

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA, MUMBAI
CORAM: M. S. SAHOO, WHOLE TIME MEMBER**

Show Cause Notice No.SEBI/PSTL/AK/190939/2010 dated January 13, 2010 issued to Mr. K. S. Kasiraman, Mr. K. Natarahjan and Mr. G. Ramakrishnan in the matter of Pyramid Saimira Theatre Ltd.

Date of Hearing: August 23, 2010

Appearances:

For Noticees:

- 1) Mr. K. S. Kasiraman, Director, Pyramid Saimira Theatre Ltd.
- 2) Mr. K. Natarahjan, Director, Pyramid Saimira Theatre Ltd.
- 3) Mr. G. Ramakrishnan, Director, Pyramid Saimira Theatre Ltd.

For SEBI:

- 1) Mr. Kumar Desai, Advocate
- 2) Dr. Pradnya Saravade, Executive Director
- 3) Ms. Anita Kenkare, General Manager
- 4) Mr. Madhusudhanan S., Asstt. General Manager
- 5) Mr. Amitesh Kumar, Asstt. Legal Adviser
- 6) Mr. Nitesh Bhati, Manager, and
- 7) Mr. Kirtikumar Jadhav, Legal Officer.

ORDER

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

1. Vide a common show cause notice dated January 13, 2010 (SCN) issued to Mr. K. S. Kasiraman, Mr. K. Natarahjan and Mr. G. Ramakrishnan (collectively referred to as 'noticees'), among others, it is alleged that Pyramid Saimira Theatre Ltd. (PSTL or the company) inflated its revenues and profits by fictitious entries in its accounts, disclosed the same in quarterly and annual accounts for the financial year 2007-08 and thereby misled the public in their investment decisions. It is also alleged that PSTL made false disclosures to stock exchanges on January 30, 2009 that it had entered into agreement with 802 theatres as on June 30, 2008. It is further alleged that PSTL did not cooperate with investigation by failing to produce various documents and records required by investigation despite summons and did not maintain certain books of accounts. The noticees were independent directors of PSTL and members of its audit committee at the relevant time. The SCN accordingly alleges that the noticees have violated Section 12A of SEBI Act, 1992 and regulation 3(b), 3(c), 3(d), 4(1), 4(2)(a), 4(2) (e), 4(2)(f), 4(2)(k), and 4(2)(r) of

the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003. The SCN called upon the noticees to show cause as to why appropriate directions under Sections 11, 11B and 11(4) of the SEBI Act, 1992 read with Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 be not issued against them.

2. Vide letter dated February 03, 2010, Mr. K. S. Kasiraman responded that he was an independent director of PSTL and as such, was not involved in the day-to-day operations of the company. Vide letters dated February 03, 2010 and February 9, 2010 respectively, Mr. G. Ramakrishnan and Mr. K. Natarahjan made similar submissions. They availed the opportunity of personal hearing before me on August 23, 2010, when Mr. K. S. Kasiraman and Mr. K. Natarahjan submitted that they were independent directors as well as members of the audit committee of PSTL during the relevant period. Mr. G. Ramakrishnan submitted that he was an independent director and also a member of the audit committee since January 30, 2008. They further submitted that they were not looking after day-to-day affairs of the company and they used to attend the board meetings of the company where broad policy matters were discussed. I have carefully considered the SCN, the written and oral submissions, and other material available on record.

3. I find from the SCN that for the financial year 2007-08, total revenue of Rs.749.30 crore included an income of Rs.549.58 crore from theatres as under:

(In Rs. crore)			
Region	From PSTL Theatres	From Non-PSTL Theatres	Total Revenue from Theatres
Tamil Nadu	303.46	41.51	344.97
Andhra Pradesh	74.66	62.04	136.70
Karnataka	45.86	7.60	53.45
Kerala	12.95		12.95
Others	0.28	1.23	1.52
Total	437.21	112.38	549.58

Own theatre income of Rs.303.46 crore from Tamil Nadu region included 11 consolidated credit entries of Rs.244 crore with corresponding consolidated debits to 'Theatre Collection Receivables Account'. This account did not show any income from April, 2008 onwards. The journal vouchers in respect of these entries did not carry any narration such as daily collection report number, name of theatre, etc. The receivables were adjusted against cost of content, transferred to advance / security deposit account or remained unrealised. The receivables account continued to have consolidated entries. As on 31st March, 2008, the total receivables of

PSTL from Tamil Nadu region were Rs.38.58 crore. Out of this, Rs.2.19 crore was outstanding against 162 theatres and the balance Rs.36.39 crore was outstanding in one account only which did not contain the theatre-wise break-up. Similarly, the entire amount of Rs.75 crore from own theatres in Andhra Pradesh was accounted by a single journal voucher which did not have any narration. PSTL did not provide theatre wise daily collection reports, theatre-wise break up and other supporting documents in support of these consolidated entries or journal vouchers, despite assurance to provide the same. This leads to inevitable conclusion that these revenues were never earned by PSTL; these are fictitious income booked to inflate the revenues and profits. PSTL disclosed these inflated figures in its annual report for 2007-08 and thereby misled the investing public.

4. I further find from the SCN that PSTL disclosed to exchanges on January 30, 2009 that it had entered into agreement with 802 theatres as on June 30, 2008. Out of 802 agreements, PSTL could show only 257 original agreements to SEBI officials. This leads to inevitable conclusion that the balance 545 agreements never existed. Probably the revenues accounted against these 545 agreements have been entered as consolidated entries in the accounts. I further find that there was no payment for security deposit in respect of the agreements. The fictitious revenues have been converted to 'theatre collection receivables' which, in turn, have been converted to 'security deposits'. For example, PSTL booked receivables of Rs.84.77 crore against income in Tamil Nadu region and converted the same into security deposits. Similarly, it booked receivables of Rs.57.58 crore against income in Andhra Pradesh region and converted the same into security deposits. Therefore, the security deposits are not genuine, but were created to hide the theatre receivables in the balance sheet, since outstanding receivables for a period of six months had to be compulsorily disclosed in its annual report. Therefore, PSTL made a false corporate announcement to the effect that it had entered into agreements with 802 theatres and thereby misled the investing public.

5. A company acts through its board of directors. It is the duty and responsibility of the directors to ensure that proper systems and controls are in place for financial reporting and to monitor the efficacy of such systems and controls. While the extent of responsibility of an independent director may differ from that of an executive director, an independent director has the duty of care. This duty calls for exercise of independent judgment with reasonable care, diligence and skill which should be reasonably exercised by a prudent person with the knowledge, skill and experience which may reasonably be expected of a director in his position

and any additional knowledge, skill and experience which he has. The audit committee exercises oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible. It reviews the adequacy of internal control system and management discussion and analysis of financial condition and result of operations. The institutions of independent directors and audit committee have been established to promote corporate governance and enhance the protection of interests of investors. These have a critical role to play in the regulation and development of the securities markets and protection of interests of investors in securities.

6. I note that Mr. K. S. Kasiraman and Mr. K. Natarahjan were independent directors and members of the audit committee at the relevant time. It has been submitted that Mr. G. Ramakrishnan was not an independent director and a member of the audit committee for the entire period. I find that he was an independent director and also a member of the audit committee when quarterly reports of the last two quarters of the year were considered by the Board as well as the audit committee. Further, the quarterly reports of succeeding quarters, when he continued as an independent director and as a member of the audit committee, have indication about the unreliability of the financial statements of the previous quarters.

7. I find that the noticees overlooked numerous red flags in the trend in revenues, profits, receivables, advances, etc. which could not escape the attention of an independent director, who is also a member of the audit committee. For example, profits tripled in the quarter ending June 2007 over the preceding quarter. It doubled in the quarter ending December 2007 over the preceding quarter. The quarter ending March 2008 reported a loss of Rs.3.11 crore compared to a profit of Rs.29.87 crore in the preceding quarter. Similarly, though the number of screens in theatres increased from 487 as on September 30, 2007 to 655 as on December 31, 2007, security deposits with theatres during the same period increased disproportionately from Rs.36.05 crore to Rs.170.38 crore. Such aberrations in financial figures would alert any person of ordinary prudence. The appropriate questions at the right time from the noticees would have unraveled the fraud being played by the company on the innocent investors. By failing to ask the right questions at the right point of time, I find that the noticees have failed in their duty of care as an independent director. They failed to review, as members of the audit committee, the internal control systems, which generated misleading financial statements. I find that the noticees were either too negligent to notice the aberrations in performance of the company and the fraud behind such aberrations or acted as shadow directors of the board / members of the audit

committee. In either case, they facilitated the company to make false and misleading disclosures and thereby created artificial prices and volumes in the securities of PSTL in the market, to the detriment of innocent investors. I, therefore, conclude that the charge of disclosure of false and misleading statements, as alleged in the SCN against the noticees, is established. Thus, the noticees are guilty of violating Section 12A of SEBI Act, 1992 and regulation 3(b), 3(c), 3(d), 4(1), 4(2) (e), 4(2)(f), 4(2)(k), 4(2)(r) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

8. Such conduct on the part of the noticees is disgrace to the institutions of independent directors and the audit committee of a listed company. This cannot be viewed lightly and warrants regulatory intervention. Therefore, in exercise of the powers conferred upon me under Section 19 read with Sections 11, 11B and 11(4) of the Securities and Exchange Board of India Act, 1992 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 , I hereby restrain Mr. K. S. Kasiraman (Permanent Account Number: AFPPK3572B), Mr. K. Natarahjan (Permanent Account Number: ACJPN0418I), and Mr. G. Ramakrishnan (Permanent Account Number: AAEPR2014F) from being an independent director or a member of audit committee of any listed company for a period of two years from the date of this Order.

9. A copy of this Order shall be served on all recognized stock exchanges to ensure that the directions given in Para 8 above are strictly complied with. A copy of this Order shall also be served on Ministry of Corporate Affairs for actions as may be considered appropriate.

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

DATE: MARCH 11, 2011
PLACE: MUMBAI

M. S. SAHOO
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA