WTM/PS/28/IVD/ID-06/ MAY/2012

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: PRASHANT SARAN, WHOLE TIME MEMBER
IN THE MATTER OF SARANG CHEMICALS LIMITED
In respect of Sarang Chemicals Limited

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

1. Securities and Exchange Board of India (SEBI) examined the dealings in the scrip of Sarang Chemicals Limited (the company/ SCL) for the period of August 1, 2005 to October 4, 2005 (investigation period). The scrip was listed at the Bombay Stock Exchange (BSE), the Ahmedabad Stock Exchange (ASE) and the Vadodara Stock Exchange (VSE).

2. Investigations revealed several irregularities, including misleading corporate announcements and reporting of incorrect financial results accompanied by trading in the scrip by related entities in violation of the provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as the 'PFUTP Regulations'). Faulty disclosures were made by the company regarding the shareholding pattern, and the quarterly results for September, 2005 and December, 2005 were submitted to BSE after a delay of 2-5 months, thus violating the provisions of the Securities Contract (Regulation) Act, 1956 (hereinafter referred to as the 'SCRA'). Further more, it was alleged that the company itself was handling the physical shares whereas its Registrar and Transfer Agent (RTA) handled the electronic segment, even though the SEBI (Depositories and Participants) Regulations, 1996 (hereinafter referred to as the 'DP Regulations') mandates a single point arrangement. Moreover, it was observed that the company had failed to make relevant disclosures regarding change in shareholding as required by the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (hereinafter referred to as the 'SAST Regulations') and SEBI

(Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as the 'PIT Regulations').

3. Accordingly, a notice dated January 17, 2011 (SCN) was issued to SCL under Sections 11(4) and 11B of the SEBI Act. The same has been delivered, however no reply has been received from the company till date. Subsequently, several opportunities of personal hearing were granted by me on different occasions to SCL, details of which are given below:

Sl.No.	**Hearing date**	**Acknowledgment/reply**
1.	July 12, 2011	Vide e-mail dated July 08, 2011 SCL sought an adjournment of hearing
2.	September 09, 2011	Delivered on July 30, 2011
3.	December 23, 2011	Vide e-mail dated Dec 22, 2011 SCL sought an adjournment of hearing.

However, SCL has failed to appear for the hearings. Thus, having provided sufficient opportunity to the company to defend itself, I think it fit to proceed *ex parte* in the matter, having complied with the principles of natural justice.

4. I have carefully considered the SCN and the other relevant material on record. Accordingly, the issues that arise for my consideration are?

1. Whether the company made misleading corporate announcements and reported incorrect financial results, which was accompanied by trading in the scrip by related entities, in violation of Regulations 3(c), 3(d), 4(1), 4(2)(e) and 4(2)(r) of the PFUTP Regulations?
2. Whether faulty disclosures were made by the company regarding shareholding pattern; and quarterly results for September, 2005 and December, 2005 were submitted to BSE after a delay of 2-5 months, thus violating the provisions of Section 21 of SCRA read with Clauses 35 and 41 of the Listing Agreement?

3. Whether the company handled its transfer of physical shares whereas its RTA handled its electronic segment, in breach of Regulation 53A of the DP Regulations, which mandates a single point arrangement?
4. Whether the company had failed to make relevant disclosures regarding change in shareholding as required by the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (hereinafter referred to as the 'SAST Regulations') and SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as the 'PIT Regulations')?

7. Let me deal with the first issue as to **whether the company made misleading corporate announcements and reported incorrect financial results, which was accompanied by trading in the scrip by related entities, in violation of Regulations 3(c), 3(d), 4(1), 4(2)(e) and 4(2)(r) of the PFUTP Regulations?**

Misleading Corporate Announcements

a. I note from the SCN that the company made several corporate announcement during the investigation period, and these announcements were seen to have an impact on the price of the scrip of SCL. These are enumerated below:

Date / Time	**Particulars**	**Price Impact**
Wednesday, August 03, 2005 2:32:13 PM	The company informed BSE that it is making efforts to continue its relationship with one Marubeni Corporation of Japan. SCL is now concentrating on getting new order from Marubeni Corporation and is also trading in textile dyes and chemicals. Further, it was stated that the company is in the process of opening offices in Gulf countries. The company is poised to take advantage of booming textiles market in India and has focused its attention to tap the organized textile markets in Surat and Rajasthan.	On August 03, 2005, the scrip opened at Rs.6.85 (19.76 % higher than the last day's closing price, Rs. 5.72) and closed at Rs. 5.93. The volume was 202,203 shares during the day.
Wednesday, August 17, 2005	The company informed BSE that had plans to open offices in Middle East and Far East countries. The company has successfully completed work for	On August 17, 2005, the scrip opened at Rs.9.55 (1.60 % higher than the last day's closing price, Rs.9.40) went to a

11:11:24 AM	Marubeni Corporation of Japan and viewing their continuous relationship with Marubeni Corporation, the company plans to open offices in these countries. The Company's existence in these countries will be sustain by its relationship with such large organizations. The company is targets exporting its product dyes & textile chemicals through such offices.	high of Rs. 9.76 and closed at Rs. 9.37. The volume was 365853 shares during the day.
Thursday, September 01, 2005 10:28:37 AM	The company informed BSE that it had bagged order(s) worth Rs. 42 million from one Bio-Deal Laboratory of Kenya. The above orders would be completed within 3 months. Further, the company will be exporting its product dyes & textile chemicals to the above entity. The said order is in view of the huge demand for textiles chemicals.	On September 01, 2005, the scrip opened at Rs.10.80 (2.37 % higher than the last day's closing price, Rs. 10.55) went to a high of Rs. 11.60 and closed at Rs. 11.55). The volume was 2362338 shares during the day.
Monday, September 05, 2005 11:37:46 AM	The company informed BSE that a meeting of its Board of Directors will be held on September 16, 2005 to discuss the subdivision of equity shares of the company from Rs. 10 to Re. 1.	On September 05, 2005, the scrip opened at Rs.11.74 went to a high of Rs. 13.20and closed at Rs. 12.87. The volume was 1830091 shares during the day.
Friday, September 16, 2005 5:44:35 PM	The company informed BSE that its Board of Directors, at its meeting, has approved the subdivision of Equity Shares of the company from Rs. 10 to Re. 1.	On September 19, 2005, the scrip opened at Rs.14.40 (2.78 % higher than the last day's closing price, Rs. 14.01) went to a high of Rs. 14.50 and closed at Rs. 13.78). The volume was 394312 shares during the day.

b. During the course of investigation, I note that SCL vide letter dated May 20, 2008, sent to SEBI, stated that "As far as Corporate Announcements are concerned, there is error on the part of the Compliance officer" Thereafter, SCL, vide its letter dated November 29, 2008, claimed that the 3 announcements viz., August 3, 2005 (regarding getting orders from Marubeni Corporation-Japan), August 17, 2005 (regarding plans to open offices in Middle East and Far East countries) and September 1, 2005 (about securing order worth 42 million from Bio-Deal laboratory - Kenya) had been successfully executed by it. SCL furnished a copy of the certificate of foreign inward remittance from one Wako Bussan Co. Ltd., a copy of the Memorandum of Understanding (MoU) between SCL and Alchemi International and

a copy of the MoU between Bio-Deal laboratories, Kenya as documentary evidence of implementing these corporate announcements.

c. However, I observe that SCL has submitted the copy of certificate of foreign remittance from Marubeni for the period Jan-May 2005 on account of commission and not in respect of any order in textiles or dyes as stated in the Corporate Announcement. Similarly the MoU between SCL and Alchemi International, and the company's MoU with Bio Deal Laboratory Ltd. were executed on plain paper, with no mention of the place of execution. It is further observed that the MoU relating to setting up an office at Dubai stipulated rent as 'nil' and the address of office was recorded as F2C Post Box No.42824, Dubai, UAE. Furthermore, with regard to the MoU between SCL and Bio-Deal Laboratory Ltd, SCL replied that since it had not received 10% as deposit/advance from Bio-Deal Laboratory-Kenya it could not execute the order. I am of the considered view that none of the documents produced by SCL to support the legitimacy of the corporate announcements appear to be bonafide in nature.

d. Further, I observe from the shareholding pattern of SCL, for the quarters following the investigation period that the total number of shares remained unchanged. SCL has failed to provide any clarification relating to the corporate announcement regarding the stock split.

e. In view of the above, I find that SCL has made false and misleading corporate announcements to the public.

Incorrect financial results

f. I note that as per the BSE website, SCL had a net sale of Rs.85,50,000 and a net loss Rs.50,000 for the year ending March 31, 2005 (Audited), while as per the Annual Report, SCL had shown net sale of Rs. 1,63,00,000 and a loss of Rs. 21,45,230 for the same period. It is observed from the schedules forming part of Annual Report (2004-05) of SCL that it had sold its entire fixed assets worth approximately Rs. 2,50,00,000 during 2004-05, and diversified into trading of government securities. Further, the Director Report, which forms a part of the Annual Report, stated that as the machineries had been sold now there was no manufacturing activity. However, from the notes to the quarterly results for June 2005 on BSE website it is observed that raw materials worth Rs. 3,64,00,000 were consumed by SCL, and that SCL had shown a significant profit of Rs. 55.40 lakh for the quarter ending June

2005. Clarification was sought from SCL for the above discrepancy, but SCL has failed to provide any reply to the above. Therefore I find that SCL **disseminated misleading / false financial results to investors**.

Trading by connected /related entities during the investigation period

g. A group of connected /related clients (hereinafter referred to as Sarang Chemicals Group) were found to be dealing in the scrip of SCL during the period of investigation. These connected / related entities altogether purchased 2,96,941 shares (1.34%) and sold 51,74,631 (23.33%) shares. The trading by the entities and their relation / connection is given below.

Sr. No.	Name of the entity (client) and its address/es and phone No.	Name of Broker & Clg No.	Gross Purchases (% to market volume)	Avg. purchase price (Rs.)	Gross Sales (% to market volume)	Avg. Sale price (Rs.)	Connection /Relation (Source : BSE Report)
1.	Robinson Worldwide Trade Ltd. (**hereinafter referred to as Robinson**) (Directors.-Ramanlal Nagjibhai Trivedi, Yasmin G. Arab, Rabia Begum G. Arab) 202, , C. G. Road, Near Associated petrol Pump Ahmedabad-380006 (mob): 9824019596	India Infoline Securities Pvt. Ltd. (179)	284941 (1.28%)	8.91	2435038 (10.98%)	11.30	The addresses of Robinson and Exdon are the same. The mobile number for one Lakshya Securities and Credit Holdings Ltd. (Lakshya) and Exdon Trading Co. Ltd. is found to be the same. Ramanlal Nagjibhai Trivedi is the common director of Lakshya, Robinson and SCL Thus, from the above, it may be concluded that Robinson, Exdon and Lakshya are connected / related to each other and to SCL.

2.	Exdon Trading Co. Ltd. **(hereinafter referred to as Exdon)** (Directors- Ashok Shah & Hiralal Popatlal Shah)	Indiabulls Securities Ltd. (907)	-	-	886375 (4%)	12.72	Same as above.
		Galaxy Broking Ltd. (513)	-	-	25000 (0.11%)	9.81	
3.	Ashok Hiralal Shah	Galaxy Broking Ltd. (513)	-	-	181814 (0.82%)	10.64	Ashok Shah is a director of Exdon. Ashok Shah is the son of Hiralal Popatlal Shah
4.	Hiralal Popatlal Shah	Galaxy Broking Ltd. (513)	-	-	309890 (1.40%)	11.44	Hiralal Popatlal Shah is also a Director in Exdon Same residential address as that of Ashok Shah viz. A-6, Ambawadi Appt., Ambawadi Circle, Ahmedabad – 380006. Hiralal Shah is the father of Ashok Shah and is thus related to him.
5.	Rudra Securities And Capital Ltd. **(hereinafter referred to as Rudra)** (Directors-Abhay Shah)	Galaxy Broking Ltd. (513)	-	-	48565 (0.22%)	9.60	The phone number given in the KYC of Rudra (Abhay Shah) and that of Exdon (Ashok Shah) is the same viz. 079 26449516. The address of Rudra is the same as that of Hiralal P. Shah and Ashok Shah.
6.	Ramanlal N. Trivedi	Galaxy Broking Ltd. (513)	-	-	223000 (1%)	10.91	Ramanlal Trivedi is a Director in Robinson and Lakshya, and is also the authorized signatory / director of SCL.

7.	Anand Trivedi	Galaxy Broking Ltd. (513)	-	-	121621 (0.55%)	9.98	The residential address of Anand Trivedi and Ramanlal Trivedi is the same viz. F-11/3, Rushvina Park Society, Noble Nagar, Naroda, Ahmedabad – 382340. Anand Trivedi is the son of Ramanlal N. Trivedi, and hence is related to Ramanlal N.Trivedi.
8.	Bharatbhai Shah	India Infoline Securities Pvt. Ltd. (179)	11000	8.14	623832 (2.81%)	12.30	Bharatbhai Shah received 250000 shares in off market on 02/09/2005 from one Bipin Ratilal. Bipin Ratilal is connected to Ramanlal N. Trivedi since the mobile no. of Bipin Ratilal and Lakshya, wherein Ramanlal Trivedi is a director, is same viz. 9824019596. Hence, Bharatbhai Shah is connected / related to Sarang Chemicals group.
9	Sitaram Shah	Narsaria Securities Pvt. Ltd. (640)	-	-	100000 (0.45%)	10.80	Sitaram Chunilal Shah has transferred 50000 shares in off market to Ashok Shah on 17/06/2005. Sitaram Shah is the father of Shailesh Shah and Pankaj Shah.

10.	Pankaj Shah	Narsaria Securities Pvt. Ltd. (640)	-	-	100000 (0.45%)	9.36	Pankaj Shah transferred 100000 shares to Lakshya Securities And Credit Holdings Ltd and 100000 shares to Ashok Shah on June 17, 2005. The phone no. of Pankaj Shah and Sitaram Shah is the same viz. 23468034. Pankaj Shah is the son of Sitaram Shah.
11.	Shailesh Shah	Narsaria Securities Pvt. Ltd. (640)	-	-	50000 (0.23%)	9.35	Shailesh Shah transferred 250000 shares to Ashok Hiralal Shah on June 17, 2005. The phone no. of Shailesh Shah and Sitaram Shah is the same viz. 23468034. Shailesh Shah is the son of Sitaram Shah.
12.	Nathalal Shah	Manashvi Securities Ltd. (697)	1000 (0.004%)	10.66	69496 (0.31%)	14.35	Nathalal Shah has transferred 150000 shares to Robinson on September 9, 2005.
Total			2,96,941 (1.34%)		51,74,631 (23.33%)		

h. The twelve (12) entities named in the table above, off loaded large quantity of shares in the market, while SCL published its corporate announcements. On an analysis of the details of day-wise trading of all the connected /related entities (as annexed to the SCN), it appears that the Sarang Chemical Group sold shares during the period August 1, 2005 to September

12, 2005 (on 26 days), i.e., during the period of alleged misleading and false announcements/news by SCL and patch of price rise (August 1, 2005 to September 13, 2005). It is observed that during this period when the price of the scrip increased by around 229% in 30 trading days the Sarang Chemicals Group entities sold 5174631 shares which accounted for 33.22% of the total traded quantity (15576582 shares). **Thus, it is evident that at the time the company made misleading announcements, its related entities traded in the scrip taking advantage of the price rise therein.**

i. In view of the above **I find that SCL has violated 3 (c), 3 (d), 4(1), 4(2) (e) and 4(2) (r) of FUTP Regulations 2003.**

5. Whether faulty disclosures were made by the company regarding shareholding pattern, and quarterly results for September, 2005 and December, 2005 were submitted to BSE after a delay of 2-5 months, thus violating provisions of Section 21 of SCRA read with Clauses 35 and 41 of the Listing Agreement?

SCL's Annual Report (2004-05) showed that the promoters were holding 20,64,900 shares (29.52%), including 9,44,000 shares (13.50%) held by the Indian promoters and 11,20,900 shares held by the Persons Acting in Concert for the year ending March 31, 2005. However, the information contained on the BSE website for the concurrent period indicates that the promoters of SCL were not holding any shares. The promoter group was shown to be having nil shareholding for the year ending March 31, 2005 on the BSE website. Likewise, the total shares of SCL was shown in the Annual Report of Financial Year 2004-2005 as 69,94,800 shares. However, the corresponding "BSE Standalone Result" for the year stated that the shares of SCL in the hands of the public itself were 6,96,48,000 (i.e approximately 70% of total shares). Therefore, it is apparent that SCL filed wrong/inconsistent disclosures regarding its shareholding with the BSE and also did not show promoter's holding separately. Clause 35 of the Listing Agreement stipulates that the company has to file the details of the shareholding pattern separately for each class of equity shares/securities with the Exchange in the format specified in the Listing Agreement, and Clause 41 talks about the submission and disclosure of interim and annual financial results. Section 21 of the SCRA makes it mandatory for any company to comply

with the conditions of the listing agreement and SCL. In view of the foregoing, **I find that the company has failed to comply with its obligations under the Listing Agreement thereby violating provisions of Section 21 of the SCRA.**

6. **Whether the company handled its transfer of shares in physical form whereas its RTA handled them in the electronic segment, even though Regulation 53A of the DP Regulations mandates a single point arrangement?**

a. I note that during the course of investigation, it was observed that SCL was handling physical shares inhouse, whereas its electronic segment was handled by an RTA. In this connection, clarification was sought from SCL. SCL, vide its letter dated November 29, 2008, clarified that originally Subarban System Ltd. was its RTA. When the depository system was introduced Subarban System Ltd was unable to establish demat connectivity with the depositories (National Securities Depository Limited / Central Depository Services Limited) although it continued to handle the physical share transfers of SCL. Since the demat connectivity was made compulsory, they made Tripartite Agreement with Sharex Dynamic (India) Pvt. Ltd. and established demat connectivity. Hence, physical transfer was earlier handled by Subarban System and later, when demat connectivity was made compulsory, all the share transfer work was handled by Sharex Dynamic (India) Pvt. Ltd. SCL has also mentioned in its Annual report 2004-05 that the share transfer work was handled by its RTA, Sharex India Pvt. Ltd.

b. Accordingly, SEBI vide its letter dated December 16, 2008 sought clarification regarding the above directly from Sharex Dynamic (India) Pvt. Ltd as to whether it was the common entity for handling both physical and dematerialized shares on behalf of SCL. Sharex Dynamic (India) Pvt. Ltd, vide letter dated December 12, 2008, replied that SCL had not complied with the appointment of common agency requirement as on date, and that they were unable to provide any details pertaining to physical segment. In view of the above, it appears that Sharex Dynamic India Pvt. Ltd. is dealing with the connectivity with depositories for transfer of shares, and the handling of physical shares continues to be with Suburban System Ltd.

c. I note that Regulation 53A of the DP Regulations mandates a 'single point' in all matters relating to transfer of security, maintenance of records, holders of security, handling of physical security and establishing connectivity with depositories, which can be either in-house or an RTA. Having considered the facts and circumstances of this case, I note that SCL has failed to comply with this.

d. In view of the above, **I find that SCL has violated Regulation 53A of SEBI (Depositories and Participants) Regulations, 1996 read with Circular no. D&CC/FITTC/CIR-15/2002 dated December 27, 2002.**

7. Whether the company had failed to make relevant disclosures regarding change in the shareholding as required by the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (hereinafter referred to as the 'SAST Regulations') and SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as the 'PIT Regulations')?

a. The shareholding pattern of top 50 shareholders as on June 30, 2005 submitted by SCL and the demat account statement of Lakshya, Anand Trivedi , Ashok Hiralal Shah, Shah Pravin Kantilal , Hiralal Popatlal Shah and Robinson were analyzed for the relavant period and following observations are made.

- Lakshya was holding 757812 shares (10.834%) as on June 30, 2005 and transferred 757812 shares (10.834%) to Robinson on August 23, 2005 and Lakshya showed NIL shareholding for the quarter ending September 30, 2005.
- Anand Trivedi was holding 650136 shares (9.295%) as June 30, 2005 and had nil shareholding on September 30, 2005.
- Ashok Hiralal Shah was holding 501800 shares (7.174%) as on June 30, 2005, which reduced by 501800 shares (7.174%), and was thus holding nil shares as on September 30, 2005.
- Hiralal Popatlal was holding 400200 shares (5.721%) as on June 30, 2005. He further received 365000 shares in off market on July 18, 2005, and its holding increased to 810200 shares (11.580%). As on September 30, 2005, the entity was holding nil shares

- Shah Pravin Kantilal was holding 365600 shares (5.227%) as on June 30, 2005, which reduced to nil shares as on quarter ending September 30, 2005.
- The shareholding of Robinson increased to more than 5 % on August 3, 2005, and September 6, 2005 and to more than 10 % on August 23, 2005. Further, its shareholding had exceeded 2 % of the total shareholding on several occasions.

b. I note that the above named entities held more than 5% of the shareholding of SCL and the change in their holding exceeded 2% of the total shareholding. Hence, they were required to disclose the transfer to SCL under Regulation 13(3) of the SEBI (Prohibition of Insider Trading) Regulation, 1992 to SCL and SCL in turn had to disclose to the exchange under Regulation 13(6) of the said Regulation in the prescribed format.

c. In addition to the above, SCL was asked to confirm whether it had made the required disclosures to the exchange under Regulation 13 (6) of the PIT Regulations and Regulation 7 (3) of the SAST Regulations. I observe that SCL has stated in its reply dated December 1, 2008 that it had received necessary disclosures under SAST Regulations and PIT Regulations, 1992 from various individuals /entities during the period June 2005 to September 2005 and wherever applicable, copies of those were submitted to the Stock Exchanges where it was listed. Further SCL has also enclosed the copies of the documents, which it had sent to the exchanges (ASE & BSE) along with the above said reply dated December 1, 2008. I note that the copies of the disclosures submitted by SCL to the exchanges under SAST Regulations and PIT Regulations are not acknowledged by the exchanges. Further, BSE in its report had observed that no disclosures were made by SCL and hence SEBI sought confirmation with regard to the disclosure was sought from BSE. I note that BSE has replied, vide e-mail dated January 21, 2009, confirming that it had not received any disclosures from SCL for the abovementioned entities in respect of the PIT Regulations and/or the SAST Regulations. Thus, it is evident that SCL has not made the required disclosures under the PIT Regulations and the SAST Regulations to BSE.

d. In view of the above, **I find that SCL has violated Regulation 13 (6) of the PIT Regulations and Regulation 7 (3) of the SAST Regulations.**

8. Therefore, taking into consideration the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Sections 19 of the SEBI Act read with Section 11 and 11B of SEBI Act, 1992, do hereby restrain Sarang Chemicals Limited from accessing the securities market and prohibit it from buying, selling or otherwise dealing in securities, directly or indirectly, for a period of 2 (two) years.

9. This order shall be served on all recognized stock exchanges and depositories to ensure that the noticee is not allowed to undertake transactions as prohibited in the Para above.

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

Date: MAY 11, 2012
Place: Mumbai

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA