

**SECURITIES AND EXCHANGE BOARD OF INDIA
ORDER**

DIRECTIONS UNDER SECTIONS 11(1), 11(4), 11A AND 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 IN THE MATTER OF INITIAL PUBLIC OFFER OF TAKSHEEL SOLUTIONS LIMITED AGAINST THE FOLLOWING:

- I. M/s. TAKSHEEL SOLUTIONS LIMITED**
- II. SHRI PAVAN KUMAR KUCHANA**
- III. SHRI RAMASWAMY KUCHANA**
- IV. SHRI VENKATA RAMANA NADIMPALLI**
- V. SHRI VIJAY KUMAR DEVARKOMDA**
- VI. SHRI PRAMOD CHADA**
- VII. M/s. SHREYA MULTI TRADE PVT. LTD. AND IT'S DIRECTORS**
- VIII. M/s. ROSE VALLEY MERCHANDISE PVT. LTD. AND IT'S DIRECTORS**
- IX. M/s. OVERALL FINANCIAL CONSULTANTS PVT. LTD. AND IT'S DIRECTORS**
- X. M/s. BABA BHOOOTHNATH TRADE AND COMMERCE PVT. LTD.**
- XI. M/s.PNB INVESTMENT SERVICES LIMITED, IT'S MD & CEO SHRI L.P. AGARWAL.**

1. On the listing day (October 19, 2011) of the shares of Taksheel Solutions Limited (referred as "company" or "TSL"), the scrip witnessed huge price volatility and significant transaction volume. At BSE, the scrip opened at ₹ 157.40, touched a high of ₹ 185.00 and a low of ₹ 38.50 before finally closing at ₹ 38.50, similar pattern was seen at NSE where the scrip opened at ₹ 157.00, touched a high of ₹ 184.30 and a low of ₹ 39.10 before finally closing at ₹ 58.15. As against an issue size of 55 lakhs shares, the scrip witnessed a combined turnover of around 9.13 crore shares on NSE and BSE.

2. It is observed that the Company was incorporated on September 23, 1999 as IBSS Techno-Park Pvt. Ltd at Hyderabad as software solution provider and subsequently changed the name to Taksheel Solutions Pvt. Ltd. on November 29, 2006 and later converted into Taksheel Solutions Ltd on December 28, 2006. Details of promoters and directors of the company are as under:

Name of the Promoter	Shareholding (pre-IPO) in %	Shareholding (post-IPO) in %	Description
Shri Pavan Kumar Kuchana	3.11	2.33	Son of Shri Ramaswamy Kuchana
Shri Ramaswamy Kuchana	1.65	1.24	Father of Shri Pavan Kumar Kuchana
Lexicon Pvt. Ltd	56.54	42.31	Promoted by Pavan Kumar Kuchana
Total	61.3	45.88	

Name of the Director	Designation
Pavan Kumar Kuchana	Chairman and Managing Director
Ramaswamy Kuchana	Director
Venkata Ramana Nadimpalli	Independent Director
Vijay Kumar Devarakonda	Independent Director
Pramod Chada	Independent Director

Source: Prospectus

3. TSL came out with Initial Public Offer (IPO) of 55,00,000 shares of ₹ 10 each. The price band was between ₹ 130 to 150 and the issue was open during September 29, 2011– October 04, 2011. The issue price was fixed at ₹ 150. PNB Investment Services Ltd. acted as Lead Manager to the IPO of TSL.
4. In view of the huge volatility in price and transaction volume, as part of its investigation process, SEBI initiated a preliminary and immediate investigation in the matter. Primarily, the following areas were looked into during preliminary investigation:

- I. Observations made in the offer document vis a vis factual status
- II. Trading pattern on and around the day of listing
- III. Diversion of funds from the IPO proceeds, if any
- IV. Any other related or consequential matter

I. Observations made in the offer document:

5. Following are important dates with regard to the Draft Red Herring Prospectus (DRHP), Red Herring Prospectus (RHP) and Prospectus:

DRHP	December 27, 2010
RHP	September 19, 2011
Prospectus	October 10, 2011

6. Following are important *prima facie* findings in respect of various disclosures made in the offer document:

A. Status of land allotted in Warangal

7. TSL has listed out various risks related to the company and business in the offer document under the sub heading Internal Risk Factors (starting from page xvi of the prospectus). Risk factor 11 (page xix) states verbatim as under in italics:

Our Company has executed Agreement for Sale of Land with Andhra Pradesh Industrial Infrastructure Corporation Limited (APIICL) for acquisition of Land admeasuring 5 acres situate at Industrial Development Area, Hanamkonda Mandal, Warangal. In terms of the said Agreement, our Company is required to commence and complete the construction work within the time specified therein, failing which the allotment may be cancelled. Our Company has though commenced the construction at this Non-SEZ site; it has not been able to adhere to the specified timelines. Our Company has applied to APIICL for extension of time line for construction work and is awaiting the approval. Our Company has paid the consideration to Andhra Pradesh Industrial Infrastructure Corporation Limited and has been paying the relevant dues in respect of the said land. Our Company is completed the construction work which will be funded through the internal accruals and is awaiting the approval from APIICL for delay in construction and registration formalities.

8. Preliminary investigation has revealed that TSL had executed the agreement for sale of 5 acre of land with APIICL on 23.02.2006. The land was handed over to TSL on 24.02.2006 after payment of 5 lakh ₹ by TSL (₹ 1 lakh per acre). As per the terms of allotment, the said land was to be occupied by TSL for use and development of the same for setting up of the IT parks/industry. However, due to lack of progress of

work, TSL was served various show cause notices by the APIICL during 2006 and 2007 and subsequently the said allotment was cancelled vide APIICL Order dated 08.10.2008. While cancelling the said allotment, APIICL in its Order observed that *“it was found that you have failed to establish the proposed industry as per your commitment and failed to utilize the land for the said purpose even after lapse of two and half years since the date of handing over the possession of the land to you. Thus you have committed breach of conditions of the allotment order, agreement and you have failed to utilize the land for industrial use i.e. the purpose for which it was allotted in your favour. Subsequently, the allotment of land is liable to be cancelled by the corporation.”* The order further states that land is kept vacant and there is a failure on the part of TSL to utilize the land for setting up of the proposed industry, to obtain necessary permission from various departments and to construct and complete factory built-ins, erect machinery for setting up of the proposed industry..... The Cancellation Order clearly states that in the facts and circumstances, ***APIICL is compelled to cancel the allotment of land made in favor of TSL.***

9. Based on minutes of meeting of the proceedings of the Hon'ble Minister, IT and C with VC and MD- APIICL held on 15.12.2010, it is observed that pursuant to such cancellation, it was desired APIICL to extend the time by another 6 months to TSL as a last chance. However, there was no change in the status of cancellation stage as is evident from the subsequent paragraphs.
10. Subsequently, TSL vide its letter dated 05.09.2011 to APIICL acknowledged that due to financial reasons, it had failed to comply with instructions and the allotment made in favor of TSL was **CANCELLED**. The letter also stated that TSL was ready to pay penalty for restoration and delay condonation fee. APIICL vide its letter dated 08.11.2011, imposed a fee of ₹ 2,02,350/- (for restoration of allotment) and ₹ 6,07,050/- (for delay condonation fees). The said fees were paid by TSL on 28.11.2011 and it was only then that the allotment of land was **RESTORED** to TSL by the APIICL.

11. The above discussion clearly reveals that at the time of filing of DRHP, RHP and the Prospectus, TSL was fully aware that the allotment of land was cancelled and that it was trying to restore the same subject to certain terms and conditions and payment of restoration fee and delay condonation fee. However, the only disclosure that has been made in the offer document is that *“the company is required to commence and complete the construction work within the time specified therein, failing with the allotment made may be cancelled.”* The fact remains that during this period, TSL was fully aware that the said allotment was already cancelled and though the company might have been making efforts for it, the same could have been restored at provided APIICL agreed to do so on payment of penalty and additional costs. Thus by not declaring the correct current status of the land allotment, TSL has made factual misstatements in offer document. Factual status relating to cancellation of the said allotment would have led to adverse inferences being drawn about the project management experience of TSL and its ability to adhere to work completion schedule as per the terms of agreement. Thus by omitting this vital information from prospective investors, TSL has tried to fraudulently project a picture which is far away from the factual position.
12. The fact regarding actual status of land allotment needed to be verified by the merchant banker, both from the company records and independently considering that there had been significant delays in implementation of the agreed milestones as per the terms of agreement for land allotment. Lack of this, exhibits failure to carry out adequate and independent due diligence on the part of the merchant banker as required under Regulation 64 of the ICDR Regulations and in terms of Due Diligence Certificate specified under Schedule VI, read with Regulations 8(1)(c), 10(3)(a) as well as of Code of Conduct prescribed under Schedule III of SEBI (Merchant Bankers) Regulations, 1992.

B. Status of employees

13. Under external risk factors, (point number 8, page xxix), TSL has stated that *“we have Indian nationals, as our employees, working in the United States, Europe and*

other countries and may depend on our ability to obtain necessary visas and work permits.” The statement tends to give an impression that TSL has a pan global presence and has its employees working in various projects and clients location across the world. TSL has also stated that all the employees for their operations are directly hired on the rolls of their company or their subsidiary company (page 96 of the RHP and Prospectus).

14. As per the employee list submitted by TSL as well as Merchant banker to the issue, TSL had 64 employees as on July 31, 2011, of which 50 employees were posted at Hyderabad center and 14 at Warangal center. At Warangal site, apart from one employee, who was appointed on June 01, 2011, 12 employees were appointed on July 29, 2011 and 1 on August 01, .2011. The average employee cost in terms of gross salary at Warangal works out to be ₹ 6,035/- per month. At Hyderabad center, for 50 employees, the average employee cost works out to around 29,662/- per month, with a majority of employees (38 in number) having gross salary of ₹ 15,100/- per month. This employee cost corresponds with the total employee remuneration given in the Profit and loss A/c for the year 2009-10 and 2010-11 at ₹ 1.18 crore and ₹ 1.44 crore respectively.
15. TSL, vide its letter dated November 24, November 2011 has categorically stated that it does not have any employees other than in Hyderabad and Warangal, nor did it have any employee placed anywhere else other than at Hyderabad and Warangal during last one year.
16. TSL, was subsequently vide email and summons dated December 05, 2011 directed to provide a list of all employees who have been posted abroad/visited abroad for professional work during 2010-11 and till September 2011. TSL vide its response dated December 13, 2011 stated that Shri Pavan Kuchana, CMD and Shri Ravi Kusam, Head Business Development are the only persons who have visited abroad during 2010-11 and 2011-12. Furthermore, TSL does not have any purported clients other than in USA. Thus by giving misleading and factually inaccurate statement

about the pan global presence of its employees, TSL has tried to fraudulently project a far rosy picture than what it is actually as per records.

17. The statement regarding pan global presence of employees of TSL should have been verified by the merchant banker before putting in the offer document as it is not supported by facts. Hence, it only shows lack of adequate and independent due diligence as required under Regulation 64 of the ICDR Regulations and in terms of Due Diligence Certificate specified under Schedule VI, read with Regulations 8(1)(c), 10(3)(a) as well as of Code of Conduct prescribed under Schedule III of SEBI (Merchant Bankers) Regulations, 1992.

C. Status of funds required toward objects of the issues

18. The requirements of funds and schedule of deployments of funds are given at page 36 of the Prospectus and is reproduced below:

(Rs in Lakhs)				
S. No	Particulars	Total fund requirement	Estimated Deployment of Funds in 2011-2012	Estimated Deployment of Funds in 2012-2013
1.	Setting up a new SEZ development center at Hyderabad	914.83	914.83	-
2.	Setting up new SEZ development center at Warangal	865.64	350.00	515.64
3.	Acquisitions and Other Strategic Initiatives	2200.00	2200.00	-
4.	Financing Incremental Working Capital	1280.00	1280.00	-
5.	General Corporate Purpose	2411.19	1411.19	1000.00
6.	Public Issue Expenses	578.35	578.35	-
	Total	8250.00	6734.36	1515.64

19. Apart from cost towards setting up of SEZ development centre at Hyderabad and Warangal, the company had earmarked ₹24.11 crore (almost 29.22% of the issue size) towards general corporate purpose to be spent in a calibrated manner during 2011-12 and 2012-13, ₹12.80 crore towards financing incremental working capital during 2011-12 and ₹22.00 crore towards acquisition and other strategic initiatives during 2011-12.
20. The company while explaining the amount to be raised towards general corporate purpose has stated in the prospectus that

We intend to deploy the balance Issue proceeds aggregating Rs. 2411.19 Lakhs (29.23% of the IPO size), towards the general corporate purposes to drive our business growth. In accordance with the policies set up by our Board, we have flexibility in applying the remaining Net Proceeds, for general corporate purpose including but not restricted to, meeting operating expenses, initial development costs for projects other than the identified projects, partnerships, joint ventures, strategic initiatives and acquisitions and the strengthening of our business development and marketing capabilities, meeting exigencies, which our Company in the ordinary course of business may not foresee or any other purposes as approved by our Board of Directors, subject to compliance with the necessary provisions of the Companies Act.

21. As per the records furnished by the company, after filing DRHP but before RHP, TSL had raised a total sum of ₹ 34.50 crore through Inter Corporate Deposits (ICDs) between May- June and September 12, 2011.

22. Immediately after raising ICDs, the funds were ostensibly paid to various vendors of TSL as given below, apart towards other financial requirements as under:

Details of utilization of ICD as provided by the company

Name of the Party	Details	Amount (in ₹)
Helia Software Solutions Inc	Vendor Payment	8,39,04,855.91
Kyros Tech Systems Inc	Vendor Payment	10,21,58,388.20
Cyma Network Solutions Inc	Vendor Payment	6,50,26,768.30
Crest Solutions Inc	Vendor Payment	5,04,78,446.33
Income Tax Payments	Income Tax & TDS Payments	1,75,54,100.00
Total		31,91,22,558.74

23. It is observed that the amount raised towards ICD amounts to 41.81% of the IPO. That the said ICDs have been raised and IPO proceeds are to be used for repayment of ICDs was vital and material piece of information, which should have been disclosed in the offer document. These ICDs raised at the rate of 14% P.A. amounted to an interest liability of ₹ 4.83 crore every year. This would have had a significant impact on the potential cash flow position of the company as well as its profitability and therefore was a material development which should have been disclosed in the offer document. However the company has failed to make any disclosure about the same in the offer document.

24. In terms of ICDR Regulations, disclosure in terms of any material development after the date of the latest balance sheet and its impact on performance and prospects of the company need to be made. Moreover, the company has utilized the IPO

proceeds for making a payment of ₹ 34.50 crore towards repayment of the ICDs and other heads. This amount far exceeds the total working capital requirements for 2011-12 as well as the entire general corporate purpose expenses budgeted by the company for 2011-12 and 2012-13.

25. That these ICDs were existing at the time of RHP as well as prospectus and IPO proceeds were intended to be utilized towards their repayment should have been disclosed as it was a material event. More so as an amount far exceeding the entire working capital requirements and general corporate purpose requirements (even for the year 2012-13) were paid or intended to be paid by the company out of IPO proceeds needed to have been disclosed in the offer document. The company made a misstatement in the prospectus about the projected amount towards general corporate purposes, which continued to be shown as to be used in a calibrated manner till 2012-13 even though, it had used or intended to use the same during the year 2011-12 itself.

26. In terms of Regulation 57 of the ICDR Regulations, read with Schedule VIII, Clause (2) (VII), sub clause (G), Sources of financing of funds already deployed: *“the means and sources of financing, including details of bridge loan or other financial arrangement, which may be repaid from the proceeds of the issue”* need to be disclosed. Thus the company should have clearly disclosed the facts relating to the raising of funds through ICD and intended repayments through issue proceeds, which was material and vital disclosure. In fact the offer document at page 33 (point 25) contains a contradictory statement that *“as on date, our company has not raised any bridge loan against the proceeds of the issue.”*

27. By not making the said disclosure about the existence of ICDs, about the actual and intended utilization of the total corpus of working capital requirements and general capital purpose funds immediately after the IPO, which were intended to be utilized in a calibrated manner over a period of financial year 2011-12 and 2012-13, the company has not been truthful and has made misstatement in the prospectus.

28. During preliminary investigation, the merchant banker was advised to produce details of all documents related to the Due Diligence carried out by its with respect to the proposed utilisation of IPO proceeds of General Corporate/ Working Capital Requirements. The merchant banker has produced a document certified by the Chartered Accountants of the company for the working capital requirements of the company to the tune of ₹ 12.80 crore for 2011-12. Towards general corporate purpose, the only document that has been produced is the letter dated December 27, 2010 from the company to merchant banker which states as under:

“Our management, in accordance with the policies of our Board, will have flexibility in utilizing the proceeds earmarked for general corporate purposes.

We intend to deploy the balance Issue proceeds aggregating Rs. [●] Lakhs, towards the general corporate purposes to drive our business growth. In accordance with the policies set up by our Board, we have flexibility in applying the remaining Net Proceeds, for general corporate purpose including but not restricted to, meeting operating expenses, initial development costs for projects other than the identified projects, partnerships, joint ventures, strategic initiatives and acquisitions and the strengthening of our business development and marketing capabilities, meeting exigencies, which our Company in the ordinary course of business may not foresee or any other purposes as approved by our Board of Directors, subject to compliance with the necessary provisions of the Companies Act.”

29. Due diligence is a process during which the person carrying out due diligence, at the very least attempts to collect information about various facets of the entity and cross verifies the information collected. The company had already incurred significant liabilities much before RHP, which were intended to be paid off through IPO proceeds. This should have independently been verified by the merchant banker from records being available with the company itself rather than relying on a simple and general letter given by it at the time of DRHP. This exhibits failure to carry out adequate and independent due diligence on the part of the merchant banker as required under Regulation 64 of the ICDR Regulations and in terms of Due Diligence Certificate specified under Schedule VI, read with Regulations 8(1)(c), 10(3)(a) as well as of Code of Conduct prescribed under Schedule III of SEBI (Merchant Bankers) Regulations, 1992.

D. Arrangement with regard to Buy back of shares

30. Risk factor 9 under Internal Risk Factors (Risks related to our company and our business) is reproduced verbatim as under:

9. *Our Company has entered into an agreement with one of the Investor, who has subscribed to 10,00,000 Equity shares constituting 6.12% of pre issue paid-up capital of our Company, imposes certain onerous obligations on our Company with regard to exit option and exit valuation to such Investor.*

Our Company has entered into Share Purchase Agreement dated November 24, 2007 ("SPA") with Mr. Dinesh Kumar Singhi, in terms of which the said Mr. Dinesh Kumar Singhi subscribed to 10,00,000 shares of our Company constituting 6.12% of the pre share capital of our Company at a price of Rs.100/- per equity share. The total amount invested by the said Mr. Dinesh Kumar Singhi was Rs. 10 crores. As per the terms agreed in the SPA, in case our Company fails to conclude IPO within 18 months from the date of allotment, then our Company is required to buy back the shares held by the said Mr. Dinesh Kumar Singhi at Rs. 170/- per equity share aggregating to Rs. 1700 Lakhs. In case our Company cannot buy back the shares from the said Mr. Dinesh Kumar Singhi then the shares may be sold to a person mutually agreed. If the purchase price paid by the third party purchaser is less than the Rs. 170/- per equity share then in that event our Company shall be liable to pay the difference to the said Mr. Dinesh Kumar Singhi. The period of 18 months has elapsed. However, the said Mr. Dinesh Kumar Singhi has not exercised the rights available to him under the SPA. In case this Issue is not concluded then there cannot be any assurance that the Mr. Dinesh Kumar Singhi will not exercise his rights under the SPA and call upon our Company to buy back the shares held by him. We are in receipt of a lock-in consent letter from Mr. Dinesh Kumar Singhi vide letter dated December 27, 2010 consenting to lock-in of the shares for a period of one year from the date of listing, which over rides the buy back.

31. The above description clearly states that in terms of clauses contained in the SPA, there cannot be any assurance that Shri. Dinesh Singhi will not call upon the company to buy back shares held by him as the company has failed to conclude IPO within 18 months from the date of allotment. The last line of the above para states that Shri Dinesh Singhi vide his letter dated December 27, 2010 has consented to the lock-in of shares for a period of one year from the date of listing, which over rides the buy back.

32. Consent for lock-in for all pre IPO shares issued is a mandatory requirement provided under the ICDR Regulations. However, the said letter from Shri Dinesh Singhi only provides the consent for lock-in and does not provide any comfort with regard to relinquishment of rights as provided under the SPA. That being so, such an existing buy-back arrangement at the time of IPO is *prima facie* in violation of the specific prohibition of any buy-back arrangement as provided under ICDR Regulations. Schedule VII of ICDR Regulations under Regulation 2 (vi) *Introduction, sub-clause D dealing with Capital Structure, and sub-sub clause 2(k) provides for a statement that issuer, its directors or the lead merchant bankers have not entered into any buy back arrangements for purchase of the specified securities of the*

issuer, other than the arrangements, if any, entered for safety net facility as provided under the Regulations.

33. The company, therefore by stating on the one hand that “.... there cannot be any assurance....” And then saying that consent overrides buy-back is making the misleading statement as the consent overrides buy back for 1 year only, if at all it does, in terms of the provisions contained in the consent letter. Thus the averments made in this regard are also misleading and not based on facts.
34. This is further corroborated by the fact that there has been huge diversion of IPO proceeds to Shri Dinesh Singhi in a circuitous route as explained in subsequent paragraphs dealing with diversion of IPO proceeds.
35. This amounts to failure on the part of the merchant banker in exercise of due diligence and satisfaction regarding all aspects of the issue including the veracity and adequacy of disclosures in the offer document and hence violation of regulation 64 of the ICDR Regulations. This exhibits failure to carry out adequate and independent due diligence on the part of the merchant banker as required under Regulation 64 of the ICDR Regulations and in terms of Due Diligence Certificate specified under Schedule VI, read with Regulations 8(1)(c), 10(3)(a) as well as of Code of Conduct prescribed under Schedule III of SEBI (Merchant Bankers) Regulations, 1992.

E. Order placed with M/s Wiselink Technologies Private Limited (WTPL)

36. TSL, vide its letter dated November 30, 2011, in response to SEBI summons dated November 24, 2011 stated that they have placed a purchase order amounting to ₹ 10.12 crore vide purchase order number TKL/PO/09/01/2011 dated September 30, 2011 to WTPL. The said purchase order is ostensibly towards purported design and development of Mobile Interactive Solutions. In terms of the highly generous terms of payment as per the purchase order, 50% advance payment is to be released by TSL to Wiselink within 45 days of the purchase order for development of designs and drawings. Thus, an amount of ₹ 5.06 crore has been released to WTPL during

November 2011. Other than a sketchy one page purchase order, to which a power-point proposal for purported design and development of Mobile Interactive Solutions for the company is enclosed, no further details about the project, deliverable milestones, payment terms for remaining 50%, warranty clauses, dispute resolution mechanism etc. are contained therein. Furthermore, no details such as financial statements, list of clients of WTPL, which are important for determining the credentials of a vendor, are available with TSL as stated by them.

37. Preliminary investigation has revealed that the said WTPL is located at F.No.201, Cyber Residency, Plot No.91, Shilpa Enclave, Madhapur, Hyderabad, Andhra Pradesh, India- 500 081. Shri Vinod Babu Bollikonda and Shri Krishna Rao Potti Naga Venkata Tandava are on the Board of directors of WTPL. Shri Vinod Babu Bollikonda is also the authorized signatory of WTPL to operate the bank account maintained with Oriental Bank of Commerce, Banjara Hills Branch, Hyderabad, where ₹ 5.06 crore has been transferred by the company out of the IPO proceeds. Preliminary investigation has revealed that Shri Vinod Babu Bollikonda is a key management person of the company, working as Vice President, Technology.

38. In terms of ICDR Regulations, specified under Part A, Regulation 2, Sub Regulation VII, (*Particulars of the issue*) clause B(4), the details of all material existing or anticipated transactions in relation to utilization of the issue proceeds or project cost with promoters, directors, **key management personnel**, associates and group companies need to be disclosed. The relevant documents also need to be included in the list of material documents for inspection.

39. The company placed Purchase Order with WTPL on September 30, 2011. Hence it has deliberately hidden this vital piece of information from prospective investors by not declaring the same in the offer document and thereby it has resulted into suppression of material information from the offer document and leads to misstatement. It is also noteworthy that the company had clearly made a categorical statement in the offer document (page xxx of the Prospectus) that “*no part of the*

issue proceeds will be paid as consideration to Promoter, Directors, Key Managerial Personnel or persons forming part of the promoter's group."

40. Thus, not only has the company not made a disclosure about the intended transaction with WTPL, it has also made a misstatement in this respect. The transfer made to WTPL cannot be termed as usual course of business both from the point of view of the background documents made available by the company with regard to this transaction and based on further funds movement from WTPL once the funds have been transferred to WTPL. This has been explained in the subsequent paragraphs dealing with diversion of IPO proceeds.
41. The point regarding lack of exercise of due diligence with regard to utilization of general corporate purpose requirements is clearly accentuated by the fact that the company placed an order of ₹10.06 crore with WTPL without any corresponding disclosure. This amounts to more than 13% of the total issue size excluding public issue expenses.
42. Hence in this respect also no due diligence has been carried out by the merchant banker, no documents were sought from the company about the actual or anticipated utilization of funds relating to working capital and general corporate purposes and no effort made by the merchant banker to ensure the adequacy of disclosure made in the offer document with regard to this huge amount of expenditure to be incurred from the IPO proceeds. Furthermore, in terms of Regulation 60(4) of the ICDR, the company was required to make prompt, true and fair disclosure of all material developments relating to its business and securities, between the date of registering final prospectus or RHP with the ROC and the date of allotment of specified securities. Not having done so and also making a misstatement about flow of significant part of IPO proceeds clearly amounts to misstatement.

F. Purchase of software product from Verisoft Business Solutions Private Limited

43. Under the capital structure (page 24 of the prospectus), dealing with Share Capital history of the company, it has been observed that the company had allotted 50,00,000 shares to an entity Verisoft Business Solutions Private Limited on October 01, 2009. These shares were issued for consideration other than cash at a premium of 10 ₹ per share. The said transfer was purported to be for sale of software product called **Mobile Virtual Network Enabler** to the company. Thus the valuation of the product amounts to ₹ 10 crore. The only description of the product is a screenshot of the said product attached to a 3 page agreement signed by the company and Verisoft on October 01, 2009. No other details about the company Verisoft and its product such as its valuation details, details of negotiations regarding price, balance sheet, profit and loss account, list of its other clients are available with the company, though specifically requisitioned from the company vide summons dated December 05, 2011. Moreover there appears to be a discrepancy with regard to number of shares being issued for the said product as page 3 of the agreement (point 8) mentions about only 5,00,000 shares.
44. Preliminary investigation has revealed that the company Verisoft is located at 202, A Block, Sri Nilayam Asian Manor Apartments, Road Number 2, Banjara Hills, Hyderabad, 50034. The said agreement was signed by one Mrs. G. Lalitha.
45. Preliminary investigation has further revealed that Mrs. G. Lalitha, Shri Gudimalla Janardhan Rao and Mrs. Mandadi Sarojana are the directors of the company. Shri Gudimalla Janardhan Rao and Mrs. G. Lalitha are the father-in-law and mother-in-law respectively of Shri Pavan Kumar Kuchana, Chairman and Managing Director of the company.
46. Preliminary investigation has further revealed that from the said address 202, A Block, Sri Nilayam Asian Manor Apartments, Road Number 2, Banjara Hills, Hyderabad, 50034, one Mrs. K Bhagyalakshmi is registered as a client with broker ICICI Securities Limited, member NSE and BSE and as a beneficiary owner with

ICICI Bank Limited, depository participant of NSDL. The contact phone number provided with the above registration with BSE is 9949692666. It has also been revealed from the said records that the said mobile number 9949692666 is the contact number of Shri Ramaswami Kuchana, father of Shri Pavan Kumar Kuchana and a promoter director of the company. Mrs. K Bhagyalakshmi is the wife of Shri Ramaswami Kuchana and mother of Shri Pavan Kuchana. Thus the said Verisoft Business Solutions Private Limited is an entity very intricately connected to the promoter directors of the company. It has also been observed that subsequently Verisoft transferred 15000 shares to Shri Ramana Murthy Kuchana, brother of Shri Ramaswami Kuchana on November 19,2010 apart from a large number of other transfers to various entities/persons. It is also observed that Mrs. Bhagyalakshmi Kuchana is one of the guarantors and a provider of the collateral security for the cash-credit facility secured by the company from the IDBI Bank.

47. In terms of ICDR Regulations, specified under Part A, Regulation 2, purchase of property, sub clause (d)- full particulars of the nature and extent of the interest, if any, of every promoter, directors or group companies in any property acquired by the issuer within 2 years of the date of filing draft offer document with the Board needs to be disclosed.

48. By not disclosing the linkages of Verisoft Business Solutions Private Limited with promoters, the company has hidden this vital piece of information from the prospective investors leading to suppression of material information from the offer document. In fact the company has at various places in the offer document. At page 98, it is stated that *“except as stated in this prospectus, our company has not purchased any property in which any of its promoters and/or directors, have any direct interest in any payment made there-under.”* Similarly at page 121, it is stated that *“our directors do not have any interest in any property acquired by our company in a period of two years before the date of the prospectus....”* Furthermore, there is also a misstatement regarding issue of equity capital at page 174 of the offer document, where it is stated that *“Our company has not issued any Equity Shares*

for consideration other than cash, except Bonus Issue, as mentioned in the section titled 'Capital Structure' on page 24 of this prospectus.

- 49.No independent verification has been carried out by the merchant banker with regard to the status of this entity. It may be noted that the nature of agreement and sketchy details contained therein raises serious concerns regarding the pricing and other terms of allotment of such huge chunk of shares for the purported product.
- 50.Pursuant to the allotment of said 50,00,000 shares to Verisoft Business Solutions Private Limited., it has transferred 27,36,250 shares to various entities during 2010 and 2011 which includes, transfer to an entity by name Hillston Advisors Private Limited (now known as Persistent Exim House Pvt. Ltd.) was transferred 22,50,000 shares on November 04, 2010. The entity's address is 4 Bijal Building, 2nd Floor, Hirachand Desai Road., Ghatkopar (w), Mumbai 400080 and its directors are Shri Parag Doshi and Smt. Deepti Doshi. It is observed that SEBI has initiated prosecution proceedings against Rituja Finvest P. Ltd., Damayanti Finvest P. Ltd., CDP Fincap P. Ltd., Esquire International Ltd., Starshare Investments & Finanz P. Ltd., Ikshu Finvest P. Ltd., KRN Finvest P. Ltd., Stable Construction P. Ltd., New Prabhav Finvest P. Ltd. and Money Television and Industries P. Ltd. whose director Mr. Dinesh Doshi was also a Director of Hillston Advisors Private Limited until his resignation on October 27, 2010.
- 51.Hence in this respect also no due diligence has been carried out by the merchant banker, as to the adequacy of disclosure made in the offer document with regard to this huge amount of transaction occurring between company and entity linked to promoters required under Regulation 64 of the ICDR Regulations and in terms of Due Diligence Certificate specified under Schedule VI, read with Regulations 8(1)(c), 10(3)(a) as well as of Code of Conduct prescribed under Schedule III of SEBI (Merchant Bankers) Regulations, 1992.

II. Trading pattern on the day of listing and immediately thereafter and diversion of funds

52. TSL came out with Initial Public Offer (IPO) of 55,00,000 shares of ₹ 10 each. The price band was between ₹ 130 to 150 and the issue was open during September 29, 2011– October 04, 2011. The issue price was fixed at ₹ 150. PNB Investment Services Ltd. acted as Lead Manager to the IPO of TSL.

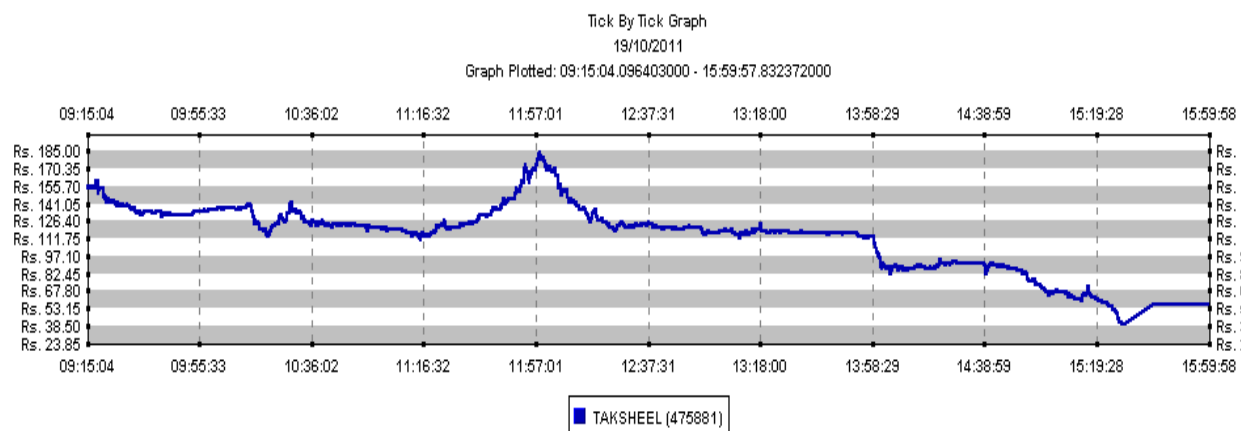
53. The issue was allotted to 9922 entities in the following proportion:

Category	No .of allottees	No. of shares	Allotment (%)
Greater than 1 lakh	4	9,85,994	17.93
Between 10,000 & 1 Lakh	26	10,41,801	18.94
Between 1000 & 9999	17	87,807	1.60
Between 500 & 999	2	1070	0.02
Between 100 & 499	9492	33,61,569	61.12
Less than 100	381	21,759	0.39
Total	9,922	55,00,000	100

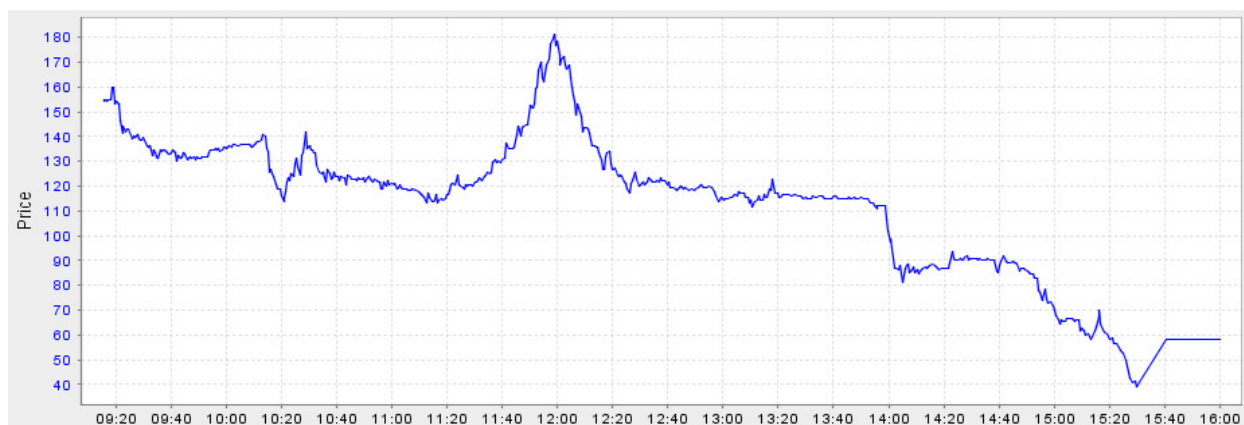
54. The above table reveals that almost 96% of the number of allottees have been allotted shares ranging from 100-499. The corresponding percentage for number of shares stands at 61%. Further top 30 allottees have been allotted 2027795 shares amounting to almost 37% of the total allotment. It was also observed from the details of allottees that out of 9922 entities, 3478 entities (35.05%) belong to Ahmedabad.

55. As noted earlier, the scrip of TSL witnessed major fluctuation in the price during the first day of its listing on October 19, 2011. The price volume movement across both the stock exchanges i.e. Bombay Stock Exchange Ltd. (BSE) and National Stock Exchange of India Ltd. (NSE) is as follows:

BSE Chart



NSE Chart



56. It is observed that on the listing day 9,13,01,270 shares were totally traded in NSE and BSE of which 5.15% approx. of the total traded shares were the delivered quantity. The scrip price opened at ₹157.40 at 09:15:04 am and reached an intraday high of ₹185.00 at 11:58:19 and thereafter the price touched the intraday low of ₹38.50 at 15:29:51 (74.33% lower than its issue price of ₹150.00) and closed at ₹55.85 (Source BSE). The current market price is ₹14.10 (as on December 27, 2011)

57. Preliminary investigation has revealed that there are certain entities, traded in TSL on October 19, 2011 and suffered losses. It is noted that these entities were also the top net losers on the day of listing. On further analysis, it is observed that TSL has funded these entities out of the IPO proceeds in a circuitous route to trade in TSL. A

summary of trades of the entities which received funds from TSL through multi-layered transactions is as follows:

Sl. No	Client Name	Buy Vol.	Buy Value	Sell Vol	Sell Value	Net Buy Vol.	Balance qty selling price (in ₹)	Net Loss *	Buy vol. % in terms of issue size)
1	Rose Valley Merchandise Pvt Ltd (RVM)	450000	61151608	300000	34800000	150000	35.83 [@]	2,09,77,760	8.18
2	Shreya Multitrade Pvt Ltd. (SMT)	113650	14990497	112573	10662369	1077	55.85 [^]	42,67,977	2.07
3	Baba Bhoothnath Trade and commerce Pvt. Ltd	110000	14206982	110000	7785525	0		64,21,457	2.00

@ - Rose Valley sold the balance 1,50,000 shares on 21/10/11 at an average selling price of ₹ 35.83

[^] - closing price of BSE as on October 19, 2011

& calculation of net loss (Sr. No. 1-2)= (Sell value –buy value – balance qty value of 150000, sold on October 21, 2011)

58. The graphical presentation of the fund movement from TSL's bank account to the above net losers through different layers is pointed out at subsequent paras 68 and 69. Apart from above three entities which received a part of IPO proceeds from the company in a circuitous route, the following entity also traded in the company scrip and incurred a loss of ₹ 4.01 crore on the day of listing, the details are as follows:

S No	Client Name	Buy Vol.	Buy Value	Sell Vol	Sell Value	Net Buy Vol.	Balance qty selling price (in ₹)	Net Loss *	Buy vol in terms of listed shares of taksheel (55,00,000)
4	Overall Financial Consultants Pvt Ltd (OFC)	1456446	173173387	1312184	127897388	144262	35.80 [*]	4,01,12,136	26.48%

* Sold 144242 qty shares on October 21, 2011, weighted average price of ₹ 35.80 and the balance qty of 20 shares were not sold by the entity till October 31, 2011. The value of balance 20 shares were also calculated at ₹ 35.80
\$ calculation of net loss= (sell value – buy value- balance qty value of 144262 shares sold on October 21, 2011)

59. Preliminary investigation revealed that RVM and SMT has traded through Indiabulls and Sunteck Wealthmax Capital Pvt. Ltd (earlier known as Satguru Capital and Finance Pvt Ltd.) respectively. Baba Bhoothnath Trade and

Commerce Pvt Ltd traded through its proprietary account. With respect to Overall Financial Consultants Pvt. Ltd., the entity had traded through Baba Bhoothnath Trade and Commerce Pvt Ltd., JM Financial Services Pvt. Ltd. and Grishma Securities Pvt. Ltd. on the day of listing.

60. The registered office address of the above mentioned companies (Sr. No. 1-4 of para 57 & 58) along with its directors details is as follows:

Sr. No	Entity Name	Registered Office Address	Directors Name	Directors Address
1	Rose Valley Merchandise Pvt Ltd	61, Kali Krishna Tagore St., Ist Floor, Kolkata, WB-700 007	Anil Sharma	5 Ratan Sarkar's Garden Street, Kolkata, 700007, West Bengal
			Biraj Sonkar	5 F/3, Ratan Sarkar's Garden Street, Kolkata, 700007, West Bengal
2	Shreya Multitrade Pvt Ltd	Room No. 1, Dube Chawl, Anand Nagar, Shivaji Cross Rd., Dahisar (E), Mumbai- 400 068	Rajan Babu Bhambale	Arhiant Chawl Committe, Milind Nagar, Gavdevi, V.P. Line, Santacruz (E), Mumbai – 400 055
			Kejas Parmar	Room No. 1, Dube Chawl, Anand Nagarm Shivaji Cross Rd., Dahisar (E), Mumbai- 400 068
3	Overall Financial Consultants Pvt Ltd	61, Kali Krishna Tagore St., Ist Floor, Kolkata, WB-700 007	Anup Kumar Sharma	5F/3 Ratan, Sarkar Garden Street, 21, Posta, Kolkata-700007, West Bengal, INDIA
			Manoj Kumar Pandit	94/18, Narkeldanga Main Road, Kolkata, 700011, West Bengal
4	Baba Bhoothnath Trade and commerce Pvt Ltd	3, Digamber Jain Temple Rd., IInd Floor, Kolkata-700007	Rajesh Kumar Kedia	8/1 Hardutta Roy Chamera Rd., Golabari, Howarh, Kolkata- 711101, West Bengal,
			Sweta Kedia	8/1 Hardutta Roy Chamera

Sr. No	Entity Name	Registered Office Address	Directors Name	Directors Address
				Rd., Golabari, Howrah, Kolkata- 711101, West Bengal,
			Pinky Kedia	10/4, Hungerford Street, Kolkata – 700 017, West Bengal

61. It may be noted from above table that the registered office address of RVM and OFC are same. Further, the address of Mr. Biraj Sonkar, director RVM i.e. 5 F/3, Ratan Sarkar's Garden Street, Kolkata, 700007, West Bengal matches with the address of Mr. Anup Kumar Sharma, director OFC. Preliminary investigation further reveals that both RVM and OFC have a beneficial owner account and broker client account with Karuna Financial Services Private Limited, Kolkata based Broker (NSE, BSE and DP (CDSL)) and having same mobile number 9594352222. It is also noted that both RVM and OFC have a broker-client account with JM Financial Services Pvt.ltd., member BSE and share the same mobile number 9836494311. RVM and OFC are found to have been the top two net buyers as per the trading data of October 19, 2011 and have together suffered losses to the extent of ₹6.10 crore. Hence, there is an apparent connection between RVM and OFC by virtue of the same registered office address, common mobile numbers and same residential address of director. Both RVM and OFC traded in TSL and absorbed losses, which in case of RVM was later funded by TSL through different layers.

62. The company had totally raised ₹82.50 crore through public issue, post payment of issue related expenses, ₹80.50 crore has been credited to the company's bank account maintained with Indian Bank, Hyderabad branch. It is noted from the said bank account statement that out of ₹80.5 crore mobilised through IPO as on November 30, 2011, the company has credit balance of ₹9.06 crore (approx.) (after deducting the credit balance of ₹1 crore maintained in the bank account prior to the credit of IPO proceeds). The balance of ₹71.44 crore

(approx.) has been transferred to different entities account which includes repayment of loan borrowed by TSL through Inter Corporate Deposits (ICD) from different entities during the period May-June and September 2011 to the extent of ₹ 34.50 crore (as per the company submission) and investment of ₹ 5 crore in Indiabulls MF Liquid Fund. The details of utilisation of IPO proceeds as per the records of the company are mentioned in the following table:

Particulars	Utilisation of IPO proceeds (₹ in cr.) (A)	IPO Proceeds (₹ in cr.) (B)
Amount mobilised through IPO (post payment of issue expenses)		80.50
Repayment of ICD Borrowed	34.50	
Investment in India bulls Mutual Fund- Liquid Fund	5.00	
ICD placed with SPI	23.00	
Advance to WTPL	5.06	
Miscellaneous: (includes payment of salaries, Interest payment, IPO expenses etc)	3.88	
Total Utilisation	71.44	
Balance (A-B)		9.06

63. From the above table, it may be observed that out of ₹ 80.5 crore mobilised through public issue, 34.50 crore has been used to repay the amount borrowed in the form of ICD. It is noted from the TSL bank statement maintained with IDBI Bank – Andheri Branch that of the amount borrowed, to the extent of ₹ 30.15 crore were transferred in the form Foreign Transfer from the company bank account to different bank account(s) located outside India immediately after borrowing towards vendor payment.

64. Also, TSL has lent ₹ 23 crore in the form of Inter Corporate Deposit (ICD) from the IPO proceeds, to an entity by name Silverpoint Infratech Pvt Ltd., located at

Kolkata, and ₹ 5.06 crore was transferred to Wiselink Technologies Pvt Ltd. (WTPL), located at Hyderabad.

65. From the information extracted from MCA website, it is observed that WTPL, a company incorporated in the year 2004 with a nominal capital of ₹ 2,00,000, It is also noted that WTPL has not filed Balance Sheet, Profit and loss statement and other records with MCA. The details of the directors of WTPL are as follows:

Sr. No.	Entity Name	Registered Office Address	Directors Name	Directors Address
1	Wiselink Technologies Pvt. Ltd	Flat No. 201, residence Cyber Residence, Plot No. 91, Gaffor Nagar, Madhapur, Hyderabad, AP – 500 081	Bollikonda Vinod Babu	7-2-1087/3/C, 1st Floor, Sanathnagar, Ward-7, Hyderabad, 500018, AP
			Krishna Rao Potti Naga Venkata Thandava	1-6-41/B, Jablipura, Khamma, 507003, AP

66. As already observed, Mr. Vinod Bollikonda Babu, the director of WTPL is also the key managerial person of the company. Further, it is noted from the bank statement of WTPL, account maintained with OBC- Hyderabad branch, as provided by the OBC bank, that as on October 19, 2011, WTPL had a credit balance of just ₹ 5,824 before getting a transfer of funds from TSL.

67. Further WTPL, has transferred ₹ 5.05 crore to different entities which includes a transfer of ₹ 3.50 crore (₹ 1.50 crore on 15/11/11, ₹ 0.75 crore on 1/12/11 and ₹ 1.25 crore on 8/12/11) to Mr. Dinesh Kumar Singhi, one of the shareholders of TSL (pre-issue), who had invested ₹ 10 crore. Further, out of ₹ 5.05 crore, WTPL apart from transferring ₹ 3.50 crore to Mr, Dinesh, had also transferred ₹ 1.55 crore to different entities. With respect to transfer of ₹ 3.50 crore from WTPL to Mr. Dinesh, as already observed, Mr. Dinesh Kumar Singhi had entered into the share purchase agreement with Taksheel for a sum of ₹ 10 crore for the

purchase of 10,00,000 shares. Hence, it is observed that TSL had diverted a part of the IPO proceeds to Mr. Dinesh Kumar Singhi through WTPL in a circuitous route. Non availability of WTPL financial statements with the company or with MCA and negligible balance prior to obtaining huge credit of ₹ 5.06 crore from the company also establishes the fact that WTPL was just a conduit to give effect to the circuitous transfer.

68. TSL on October 19, 2011 had transferred ₹ 23 crore to Silverpoint Infratech Pvt. Ltd. (referred as "SPI ") of the total IPO proceeds. Out of which ₹ 11.40 crore was transferred to entities, Snehsil Marketing Pvt. Ltd., Sugam Vinimay Pvt Ltd. and Anubhav Infrastructure Ltd. on October 20, 2011, of which ₹ 10.85 crore was transferred to Rose valley Merchandise Pvt Ltd. (RVM), located at Kolkata immediately on October 20, 2011. Of these ₹ 10.85 crore, RVM had transferred ₹ 1.60 crore to Baba Bhoothnath Trade and commerce Pvt. Ltd, (NSE and BSE broker registered office located at Kolkata) on October 22, 2011 and ₹ 3 crore to Snehsil Marketing Ltd on October 25, 2011. Of the ₹ 3 crore received by Snehsil Marketing Ltd., ₹ 2 crore was transferred to Shreya Multitrade Pvt. on October 27, 2011, which in turn paid to its Broker i.e Sunteck WealthMax Capital Pvt. Ltd (earlier Known as Satguru Capital & Finance Pvt. Ltd.) on October 28, 2011. Further, out of ₹ 23 crore transferred from IPO proceeds by Taksheel, on October 21, 2011 Baba Bhoothnath Trade and commerce Pvt. Ltd., had also received ₹ 45 lakhs through SPI. It is also confirmed by Baba Bhoothnath Trade and commerce Pvt Ltd. that they do not have any client by name Silverpoint Infratech Pvt. Ltd.

69. Baba Bhoothnath Trade and commerce Pvt Ltd., as detailed at para 57, suffered loss of ₹ 64 lacs by trading in the TSL on the day of listing. It is noted from the bank account of Baba Bhoothnath that on October 20, 2011, TSL had transferred ₹ 45 lacs to Baba Bhoothnath through SPI, which was then credited to the Baba Bhoothnath Settlement account on October 21, 2011 to meet settlement obligation. Hence, it is clear that SPI bank account was used as a channel to

transfer the IPO proceeds to Baba Bhoothnath to trade in TSL scrip on the day of listing, which is further substantiated from the point that there is no client-broker relationship between SPI and Baba Bhoothnath Trade and Commerce Pvt. Ltd. It is also noted that RVM had also transferred ₹ 1.60 crore to Baba Bhoothnath Trade and Commerce Pvt. Ltd of the ₹ 10.85 crore received from TSL through different entities.

70. Further, with respect to SMT and RVM, which traded in the scrip of TSL on the day of listing and suffered losses to the extent of ₹ 2.51 crore. From the fund movement diagram as given subsequently and as stated at above para 68 and 69, the company had transferred proceeds received from IPO to these entities through different layers. Hence, it is stated that the company had funded the trading of these entities in its own scrip on the listing day.

71. With respect to investment of ₹ 23 crore with SPI, TSL had submitted that it is an Inter Corporate Deposits (ICD), arrangement with SPI to lend ₹ 23 crore, for a period of six month. The principal along with the interest of 14% p.a will be repaid within six month by SPI. As per the latest balance sheet of SPI, extracted from MCA website, it is noted that the profit earned by SPI, post tax as on March 31, 2010 is ₹ 2.89 lacs and it has a total investment of 36.62 crore.

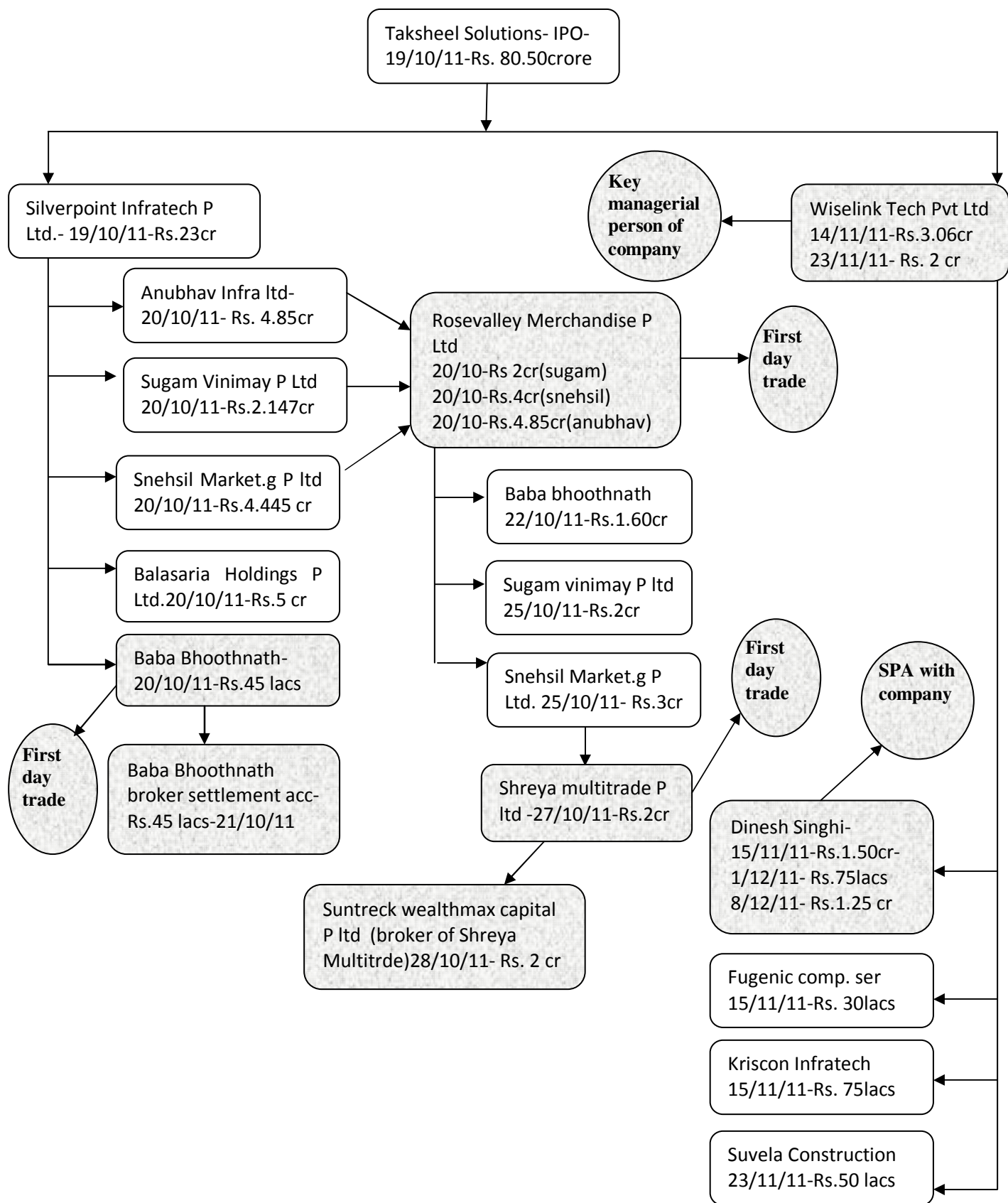
72. It is stated in the offer document of the company that pending deployment, IPO proceeds will be temporarily invested in high quality interest bearing liquid instruments including money market mutual funds, deposits with banks etc. Generally, investments in high quality interest bearing liquid instruments means the borrower should have the good degree of creditworthiness and can easily meet its financial commitment. In the said instances, SPI had to repay the interest alongwith the principal within a period of six months and the interest payment itself is significantly more than amount of profit earned by SPI for the balance sheet year April 2009- March 2010 (B/S for the year 2010-11 still not available with MCA website). This creates doubt about the financial strength of SPI to repay principal along with Interest to the company. Hence, considering

the financial creditability of SPI, the investment made by TSL in SPI cannot be classified as investment in high quality interest bearing instruments. Furthermore, the entire financial arrangement is highly suspicious considering that the part of IPO proceeds has seeped into the accounts of traders and operators who have incurred huge losses so as to enable them to absorb the losses suffered by trading in scrip on the day of listing and TSL has thus *prima facie* violated Regulation 4(2)(k) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003. TSL, also violated Regulation 3((b)(c)(d) and 4(2)(d)&(e) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market), regulations, 2003 by transferring the IPO proceeds through different layers to entities such as Shreya Multitrade pvt Ltd., Rose Valley Merchandise Pvt. Ltd. and Baba Bhoothnath trade and commerce Pvt Ltd.

73. With respect to non- disclosure of repayment of ICD to different entities and lending to SPI in the form of ICD, TSL has violated Regulation 57(1) and 60(7)(A) of SEBI (ICDR) Regulations, 2009. Secondly, it is failure on the part of PNB Investment Services Ltd for failure to carry due diligence as required in terms of Schedule VI of SEBI (ICDR) Regulations, 2009 and Code of Conduct prescribed under Schedule III of SEBI (Merchant Bankers) Regulations, 1992.

74. Further, with respect to Shreya Multitrade pvt Ltd., Rose Valley Merchandise Pvt Ltd., Baba Bhoothnath and Overall Financial consultants pvt ltd (related entity of RVM), they have dealt in TSL shares in a fraudulent manner and accordingly *prima facie* violated Regulation 3(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market), Regulations 2003. Also Baba Bhoothnath Trade and Commerce Pvt. Ltd., Stock Broker (BSE, NSE) violated Clause A(3), A(4) and A(5) of Schedule II of SEBI (Stock brokers & Sub-Brokers) Regulations, 1992.

75. The diversion of funds as explained in the aforesaid paragraphs can be depicted as per the following flow chart:



III. Any other related or consequential matter

Status of company's clients and vendors

76. The company was advised vide SEBI summons dated November 24, 2010 to furnish particulars of all its clients and vendors and details of advances pending as on March 31, 2011. In response to the said summons, the company provided a list of 20 entities containing 16 clients and 4 vendors, all having their offices in the United States of America.

77. A preliminary investigation has revealed that most of these clients have uncanny similarities in terms of address, their websites creation date, website contents etc. Such similarities may be clubbed together as per the following table and analysis given below:

S N o.	Name	Client/ vendor	Address	Website	Website registra tion date	Website registered by
1	Ami Technologies Inc.	Client	325 Cranbury NJ - 08540	www.amitechinc.com	31.05.11	Taksheel Solutions Limited
2	Cvcox Networks Inc.	Client	3240 E State Street Ext, Hamilton New Jersey 08619	www.cvcoxnetworksinc.com		
3	Ermin Technologies Inc.	Client	3240 E State Street Ext, Hamilton New Jersey 08619	www.ermintechinc.com		
4	Fausta Software Solutions Inc.	Client	3240 E State Street Ext Hamilton New Jersey 08619	www.faustasoftsolinc.com		
5	Rasax Soft Inc.	Client	3240 E State Street Ext Hamilton New Jersey 08619	www.rasaxsoftinc.com		
6	Cyma Network Solutions Inc.	Vendor	3240 E State Street Ext, Hamilton New Jersey 08619 USA	www.cymanetsol.com		
7	Helia Software Solutions Inc.	Vendor	3240 E State Street Ext,	www.heliasoftsolinc.com.		

S N o.	Name	Client/ vendor	Address	Website	Website registra tion date	Website registered by
			Hamilton New Jersey 08619			
8	Kyros Tech Systems Inc.	Vendor	3240 E State Street Ext Hamilton New Jersey 08619 USA	www.kyrostechsysinc.com		
9	Avalon Tech Systems Inc.	Client	1075 Easton Avenue Tower 2 Suite Somerset NJ	www.avalontechsys.com	26.11.11	Taksheel Solutions Limited through Virtu Tech Solutions Pvt. Ltd. # 3-6-110/3, 2nd Floor, Anand Arcade Himayath Nagar, Hyderabad - 500 029
10	Felix Technologies Inc.	Client	4 Cotton Woods Drive Westwindor NJ 08550	www.felixtechinc.com		
11	Lorven Pharmacy	Client	1006 Manhattan Avenue Brooklyn NY 11222	www.lorvenpharma.com		
12	Naras Technologies Inc.	Client	5L Reading Road Edison NJ 08817	www.narastechinc.com		
13	Vemury Systems Inc.	Client	465, Meadow Road #7105 Princeton NJ 08540	www.vemurysys.com		
14	Crest Solutions Inc.	Vendor	2540 US Highway 130 Suite 101 Cranbury New Jersey 08512	www.crestsol.com		

78. Following are a few important observations made in regard to clients and vendors of the company as revealed during preliminary investigation:

- a. Out of a consolidated list of 20 entities (16 clients and 4 vendors), 7 clients namely Ermin Technologies Inc.; Avalon Tech Systems Inc. USA.; AMI Technologies Inc. USA; Rasax Soft Inc. USA; CV Cox Networks Inc. USA; Fausta Software Inc. USA and Felix Technologies Inc. constitute almost 66% of the total revenues of the company.

- b. Preliminary investigation has revealed that websites of 8 entities as given in the above captioned table running from SNo. 1-8 have all been registered on the same date May 31, 2011. These entities encompass both the clients and vendors of the company. **All these 8 websites have been registered by M/sTaksheel Solutions Limited.**
- c. Most peculiarly, the website contents of the first 8 entities as given in the above table are by and large common word for word. All these websites have 4 links (Home, Ourselves, Technology and Contact Us). The contents of each of these links as provided in the websites are same across all these websites. This spans business generated through referrals, technology domain expertise, about themselves etc. For a sample basis, the website home page of one of the entities is given below:



- d. Such is the strange nature of commonalities across all these websites that while describing themselves under the weblink “Ourselves”, all of the webpages write that “...over 70% of cymanetsolutions are sourced referrals”. It is observed that Cyma net solutions is also one of the vendors as per the above table. The similarity does not end here. While describing their Technology page, all the websites have a write up which states that “.....Ami Technologies will meet with key business leaders to determine a hiring strategy that supports your specific

environment....” At another place, all the websites state that “Ami Technologies helps its clients in planning, implementing and upgrading various ERP Technologies including SAP, Oracle....” It is observed that AMI Technologies is one of the purported clients of the company.

- e. Apart from the address of these entities, other important contact details such as phone numbers, email ids etc. are conspicuous by their absence on web-pages of each of these entities. This is quite abnormal considering the fact that a software company or vendor would like to reach out as much as possible for its business and revenues through telephone numbers and email ids.
- f. It is also observed that for the remaining 6 set of entities running from SNo. 9-14, all their websites are registered on November 26, 2011 (two days after receipt of SEBI summons by the company to provide complete details of all its clients and vendors). All these websites have been registered through vendor Virtu Tech Solutions Pvt. Ltd.# 3-6-110/3, 2nd Floor, Anand Arcade Himayath Nagar, Hyderabad - 500 029. More importantly, these websites domains have been registered by TSL. **This is a strange phenomenon that the company is registering domains of its own purported clients and vendors, all based in USA on the same day through one vendor based in Hyderabad.**
- g. The company was directed to give details of all loans and advances existing as on March 31,2011. In response to the same, the company stated that the following are the *inter alia* pending advances paid to ‘vendors’ as on March 31,2011:

Name of the party	Purpose of payment	Amount in ₹
Felix Technologies Inc.	Vendor Advance	2,63,20,979.30
Naras Technologies Inc.	Vendor Advance	18,25,200.00
Alagya Technologies Inc.	Vendor Advance	85,70,900.00

- h. However Felix Technologies and Naras Technologies are claimed to be clients by the company as per the list. Hence , the purpose and nature of transactions with these entities and in what capacity the same have been carried out raises serious concerns. No details of Alagya Technologies (whether client or vendor) is given by the company while providing the list of clients and vendors.
- i. Another strange pattern is seen from the text of the purported 'Software Development and Consulting Agreement' dated September 01, 2010 signed between the company and Ami Technologies Inc. The said agreement describes TSL as company and Ami as consulting firm. It further states that the consulting firm possesses certain technical expertise in the field of information technology, computer and software consulting and in other fields related thereto and that the company desires to engage consulting firm to perform certain software development services to be rendered on as needed basis. The agreement provides that the company retains the services of consulting firm as an independent contractor. As per the list of clients and vendors provided by TSL, it is AMI which is a client and not TSL. This sounds strange considering the contractual nature of relationships being established through such agreements. Similar pattern is seen from a purported agreement signed on January 06, 2011 between TSL and Cyma Network Solutions Inc. supposed to be a vendor of the company. As per the terms of the agreement, TSL is supposed to provide services to develop data acquisition program with its resources and to deliver the product to Cyma, which is supposed to pay fee to TSL. However it is Cyma, which is claimed to be a vendor of the company and not the other way round. Again, it raises serious concerns about the nature of relationship being established through such agreement and payments made in this respect.
- j. Another important observation which points towards misleading statements and misrepresentation of facts by Mr. Pavan Kumar Kuchana (PKC) with regard to clients of TSL emerges out of the text of interview which he gave on CNBC on September 29, 2011 at 11.33 A.M. (i.e. the day on which the bid/issue opened).

Following is *inter alia* the text of one of the questions asked and reply given by Mr. PKC:

CNBC : Can you tell us who are your top clients.

PKC : "The clients we are working with are LFG, Merrill. But we work with the channel partners. We work with their prime vendors. But our relationships with clients are direct and where we deal with their business guys, technology guys. That's where the domain and technology we use it."

- k. SEBI issued summons dated December 05, 2011 directing the company to furnish tabular information containing details of client-wise revenue generated for all the clients and vendor-wise payments made to all the vendors during 2010-11 and 2011-12 (till September 30, 2011). *Details of ultimate clients in respect of whom the said projects were executed were also sought.* The company in its reply dated December 13, 2011, while furnishing the information about client-list and turnover stated that *"we are not in a position [Sic] of information regarding details of ultimate clients in respect of the said projects were executed, as we are not privy to the contractual relationship between our client and the ultimate clients."* Another clarification was sought from the company vide email dated December 16, 2011 wherein the company was advised to provide information or details regarding end-clients of their clients as per the list applicable for 2010-11 and 2011-12 (till September 30, 2011). The company again reiterated its stand and stated that *"As already explained, we are not in possession of information regarding details of ultimate clients in respect of the said projects were executed, as we are not privy to the contractual relationship between our client and the ultimate clients"* This statement of the company that it does not have any information regarding details of ultimate clients is totally contrary to the claim made by Mr. PKC on September 29, 2011 that it has LFG and Merrill as its clients. It is also worth noting that 14 of the so claimed prime vendors of LFG and Merrill have all registered their websites by TSL only. The claim made by Mr.

PKC, therefore, that the “clients they are working with are LFG, Merrill” is misleading, fraudulent and not backed by facts as confirmed by the subsequent information provided by the company where it has stated that it does not have information regarding end clients. Furthermore this also amounts to violation of Regulation 60 of the SEBI ICDR Regulations regarding public communication where all such public communication should contain only factual information and should not contain projections, estimates, conjectures etc. or any matter extraneous to the contents of the offer document. Video CD of the said interview is attached here.

- I. Considering the above facts together, there is a strong prima suspicion about the business profile, background, status of clients and vendors of the company. This coupled with the fact that the significant portion of revenue is generated by the company from these clients and again a very significant cost of revenue is paid by the company to these vendors raises serious concerns about the nature of relationship and transaction flow happening between the company and these purported clients and vendors.

SUMMARY OF *PRIMA FACIE* FINDINGS:

79. The above *prima facie* findings clearly indicate that the company and its director(s) have made various misstatements in the offer document, hidden vital pieces of information which should have been disclosed therein and have also made material inaccurate and untrue statements in the electronic media during the time the issue was open for subscription. These acts of omission and commission have further been accentuated by lack of adequate, independent and professional due diligence on the part of the merchant banker. The preliminary findings also raise serious concerns about the status of clients and vendors of the company and the funds flow between the company and these clients and vendors. There is also a *prima facie* evidence that a part of the proceeds of the issue have been siphoned off; in a circuitous route; to certain

entities and operators, which were the top net buyers on stock exchanges on the listing day; in order to enable them to absorb huge losses incurred by them in the process.

80. The decision as to the quantum of funds to be raised and the price at which the shares are to be issued is left to the issuer company. The issuer company is considered to be the best judge to decide the same as such decisions pertain to its functioning. But once it is decided to raise funds from the public then the public interest comes into the picture and the matter is not left exclusively to the discretion of the issuer. The Issuer Company is required to maintain certain standards of disclosure relating to various matters having a bearing on the investment decision of the investors.

81. SEBI has adopted disclosure based regulatory regime. Under this framework, issuers and intermediaries disclose relevant details about themselves, the products, the market etc. so that the investor can take informed investment decisions based on such disclosures. Such initial and continuous disclosures have been prescribed by SEBI with a view to protect investors interest. In the case of an IPO by a company, the information about the company is made available to the public/investors in the form of offer document. The public/investors make its decision based on the information provided to them in the form of disclosures in the offer document.

82. Full, fair and timely disclosures form the cornerstone of any disclosure requirement stipulated by SEBI. The guiding principle in a disclosure-based regulatory regime is the need for the issuers of securities to provide the potential investors with full, accurate and timely disclosure of all relevant information in respect of the issuer and the security being issued to enable the potential investors to make their own informed investment decisions. It is on this premise that securities regulation is based. The access to the securities market for issuers is conditional upon such disclosures. The disclosure-based regime

imposes a heavier responsibility on the issuers of securities and their Merchant Banker to carry out due diligence in an independent, adequate and professional manner with regard to the accuracy and completeness of the information disclosed by them. Making accurate disclosure is the corner-stone of the IPO process. No lapses and inaccuracies can be tolerated in this regard.

83. The role of a merchant banker in the securities market is very important in the process of issue management. The merchant banker plays a vital role in channeling the financial surplus of the society into productive investment avenues. A Merchant Banker is appointed for the purpose of managing the issue of an IPO of a Company and it plays a fiduciary role by coordinating the activities of the Company, the Regulatory Bodies, and the Investors. It is evident that the Merchant Banker is the focal point in a public issue, without him acting diligently and complying strictly with the letter and spirit of the rules and regulations framed there under, the issue cannot be properly regulated and investors are put to grave danger, which is not in the interest of the securities market. The purpose of filing the offer document through the Merchant Banker with SEBI is not a mere ritual or formality. I am of the view that the due diligence on the part of the merchant banker does not mean passively reporting whatever is reported to it but to find out everything that is worth finding out. The due diligence process is directed towards ensuring that the offer document does not contain any statement or information that is false or misleading, or contain any material omission. It is also directed towards ensuring that the information furnished in the offer document is not in any way exaggerated or deficient and that the material facts are not suppressed to the disadvantage of the investors. Further, the due diligence is about making an active effort to find out material developments that would affect the interest of investors. Hence it is very important that the various responsibilities associated with the due diligence are discharged with care and caution. It is on the faith that the Merchant Banker has conducted due diligence that an investor invests in the company. The importance of a due diligence process expected from Merchant Bankers in a disclosure

regime cannot be over-emphasised. If the Merchant Banker fails to act diligently and comply strictly with the letter and spirit of the regulations, the investors are put to grave danger, which may not be in the interest of the capital market. This is precisely what has happened in this particular issue where lack of adequate and independent due diligence by the merchant banker has resulted into shenanigans on the part of the company and its promoters/directors.

84. Reference is drawn to the interpretation made by Supreme Court in the matter of Chander Kanta Bansal V. Rajinder Singh Anand MANU/SC/7310/2008 : (2008) 5 SCC 117 as under :

"The words "due diligence" have not been defined in the Code of Civil Procedure, 1908. According to Oxford Dictionary (Edn. 2006), the word "diligence" means careful and persistent application or effort. "Diligent" means careful and steady in application to one's work and duties, showing care and effort. As per Black's law Dictionary (18th Edn), "Due Diligence" means the diligence reasonably expected from , and ordinarily exercised by, a person who seeks to satisfy a legal requirement or to discharge an obligation. According to Words and Phrases by Drain-Dyspnea (Permanent Edn. 13-A) "due diligence", in law, means doing everything reasonable, not everything possible. "Due Diligence" means reasonable diligence; it means such diligence as a prudent man would exercise in the conduct of his own affairs."

85. By virtue of the failure to make the necessary disclosures on time in this case, the fact remains that the investors were deprived of the important information at the relevant point of time. In other words, by not complying with the regulatory obligation of making the disclosures, the Company and its Directors had not provided the vital information which is detrimental to the interest of investors in securities market.

86. As a regulator, it is SEBI's duty to take immediate steps to prevent such persons from further misleading investors and impairing the integrity of the market. I am of

the view that this is, without doubt, a fit case where I need to effectively and expeditiously use the powers given to SEBI to prevent any further harm to investors. In order to protect the investors and safeguard the integrity of the securities market, it is necessary for SEBI to exercise these powers firmly, effectively and immediately to insulate the market and its investors from the actions of persons who potentially perpetrated fraud and/or mislead investors in the securities market. Accordingly, in this case, I am of the view that immediate action is called for in the interest of the investing public.

87. In the light of what has been *prima facie* unearthed in this preliminary investigation so far, and considering the entire set of facts relating to this case which have been put together, there is an urgent and immediate need to intervene in the matter pending completion of investigation. Otherwise, it would severely compromise the integrity of the market and continue to expose unsuspecting investors to a significant and material possibility of being misled. There is also an urgent need to ensure that the funds generated through the initial public offer are not dissipated further and brought back wherever invested, if not in line with what was stated in the offer document.

ORDER:

88. In view of the foregoing, I, in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act 1992 read with Sections 11(1), 11(4), 11A and 11B thereof, pending investigation, by way of this ad interim ex-parte Order, hereby issue the following directions:

A. Taksheel Solutions Limited is prohibited from raising any further capital, in any manner whatsoever, till further directions.

B. Taksheel Solutions Limited and its directors as per the following table are prohibited from buying, selling or dealing in securities in any manner whatsoever, till further directions:

SNo.	Entity	PAN
1	Taksheel Solutions Limited	AAACI7325P
2	Shri Pavan kumar Kuchana	ATAPK6144L
3	Shri Ramaswamy Kuchana	ALIPK4206D
4	Shri Venkata Ramana Nadimpalli	ACJPN2798K
5	Shri Vijay Kumar Devarkonda	AFOPD6957Q
6	Shri Pramod Chada	ALHPC0682L

C. Taksheel Solutions Limited shall call back the ICD placed with Silverpoint Infratech Limited amounting to ₹23 crore and place the proceeds in an interest bearing escrow bank account opened with a Scheduled Commercial Bank, till further directions. Proceeds of IPO invested by the company in the India bulls Mutual Fund- Liquid Fund; amounting to ₹5 crore; shall also be redeemed and transferred to the said escrow account, till further directions. In addition, Taksheel Solutions Limited shall deposit the proceeds of the IPO still remaining with it; as on the date of this Order; in the said escrow account, till further directions. The confirmation for the same should be given to stock exchanges where the company is listed; within 7 days from the date of this Order.

D. The following persons/entities are prohibited from buying, selling or dealing in securities in any manner whatsoever, till further directions:

SNo.	Name of Entity	PAN No.
1	Shreya Multi trade Pvt. Ltd	AAMCS6544G
2	Rajan Babu Bhambale (director of Shreya Multi trade Pvt. Ltd)	AQHPB1458N
3	Kejas Ashok Parmar (director of Shreya Multi trade Pvt. Ltd.)	AYRPP4350M

4	Rose Valley Merchandise Pvt. Ltd.	AAECR3349C
5	Anil Sharma (directors of Rose valley Merchandise Pvt. Ltd.)	BFYPS4464N
6	Biraj Sonakar (directors of Rose valley Merchandise Pvt Ltd.)	BLZPS6412H
7	Overall Financial Consultants Pvt. Ltd.	AABCO1577E
8	Anup Kumar Sharma (director of Overall Financial Consultants Pvt. Ltd.)	BLEPS0813B
9	Manoj Kumar Pandit (director of Overall Financial Consultants Pvt. Ltd.)	AQOPP1860D

- E. Baba Bhootnath Trade and Commerce Pvt. Ltd. (Broker BSE (SEBI Reg. No: INB011411734) and NSE (SEBI Reg. No: INB231411738) is prohibited from buying, selling or dealing in any securities, in any manner whatsoever, in the proprietary account, till further directions.
- F. The stock exchanges are advised to enable squaring off, at the earliest, existing open positions in the Futures and Options Segment, if any, for the persons/entities mentioned above in point 88(b),(d) and (e). Further, the concerned stock exchanges should also ensure that said persons/entities do not take fresh positions or increase their open positions.
- G. PNB Investment Services Ltd, merchant Banker (SEBI Reg. No. INM000011617) and its MD & CEO Shri L.P. Agarwal are prohibited from taking up any fresh assignment or involvement in any new issue of capital including IPO; follow on issue etc., till further directions in the matter.
- H. The Stock exchanges and the depositories are directed to ensure that all the above directions are strictly enforced, within the powers available with them.
- I. The above Order is without prejudice to any other action that may be initiated against the above entities for the said violations.

- J. The persons/entities against whom this Order is passed may file their objections, if any, within twenty one days from the date of this order and, if they so desire, avail themselves of an opportunity of personal hearing before the Securities and Exchange Board of India, on a date and time to be fixed on a specific request, received from the said persons.
- K. This Order shall come into force with immediate effect.

**PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**

PLACE: MUMBAI

DATE: December 28, 2011