regulation 3 (a),(b), (c), (d), 4 (1) and 4 (2) (a), (d), (e), (f), (k) and (r) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as the PFUTP Regulations).
- ii. the promoters of the company namely Mr. Sureshkumar N. Uttamchandani, Mr. Maheshkumar N. Uttamchandani, Mr. Shankerlal N.

Uttamchandani, Mr. Jivanlal N. Uttamchandani, Mr. Hitendra J. Uttamchandani, Ms. Kamlaben S. Uttamchandani, Ms. Rekhaben M. Uttamchandani, Mr. Shailesh G. Uttamchandani and Ms. Laxmiben S. Uttamchandani have violated Regulation 3 (a), (b), (c) & (d), 4 (1) and 4(2)(d) and (e) of the PFUTP Regulations.

- iii. the promoters of the company, Mr. Arjunlal N. Uttamchandani, Mr. Nilesh G. Uttamchandani, Mr. Sureshkumar N. Uttamchandani, Mr. Maheshkumar N. Uttamchandani, Mr. Shankerlal N. Uttamchandani, Mr. Jivanlal N. Uttamchandani, Mr. Hitendra J. Uttamchandani, Ms. Kamlaben S. Uttamchandani, Ms. Rekhaben M. Uttamchandani, Mr. Shailesh G. Uttamchandani and Ms. Laxmiben S. Uttamchandani and entities namely, Right Finstock Private Limited and Cavalier Securities Limited were alleged to have violated Regulation 10 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (hereinafter referred to as the Takeover Regulations).

2. Accordingly, the show cause notice dated June 26, 2008 (hereinafter referred to as the notice) was issued by SEBI to the aforesaid entities/persons. The aforesaid entities/persons hereinafter collectively referred to as the entities and individually by their respective names. The entities acknowledged the receipt of the notice. Thereafter, the company, vide letter dated August 19, 2007 informed SEBI that the entities (except Right Finstock Private Limited and Cavalier Securities Limited) proposed to file a common reply in the matter. The company also requested further time to file its reply in the matter. Subsequently, in response to the queries received *inter alia* from the company, SEBI replied to them, vide letter dated June 8, 2009 that the adjudication proceedings and the proceedings under Section 11B of the Act (present proceedings) were distinct and separate. It was also informed to them that the notice dated July 23, 2008 issued by the Adjudicating Officer was not in respect of the non-receipt of their reply to the present proceedings. Subsequently, vide separate letters dated July 4, 2009, Mr. Arjunlal N. Uttamchandani, Mr. Maheshkumar N. Uttamchandani, Mr. Nileshkumar G. Uttamchandani, Mr. Sureshkumar N. Uttamchandani, Mr. Shankerlal N. Uttamchandani, Mr. Jeevanlal N. Uttamchandani, Mr. Hitendra N. Uttamchandani, Ms. Kamlaben S. Uttamchandani, Ms. Rekhaben N.

Uttamchandani, Mr. Shailesh G. Uttamchandani, Ms. Laxmiben S. Uttamchandani *inter alia* stated that they had transferred shares to the demat account of Right Finstock Private Limited and Cavalier Securities Limited in the month of January, 2004 and that the same were re-transferred to their respective demat accounts in the month of July, 2004. According to them, Right Finstock Private Limited and Cavalier Securities Limited are trading members of Ahmedabad Stock Exchange Limited and that they had transferred the shares to the pool account of the said stock brokers in order to avail finance. They have also contended that the said stock broker was not entitled to deal in shares transferred to its account except on receipt of their instructions. According to them, since the stock broker had failed to avail finance, the said shares were re-transferred to their respective accounts and that there was no sale or purchase of securities. They also submitted that the said transaction was not covered under the provisions of the Takeover Regulations. Though, the notice was served on Right Finstock Private Limited and Cavalier Securities Limited through Ahmedabad Stock Exchange Limited, they did not file any reply. Subsequently, an opportunity of hearing was granted to the entities on August 13, 2009. The company and its promoters were represented through Mr. Arjunbhai Uttamchandani and Mr. Maheshbhai Uttamchandani. Ms. Bharati Daga, Authorized Representative of Right Finstock Private Limited appeared before me and made submissions. Though, SEBI affixed the letter intimating the hearing through Ahmedabad Stock Exchange Limited on Cavalier Securities Limited, none appeared on its behalf on the date of hearing.

3. The present proceedings against the entities are being considered on the basis of the replies/submissions made on behalf of the respective entities, as stated above and other material available on record. The notice indicates broadly three allegations, as given below:

- a. The publication of misleading un-audited quarterly results, for the quarter ending December 2003.

- b. The off market transfer of shares by the promoters of the company to Right Finstock Private Limited and Cavalier Securities Limited and their subsequent offloading of shares in the market.
- c. The receipt of shares by Right Finstock Private Limited and Cavalier Securities Limited from the promoters of the company and the subsequent return of majority of such shares, in contravention of the provisions of the Takeover Regulations.

4. In view of the above, issues which arise for consideration are whether the entities have contravened the provisions of PFUTP Regulations and the Takeovers Regulations, as alleged in the notice and which are mentioned in pages 2 and 3 of this Order. My findings in respect of the aforesaid issues are as under.

5. The allegation against the company is that it had apparently fabricated its unaudited quarterly results for the quarter October to December 2003. It is not in dispute that during the quarter April to June 2003, the sales of the company was 'nil' and that it had not filed the quarterly results for the period July to September 2003, to BSE. However, the un-audited quarterly results for the period October to December 2003 (filed with BSE on January 16, 2004) indicated that, the company had achieved sales of ₹ 12.34 crore and made a profit of ₹ 1.86 crore. The said figures did not match with the figures of sales and profit shown in the audited results for the period 2003-2004 which mentioned that the company had made sales for ₹ 3.66 crore and made a profit of ₹ 70,000 only. Further, a perusal of the annual results of the company for the year 2002-03 indicates that it had achieved sales of ₹ 6.68 crore and losses of ₹ 22.6 lakhs. Further, the show cause notice also stated that in the year 2002-03 there was a steep fall in the total income of the company in comparison to the financial year 2001-02 from ₹ 19.49 crore to ₹ 7.01 crore and that the losses had increased from ₹ 13.26 lakh in 2001-02 to ₹ 22.6 lakh in 2002-03. I note from the unaudited results of the company for October to December 2003, that,

its sales had increased from ₹ 5.7 lakhs as on June 2003 to ₹ 12.34 crore for the quarter ending on December 2003, a manifold increase by 21554.38%. However, after reporting a sale of ₹ 12.34 crores for the aforesaid period, in its audited results for the year 2003-2004, the company had mentioned that its profit was only ₹ 70,000/-. I note that the company had reported a profit of ₹ 1.86 crore for the quarter ending on December, 2003 as compared to losses of ₹ 0.88 lakhs in quarter ending on June 2003 and Earning Per Share of ₹ 13.44 (annualized). Thus, the representations made by the company in its unaudited results for the quarter ending December 2003 as to its financial position was not the true picture as can be inferred from its audited financial statement for the year 2003-2004. The said information purports to convey the information that the company had strong fundamentals and therefore, had the potential to mislead the investors. Even the performance of the company was dismal in the previous year. It was the submission of the company that it had not published any report or planted misleading news except the publication of un-audited quarterly results which were in confirmation with the books of accounts of the company and the same have since been audited. It is further submitted that the publication of quarterly results was made as per the listing agreement and not intended to mislead the investors or public. No other submissions were made by the company or by Mr. Arjunlal N. Uttamchandani (Chairman and Managing Director) and Mr. Nilesh G. Uttamchandani (Whole Time Director). I cannot accept the submission made in this regard. The said contention would not agree with the facts as seen from the actual performance of the company either in the same year or in the previous year. It was also brought to the notice of SEBI that the company could not give any reason to BSE for the manifold improvement in its performances. When BSE called upon the Managing Director/Company Secretary and other senior officials of the company, in order to ascertain the genuineness of the results as well as the statements made in the un-audited financial results, none appeared before the Listing Committee of BSE on January 27, 2004. In view of the same, BSE had placed the company in

the 'Z' group which recognized that the company had weak fundamentals. I also note that the said scrip was suspended by BSE on September 18, 2006 due to non compliance with listing agreement. Therefore, the submission that the quarterly results was made as per the listing agreement would be incorrect. The performance of the company would have a correlation with its past performance in usual circumstances. The company does not have a case that it entered into any strategic alliance or ventured into a profitable business to project such high performance in the impugned results. It was also observed that the company had availed term loans, demand loans and working capital facilities from Industrial Investment Bank of India, Industrial Development Bank of India and Bank of Baroda. The company was unable to re-pay these loans and Banks treated these loans as Non Performing Assets and accordingly initiated appropriate recovery proceedings against the company. In such circumstances, it becomes highly doubtful as to how the company was able to project a profitable picture of its performance in the un-audited quarterly results for the quarter ending December 2003. In this background, it is highly improbable that the company could have made a sale of ₹ 12.34 crore for the quarter ending December 2003 as stated by the company in its un-audited result. As stated above, no convincing explanation could be offered by the company. Having published misleading unaudited quarterly results, as stated above, the company has violated Regulations 3(a),(b),(c) & (d), 4(1) and 4(2)(k) & (r) of the PFUTP Regulations. Mr. Arjunlal N. Uttamchandani and Mr. Nilesh G Uttamchandani being the Chairman and Whole Time Director, of the company, respectively would also be liable for the activities of the company in respect of the said violations.

6. Further, I note that the promoters of the company had transferred a total of 30,77,200 shares of the company (55.38% of the equity capital) to Right Finstock Private Limited (hereinafter referred to as RFPL) and Cavalier Securities Limited (hereinafter referred to as CSL) on January 8, 2004 and January 9, 2004, as per the details given below:

S. No.	Date	Transferor	Transferee	Shares
1.	January 8, 2004	Shri Maheshkumar N Uttamchandani	RFPL DP – IN302488 Client - 10016238	402500
2.		Shri Arjunlal N Uttamchandani		482500
3.		Shri Jivanlal N Uttamchandani		451700
4.		Ms. Kamlaben S Uttamchandani		37500
5.		Ms. Rekhaben M Uttamchandani		30000
6.		Shri Hitendra J Uttamchandani		10000
		Total		1414200
7.	January 8, 2004	Shri Nilesh G Uttamchandani	CSL DP – IN300982 Client - 10142363	232800
8.		Shri Sureshkumar N Uttamchandani		409200
9.		Shri Shankerlal N Uttamchandani		791000
10.		Shri Shailesh G Uttamchandani		220000
11.	January 9, 2004	Ms. Laxmiben S Uttamchandani		10000
		Total		1663000
		G. Total		3077200

7. It was alleged in the notice that after receiving the shares from the promoters, RFPL and CSL had started offloading the shares in the market. It was further alleged that RFPL and CSL had simultaneously bought the shares to support the price of the scrip and maintain the liquidity. It was the allegation in the notice that “ *The entire chain of events from declaration of outstanding results of the company, and then offloading of shares in the market routing through off market transfers and creating volume of the scrip which was otherwise illiquid, promoters hiding their identities by not making disclosures under relevant SEBI Regulations for information of general public seemed highly suggestive of an orchestrated ploy on part of the company, promoters and its related entities in connivance with the connected entities to defraud the gullible investors*”.

8. RFPL and CSL, though are the members of Ahmedabad Stock Exchange Limited (ASE), had traded in the shares of the company, as clients, during the investigation period. As per the notice, RFPL had received 14,14,200 shares from the promoters on January 8, 2004 and it started trading in the market from January 7, 2004. It had bought 1,25,798 shares and sold 2,47,576 shares. It was stated in the notice, “*RFPL started buying and selling the shares from January 07, 2004 and created volumes in the scrip. RFPL started buying from January 07, 2004 in large quantities and his day-wise volume was ranging upto*

66% and sold some shares (day wise volume ranging from 0.42% to 18%). From January 15, 2004, (after the Board meeting of IPL on Jan14, 2004) it started selling the shares in the market. On January 16, 2004 company announced the results and on that day price of the scrip of IPL touched its highest of ₹ 14.40. RPFL sold major shares on January 15 and 16, 2004 and the day wise volume on these two days was 43.39% and 52.37% respectively. On net basis RFPL sold 1,21,778 shares during the investigation period.”

9. As far as CSL is concerned, the notice alleges that it had received 16,63,000 shares from the promoters of IPL and that it had bought 56,339 shares and sold 1,11,993 shares. It was mentioned in the notice, “CSL started selling the shares from January 15, 2004 and also started buying from January 16, 2004 just to support the demand of the shares of IPL in the market. Day-wise sell and buy volume of CSL was ranging from 1.51% to 41.76%. CSL sold majority of shares after the announcement of un-audited results by the company on January 16, 2004 and on net basis during the period of investigation it sold 55,654 shares in the market. The counter party to this entity was found scattered. From trade and order log analysis it was observed that due to their selling the price started declining.”

10. It was the allegation that the aforesaid transfer was made just before the announcement and that the share price of the company had witnessed an increase after the said announcement. As per the notice, the scrip witnessed very high volumes on January 15, 2004 (1,17,612 shares) and January 16, 2004 (1,33,147 shares). According to the notice, RFPL had received 14,14,200 shares from the promoters on January 8, 2004 and it started trading in the market from January 7, 2004 and created volumes in the scrip. It was also stated that CSL had received 16,63,000 shares from the promoters of the company and that it had started selling and buying shares from January 15, 2004 and January 16, 2004, respectively. The aforesaid statements, according to me, are contradictory to each other. The allegation is that the promoters of

the company had transferred their shares to the said entities to defraud the gullible investors. The table at paragraph 6 above (as mentioned in the notice) would indicate they had transferred the shares 'only on' January 8 and 9, 2004. If the shares were transferred on January 8 and 9, 2004, how could RFPL have started trading from January 7, 2004. It can happen that RFPL was trading in the shares even before the receipt of shares from the promoters of the company. However, no such trading details are given in the notice. It is the case in the notice that there was an orchestrated ploy on the part of the company, its promoters and related entities in connivance with the connected entities to defraud the gullible investors by declaring results and then offloading shares in the market routing through off market transfers and creating volume of the scrip which was otherwise illiquid. It is not the case in the notice that RFPL had previous holding of its own so that it could manipulate using such shares. Nowhere in the notice, is it alleged that the promoters have traded in the shares of the company during the period of investigation. However, they are alleged to have violated certain provisions of the PFUTP Regulations, for the reason that they had transferred the shares of the company to RFPL and CSL which have traded in the securities market. It is the case that RFPL and CSL traded in the shares of the company and offloaded 6,53,904 shares (during January to July 2004) out of 30,77,200 shares received from the promoters. It is also stated that they had offloaded only 1,77,432 shares during the period of investigation. It is the allegation in the notice " RFPL started placing buy orders in large quantities from January 07, 2004 and CSL from January 15, 2004. The shares were transferred by the promoters and their related entities on January 08, 2004 just before the announcement and after the announcement of the good quarterly results the price of the company went up. After receiving the shares from the promoters RFPL and CSL started offloading the shares in the market. RFPL and CSL were simultaneously buying also to support the price of the scrip and maintain the liquidity in it." The said allegations does not seem to be borne out. On a perusal of the price volume data, I find that the share price of the company was gradually increasing even

prior to the transfer of shares by the promoters to the aforesaid entities and their subsequent trading. The investigation period, as per the notice, was December 5, 2003 to January 28, 2004. The share price of the company as on December 5, 2003 was ₹ 1.93/-. Thereafter, the share price gradually increased from ₹ 1.93 to ₹ 12.24/- on January 7, 2004, an increase of 53,419.69%. The promoters of the company had transferred the shares to RFPL and CSL only on January 8 and 9, 2004. Pursuant to the said transfers, the share price had witnessed an increase from ₹ 12.24/- to ₹ 14.40/-, i.e an increase of 17.65%. The increase in the share price during December 5, 2003 to January 7, 2004 was accompanied by low traded volumes, as compared to the period between January 8, 2004 and January 28, 2004. During the period-December 5, 2003 to January 7, 2004, even as per the notice, neither the promoters nor RFPL and CSL (transferees) had traded in the shares of the company. Further, as per the notice, the quarterly results for the quarter ending December 2003 was informed to BSE only on January 16, 2004. According to the notice, the share price was at its peak (₹ 14.40) on January 16, 2004. The closing share price as on January 15, 2004 was ₹ 13.92/-. The shares were traded on the next day (January 16, 2004) between ₹ 12.53/- and ₹ 14.40/-. The share price had fallen thereafter, during the period of investigation. The notice further states that the board of directors of the company took on record the un-audited quarterly results for the aforesaid said quarter only on January 14, 2004. Further, according to the notice, neither the company nor its promoters had communicated the information about the quarterly results (for the quarter ending December 2003) to anybody, prior to the aforesaid dates. Therefore, the substantial increase in the share price had happened prior to January 8 and 9, 2009.

11. Further, as per the notice (Annexure V), CSL was not holding any shares of the company till it received 16,63,000 shares from the promoters on January 8, 2004 and January 9, 2004. It is the allegation that, thereafter, CSL had

started selling the shares from January 16, 2004. It had sold 35,000 shares on January 16, 2004 (the date when the share price was the highest during the investigation period). It was the allegation in the notice that CSL *had started buying from January 16, 2004* just to support the demand of the shares of the company. It was also alleged that it had sold majority of shares after the announcement of the un-audited results by the company on January 16, 2004. However, such averments are not supported by the details mentioned in Annexure V, which is the extract of the demat statement of CSL. As per the said Annexure, as on January 1, 2003 the shareholding of CSL in the company was nil. The next entry was only on January 8, 2004, when it received 2,20,000 shares from Mr. Shailesh J. Uttamchandani (one of the promoters of the company). CSL, received further shares from the other promoters and the total shares, thus, received by it was 16,63,000 shares. Annexure V shows CSL had sold a total of 70,000 shares in the market on January 16, 17 and 22, 2004, during the investigation period. It had sold only 35, 000 shares on January 16, 2004 when the price was at its peak. The total market sale of CSL accounted for 4.21% (during the period of investigation) of what it received from the promoters. The said sale and transfer were made out of 16,63,000 shares received from the promoters. Therefore, the allegation that CSL had sold majority of shares after the announcement of the un-audited results by the company on January 16, 2004 is not borne out from the annexure attached to the notice. Though, it is stated in the notice that they had started buying from January 16, 2004 just to support the demand of the shares of the company, no such entry is seen in Annexure V. It is totally silent about the market purchase of CSL after January 16, 2004 till January 28, 2004 (the last date of investigation period). Thus, an overall consideration would reveal that the share price of the company had started increasing substantially well before the transfer of shares by the promoters.

12. It is not the case that the promoters or RFPL and CSL had traded during the period prior to January 8, 2004 (the date when shares were transferred by the promoters) and were responsible for the substantial price rise that happened between December 5, 2003 and January 7, 2004. Even according to the notice, the promoters had transferred the shares to the aforesaid entities on January 8 and 9, 2004. As stated above in this Order, the substantial price increase had already happened before RFPL and CSL had traded in the shares of the company. Said increase was even before the transfer of shares by the promoters of the company to RFPL and CSL. I also note that, apart from the demat statements of RFPL and CSL (Annexures IV and V to the notice), the notice does not deal about their trades. It is pertinent to reiterate the allegation that the major volume in the shares was observed on January 15 and January 16, 2004. As stated above, there is no case that the promoters had traded in the shares of the company. Even as per Annexure V, no transaction was executed by CSL on January 15, 2004. Annexure IV to the notice (extract of the demat statement of RFPL) mentions that the said entity had sold 44,650 shares (when it was holding 15,81,539 shares) on January 16, 2004. All the other entries for January 15 and 16, 2004, pertain to the purchase by RFPL, of a total of 12,579 shares and thus, the gross traded volume of RFPL was 57,229 shares on January 15 and 16, 2004. As per the price-volume data, I note that 2,50,759 shares have been traded on January 15 and 16, 2004. The trades of RFPL and CSL, as per Annexures IV & V to the notice, constituted 92,229 shares, which was 36.77% of the volumes traded on January 15 and 16, 2004. The notice is silent as to the parties involved in the other trades for the said dates. Therefore, it also cannot be held that the volumes on the said dates were only contributed by RFPL and CSL, when the majority (63.23%) of the volumes was contributed by others of whom no details are provided in the notice. This is also relevant as the allegation is that the highest share price (₹ 14.40/-) was attained on January 16, 2004. As stated above, the share price had increased substantially (from ₹ 1.93/- to ₹ 12.24/- on January 7, 2004) even prior to the

transfer of shares by the promoters of the company to RFPL and CSL. The notice does not allege that any of the aforesaid parties were involved either directly or indirectly during the period, when the share price increased from ₹ 1.93/- to ₹ 12.24/-, I would like to observe from the Annexure that CSL had transacted 70,000 shares, during the period of investigation, pursuant to the receipt of 16,63,000 shares from the promoters of the company. Similarly, RFPL, pursuant to the receipt of 14,14,200 shares from the promoter, had sold 2,02,276 shares during the investigation period. The said transactions of RFPL and CSL had accounted for 14.30% and 4.81%, respectively of the shares received by them from the promoters. Together, they sold 9.17% of the shares received from the promoters. Therefore, it cannot be said that RFPL and CSL had offloaded the shares received from the promoters for the purpose of creating volume. Some of the allegations leveled in the notice are not supported by the demat statements of RFPL and CSL, the only material annexed to the notice to indicate their transactions. I note, for instance, that the notice alleges that on January 15, 2004 RFPL and CSL sold substantial number of shares. However, no sale transaction was executed, as per Annexure IV, by RFPL on the said date. The only entry was a purchase of 9,420 shares. In the case of CSL, the annexure is totally silent about the transactions on January 15, 2004. Further, there is also no material in the notice to support the nature of the trades executed by RFPL and CSL. For the above reasons, I am of the considered view that the notice could not sufficiently establish the charge against the promoters of the company of contravening Regulation 3 (a), (b), (c) and (d), 4 (1) and 4 (2)(d) and (e) of the PFUTP Regulations. Therefore, they are entitled for a benefit of doubt.

13. The next issue to be decided is whether the promoters of the company and RFPL and CSL have violated Regulation 10 of the Takeovers Regulations, as alleged. In this regard, I note that the notice mentions that the promoters' shareholding in the company became nil after the transfer of shares to RFPL

and CSL in January 2004. As per the notice, RFPL had received 14,14,200 (25.45% of the equity capital of the company) and CSL received 16,63,000 (29.93% of the equity capital of the company) from the promoters. Though, the said transfers incidentally triggered Regulation 10 of the Takeover Regulations, RFPL and CSL had not made the public announcement, as required therein. The notice further stated that on July 10, 2004, the promoter entities had received back 25,36,596 shares from the said entities, which resulted in the increase of their holding to 46.28% of equity capital of the company. The said transfer had also incidentally triggered Regulation 10 of the Takeover Regulations. Therefore, RFPL, CSL and the promoters of the company were supposed to make the public announcement in terms of Regulation 10 of the Takeover Regulations. It is not in dispute that no public announcement was made in respect of the aforesaid transfers. It was contended by the promoters that they had transferred the shares to the pool accounts of RFPL and CSL as security for availing finance. According to them, since RFPL and CSL could not arrange for finance, they received it back from the said entities. The promoters of the company had also submitted copy of letters signed by RFPL and CSL stating that the said entities were holding such shares on behalf the promoters of the company. I note that though, the promoters had transferred 30,77,200 shares to RFPL and CSL, but had returned only 24,23,296 shares to the promoters. It was the submission of the promoters that RFPL and CSL were not entitled to deal in such shares except on receipt of their instruction. It is a fact that the promoters of the company did not receive the entire shares back from RFPL and CSL. RFPL and CSL had transacted in the shares of the company. If the said entities were not supposed to deal in such shares, as submitted by the promoters, in the normal course, they could have questioned RFPL and CSL in respect of their transactions using the shares received from the promoters. No documents were produced by the promoters in this regard. Therefore, in the facts and circumstances of the case, I am of the considered view that the promoters of the company as stated above and the entities namely, RFPL and

CSL have incidentally violated Regulation 10 of the Takeover Regulations, while receiving shares of the company.

14. In view of the foregoing, I find as below:

- i. The company, its Chairman and Managing Director, Mr. Arjunlal N. Uttamchandani and its Whole Time Director, Mr. Nilesh G Uttamchandani are held guilty of contravening Regulations 3(a),(b),(c) & (d), 4(1) and 4(2)(k) & (r) of the PFUTP Regulations.
- ii. Benefit of doubt is afforded to the promoters of the company in respect of the alleged violation of Regulation 3 (a), (b), (c) & (d), 4 (1) and 4(2)(d) and (e) of the PFUTP Regulations.
- iii. The promoters of the company, Mr. Arjunlal N. Uttamchandani, Mr. Nilesh G. Uttamchandani, Mr. Sureshkumar N. Uttamchandani, Mr. Maheshkumar N. Uttamchandani, Mr. Shankerlal N. Uttamchandani, Mr. Jivanlal N. Uttamchandani, Mr. Hitendra J. Uttamchandani, Ms. Kamlaben S. Uttamchandani, Ms. Rekhaben M. Uttamchandani, Mr. Shailesh G. Uttamchandani and Ms. Laxmiben S. Uttamchandani and entities namely, Right Finstock Private Limited and Cavalier Securities Limited have violated Regulation 10 of the Takeover Regulations.

15. On taking into consideration the case in its totality, as discussed above, the proceedings initiated under show cause notice dated June 26, 2008, is disposed of as ordered hereinbelow:

16. Therefore, I, in exercise of the powers conferred upon me under Section 19 read with Sections 11 and 11B 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 Securities Market) Regulations, 2003 and Regulation 44 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, hereby restrain India Polyspin Limited (Permanent Account

Number–AAACI5030N), Mr. Arjunlal N. Uttamchandani (Permanent Account Number–AAEPU8052O), Chairman and Managing Director of India Polyspin Limited, Mr. Nileshkumar G. Uttamchandani (Permanent Account Number–AABPU3171F), Whole Time Director of India Polyspin Limited, Mr. Sureshkumar N. Uttamchandani (Permanent Account Number–AABPU3193M), Mr. Maheshkumar N. Uttamchandani (AAEPU8053D), Mr. Shankerlal N. Uttamchandani (Permanent Account Number–AABPU3188Q), Mr. Jivanlal N. Uttamchandani (Permanent Account Number–AAMPU3180F), Mr. Hitendra J. Uttamchandani (Permanent Account Number–AAEPU8050A), Ms. Kamlaben S. Uttamchandani (AAMPU2422N), Ms. Rekhaben M. Uttamchandani (Permanent Account Number–AAIPU5337N), Mr. Shailesh G. Uttamchandani (Permanent Account Number–AABPU3199K) and Ms. Laxmiben S. Uttamchandani (Permanent Account Number–AAGPU7509J) from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities for a period of one month.

17. I further prohibit Right Finstock Private Limited (Permanent Account Number–AAACR9277R) and Cavalier Securities Limited (Permanent Account Number–AAACC6370Q) from buying and selling in securities, as a client for a period of one month.

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

DR. K. M. ABRAHAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

PLACE: MUMBAI
DATE: SEPTEMBER 8, 2010