

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

ORDER

Under Sections 11, 11(4), 11A and 11B of the Securities and Exchange Board of India Act, 1992, in the matter of Skymarg Agro Industries India Limited (PAN: AASCS8925M) and its Directors, viz. Shri Pradip Kumar Das (PAN: ANZPD5088R; DIN: 06483239), Shri Dharmnath Rai (PAN: AZBPR2908J; DIN: 06490157), Shri Jai Singh (PAN: BPZPS7525B; DIN: 06490160), Shri Subhasis Mahato (PAN: ARQPM0643J; DIN: 06490168) and Shri Sumit Kumar Das (PAN: AQIPD2277J; DIN: 06490177).

1. Securities and Exchange Board of India (“**SEBI**”) received a complaint on October 9, 2014, against Skymarg Agro Industries India Limited (“**SMAIIL**”) alleging illegal mobilization of funds through issue of *Redeemable Preference Shares*.
- 2.1 Thereafter, SEBI vide letters dated October 29, 2014, sought the following information from SMAIIL and its Directors at the relevant time i.e. Shri Pradip Kumar Das, Shri Dharmnath Rai, Shri Jai Singh, Shri Subhasis Mahato and Shri Sumit Kumar Das, viz. –
 - i. Copy of Audited Annual Accounts and Annual Returns of the company for the last 3 years;
 - ii. Name, addresses and occupation and PAN of all the Promoters/Directors and Key Managerial of the company;
 - iii. Nature of business;
 - iv. Other information in respect of issue of shares/debentures by the company, viz. –
 - a. Copy of Prospectus/Red Herring Prospectus/Statement in lieu of Prospectus/Information Memorandum filed with Registrar of Companies (“**ROC**”);
 - b. Date of opening and closing of the subscription list;
 - c. Details regarding the number of application forms circulated inviting subscription;
 - d. Details regarding the name of allottees, date of allotment, number of shares allotted, etc.;

- e. Copies of the minutes of Board/Committee meeting in which the resolution was passed for raising such additional capital and also for allotment;
 - f. Terms and conditions of the issue of shares/debentures;
 - g. Details of application for listing, if any, filed with stock exchanges;
 - h. Copy of Form 2 and Form 10 filed with ROC;
 - i. Details of Debenture Trustee, etc.
- 2.2 The abovementioned letters sent to SMAILL and its Directors, viz. Shri Pradeep Kumar Das, were returned as undelivered. However, the letters sent to Shri Jai Singh, Shri Subhasis Mahato and Shri Sumit Kumar Das, were delivered.
- 2.3 Subsequently, reminders dated November 13, 2014, were sent by SEBI to SMAILL and its Directors. While the letters sent to SMAILL and its Directors i.e. Shri Pradeep Kumar Das, Shri Dharmnath Rai and Shri Sumit Kumar Das, were returned as undelivered, the letters sent to Shri Jai Singh and Shri Subhasis Mahato, were delivered.
- 2.4 Vide an undated reply (which was received at SEBI on Dec 4, 2014), SMAILL *inter alia* submitted that its financial statements were under finalization and would be submitted as and when such finalization was complete.
- 2.5 Reminders dated January 21, 2015, were again issued to SMAILL and its Directors.
- 2.6 The letters sent to SMAILL and its Directors i.e. Pradeep Kumar Das and Shri Sumit Kumar Das, were again returned as undelivered. However, the letters sent to Shri Jai Singh, Shri Dharmnath Rai and Shri Subhasis Mahato, were delivered.
- 2.7 No information has been received from SMAILL or any of its Directors till now.
- 2.8 SEBI also received several other complaints alleging illegal mobilization of funds by SMAILL, during the period October 2014 – May 2015.
3. The material available on record i.e. the abovementioned complaints received by SEBI alongwith the documents contained therein and information obtained from the Ministry of Corporate Affairs' website i.e. *MCA 21 Portal*, have been perused. On an examination of the same, it is observed that –

- i. SMAIIL was incorporated on March 5, 2013, with the ROC, Kolkata with CIN as U15122WB2013PLC191177. Its Registered Office is at 70, G.T. Road (House of Subhasis Kundu), Babur Bazar, P.O. – Telenipara, Bhadreswar–712125, West Bengal, India.
- ii. The present Directors of SMAIIL are Shri Pradip Kumar Das, Shri Dharmnath Rai, Shri Jai Singh, Shri Subhasis Mahato and Shri Sumit Kumar Das.
- iii. From the documents annexed with the complaints received against SMAIIL, it is observed that –
 - a. SMAIIL issued *Redeemable Preference Shares* ("***Offer of Redeemable Preference Shares***") to investors during the Financial Year 2013–14, details of which are provided below –

Type of Security	Year	No. of persons to whom preference shares were allotted
<i>Redeemable Preference Shares</i>	2013–14	**65
<i>**Figures collated from the Preference Share Certificates dated June 1, 2013, submitted by the complainants. SMAIIL has not filed Form 2, Annual Report, Financial Statements, etc. with the ROC. Therefore, details of amount mobilized through the Offer of Redeemable Preference Shares is not available.</i>		

- b. SMAIIL issued copies of money receipts (dated July 3, 2013; July 6, 2013; July 31, 2013 and September 14, 2013) towards application for *Preference Shares*. The aforesaid receipts, which have been issued subsequent to *June 1, 2013 (date of Preference Share Certificates submitted by the complainants)*, show that SMAIIL had collected application money for further issue of *Preference Shares* even after the allotment indicated in the above Table.
- c. From the Brochure–cum–Application Form issued by SMAIIL in respect of *the Offer of Redeemable Preference Shares*, the following is observed –
 - ***“Authority of the Issue:*** *The shares are being issue pursuant to the resolution passed at a meeting of board directors of the company held on 1.04.2013.*

- **Who can invest:** Individuals, Trusts, Corporate Bodies, Minors (through Guardians), Financial Institutions, mutual funds, HUFs and Co-operative Bodies.
- **Size of Issue:** 1000 Lakhs ...
- *The Offer is being made on a private placement basis and cannot be accepted by person other than whom it has been offered ...*

4.1 In the context of the abovementioned details of the *Offer of Redeemable Preference Shares*, the issue for determination in the instant matter is whether the mobilization of funds by SMAILL through the aforesaid, is in accordance with the provisions of the SEBI Act, 1992 ("**SEBI Act**") and the Companies Act, 1956.

4.2 I note that the jurisdiction of SEBI over various provisions of the Companies Act in the case of public companies, whether listed or unlisted, when they issue and transfer securities, flows from the provisions of Section 55A of the Companies Act. While examining the scope of Section 55A of the Companies Act, 1956, the Hon'ble Supreme Court of India in ***Sahara India Real Estate Corporation Limited & Ors. vs. SEBI (Civil Appeal no. 9813 of 2011) (Judgment dated August 31, 2012)*** (hereinafter referred to as the "***Sahara Case***"), had observed:

"We, therefore, hold that, so far as the provisions enumerated in the opening portion of Section 55A of the Companies Act, so far as they relate to issue and transfer of securities and non-payment of dividend is concerned, SEBI has the power to administer in the case of listed public companies and in the case of those public companies which intend to get their securities listed on a recognized stock exchange in India."

4.3 In this regard –

- i. Reference is also made to Sections 67(1) and 67(3) of the Companies Act, 1956, which are reproduced as under:

"67. Construction of reference to offering shares or debentures to the public, etc.

67. (1) Any reference in this Act or in the articles of a company to offering shares or debentures to the public shall, subject to any provision to the contrary contained in this Act and subject also to the provisions of sub-sections (3) and (4), be construed as including a reference to offering them to any

section of the public, whether selected as members or debenture holders of the company concerned or as clients of the person issuing the prospectus or in any other manner.

(2) Any reference in this Act or in the articles of a company to invitations to the public to subscribe for shares or debentures shall, subject as aforesaid, be construed as including a reference to invitations to subscribe for them extended to any section of the public, whether selected as members or debenture holders of the company concerned or as clients of the person issuing the prospectus or in any other manner.

(3) No offer or invitation shall be treated as made to the public by virtue of sub-section (1) or sub-section (2), as the case may be, if the offer or invitation can properly be regarded, in all the 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.

Provided *that nothing contained in this sub-section shall apply in a case where the offer or invitation to subscribe for shares or debentures is made to fifty persons or more:*

Provided further *that nothing contained in the first proviso shall apply to non-banking financial companies or public financial institutions specified in section 4A of the Companies Act, 1956 (1 of 1956)."*

- ii. While examining the scope of Section 67 of the Companies Act, 1956, the Hon'ble Supreme Court of India in the *Sabara Case* observed that:

"Section 67(1) deals with the offer of shares and debentures to the public and Section 67(2) deals with invitation to the public to subscribe for shares and debentures and how those expressions are to be understood, when reference is made to the Act or in the articles of a company. The emphasis in Section 67(1) and (2) is on the "section of the public". Section 67(3) states that no offer or invitation shall be treated as made to the public, by virtue of subsections (1) and (2), that is to any section of the public, if the offer or invitation is 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 otherwise as being a domestic concern of the persons making and receiving the offer or invitations. Section 67(3) is, therefore, an exception to Sections 67(1) and (2). If the circumstances mentioned in clauses (1) and (b) of Section 67(3) are satisfied, then the offer/invitation would not be treated as being made to the public.

The first proviso to Section 67(3) was inserted by the Companies (Amendment) Act, 2000 w.e.f. 13.12.2000, which clearly indicates, nothing contained in Sub-section (3) of Section 67 shall apply

in a case where the offer or invitation to subscribe for shares or debentures is made to fifty persons or more. ...

Resultantly, 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. ...

I may, therefore, indicate, subject to what has been stated above, 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. ..."

- iii. In the instant matter, for ascertaining whether the *Offer of Redeemable Preference Shares* is a public issue or an issue on private placement basis in accordance with Section 67 of the Companies Act, 1956, the number of subscribers is of utmost importance.
 - a. Under the *Offer of Redeemable Preference Shares*, it is observed from the copies of *Redeemable Preference Share Certificates* dated June 1, 2013 (submitted by the complainants to SEBI) that the same were issued to a total of 65 individuals/investors (Table at paragraph 3(iii)(a) of page 3). The number of investors to whom allotments were made under the *Offer of Redeemable Preference Shares* would *prima facie* indicate that the number of persons to whom such *Offer* was made, was above the limit of forty-nine persons as prescribed under the *first proviso* to Section 67(3) of the Companies Act, 1956.
 - b. However, it is important to note that the number of allottees under the *Offer of Redeemable Preference Shares* has only been taken from the documents submitted with the complaints received by SEBI, against SMAIIL. Therefore, the actual number of allottees under the *Offer of Redeemable Preference Shares* could be many more times than the figures indicated in the Table at paragraph 3(iii)(a) of page 3.
 - c. It is observed that SMAIIL is not stated to be a Non-banking financial company or public financial institution within the meaning of Section 4A of the Companies Act, 1956. In view of the aforesaid, I, therefore, find that SMAIIL is not covered under the *second proviso* to Section 67(3) of the Companies Act, 1956.

- d. In view of the above, the *Offer of Redeemable Preference Shares* by SMAIIL, would *prima facie* qualify as a public issue under the *first proviso* to Section 67(3) of the Companies Act, 1956. In this regard, it is pertinent to note that by virtue of Section 55A of the Companies Act, 1956, Section 67 of that Act, so far as it relates to issue and transfer of securities, shall also be administered by SEBI.

4.4 I note that –

- i. From the abovementioned, it will follow that since the *Offer of Redeemable Preference Shares* is a public issue of securities, such securities shall also have to be listed on a recognized stock exchange, as mandated under Section 73 of the Companies Act, 1956. In this regard, reference is made to Sections 73 of the Companies Act, 1956, of which sub-Sections (1), (2) and (3) are relevant for the instant case, which is reproduced as under:

"73. (1) Every company intending to offer shares or debentures to the public for subscription by the issue of a prospectus shall, before such issue, make an application to one or more recognised stock exchanges for permission for the shares or debentures intending to be so offered to be dealt with in the stock exchange or each such stock exchange.

(1A) Where a prospectus, whether issued generally or not, states that an application under sub-section (1) has been made for permission for the shares or debentures offered thereby to be dealt in one or more recognized stock exchanges, such prospectus shall state the name of the stock exchange or, as the case may be, each such stock exchange, and any allotment made on an application in pursuance of such prospectus shall, whenever made, be void, if the permission has not been granted by the stock exchange or each such stock exchange, as the case may be, before the expiry of ten weeks from the date of the closing of the subscription lists:

Provided that where an appeal against the decision of any recognized stock exchange refusing permission for the shares or debentures to be dealt in on that stock exchange has been preferred under section 22 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956), such allotment shall not be void until the dismissal of the appeal.

(2) Where the permission has not been applied under subsection (1) or such permission having been applied for, has not been granted as aforesaid, the company shall forthwith repay without interest all moneys received from applicants in pursuance of the prospectus, and, if any such money is not repaid within eight days after the company becomes liable to repay it, the company and every director of the

company who is an officer in default shall, on and from the expiry of the eighth day, be jointly and severally liable to repay that money with interest at such rate, not less than four per cent and not more than fifteen per cent, as may be prescribed, having regard to the length of the period of delay in making the repayment of such money.

(3) All moneys received as aforesaid shall be kept in a separate bank account maintained with a Scheduled Bank 1 [until the permission has been granted, or where an appeal has been preferred against the refusal to grant such. permission, until the disposal of the appeal, and the money standing in such separate account shall, where the permission has not been applied for as aforesaid or has not been granted, be repaid within the time and in the manner specified in sub- section (2)]; and if default is made in complying with this sub- section, the company, and every officer of the company who is in default, shall be punishable with fine which may extend to five thousand rupees.”

- ii. In the *Sahara Case*, the Hon'ble Supreme Court of India also examined Section 73 of the Companies Act, 1956, wherein it observed that –

"Section 73(1) of the Act casts an obligation on every company intending to offer shares or debentures to the public to apply on a stock exchange for listing of its securities. Such companies have no option or choice but to list their securities on a recognized stock exchange, once they invite subscription from over forty nine investors from the public. If an unlisted company expresses its intention, by conduct or otherwise, to offer its securities to the public by the issue of a prospectus, the legal obligation to make an application on a recognized stock exchange for listing starts. Sub-section (1A) of Section 73 gives indication of what are the particulars to be stated in such a prospectus. The consequences of not applying for the permission under sub-section (1) of Section 73 or not granting of permission is clearly stipulated in sub-section (3) of Section 73. Obligation to refund the amount collected from the public with interest is also mandatory as per Section 73(2) of the Act. Listing is, therefore, a legal responsibility of the company which offers securities to the public, provided offers are made to more than 50 persons.

*... Section 73(2) says that every company and every director of the company who is an officer in default, shall be jointly and severally liable to repay that money with interest at such rate, not less than four per cent and not more than fifteen per cent, as may be prescribed. The scope of the above mentioned provisions came up for consideration before this Court in *Raymond Synthetics Ltd. & Ors. V. Union of India* (supra), wherein the Court held that in a case where the company has not applied for listing on a stock exchange, the consequences will flow from the company's disobedience of the law, the liability to pay interest arises as from the date of receipt of the amounts, for the company ought not to have received any such amount in response to the prospectus. I am, therefore, of the view*

that since Saharas had violated the listing provisions and collected huge amounts from the public in disobedience of law, SEBI is justified in directing refund of the amount with interest."

- iii. Having regard to the abovementioned observations of the Hon'ble Supreme Court of India, since the *Offer of Redeemable Preference Shares* is *prima facie* a public issue in accordance with the provisions of the Companies Act, 1956, the same will attract the requirement of compulsory listing before a recognized stock exchange in terms of Section 73(1) of the Companies Act, 1956 and also compliance with the provisions of Sections 73(2) and 73(3) of that Act.
- iv. In the facts of the instant case, it *prima facie* appears that SMAIIL has violated the provisions of Section 73 of the Companies Act, 1956, in respect of the *Offer of Redeemable Preference Shares*.

4.5 Under Section 2(36) read with Section 60 of the Companies Act, 1956, a company needs to register its prospectus with the ROC, before making a public offer or issuing the prospectus. As per the aforesaid Section 2(36), "*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. As mentioned above, since the *Offer of Redeemable Preference Shares* was made to fifty persons or more, it has to be construed as a public offer. Having made a public offer, SMAIIL was required to register a prospectus with the ROC under Section 60 of the Companies Act, 1956. I find that there is no evidence on record to indicate whether or not SMAIIL has complied with the provisions of Section 60 of Companies Act, 1956. In view of the same, I find that SMAIIL has *prima facie* not complied with the provisions of Section 60 of Companies Act, 1956.

4.6 Under Section 56(1) of the Companies Act, 1956, every prospectus issued by or on behalf of a company, shall state the matters specified in Part I and set out the reports specified in Part II of Schedule II of that Act. Further, as per Section 56(3) of the Companies Act, 1956, no one shall issue any form of application for shares in or debentures of a company, unless the form is accompanied by abridged prospectus, contain disclosures as specified. Based on the material available on record, I find that

SMAIIL has not complied with the provisions of Section 56(1) and 56(3) of the Companies Act, 1956 and therefore, has *prima facie* violated the aforesaid provisions.

- 4.7 Upon a consideration of the aforementioned paragraphs, I am of the view that SMAIIL is *prima facie* engaged in fund mobilising activity from the public, through the *Offer of Redeemable Preference Shares* and as a result of the aforesaid activity has violated the aforementioned provisions of the Companies Act, 1956 (Section 56, Section 60 read with Section 2(36), Section 73).
5. SMAIIL and its Directors were advised to respond to the preliminary examination conducted by SEBI through several letters dated October 29, 2014, November 13, 2014 and January 21, 2015. However, on all of these occasions, SMAIIL and its Directors failed to cooperate with SEBI. I am of the view that non-co-operation on the part of SMAIIL and its Directors with the preliminary inquiry conducted by SEBI when considered in the light of the abovementioned *prima facie* findings, lead to the inescapable conclusion that such refusal to furnish information sought by SEBI has only been to conceal the true nature and operation of their fund mobilizing activity.
6. SEBI has a statutory duty to protect the interests of investors in securities and promote the development of, and to regulate, the securities market. Section 11 of the SEBI Act has empowered it to take such measures as it deems fit for fulfilling its legislative mandate. Further, as per the provisions of Section 55A of the Companies Act, 1956, administrative authority on the subjects relating to public issue of securities is exclusively with SEBI. For this purpose, SEBI can exercise its jurisdiction under Sections 11(1), 11A, 11B and 11(4) of the SEBI Act read with Section 55A of the Companies Act, 1956 (as mentioned in paragraphs 4.1–4.7 above). Steps therefore, have to be taken in the instant matter to ensure only legitimate fund raising activities are carried on by SMAIIL and no investors are defrauded. In light of the facts in the instant matter, I find that there is no other alternative but to take recourse through an interim action against SMAIIL and its Directors, for preventing that company from further carrying on with its fund mobilising activity under the *Offer of Redeemable Preference Shares*.
7. In view of the foregoing, I, in exercise of the powers conferred upon me under Sections 11, 11(4), 11A and 11B of the SEBI Act, hereby issue the following directions –

- i. SMAILL(PAN: AASCS8925M) shall forthwith cease to mobilize funds from investors through the *Offer of Redeemable Preference Shares* or through the issuance of equity shares or any other securities, to the public and/or invite subscription, in any manner whatsoever, either directly or indirectly till further directions;
 - ii. SMAILL and its present Directors, viz. Shri Pradip Kumar Das (PAN: ANZPD5088R; DIN: 06483239), Shri Dharmnath Rai (PAN: AZBPR2908J; DIN: 06490157), Shri Jai Singh (PAN: BPZPS7525B; DIN: 06490160), Shri Subhasis Mahato (PAN: ARQPM0643J; DIN: 06490168) and Shri Sumit Kumar Das (PAN: AQIPD2277J; DIN: 06490177) 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;
 - iii. SMAILL and its abovementioned Directors, 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;
 - iv. SMAILL shall provide a full inventory of all its assets and properties;
 - v. SMAILL's abovementioned Directors shall provide a full inventory of all their assets and properties;
 - vi. SMAILL and its abovementioned Directors shall not dispose of any of the properties or alienate or encumber any of the assets owned/acquired by that company through the *Offer of Redeemable Preference Shares*, without prior permission from SEBI;
 - vii. SMAILL and its abovementioned Directors shall not divert any funds raised from public at large through the *Offer of Redeemable Preference Shares*, which are kept in bank account(s) and/or in the custody of SMAILL;
 - viii. SMAILL and its abovementioned Directors shall co-operate with SEBI and shall furnish all information/documents sought vide letter dated October 29, 2014.
8. The above directions shall take effect immediately and shall be in force until further orders.
- 9.1 The *prima facie* observations contained in this Order are made on the basis of the material available on record i.e. the abovementioned complaints received by SEBI alongwith the documents contained therein and information obtained from the *MCA 21 Portal*. In this context, SMAILL and its abovementioned Directors are advised to show cause as to why

suitable directions/prohibitions under Sections 11(1), 11(4), 11A and 11B of the SEBI Act including the following, should not be taken/imposed against them:

- i. Directing them jointly and severally to refund money collected through the *Offer of Redeemable Preference Shares* alongwith interest, if any, promised to investors therein;
- ii. Directing them 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 an appropriate period;
- iii. Directing them to refrain from accessing the securities market and prohibiting them from buying, selling or otherwise dealing in securities for an appropriate period.

9.2 SMAILL and its abovementioned Directors, may, within 21 days from the date of receipt of this Order, file their replies, 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.

10. This Order is without prejudice to the right of SEBI to take any other action that may be initiated against SMAILL and its abovementioned Directors, in accordance with law.

Place: Mumbai
Date: August 7, 2015

S. RAMAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA