

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Sections 11(1), 11(4), 11A(1)(b) and 11B of the Securities and Exchange Board of India Act, 1992 read with Regulation 107 of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009

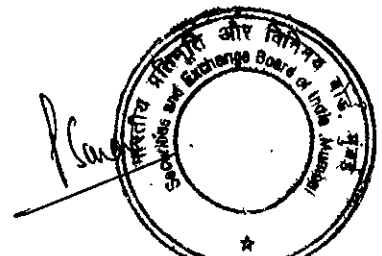
In the matter of issuance of equity shares by Madurai Rural Development Benefit Fund (India) Limited and Madurai Rural Development Transformation India Limited

In respect of:

1. Madurai Rural Development Benefit Fund (India) Limited,
2. Madurai Rural Development Transformation India Limited,
3. Mr. Mohammed Yusuff Suresh Batcha,
4. Mr. Gopalarathinam Ramarathinam,
5. Mr. Srinivasan Srikumar,
6. Mr. Vasudevan Balaji,
7. Mr. Kasiviswanathan Venkataraman,
8. Mr. Nagasubramanian Rajalakshmi,
9. Mr. Sudhakaran Lataji,
10. Ms. Mumtaj Begam Baba,
11. Mr. Sithikbasha Mohamed Yusuf and
12. Ms. Lilun Nihar Yousuff

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1. Securities and Exchange Board of India (hereinafter referred to as the 'SEBI') received separate complaints against two companies, Madurai Rural Development Benefit Fund (India) Limited (hereinafter referred to as 'MRDF') and Madurai Rural Development Transformation India Limited (hereinafter referred to as 'MRDT'), who *prima facie* appear to be connected to each other. The allegations were that:
 - a. MRDF was mobilising funds under its fixed deposits schemes and
 - b. MRDT was collecting monies from the public by way of various schemes.

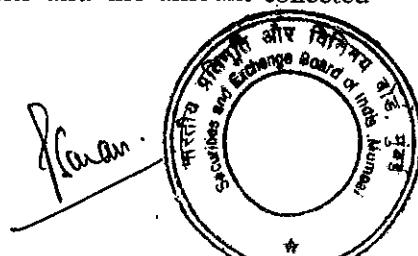
With respect to the complaint on deposit schemes by MRDF, SEBI referred this to the RBI vide a letter dated July 11, 2013. As regards the complaint against MRDT, SEBI



initiated a preliminary examination into the affairs of MRDT. SEBI sent a letter dated August 26, 2013 to MRDT advising it to *inter alia* explain the schemes operated by it. SEBI also asked if MRDT was operating 'Collective Investment Schemes' that fall under the purview of Section 11AA of the SEBI Act, 1992 (hereinafter referred to as 'SEBI Act'), . MRDT replied vide its letter dated September 12, 2013, stating that it is not carrying out any business covered by the Section 11AA of the SEBI Act.

2. Further information/ documents pertaining to the schemes operated by MRDT was sought by SEBI vide its letter dated October 03, 2013. It sought certain specific information such as total amount collected, the total number of investors (year wise and scheme wise), amounts repaid, audited financials for the last three years, brochures/ pamphlets explaining the schemes, etc. MRDT vide its letter dated October 23, 2013, only reiterated its earlier submission that they have not collected any funds according to the Collective Investment Schemes and did not provide any further information.
3. SEBI then received a reference from the Economic Offences Wing, Tamilnadu Police (hereinafter referred to as the 'EOW') dated March 26, 2014 stating therein that MRDT is collecting money from the public by way of issue of shareholder bond/ share certificate. The reference also stated that the amount collected from the public were held as shares and share capital. The sample copy of the customer application form, share holders renewal receipt, share certificate of MDRF and MRDT, share holder bond of MDRF and MRDT were also forwarded along with the said reference of EOW.
4. Thereafter, the Reserve Bank of India, Chennai also, forwarded two separate complaints against MRDT alongwith copy of the notice/ brochure of MRDF and MRDT, whereby investments from the public were solicited. SEBI also received copies of the letter/ pamphlet allegedly circulated by MRDT and MRDF, 'sign-up copy cum receipt' and application forms of MRDT and MRDF.

In the meantime, MRDT vide its letter dated June 16, 2014, made an application to SEBI for the grant of registration as a 'Collective Investment Management Company' under the SEBI (Collective Investment Schemes) Regulations, 1999. In response to the same, SEBI asked certain information from MRDT including the nature of the business carried out by it, list of group/ associate companies, details of all the schemes operated by it since inception, nature of business, types of investment/ deposits and the amount collected

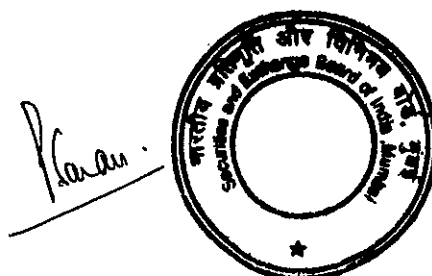


under such investment/ deposits, details of the equity shares, debentures and/ or convertible securities issued during the last 5 years, etc, vide its letter dated July 18, 2014. MRDT requested for an extension of time for submitting the reply to the SEBI letter, vide its letter dated August 04, 2014. On August 08, 2014, SEBI wrote to MRDT, granting 15 days' additional time for submitting the reply and also the information/ documents that were asked. However, MRDT did not submit the information sought by SEBI, although it had again sought for an extension of time till August 26, 2014, vide another letter dated August 12, 2014. The last correspondence from MRDT was dated August 28, 2014 wherein it submitted that its compliance officer is on leave and it is still in the process of gathering information as sought by SEBI. In this letter, MRDT also proposed to withdraw its application before SEBI for the registration under the SEBI (Collective Investment Schemes) Regulations, 1999 and further expressed its inability to file the reply before SEBI and the information sought by SEBI within the stipulated time.

5. A further letter from SEBI, dated August 08, 2014, was sent to MRDT and its directors asking again for information on the schemes operated by it and the securities issued by it. The specific details as sought vide the said letter are as follows:
 - i. Details of the board of directors of the company, including details regarding their name, address, DIN number, PAN number, etc.
 - ii. Details of the promoters of the company: name, address, PAN, number of shares held, etc.
 - iii. Details of the group companies (that are controlled directly or indirectly by the promoters), subsidiaries and associates.
 - iv. Details of the shareholders of the company as on date.
 - v. Details of issuance of equity shares, debentures, convertible and other securities (from date of incorporation - till date)

Date of RHP/ Prospectus (if any)	Date of allotment	No. of allottees	Amount raised (Rs.)

- vi. A) Details regarding each applicants (name, complete address and PAN), who have applied in such issuances, date of application, amount of money received from each applicant, type of the securities (share/ debenture/ convertible debenture), number of securities applied, number of securities allotted, value of such allotment against each allottee's name, date of allotment, date of dispatch of share/ debenture certificate etc.



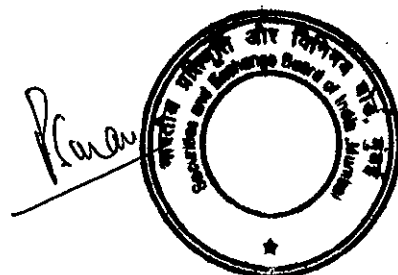
B) Details regarding the deposits mobilized by the company as on date including details regarding name, address of each investors, terms of deposit, amount invested, amount refunded, date of issuance of deposit received.

If any of the group companies are also soliciting money from the public for subscription of their securities/ deposits, the same information may be provided company-wise.

- vii. Details regarding how the money solicited in the said issues are utilized/ invested.
- viii. Copy of Prospectus/ Red-herring Prospectus filed with RoC, if any.
- ix. Copy of board resolutions and general meeting resolutions authorizing such issuance.
- x. Copy of the minutes of board/ committee meeting in which the resolution has been passed for allotment, filed with RoC, if any, regarding issuance.
- xi. Copy of the application forms, prospectus, pamphlets, advertisements and other promotional materials circulated for issuance of such securities.
- xii. Details regarding number of application forms circulated inviting subscription for said issuance.
- xiii. Date of opening and closing of the subscription list for the particular issue.
- xiv. Copy of Form 2 which deals with return of allotment (name and address of the share holders, number of shares allotted to each person), if any, filed with RoC.
- xv. Complete details of the assets held by the Company as on date.

MRDT was further advised to provide the above required information and the documents within 10 days from the date of receipt of the SEBI letter.

- 6. No reply/ information was forthcoming from MRDT. Therefore, based on the material available on records, including the filings made by MRDT and MRDF with the RoC as available in the 'MCA - 21' portal maintained by MCA, Government of India, SEBI examined the matter. This has led to a *prima facie* finding by SEBI that MRDT and MRDF are group companies and are soliciting public funds rampantly, without complying with any of the regulatory requirements.
- 7. A perusal and examination of the sample documents annexed with the complaints/ references available on record reveals as under:
 - a. MRDT and MDRF have *prima facie* circulated pamphlets in Tamil language, soliciting subscription for the shares/deposits while claiming that MRDT and MRDF are recognised 'Under Ministry of Corporate Affairs – 1956 Incorporation Act'. The back side of this,



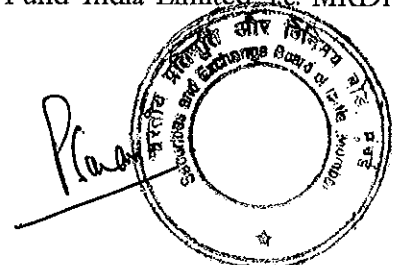
document, mentions about the plans which includes 'Short Term Share Plan' which gives 'share amount', duration, 'benefit % wise', 'benefit amount wise', etc. From the above, it can be inferred that MRDT and MRDF offers various plans/ schemes inviting funds from the public.

- b. The 'Customer Application Form' for the subscription of the equity shares as circulated by MRDT does not contain any serial number or the name of the person to whom it is issued, which indicates that the issue is not a private placement. In the private placement, the application forms are serially numbered and addressed to the recipients, so that it would not fall in the hands of someone whom it is not intended.
- c. Based on the documents available on record, there is a possible inference that MRDT and MRDF are mobilizing deposits from the public and are issuing equities to such persons in order to make them 'members' before 'deposit holders' and thereafter rampantly soliciting 'fixed deposits' / 'recurring deposits' from such members.
- d. The terms and conditions printed on the back side of the application form of MRDT are incomplete and meaningless. An extract of such terms and conditions are as under:

- *"Subject to market risk is applicable for company shares"*
- *"Right Aiming and Tactical handling of the company execution will be Targeting only the profit. So there is no way of loss, sometimes the market stability is not with standing and it roll on fluctuation. In such situation, share-holders has to co-operate & support for the welfare of the company."*
- *"In case of Death raising from the party, Nominee can claim his rights to continue in the same track of the applicant share."*
- *"Shareholders are 100% secured by the organization functioning by the company administrators. Skilled real estate dealer and advise of experienced legislative lawyers to put in success of our company profit."*
- *"Ventures has to co-operate to stemulize the rules and regulation of our company shares act 1956"*
- *"Venture can market or Transact the shares are applicable"*
- *"In case of any disputes or different conterversies arising between the parties pertaining to this agreement the shareholders is only having rights to express their views of argument with the company but not the 3rd party".*
- *"As a matter of fact & pride MRDT India Ltd is the only company in India which gives certainty to the Capital invested by the investor."*

These terms and conditions, *prima-facie* appears to be intentionally drafted in meaningless sentences to deceive the general public. From the above meaningless 'terms', it can also be inferred that MRDF and MRDT are neither willing to accept any contractual obligations nor ready to comply with the applicable legal provisions.

- e. MRDT issued a 'Monthly Renewal Receipt for Share Holders (members only)' which also bears the name of 'Madurai Rural Development Benefit Fund India Limited' i.e. MRDF

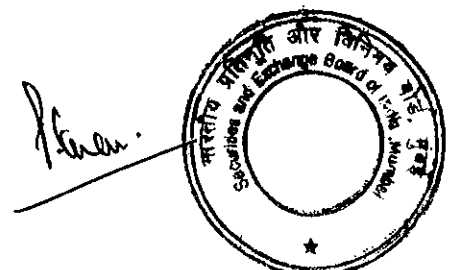


and refer it as 'Govt. Regd. Public Limited Company'. The same also bears the term 'recurring deposit' in the place of 'payment plan no. and term' and gives the amount of installment received along with the 'due date', 'maturity date', etc. This shows that these companies were operating deposit schemes.

- f. The 'Share Holder Bond' issued by MRDT also bears the name of MRDF. The same provides for the share number, the bond number, the date of commencement, the payment plan, term, the consideration amount, the mode of payment, the periodicity of installment, the 'Estd. Value' (estimated value), etc. This document also contains an 'Installment Receipt - cum Acceptance Letter' which states as under:

"Received with thanks from the under noted Customer the amount towards the Fixed Deposit/ Children Plan First Installment of Installment Payment Plan..."

- g. The appearance of the name of both MRDT and MRDF in these documents appears to be purported in order to create confusion in the minds of the investors. Further, it also appears that common stationery was being used by these two companies.
- h. The instruments like shareholders' bond, sign up copy cum receipt are unheard of under the Companies Act, 1956. A 'sign-up Copy cum Receipt' issued by MRDT mentions about the scheme, estimated return, 'number of shares' as '90', date-wise maturity benefits, etc.
- i. From the available records, it appears that MRDF is widely circulating its deposit plans. The application form of MRDF, bears the heading 'Share Holders Application Form'. The same further mentions about the 'Recurring Deposit', 'Fixed Deposit', 'Children Fixed Deposit' only. This form also does not contain any serial number. MRDF in certain plans provides accidental/ natural death benefits to its deposit holders.
- j. MRDF and MRDT have given huge amount of commissions to their selling agents as detailed in table C below.
- k. In a letter allegedly circulated by the MRDT on August 23, 2014, it is *inter-alia* mentioned in Tamil that "They are registered under Section 23 (1) of Companies Act, 1956. Hence, their activity would not fall under RBI or Companies (Acceptance of Deposit) Rules, 1975. Issue of capital is regulated by C.L.B and not by RBI. Only companies registered under Section 3 of the Companies Act, 1956 are regulated by RBI. They are issuing redeemable preference shares under Section 80 of Indian Companies Act, 1956 and Section 55 of Indian Companies Act, 2013". From a reading of the above, it appears that MRDT is quoting irrelevant sections and trying to confuse the general public regarding the jurisdiction of regulators and is continuing to mobilize funds/ deposit.



8. From the above, I note the following:-

- a. MRDT and MRDF as per the material available on record, appear to be mainly engaged in collection of monies from the public.
- b. **MRDT** (Madurai Rural Development Transformation India Limited) was incorporated on January 28, 2009, with CIN number as U65192TN2009PLC070583, having its office at H-32, Sector IV, TNHB Colony, Railar Nagar, J.J. Nagar, Madurai- 625018, Tamilnadu, India. The Auditor and the practicing Company Secretary of MRDT are Mr. G. Selvakumar and Mr. S. Muthuraju respectively.
- According to the details collected from the 'MCA 21' portal maintained by the MCA, the following are the promoters/ directors/ ex-directors of MRDT:

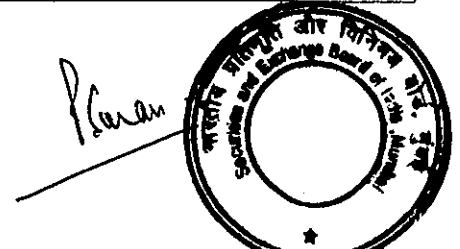
Table A

S.No.	Name	DIN	Remarks
1	Mr. Mohammed Yusuff Suresh Batcha	02443876	Managing Director
2	Mr. Gopalarathinam Ramarathinam	06555632	Director
3	Mr. Srinivasan Srikumar	06555637	Director
4	Mr. Vasudevan Balaji	06860167	Director
5	Mr. Kasiviswanathan Venkataraman	06860187	Director
6	Mr. Nagasubramanian Rajalakshmi	06861472	Director
7	Mr. Sudhakaran Lataji	06861823	Director
8	Ms. Mumtaj Begam Baba	02703379	Ex-Director (resigned from August 26, 2013)
9	Mr. Sithikbasha Mohamed Yusuf	02703420	Ex-Director (resigned from August 26, 2013)
10	Ms. Lilun Nihar Yousuff	02712182	Ex-Director (resigned from August 26, 2013)

- From the application filed by MRDT for the grant of registration as a 'Collective Investment Management Company', it is observed that Mr. Mohammad Yusuff Suresh Batcha holds 24,77,780 shares (i.e. about 48.26%) of MRDT as on July, 2014. From the details of the allotment of equity shares by MRDT, during the period of April 07, 2013 and September 30, 2013, as per the forms filed with the RoC, obtained from the 'MCA 21 Portal', it is *prima facie* noted as under:

Table B

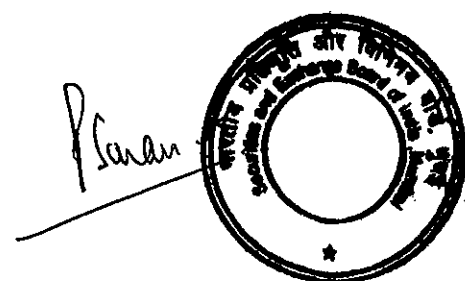
S.No. as per list of allottees filed by MRDT with RoC	Date of Board Resolution for Allotment	No. of allottees	No. of equity shares (₹100 each)	Amount (₹)	Remarks
1-48	April 07, 2013	48	16,368	16,36,800	341 Shares per person
49-97	April 14, 2013	49	16,709	16,70,900	"
98-146	April 21, 2013	49	16,709	16,70,900	"
147-195	April 28, 2013	49	16,709	16,70,900	"
196-244	April 30, 2013	49	16,709	16,70,900	"
245-293	*	*	*	*	*



294-341	May 07, 2013	48	16,368	16,36,800	„
342-390	May 14, 2013	49	16,709	16,70,900	„
391-439	May 21, 2013	49	16,709	16,70,900	„
440-488	May 28, 2013	49	16,709	16,70,900	„
489-537	May 31, 2013	49	16,709	16,70,900	„
538-585	June 07, 2013	48	16,368	16,36,800	„
586-633	June 14, 2013	48	16,368	16,36,800	„
634-682	June 21, 2013	49	16,709	16,70,900	„
683-731	June 28, 2013	49	16,709	16,70,900	„
732-780	June 30, 2013	49	16,709	16,70,900	„
781-828	July 07, 2013	48	16,368	16,36,800	„
829-877	July 14, 2013	49	16,709	16,70,900	„
878-926	July 21, 2013	49	16,709	16,70,900	„
927-975	July 28, 2013	49	16,709	16,70,900	„
976-1024	July 31, 2013	49	16,709	16,70,900	„
1025-1073	August 07, 2013	49	16,709	16,70,900	„
1074-1122	August 14, 2013	49	16,709	16,70,900	„
1123-1171	August 21, 2013	49	16,709	16,70,900	„
1172-1220	August 28, 2013	49	16,709	16,70,900	„
1221-1269	August 31, 2013	49	16,709	16,70,900	„
1270-1318	September 07, 2013	49	16,709	16,70,900	„
1319-1367	September 14, 2013	49	16,709	16,70,900	„
1368-1416	September 21, 2013	49	16,709	16,70,900	„
1417-1464	September 28, 2013	48	16,368	16,36,800	„
1-49	September 30, 2013	49	16,709	16,70,900	„
Total		1,464	4,99,224	4,99,22,400	

* MRDT has filed no return for allotment of equity shares as regards the serial number 245-293 above

- From the above, it is seen that MRDT had allotted the equity shares in various tranches and a total of ₹4,99,22,240 has been mobilized from 1,464 investors during the relevant period. MRDT as on July 14, 2014, had passed resolution for increasing the authorised share capital from ₹10 Crores to ₹15 Crores. I note that though the allotment of shares had happened from April 07, 2013 till September 30, 2013, however, as per the MCA-21 portal, it is observed that MRDT has filed the forms for allotment only during January, 2014. It is further noted that MRDT has not filed the balance sheet for the period ending March 31, 2014.
- As per the Memorandum of Association of MRDT, its main object is to carry on the business of purchase and sale of waste land, to engage in the business of real estates, etc. From the application of MRDT for the grant of registration as a 'Collective Investment Management Company', following is observed:



"The promoters had started the company with initial activity of buying and selling of immovable properties and small real estate land. Then slowly the company had taken funds from their close associates, investors for their investment purposes.

The company collect the funds through its established base of investors for the purpose of buying of lands which they hold for few days/months/years for better appreciation. The company usually waits for only few months and disposes it off immediately in order to enable the company to invest in other projects. The company gives 5% of the invested to investor on the invested amount. The payment is made to the investors by way of cheque.

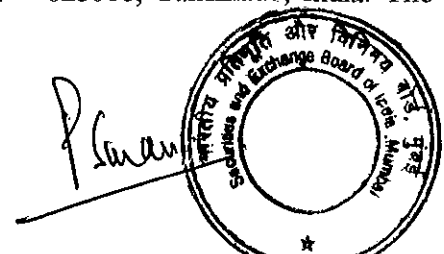
The company closes the scheme within 36 months as and when required by the investors. On the closure of the scheme the Receipt/certificate is taken back by the company from the investor."

- **Financials of MRDT:** As per the Auditor Certificate annexed along with the application for the grant of registration as a 'Collective Investment Management Company', as on February 28, 2014 the investment of MRDT in land has been shown to be only ₹1.03 Crores, whereas the 'procurement advance' as on February 02, 2014 is shown as ₹22.37 Crores. It is noted from the balance sheet of MRDT, 'Long Term Borrowings from the investors' as on March 31, 2012 is ₹9.95 Crores and as on March 31, 2013, it is ₹17.54 Crores. I note that MRDT has shown 'Investment Receipts' as revenue, amounting to ₹39.55 Crores and ₹47.21 Crores on March 31, 2012 and March 31, 2013 respectively. Further, from the financials of MRDT, it is observed that the Company has spent substantial amount for promotion of their deposit/ subscription plans. The business procurement expenses of MRDT as per the Profit and Loss Account are as under:

Table C

Business procurement expenses of MRDT		
	As on March 31, 2012 in ₹ Crores	As on March 31, 2013 in ₹ Crores
Advertisement		0.68
Branch Development expenses		0.88
Freelancers commission	38.53	26.06
Freelancers incentives		2.73
Business mobilization prices		0.63
Business promotion expenses		0.15
Zonal Branch promotion expenses		8
Grand meet expenses		0.37
Weekly meeting expenses		0.08
Customer meet Expenses		0.27
Meeting Expenses		0.36
Software Expenses		1.44
Total	38.53	41.65

- c. **MRDF** (Madurai Rural Development Benefit Fund (India) Limited) was incorporated on June 28, 2011, with CIN number as U65999TN2011PLC081265, having its office at No. 61, Ashok Nagar, 4th Street, Koodal Nagar, Madurai – 625018, Tamilnadu, India. The



Auditor and the practicing Company Secretary of MRDT are Mr. G. Selvakumar and Mr. S. Muthuraju respectively.

- According to the details collected, the following are its promoters/ directors/ ex-directors:

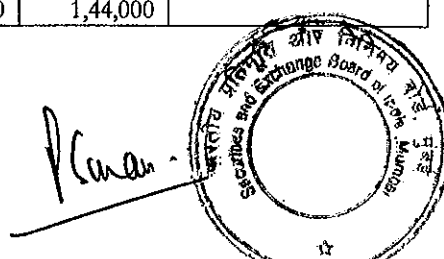
Table D

S.No.	Name	DIN	Remarks
1	Mr. Mohammed Yusuff Suresh Batcha	02443876	Managing Director
2	Mr. Gopalathinam Ramarathinam	06555632	Director
3	Mr. Srinivasan Srikumar	06555637	Director
4	Ms. Mumtaj Begam Baba	02703379	Ex-Director (Resigned from August 26, 2013)
5	Ms. Lilun Nihar Yousuff	02712182	Ex-Director (Resigned from August 26, 2013)

- As per the annual return filed by MRDF with MCA, as on May 30, 2013, it is noted that all the shares are held by the directors and their relatives. From the above discussion, it is noted that both MRDT and MRDF have common Managing Director, common Directors and common Promoters.
- The details of the allotment of equity shares by MRDF, during the period of August 05, 2013 and December 30, 2013, as per the forms filed with the RoC, obtained from the 'MCA 21 Portal', are as under:

Table E

S.No.	Date of Resolution for Allotment	No. of Board for	No. of allottees	No. of equity shares (of ₹10 each)	Amount in ₹	Remarks
1	August 05, 2013		48	14,400	1,44,000	300 Shares per person
2	August 12, 2013		48	14,400	1,44,000	"
3	August 19, 2013		48	14,400	1,44,000	"
4	August 26, 2013		48	14,400	1,44,000	"
5	August 30, 2013		48	14,400	1,44,000	"
6	September 04, 2013		48	14,400	1,44,000	"
7	September 11, 2013		48	14,400	1,44,000	"
8	September 18, 2013		48	14,400	1,44,000	"
9	September 25, 2013		48	14,400	1,44,000	"
10	October 04, 2013		48	14,400	1,44,000	"
11	October 11, 2013		48	14,400	1,44,000	"
12	October 18, 2013		48	14,400	1,44,000	"
13	October 25, 2013		48	14,400	1,44,000	"
14	October 30, 2013		48	14,400	1,44,000	"
15	November 04, 2013		48	14,400	1,44,000	"
16	November 11, 2013		48	14,400	1,44,000	"
17	November 18, 2013		48	14,400	1,44,000	"



18	November 25, 2013	48	14,400	1,44,000	„
19	December 04, 2013	48	14,400	1,44,000	„
20	December 11, 2013	48	14,400	1,44,000	„
21	December 18, 2013	48	14,400	1,44,000	„
22	December 25, 2013	48	14,400	1,44,000	„
23	December 30, 2013	48	14,400	1,44,000	„
	Total	1104	3,31,200	33,12,000	

- From the above, it is seen that MRDF had allotted the equity shares in various tranches and a total of ₹33,12,000 have been mobilized from 1,104 investors during the relevant period. Further, I also note that though the allotment of shares by MRDF had happened till December 30, 2013, the MCA- 21 portal shows that MRDF has filed the forms for allotment only on August 15/ 16, 2014.

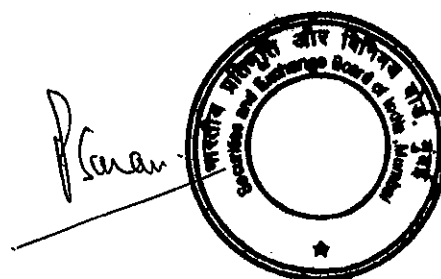
- As per the balance sheet of MRDF for financial year 2011-2012 and 2012-2013, as on March 31, 2013, MRDF has collected recurring deposits of ₹22.40 lakh and fixed deposits of ₹13.53 lakh. The recurring deposits for the year 2012 stood at ₹5.86 lakh.

d. The name Madurai Rural Development Benefit Fund (India) Limited apparently gives an impression that MRDF is notified by ROC as a 'Nidhi /Mutual Benefit Company', which in the course of its business accepts deposits from its members. However, I note the response of MRDF to RBI that it has initiated the process of applying to ROC for approval for its 'Nidhi' status. Further, I also note that ROC has clarified that a company cannot collect deposits from members without first obtaining 'Nidhi' status. Thus, it appears that MRDF is deceiving public that it is regulated as 'Nidhi/ Mutual Benefit Company' through its misleading name.

9. The total money mobilized by the MRDT and MRDF through the issue of equity shares for the relevant months, as discussed above, could be consolidated as follows:

Table F

Year	No. of securities	No. of persons to whom issued (approx.)	Total Amount (₹) mobilized
MRDT	4,99,224	1,464	4,99,22,400
MRDF	3,31,200	1,104	33,12,000
Total	8,30,424	2,568	5,32,34,400

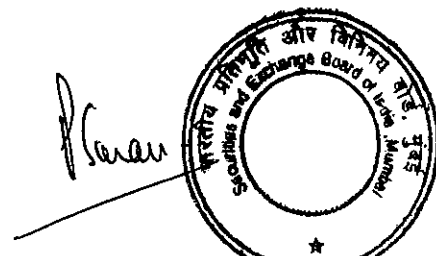


As per the details available on record, the group Companies namely MRDT and MRDF have mobilized ₹5,32,34,400 (by issuing of shares) from more than 2,568 public investors.

10. Having considered the above, it is now necessary to refer to the provisions of the Companies Act, which are relevant to the facts of the case. As the allotment of the equity shares of MRDT had happened between April 07, 2013 and September 30, 2013 and the allotment of MRDF equity shares had happened between August 05, 2013 and December 30, 2013, the allotments need to comply with the provisions of both the Companies Act, 1956 (since repealed) as well as the provisions of the Companies Act, 2013 as notified on September 12, 2013. MCA had *inter alia* notified section 42 of the Companies Act, 2013 (the corresponding section of section 67 of the Companies Act, 1956) on April 01, 2014. In view of the same, the provisions of sub-sections (1), (2) and (3) of the Section 67 of the Companies Act, 1956 (since repealed) are applicable to the allotments made by MRDT and MRDF.

In terms of Section 67(3), no offer or invitation shall be treated as made to the public by virtue of sub-sections (1) or (2), as the case may be, if the offer or invitation can properly be regarded, in all circumstances – (a) as not being calculated to result, directly or indirectly, in the shares or debentures becoming available for subscription or purchase by persons other than those receiving the offer or invitation; or (b) otherwise as being a domestic concern of the persons making and receiving the offer or invitation. In terms of the *proviso* to the aforesaid section, the provisions of Section 67(3) shall not apply in a case where the offer or invitation to subscribe for shares or debentures is made to fifty persons or more. Therefore, if an offer of securities is made to fifty or more persons, it would be deemed to be a public issue, even if it is of domestic concern or proved that the shares or debentures are not available for subscription or purchase by persons other than those received the offer or invitation. The number of persons to whom the shares have been allotted becomes relevant to judge whether an issue of shares is made to public or made on a private placement basis.

11. In the instant matter, it is noted that MRDT has allotted equity shares to 1,464 persons and mobilized funds to the tune of ₹4.99 crore. Similarly, MRDF has allotted equity shares to 1,104 persons and mobilized funds amounting to ₹33.12 lakh. From the series of allotment made and the forms filed with the RoC, it is observed that equity shares have been allotted

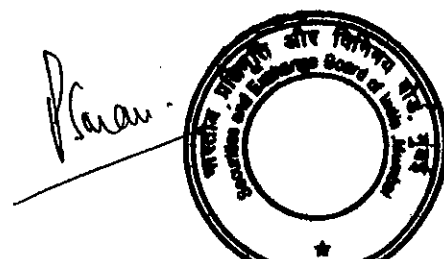


to 48/49 persons, over several weeks continuously by MRDT [during the period of April 07, 2013 and September 30, 2013] in 31 instances and MRDF [during the period of August 05, 2013 and December 30, 2013] in 23 instances. While each allotment of equity shares appears to have been approved by resolutions passed by the Board of Directors of MRDT and MRDF respectively, the frequency and time span between such approvals coupled with the series of allotments made every week *prima facie* indicates that the method adopted by MRDT and MRDF (issuing the equity shares through multiple allotments) appears to be a device intended to give a picture that each allotment is separate and that it was a private placement.

As per the first proviso to section 67(3) of the Companies Act, 1956, where the 'offer' or 'invitation to subscribe for shares or debentures' is made to fifty persons or more, then it has to be construed as a public offer. Hence, the series of allotments made by MRDT and MRDF prima facie are nothing but a single offer of equity shares made by these Companies and can be construed as a public offer of securities. From the information available in the MCA-21 Portal, it can be seen that MRDT and MRDF have made offer of equity shares to 1,464 and 1,104 persons respectively. Further, I note that the application form for the subscription of the equity shares as circulated by MRDT does not contain any serial number or name of the person to whom it is issued, the same indicates that the issue is not a private placement.

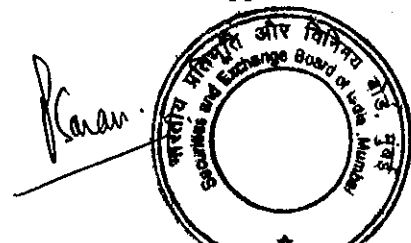
I note that once the offer is made to 50 or more persons, it would be construed as public issue requiring the company to make an application to list its equity shares. Further, both MRDT and MRDF are not stated to be non-banking financial companies (NBFC) or public financial institutions within the meaning of Section 4A of the Companies Act, 1956 and therefore, are not covered under the exemption granted under second proviso to Section 67(3) of the Companies Act, 1956. In view of the foregoing, it could be *prima facie* observed that the aforesaid issue of equity shares made by MRDT and MRDF were deemed public issues.

12. Having observed that the shares issued by MRDT and MRDF are *prima facie* in the nature of public issue, the aforesaid companies were required to comply with provisions of the Companies Act, 1956 and other relevant statutory provisions regulating such activity. I note that in case of any public issue of securities, the relevant provisions of the Companies



Act, 1956 *inter alia* are sections 60 read with section 2(36) [corresponding provision in the Companies Act, 2013 is section 2(70) which has been notified on September 12, 2013], 56(1), 56(3) [corresponding provision in the Companies Act, 2013 is section 33(1) which has been notified on September 12, 2013] and 73 [corresponding provision in the Companies Act, 2013 is section 40], thereof needs to be complied with. In terms of section 60 read with the section 2(36) of the Companies Act, 1956, a company needs to file a prospectus with respect to its public issue with the RoC. As per Section 2(36) of the Companies Act, 1956 'prospectus' means any document described or issued as a prospectus and includes any notice, circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any shares in, or debentures of, a body corporate. Section 2 (70) of the Companies Act, 2013, also defines 'prospectus' in similar terms. As per the information available in the MCA-21 portal, MRDT and MRDF have not filed any prospectus with respect to the said issues. As mentioned above, MRDT and MRDF have made offer of equity shares to 1,464 and 1,104 persons respectively and the said offer *prima facie* has to be construed as a public offer. Having made such public offers, the said companies ought to have registered the Prospectuses with RoC under Section 60 of the Companies Act, 1956. Consequentially, MRDT and MRDF have also *prima facie* not complied with the provisions of section 56(1) and 56(3) of the Companies Act, 1956, which refers to the matters that are to be stated in the prospectus and the documents (*i.e., the memorandum containing salient features of the prospectus*) that should accompany the application form inviting subscription.

13. By issuing equity shares to more than 50 persons, the Company had to compulsorily list such securities in compliance with section 73 of the Companies Act, 1956. As per section 73(1) and (2) of the Companies Act, 1956, a company is required to make an application to one or more recognised stock exchanges for permission for the shares or debentures to be offered to be dealt with in the stock exchange and if permission has not been applied for or not granted, the company is required to forthwith repay with interest all moneys received from the applicants. Section 40 of the Companies Act, 2013 (corresponding provision to section 73 of the Companies Act, 1956 (since repealed)), applicable with effect from September 12, 2013, states that every company making public offer shall, before making such offer, make an application to one or more recognized stock exchange or exchanges and obtain permission for the securities to be dealt with in such stock exchange or exchanges. From the material available on record, MRDT and MDRF appears to have not



done so and contravened the said provisions as it *prima facie* neither made an application seeking listing permission nor refunded the amounts on account of such failure. MRDT and MRDF have also not complied with the provisions of section 73(3) as it has not kept the amounts received from investors in a separate bank account and failed to repay the same in accordance with section 73(2) of the Companies Act, 1956. In view of the above, it is alleged that MRDT and MDRF have contravened the provisions of the Companies Act, 1956, which regulates the public issue of securities, including sections 60 read with section 2(36), 56(1), 56(3) and 73 of the Companies Act, 1956 and section 2(70), 33(1) and 40 of the Companies Act, 2013, in respect of its collection of public funds towards the issuance of equity shares.

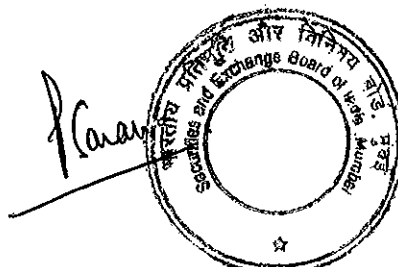
14. As per section 29 of the Companies Act, 2013 (applicable from September 12, 2013), every company making public offer of securities, shall issue the securities only in dematerialised form by complying with the provisions of the Depositories Act, 1996 and the regulations made thereunder. As per the information available on records, it is reasonably inferred that MRDT and MRDF have not complied with the said provision and have *prima facie* violated section 29 of the Companies Act, 2013.

15. It may be noted that though as per section 465(1) of the Companies Act, 2013, the Companies Act, 1956, 'shall stand repealed', section 465(2) of the Companies Act, 2013, provides that:

"(2) Notwithstanding the repeal under sub-section (1) of the repealed enactments,—

(a) anything done or any action taken or purported to have been done or taken, including any rule, notification, inspection, order or notice made or issued or any appointment or declaration made or any operation undertaken or any direction given or any proceeding taken or any penalty, punishment, forfeiture or fine imposed under the repealed enactments shall, insofar as it is not inconsistent with the provisions of this Act, be deemed to have been done or taken under the corresponding provisions of this Act;

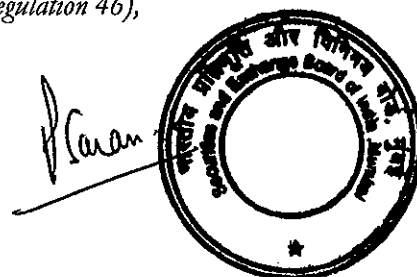
16. I now discuss the regulatory powers and the jurisdiction of SEBI on the companies that raise funds, by issue of securities, from the public. In this regard, I refer to the section 55A of the Companies Act, 1956. In terms of the relevant provisions of the said section, the provisions contained in sections 55 to 58, 59 to 81 (including Sections 68A, 77A and 80A), 108, 109, 110, 112, 113, 116, 117, 118, 119, 120, 121, 122, 206, 206A and 207 of the



Companies Act, 1956 read with section 24 of the Companies Act, 2013 so far as they relate to the issue and transfer of securities shall be in the case of listed public companies and in the case of those public companies which intend to get their securities listed on any recognised stock exchange in India, be administered by SEBI. The terms 'securities' as per section 2(h) of the Securities Contracts (Regulation) Act, 1956 includes 'shares'. I observe that sections 67 and 73 of the Companies Act, 1956 are included in the list of sections as mentioned in section 55A of the Companies Act, 1956, and therefore, such sections are to be administered by SEBI.

17. Further, as per the provisions of section 55A of the Companies Act, 1956 read with section 465 of the Companies Act, 2013, the administrative authority on the subjects relating to public issue of securities is with SEBI. For this purpose, SEBI can exercise the jurisdiction under Sections 11(1), 11A, 11B and 11(4) of the SEBI Act read with section 55A of the Companies Act, 1956 and section 465 of the Companies Act, 2013, over companies who issue equity shares to fifty persons or more, but fail to comply with the applicable provisions of the aforesaid statutes.
18. I note that SEBI had notified the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ('ICDR Regulations') with effect from August 28, 2009 and all the public issues are now required to comply with the ICDR Regulations which lays down the eligibility norms, disclosure norms and other procedural requirements, for ensuring investor protection in case of issue of securities. The ICDR Regulations operates as reasonable safeguards for the investors who subscribe or intended to subscribe in the public issues of securities. In this regard, I *prima facie* observe that MRDT and MDRF have also *prima facie* not complied with the following clauses of the provisions of ICDR Regulations:

- Application for listing of specified securities on one or more recognized stock exchange (Regulation 4(2)),
- Appointment of merchant banker and other intermediaries (Regulation 5),
- Filing of draft offer document with SEBI and the designated stock exchange and RoC (Regulation 6),
- Obtaining in-principle approval from the recognized stock exchanges in which the specified securities are to be listed (Regulation 7),
- Satisfy the conditions of initial public offer (Regulation 25 and 26),
- Lock-in of specified securities held by promoters and persons other than promoters (Regulation 36 and 37)
- Keeping the public issue open for the specified period (Regulation 46),



- Pre issue advertisement for public issue (Regulation 47)
- Manner of disclosures in the offer documents (Regulation 57)
- Refrain from offering any incentive to any person making application for allotment of specified securities (Regulation 59).
- Issuer to appoint compliance officer who would be responsible for monitoring the compliance of securities laws and for redressal of investors' grievances. (Regulation 63)

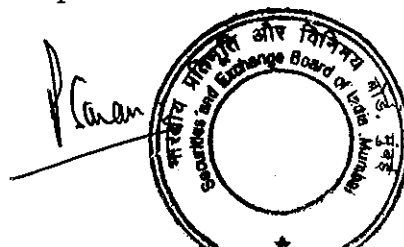
In view of the above, in addition to the non compliance with the relevant provisions of the Companies Act, 1956, the Company has also *prima facie* failed to comply with the aforesaid provisions of the ICDR Regulations, with respect to its money mobilization activities from the public by issuing equity shares. Thus, from the information available on record, it appears that MRDT and MRDF has *prima facie* violated the provisions of sections 56 (1), 56 (3), 60 and 73 of the Companies Act, 1956, section 29, 33 (1) and 40 of the Companies Act, 2013 and Regulation 4, 5, 6, 7, 8, 9, 25, 26, 32, 36, 37, 46, 47, 49, 57, 58, 59 and 63 of the ICDR Regulations.

19. In this regard, it is important to note the following observation made by the Hon'ble Supreme Court of India in the matter of *Sahara India Real Estate Corporation Limited & Others Vs. SEBI and another* (Civil Appeal Nos. 9813 and 9833 of 2011; decided on August 31, 2012):

"90. in India that any share or debenture issue beyond forty nine persons, would be a public issue attracting all the relevant provisions of the SEBI Act, regulations framed thereunder, the Companies Act, pertaining to the public issue."

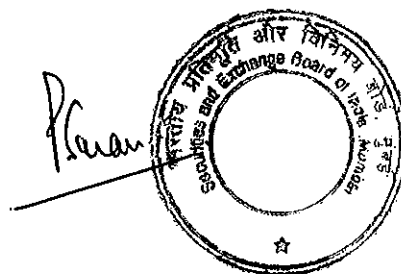
[Emphasis supplied]

20. In view of the above, I find that the MRDT and MRDF allotted shares to public but did not comply with any of the applicable provisions of the ICDR Regulations and the Companies Act. I, therefore, find that MRDT and MRDF have *prima facie* contravened the provisions of the ICDR Regulations, the Companies Act, 1956 and the Companies Act, 2013. I note that the scope of sections 11, 11B and 11(4) of the SEBI Act are wide enough to include a promoter/ director or other concerned persons. Further, as per Regulation 107 of the ICDR Regulations, directions can be issued against MRDT and MRDF and the 'persons concerned' including its promoters/ directors. In terms of Regulation 2(1)(za) of the ICDR Regulations, the term 'promoter' includes; 'the person or persons who are instrumental in the formulation of a plan or program pursuant to which specified securities are offered'. I, therefore, am of the view that for the contravention of provisions of ICDR Regulations, the directions can be issued to the 'persons concerned' including the



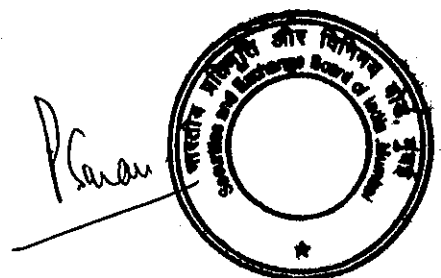
promoters who are instrumental in the formulation of an illegal plan or program pursuant to which equity shares were offered to the public by MRDT and MRDF.

21. I observe that MRDT and MRDF had started allotting equity shares since April 07, 2013 and August 05, 2013 respectively. Thus, it can be reasonably inferred that the promoters/directors of MRDT and MRDF namely Mr. Mohammed Yusuff Suresh Batcha, Managing Director (MDRT and MRDF), Mr. Gopalarathinam Ramarathinam (MDRT and MRDF), Mr. Srinivasan Srikumar (MDRT and MRDF), Mr. Vasudevan Balaji (MDRT), Mr. Kasiviswanathan Venkataraman (MDRT), Mr. Nagasubramanian Rajalakshmi (MDRT), Mr. Sudhakaran Lataji (MDRT), Ms. Mumtaj Begam Baba (resigned on August 26, 2013 from both MRDT and MRDF), Ms. Lilun Nihar Yousuff (resigned on August 26, 2013 from both MRDT and MRDF) and Mr. Sithikbasha Mohamed Yusuf (resigned on August 26, 2013 from both MRDT and MRDF) were instrumental in the formulation of the plan/scheme of fraudulent issue of equity shares of MDRT and MRDF.
22. From the above discussion and the document available on record, it can be summarized as under that:
- a. Based on the documents on record, there is a possible inference that MRDT and MRDF are mobilizing monies from the public and are issuing equities to such persons in order to make them 'members' before 'deposit holders' and rampantly soliciting 'fixed deposits'/'recurring deposits' from such members. With respect to their equity issuance, as stated above, they have *prima-facie* violated the provisions of Companies Act, 1956 and 2013 and the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 mentioned above.
 - b. The terms and conditions mentioned in the backside of the application form appears to be drafted meaninglessly in order to deceive the public.
 - c. I also note that MRDF and MRDT are *prima facie* paying huge amount of commission/incentives and incurring huge promotional expenses (*as detailed in table C above*) to solicit money from the public. It may be stated here that all *ponzi* schemes rely on the new inflows in order to fund existing obligation/ outflow, provide highly attractive incentives to the agents
 - d. Further, as regards, the practice of showing 'Investment Receipts' as revenue (i.e. amounting to ₹39.55 crore and ₹47.21 crore as on March 31, 2012 and March 31, 2013 respectively), the

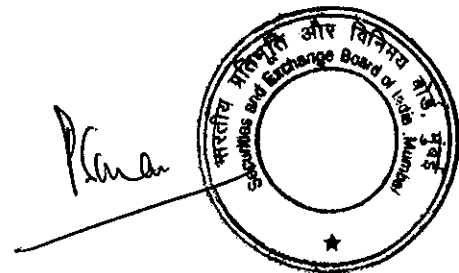


same appears to be a deceptive accounting practice, which merits complete scrutiny of their books and accounts by the concerned regulator .

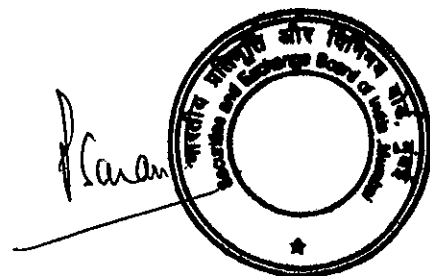
23. I note that till date MRDT has not provided the information sought by SEBI on different occasions. On perusal of the application for registration as a 'Collective Investment Management Company' by MRDT (which was later withdrawn vide letter dated August 28, 2014), it appears that the same was filed only to delay the proceedings. Having found that the acts of MRDT and MRDF are in violation of the provisions of sections 56 (1), 56 (3), 60 and 73 of the Companies Act, 1956, section 29, 33 (1) and 40 of the Companies Act, 2013 and Regulation 4, 5, 6, 7, 8, 9, 25, 26, 32, 36, 37, 46, 47, 49, 57, 58, 59 and 63 of the ICDR Regulations, I note that such activities pose serious threat to the integrity of the securities market in India. While SEBI is endeavoring to increase investors' confidence and retail participation in the securities market, incidents of fraud inducing investors to part with their hard earned monies under the garb of inviting investments in securities, shake the confidence of investors in the securities market. I note that SEBI has a statutory duty to protect the interest of investors in securities and promote the development of, and to regulate, the securities market. Section 11 of the SEBI Act empowers SEBI to take such measures as it deems fit for fulfilling its legislative mandate. In view of the nature of the alleged violations and to prevent the Company from further mobilization of funds from the public under the garb of issuing equity shares or any other form of security, and in the interests of investors, it becomes necessary for SEBI to intervene at this stage by passing suitable directions.
24. Therefore, it becomes necessary for SEBI to intervene and issue suitable directions in order to ensure that MDRT and MRDF and its promoters/ directors do not continue to collect public funds in contravention of the law. I note that as mentioned above, protecting the interests of investors is a mandate for SEBI and therefore, immediate steps have to be taken in the instant matter to ensure that no investors are defrauded by MRDT and MRDF any further and also to safeguard the assets or property acquired through such public funds till the complete details are brought out and a final decision is accordingly taken in the matter. In the absence of such preventive action, irreparable loss and damage may be caused to investors.



25. 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 and sections 11(1), 11(4), 11A(1)(b) and 11B thereof read with regulations 107 and 111 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, hereby issue the following directions:
- The Companies, namely, Madurai Rural Development Benefit Fund (India) Limited and Madurai Rural Development Transformation India Limited are restrained from mobilizing funds through the issue of equity shares, debentures, preference shares or through issuance of any kind of security to the public and/ or invite subscription or deposit, in any manner whatsoever, either directly or indirectly, till further directions.
 - The Companies and their respective promoters and directors including Mr. Mohammed Yusuff Suresh Batcha (DIN: 02443876), Mr. Gopalarathinam Ramarathinam (DIN: 06555632), Mr. Srinivasan Srikumar (DIN: 06555637), Mr. Vasudevan Balaji (DIN: 06860167), Mr. Kasiviswanathan Venkataraman (DIN: 06860187), Mr. Nagasubramanian Rajalakshmi (DIN: 06861472), Mr. Sudhakaran Lataji (DIN: 06861823), Ms. Mumtaj Begam Baba (DIN: 02703379), Mr. Sithikbasha Mohamed Yusuf (DIN: 02703420) and Ms. Lilun Nihar Yousuff (DIN: 02712182) are prohibited from issuing prospectus or any offer document or issue advertisement for soliciting money from the public for the issue of securities, in any manner whatsoever, either directly or indirectly, till further orders.
 - The Companies and their respective promoters and directors including the above named persons shall not dispose off any of the properties or alienate the assets of the Company or dispose off any of their properties or alienate their assets.
 - The Companies and their respective promoters and directors including the above named persons shall not divert any funds raised from public at large through the allotment of shares, kept in its bank accounts and/or in the custody of the company without prior permission of SEBI, until further orders.
 - The above named Companies and their respective directors and promoters including Mr. Mohammed Yusuff Suresh Batcha, Mr. Gopalarathinam Ramarathinam, Mr. Srinivasan Srikumar, Mr. Vasudevan Balaji, Mr. Kasiviswanathan Venkataraman, Mr. Nagasubramanian Rajalakshmi, Mr. Sudhakaran Lataji, Ms. Mumtaj Begam Baba, Mr. Sithikbasha Mohamed Yusuf and Ms. Lilun Nihar Yousuff are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in the securities market, either directly or indirectly, till further directions.



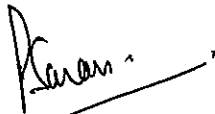
- f. The above named Companies and their respective promoters and directors including the above named persons shall co-operate with SEBI and shall furnish documents, that are in their possession, which may be required by SEBI in the course of its examination. The Companies, its promoters and directors shall provide a full inventory of all their assets and properties;
- g. The Companies and their respective promoters and directors including the above named persons shall, within 21 days from the date of receipt of this Order, provide SEBI with all relevant and necessary information including details of equity shares or other securities issued by it, as sought vide SEBI letters dated July 14, 2014 and August 08, 2014.
26. Madurai Rural Development Benefit Fund (India) Limited and Madurai Rural Development Transformation India Limited and the above named directors and ex-directors shall show cause as to why appropriate action under Section 11(1), 11(4), 11A(1)(b) and 11B Securities and Exchange Board of India Act, 1992 read with Regulation 107 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 including the following actions should not be taken against them:
- a. directing them jointly and severally to refund the money collected under the above issues to the investors with interest;
- b. directing them to not to issue prospectus or any offer document or issue advertisement for soliciting money from the public for the issue of securities, in any manner whatsoever, either directly or indirectly, for a particular period;
- c. directing them and other companies in which their directors and ex-directors hold substantial or controlling interest, to not to access the capital market for a particular period as well as initiating prosecution proceedings under section 621 of the Companies Act, 1956 and Section 24 of SEBI Act, 1992 read with the relevant sections of the Companies Act, 1956.
27. The above directions shall come into force with immediate effect and shall be in force, until further orders.
28. Madurai Rural Development Benefit Fund (India) Limited and Madurai Rural Development Transformation India Limited and its abovementioned Directors and Ex-Directors may, within 21 days from the date of receipt of this Order, file their reply, if any,



to this Order and may also indicate whether they desire to avail themselves an opportunity of personal hearing on a date and time to be fixed on a specific request made in that regard.

29. In view of the seriousness of the case and rampant and *prima facie* illegal solicitation of funds from the public by Madurai Rural Development Benefit Fund (India) Limited and Madurai Rural Development Transformation India Limited, I feel it is appropriate to forward the copy of this Order to concerned regulatory authorities. In the light of the same, a copy of this order shall be furnished to the Ministry of Corporate Affairs, Reserve Bank of India and the Economic Offence Wing, Police Department of State of Tamilnadu, for examining the issues falling under their respective jurisdiction and to take further action, if necessary.
30. This Order is without prejudice to the right of SEBI to take any other action that may be initiated against Madurai Rural Development Benefit Fund (India) Limited and Madurai Rural Development Transformation India Limited and its abovementioned Directors and ex-Directors in accordance with law.

DATE : OCTOBER 27, 2014
PLACE: MUMBAI


PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

