WTM/SM/IVD/ID10/34/2021-22

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTIONS 11(1), 11(4) AND 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 IN THE MATTER OF ZYLOG SYSTEMS LIMITED

In respect of:

Noticee No.	Name of the Noticees	PAN
1	Zylog Systems Limited	AAACZ1086G
2	Sthithi Insurance Services Pvt Ltd	AAKCS6316E
3	Sudarshan Venkataraman	AWJPS4793B
4	Ramanujam Sesharathnam	AERPR6301N
5	Parthasarathy Srikanth	AAQPS9253H
6	S. P. Srihari	AFJPS1694C
7	Srikanth Sripriya	AZAPS0630H
8	Aditicon Services India Private Ltd.	AAGCA8410P
9	Effica Systems Private Limited	AACCE7595H
10	Mohan R	AHCPM3371K
11	Santhanakumar R	AIVPR1409B
12	Krishnaveni Ganesan	BOMPK8387K
13	M V Ganesan	AECPG0997C

(The above-mentioned entities are individually referred to by their corresponding names/numbers and collectively referred to as "*Noticees*")

Background in brief

1. Securities and Exchange Board of India (hereinafter referred to as **"SEBI"**), upon noticing a sharp fall in the price of the scrip of Zylog Systems Limited (hereinafter referred to as '**ZSL**'/'***Noticee no. 1***'/'***Company***') in the months

of October-November 2012, conducted a preliminary investigation in respect of the dealings in the scrip of ZSL. On the basis of the said preliminary investigation, an *ex-parte ad-interim* order dated June 13, 2013 (hereinafter referred to as '***interim order***') was passed restraining Stihithi Insurance Services Pvt. Ltd. (hereinafter referred to as '**Sthithi**'/'***Noticee no. 2***'), Mr. Sudarshan Venkataraman (hereinafter referred to as '**Sudarshan**'/'***Noticee no. 3***'), Mr. Ramanujam Sesharathnam (hereinafter referred to as '**Ramanujam**'/ '***Noticee no. 4***'), Mr. Parthasarathy Srikanth (hereinafter referred to as '**Srikanth**'/'***Noticee no. 5***'), Mr. S P Srihari (hereinafter referred to as '**Srihari**'/'***Noticee no. 6***') and Ms. Srikanth Sripriya (hereinafter referred to as '**Sripriya**'/'***Noticee no. 7***') from buying, selling or dealing in the securities markets, either directly or indirectly, in any manner, till further directions. The said directions were issued on the basis of certain *prima-facie* observations regarding multiple violations of the Securities Law, including misleading disclosures made by ZSL and its promoters, promoters using *Company*'s funds to deal in the shares of ZSL, dependent/relative of director using funds of ZSL to deal in its shares, non-compliance of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011 (hereinafter referred to as the '**SAST Regulations, 2011**'), non-disclosures by ZSL and its promoters and directors etc.

2. Subsequently, vide order dated July 30, 2015 (hereinafter referred to as '**confirmatory order**'), the directions issued vide *interim order* against the *Noticees no. 2 to 7* were confirmed with respect to all the observations except w.r.t. the allegation of violation of provisions of regulation 3 of the SAST Regulations, 2011. With respect to the alleged violation of regulation 3(2) of the SAST Regulations, 2011, during the confirmation proceedings, the *Noticees no. 2 to 5* and *Noticee no. 7* were called upon to show cause as to why appropriate action under the provisions of regulation 32 of the SAST Regulations, 2011, read with sections 11 and 11B of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act, 1992**') including issuance of the direction to make public announcement to

acquire shares in accordance with the provisions of the SAST Regulations, 2011 should not be taken against them. After considering the submissions made by the *Noticees no. 2 to 5* and the *Noticee no. 7*, the then Whole Time Member, vide his order dated June 07, 2016, directed SEBI to also investigate the allegations pertaining to the SAST Regulations, 2011 levelled against the *Noticees no. 2 to 5* and the *Noticee no. 7* apart from other allegations covered in the interim as well as the confirmatory order.

3. On the basis of the above mentioned orders, SEBI conducted detailed investigation into the matter of dealings in the scrip of ZSL to examine whether there was any violation of provisions of the SEBI Act, 1992, the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as the '**PFUTP Regulations, 2003**'), the SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as the '**PIT Regulations, 1992**') read with regulation 12 of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 and provisions of Equity Listing Agreement (hereinafter referred to as '**Listing Agreement**') during the period of January 01, 2012 to December 31, 2012 (hereinafter referred to as '**Investigation Period**'/'**IP**').

4. ZSL is a Chennai based information technology enabler and solutions provider for enterprises worldwide. I note from the records before me that, by way of an Order dated July 03, 2014, the Hon'ble Madras High Court appointed the Official Liquidator, Madras High Court as the Provisional Liquidator of the *Company*. Further, Justice (Retd.) S Rajeswaran, Madras High Court was also appointed as administrator of ZSL. The scrip of ZSL was listed on Bombay Stock Exchange (hereinafter referred to as "**BSE**") and National Stock Exchange (hereinafter referred to as "**NSE**") during the IP. Subsequently, the scrip of ZSL has been delisted from NSE w.e.f. February 24, 2021 and from BSE w.e.f. March 03, 2021. BSE and NSE are collectively referred to as '**stock exchanges**' in the present Order. The scrip of the *Company* had a fall in its price from INR 300.50 on October 08, 2012 to INR

76.40 on November 22, 2012 on NSE amounting to a fall of 74.58% in 32 trading sessions. A similar fall in price was also observed on BSE during this period. The investigations, *inter alia,* revealed that:

(1) Stihithi, Sudarshan and Ramanujam were the promoters of ZSL during the IP. Further, Sudarshan was holding the position of Chairman and Chief Executive Officer and Ramanujam was holding the position of Managing Director and Chief Operating Officer of ZSL during the IP. Sudarshan and Ramanujam each were holding 50% shares of Sthithi and both of them were its only directors during the IP.

(2) Srikanth was shown as an Independent Director in the Red Herring Prospectus of ZSL dated July 07, 2007 (hereinafter referred to as '**RHP**'), filed with SEBI and Registrar of Companies (hereinafter referred to as '**ROC**') at the time of Initial Public Offering (hereinafter referred to as '**IPO**') of the *Company*. Later on, Srikanth was appointed as the Whole Time Director of ZSL on May 21, 2010. Further, Srihari, who was designated as the then Global Chief Financial Officer of ZSL, was related to Srikanth as brother-in-law, as his sister Sripriya is the spouse of Srikanth. As per the RHP, Sripriya was the 4th largest shareholder of ZSL as on the date of the IPO.

(3) Companies, including Aditicon Services India Pvt. Ltd. (hereinafter referred to as '**Aditicon**'/'***Noticee no. 8***') and Effica Systems Pvt. Ltd. (hereinafter referred to as '**Effica**'/'***Noticee no. 9***') were floated in the name of employees of ZSL. Mohan R (hereinafter referred to as '**Mohan**'/'***Noticee no. 10***') and Santanakumar R (hereinafter referred to as '**Santanakumar**'/'***Noticee no. 11***'), both employees of ZSL, were made directors of Aditicon. Similarly, Santanakumar, and Krishnaveni Ganesan (hereinafter referred to as '**Krishnaveni**'/'**Noticee no. 12**') were appointed as directors of Effica.

(4) Krishnaveni is the wife of M V Ganesan (hereinafter referred to as 'Ganesan'/'***Noticee no. 13***'), the Vice President (Accounts) of the *Company* during the IP. Further, *Noticee no. 10* was working as

administrative officer in ZSL drawing a salary of approximately INR 20,000/- per month and *Noticee no. 11* was working as accounts executive of ZSL with a salary of approximately INR 10,300/- per month.

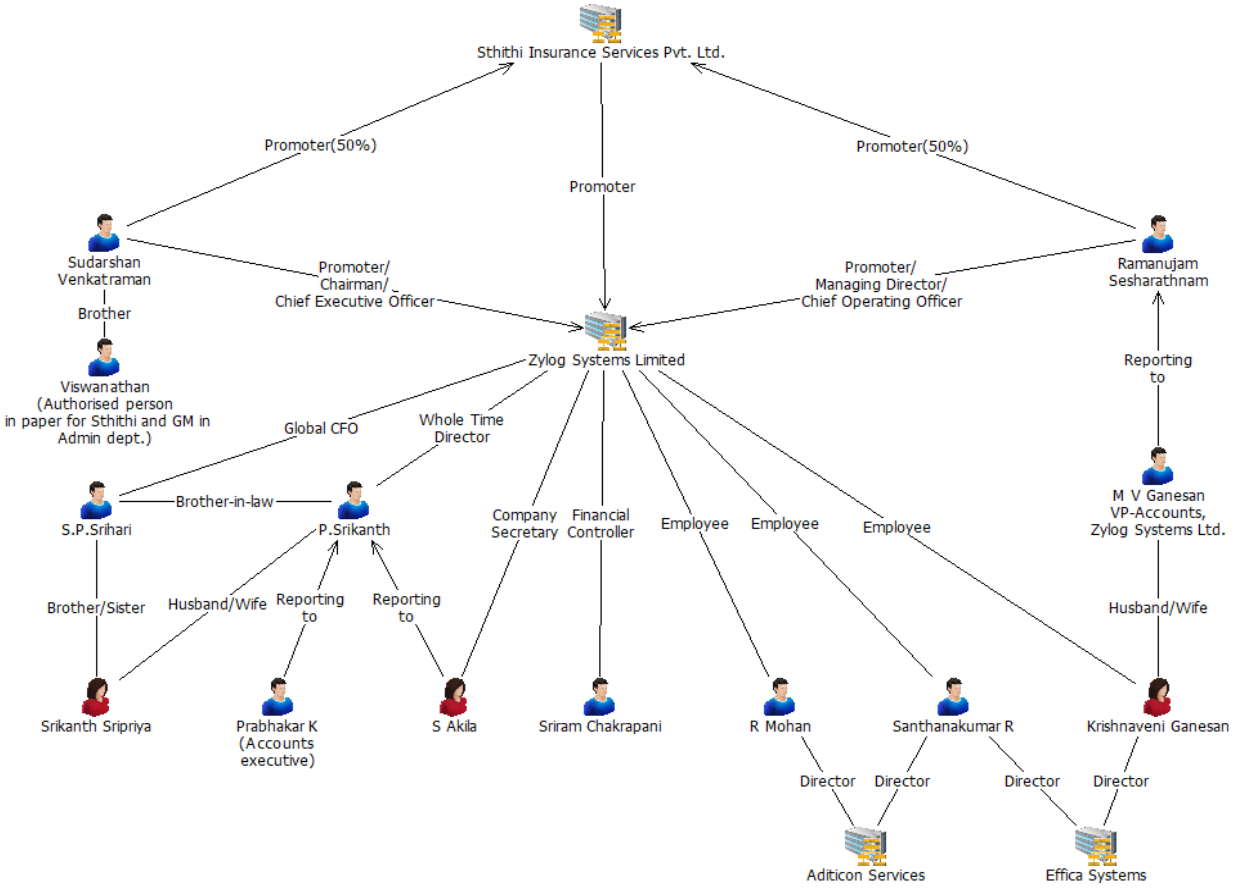
(5) *Noticee no. 13*, acting as Vice President (Accounts), was directly reporting to Ramanujam. *Noticees no. 10 to 12* informed during the investigation that they were made directors at the instances of Sudarshan, his brother V Viswanathan (hereinafter referred to as '**Viswanathan**') and Ramanujam and were insisted by the said three persons to sign on various documents. Thus, both Aditicon and Effica appear to be *de facto* controlled by the then Key Managerial Personnel (hereinafter referred to as "**KMP**") of ZSL.

(6) The connections that were noticed amongst various *Noticees* are presented below in a tabular as well as pictorial format:

Table 1: Inter-se connections of the Noticees

Noticee No.	Name of Entity	Connection
1	Zylog Systems Limited	*Company*
2	Sthithi Insurance Services Pvt Ltd	Promoter of the *Company*, had Sudarshan and Ramanujam as the shareholders (holding 50% shares each) and directors. V. Viswanathan (Viswanathan), brother of Sudarshan, was the authorized person for Sthithi. He was also the then General Manager (Administration) of ZSL.
3	Ms. Sudarshan Venkataraman	Promoter of the *Company*; then chairman and CEO of the *Company*
4	Mr. Ramanujam Sesharathnam	Promoter of the *Company*; then MD and COO of the *Company*
5	Mr. P Srikanth	Whole Time Director of ZSL and spouse of Sripriya (*Noticee no. 7*) who was holding shares of ZSL since 2002

		and fourth largest shareholder as per RHP of ZSL dated 07/07/07.
6	Mr. S.P.Srihari	Brother-in-law of Srikanth (Sripriya's brother) and was the then Global Chief Financial Officer of ZSL.
7	Mrs Sripriya Srikanth	Wife of Srikanth (*Noticee no. 5*) who was the Whole Time Director of ZSL; Sister of Srihari
8	Aditicon Services India Private Ltd.	Formed in the name of employees of ZSL; The directors of Aditicon during the Investigation Period were Mohan (*Noticee no. 10*) and Santhanakumar R (*Noticee no. 11*) who are both employees of ZSL. Aditicon was controlled by then KPMs of ZSL. The same was corroborated by the statements of the then employees namely, *Noticees no. 10* and *11* and M V Ganesan, Saravanan S P and Srinivasan B
9	Effica Systems Private Limited	Formed in the name of employees of ZSL; The Directors of Effica during the Investigation Period were Santhanakumar R (then employee of ZSL) and Krishnaveni Ganesan (*Noticee no. 12*) (wife of M V Ganesan, then VP Accounts of ZSL). Effica was controlled by then KMPs of ZSL.
10	Mr. Mohan R	An employee of ZSL; Director of Aditicon
11	Mr. Santhanakumar R	An employee of ZSL; Director of Aditicon and Effica
12	Mrs. Krishnaveni Ganesan	Wife of M V Ganesan, then VP Accounts of ZSL; Director of Effica
13	M V Ganesan	Vice President – Corporate Accounts of ZSL and reporting to Ramanujam.



(7) It, therefore, appears that Sudarshan, Ramanujam, Srikanth and Srihari had known to each other much before the IPO of ZSL was launched. This is because Sripriya, who was the 4th largest shareholder of ZSL as per the RHP of ZSL had received and transferred shares of ZSL from/to promoter group entity(ies) even before the IPO of ZSL was launched. Such relationships of *Noticees no. 3 to 7* among themselves were relevant and were required to be disclosed in the RHP of ZSL. However, ZSL did not disclose the relationship of *Noticees no. 3* to *7*. Further, despite being related to Sripriya and Srihari, Srikanth was appointed as an Independent Director of ZSL at the time of the IPO.

(8) Further, *Noticees no. 3* to *6* had incorporated companies viz. Aditicon and Effica by making certain employees of ZSL and their relatives viz. *Noticees no. 10* to *12* as Directors in these companies. The names of these companies were used to open demat and bank accounts, which were thereupon used to acquire shares of ZSL and route funds to *Noticees no. 3*

to *6* and entities connected with them.

(9) As per the *interim order*, Sripriya had received funds from ZSL, its subsidiaries, its promoters as well as Aditicon and Effica on numerous occasions which were immediately transferred to various brokers, to be used for margin trading facility availed by her, as well as transferred to certain Non-Banking Financial Companies (hereinafter referred to as '**NBFCs**'), as repayments of loans taken by her. The said fund transactions with ZSL were contended to be for a land deal entered into during April 2012 for establishment of a Disaster Recovery Site (hereinafter referred to as '**DRS**'). However, neither any disclosure was made to the stock exchanges or to the Ministry of Corporate Affairs ('hereinafter referred to as **MCA**') regarding such a land deal nor such transactions were reflected as 'related party transactions' in the Annual Report of ZSL for the Financial Year (for short "**FY**") 2011-12. Similar such fund transactions were also observed to have taken place in the bank accounts of Sthithi. It, therefore, appears that Aditicon and Effica were used by *Noticees no. 3* to *6* for the purpose of routing funds to Sthithi and Sripriya, and that ZSL had funded Sripriya and Sthithi to trade in violation of the provisions of section 77(2) of Companies Act, 1956, in its own shares i.e. ZSL.

(10) As per the annual report of ZSL for the FY 2011-12, Sthithi was mentioned under the list of related parties of ZSL and was described as "*Enterprise influenced by Key Management Personnel*". However, none of the transactions taken place between ZSL and Sthithi during the said FY had been disclosed under the head "related party transactions" in the said annual report. Further, it has been noticed that the transactions of ZSL with Sthithi had not been taken into consideration in the consolidated figures of creditors and debtors of ZSL in the annual report for FY 2011-12. It, therefore, appears that by funding Sthithi's trades in the scrip of ZSL and not disclosing the said transactions under the category of 'related party transactions' in annual report for FY 2011-12, ZSL published false

and misleading information and also indulged in fraudulent and unfair trade practices, thereby, violating the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), 4(1), 4(2)(f) & (r) of the PFUTP Regulations, 2003 and section 21 of the Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as 'the **SCRA, 1956**') read with Clauses 32 & 49 of the Listing Agreement.

(11) Further, Sudarshan, Ramanujam and Srihari, by falsely vouching for the accuracy of the financial statements in the annual report for FY 2011-12, appear to have aided and abetted ZSL in publication of the aforesaid false and misleading information, thereby violating the provisions of sections 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(2)(f) & (r) of the PFUTP Regulations, 2003.

(12) Several emails were sent by Srikanth to various entities in relation to the fund and share transactions in the account of Sripriya, copy of which were marked to Sudarshan, Ramanujam and Srihari. At the same time, various emails were also found to have been circulated amongst Sudarshan, Ramanujam, Srikanth and Srihari, wherein they were discussing the share transactions as well as fund details in the accounts of Sripriya and Sthithi.

(13) It thus appears that Srikanth was handling the transactions in the accounts viz. demat accounts, trading accounts as well as Bank accounts of Sripriya and Sthithi. Further, Sudarshan, Ramanujam and Srihari were well aware of the said transactions taking place in the accounts of Sthithi and Sripriya and Aditicon and Effica, all of which, by lending their accounts for routing funds to Sripriya, aided and abetted the aforesaid funding of Sripriya's trades in the scrip of ZSL making them as well as their directors viz. *Noticees no. 10* to *12* parties to such fraudulent act. Therefore, it appears that the *Noticee no. 1, Noticees no. 3* to *7*, Aditicon and Effica as well as their directors viz. the *Noticees no. 10* to *12* were parties to the aforesaid fraudulent acts. Considering the foregoing, it appears that the *Noticee no. 1* and *Noticees no. 3 to 12* had indulged in fraudulent and unfair trade practices while dealing in the scrip of ZSL during the Investigation

Period(IP), thereby violating the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) & 4 (1) of the PFUTP Regulations, 2003.

(14) In the quarterly shareholding pattern of ZSL for the quarter ended June 2009, Ganesan was shown as a public shareholder and he continued to appear in the list of the public shareholders holding more than 1% of the total shareholding of the *Company*. He was initially shown to be holding 2,28,998 shares of ZSL as on quarter ended June 2009. An investigation into his shareholding in the scrip of ZSL revealed that, out of the said 2,28,998 shares held by him, he had received 1,40,000 shares from Aditicon on June 15, 2009 in off-market transactions, and 88,998 shares in off-market transactions from Prabhudas Liladhar Financial Services Ltd. during period June 19 to June 26, 2009. At the same time, Ganesan was observed to have availed the margin trading facility and loan against shares facility from Prabhudas Liladhar Pvt. Ltd. and Prabhudas Liladhar Financial Services Ltd. respectively. The value of the loan against shares that was initially availed by *Noticee no. 13*(Ganesan) during May 2009 was INR 2 crores. While his annual income was declared as INR 12 Lakhs in the KYC document submitted with PLFS, the value of his trades in the scrip of ZSL was in the range of crores of rupees, which was highly disproportionate to his annual income. On the basis of various emails available on record, it is noticed that the *Noticee no. 13* (Ganesan) has facilitated in the opening of a demat account and a loan account in his name with PLFS so that the same can be effectively handled & managed by Srikanth. It is also observed from the bank statements of *Noticee no. 13* that large amount of funds, at times in the range of crores of INR, were received by him from PLFS which were later on transferred to ZSL and its connected entities including Aditicon and Effica. It, therefore, appears that *Noticee no. 13* was also acting in coordination with the promoter group entities by helping them operate mule demat & loan accounts opened in his name and therefore, the shareholding pattern submitted to the stock exchanges wherein Ganesan (*Noticee no.* 13) alongwith Sripriya were

shown as a shareholder under public category turned out be a false and misleading information about promoter shareholding in the scrip of ZSL. Further, by lending their names, Sripriya and Ganesan, along with Srikanth, Srihari, Sudarshan and Ramanujam have aided and abetted ZSL in making false and misleading disclosure leading to the alleged violation of the provisions of section 12A(a), (b) and (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), 4(1), 4(2)(f) and (r) of the PFUTP Regulations, 2003.

(15) As per the quarterly shareholding patterns submitted by ZSL to the stock exchanges for all the quarters of the Calendar Year 2012, the disclosed shareholding of the promoters viz. Sthithi, Sudarshan and Ramanujam were not matching with their shareholdings as per their demat statements. It appears that ZSL disclosed wrong information with respect to promoter shareholding to the stock exchanges in its quarterly shareholding patterns for all the 4 quarters of the Calendar Year 2012. Further, the shareholding of Sthithi, disclosed as part of the said quarterly shareholding patterns, include shares held in the name of other entities along with the shareholding of Sthithi. Further, as mentioned in the foregoing paragraphs, the shareholding of Ganesan was shown as part of the public shareholding in the quarterly shareholding patterns, despite his shareholding being managed by Srikanth. From the above, it appears that by disclosing false and misleading information with respect to the promoter shareholding, ZSL has violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), and 4(1), 4(2)(f) and (r) of the PFUTP Regulations, 2003 and section 21 of the SCRA, 1956 read with clause 35 of the Listing Agreement. Further, by lending their names to various transactions and for opening of various mule accounts in their names, Sripriya and Ganesan along with Srikanth, Srihari, Sudarshan and Ramanujam had aided and abetted ZSL in disclosing false and misleading information with respect to the promoter shareholding. The above acts of disclosing false and misleading information is alleged to have violated the provisions of section 12A(a),

(b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(1), 4(2)(f) and (r) of the PFUTP Regulations, 2003.

(16) In view of all the above, it appears that ZSL was being run and managed by four key persons viz. Sudarshan, Ramanujam, Srikanth and Srihari, who were known to each other well before the IPO of the *Company* was launched. At the same time, Srikanth was shown as an Independent Director in the RHP despite being directly and closely related to Srihari and Sripriya, and despite being a director in the wholly owned subsidiary of ZSL etc. The said appointment of Srikanth as Independent Director continued till 2010 and the *Company* continued to disclose him as Independent Director in various filings with stock exchanges viz. as a part of Investors' Grievance Committee, Remuneration Committee etc., in his capacity of Independent Director as per the Annual Report for the FY 2008-09.

(17) Further, the directorship of Srikanth in Twinkle Natural Resources Private Limited was not disclosed in RHP. Therefore, ZSL, by submitting wrong information in the RHP as well as in disclosures to the stock exchanges, has appeared to have violated the provisions of section 21 of the SCRA, 1956 read with Clause 6.15.2 of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (hereinafter referred to as the '**DIP Guidelines**') read with the Securities and Exchange Board of India (Issuance of Capital and Disclosure Requirements) Regulations, 2009 (hereinafter referred to as the '**ICDR Regulations, 2009**') read with the Securities and Exchange Board of India (Issuance of Capital and Disclosure Requirements) Regulations, 2018 (hereinafter referred to as the '**ICDR Regulations, 2018**') read with Regulation 49 of the Listing Agreement.

(18) Similarly, by being signatory to the said RHP, Srikanth and Srihari, have also been seen to have violated the provisions of Clause 6.15.2 of the DIP Guidelines read with the ICDR Regulations, 2009 and the ICDR Regulations, 2018.

(19) Various irregularities in running the affairs of the *Company* including showing Aditicon and Effica as vendors, oral instruction being given to the staff handling desk functions, inadequate narration in the books of accounts of the *Company* for various fund transactions etc. suggest that the operations of ZSL were not being conducted in compliance with the Corporate Governance norms.

(20) Activities relating to dealing in shares of ZSL by Sthithi, Sripriya and others including Ganesan were closely run and managed by Srikanth in coordination and agreement with Sudarshan, Ramanujam and Srihari. On the basis of various emails, it is seen that Srikanth was placing the orders/receiving confirmation of trades/interacting with the respective Brokers/NBFCs in respect of dealings in the accounts of Sripriya and Sthithi. Moreover, Srikanth had made arrangements with brokers to buy shares for and on behalf of entities related to ZSL.

(21) During the course of investigation, the price of the scrip of ZSL had witnessed heavy downfall on October 18, 2012 on account of increased supply of shares due to invocation of pledge and subsequent sale of shares of promoters by IFCI Ltd. (hereinafter referred to as '**IFCI**') and Karvy Financial Services Limited (hereinafter referred to as '**Karvy'**) on account of non-payment of interest due to be paid by the promoters. Despite being aware of that, ZSL informed BSE on October 19, 2012 that it was having *'business as usual'* and promoters were increasing their stake in the *Company*. Therefore, it is alleged that, despite facing severe financial stress and continuous selling of shares from the accounts of the promoters, ZSL made a contrarian disclosure falsely stating that promoters were increasing their shareholding and the *Company was* having '*business as usual*'. By making such a false and misleading disclosure, ZSL appears to have violated the provisions of sections 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), and 4(1), 4(2)(a), (f), (r) of the PFUTP Regulations, 2003 and section 21 of the SCRA, 1956 read with Clause 36 of the Listing Agreement. At the same time, it also appears that

Sudarshan, Ramanujam, Srikanth and Srihari were aware and were also behind the said false disclosure of ZSL and, thus, they have also violated the provisions of sections 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a), (f) and (r) of the PFUTP Regulations, 2003.

(22) Similarly, it has also been noticed that Sudarshan had quoted in a news article titled "*Zylog crashes 40% on pledged share sale talk; CEO blames crash on panic by speculators*", published in the Economic Times dated November 02, 2012, stating that promoters were increasing their stake during price fall period. He has further stated that there was no adverse impact on the *Company*'s business. In view of the observations in the previous paragraph, it appears that Sudarshan had *inter-alia* given false and misleading statement in media and thereby has violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(1), 4(2)(a), (f) and (r) of the PFUTP Regulations, 2003.

(23) Further, the promoters of ZSL viz. Sthithi, Sudarshan and Ramanujam had failed to make disclosures regarding their transactions in the scrip of ZSL as well as their pledge related transactions in the said scrip. Thereby, they appear to have violated the provisions of regulations 31(1) and (2) read with regulation 31(3) of the SAST Regulations, 2011 and regulation 13(4A) read with 13(5) of the PIT Regulations, 1992.

(24) Similarly, Srikanth, being the whole time director of ZSL, has also failed to disclose the transactions of his dependant, namely his wife Sripriya, in the scrip of ZSL. Thereby, he appears to have violated the provisions of regulation 13(4) read with 13(5) of the PIT Regulations, 1992.

(25) By funding Sthithi and Sripriya to trade in the scrip of ZSL and by making all the above-mentioned wrong disclosures as well as indulging in various other malpractices, ZSL and its connected entities have as part of a deliberate design or scheme, published false information and created a wrong impression before the investors that everything was all right with the *Company* and there was '*business as usual*'. In execution of the said

scheme, an elaborate misleading public impression was created by *Noticees no. 3* to *7* about the *Company* and its shares with the active support and assistance of rest of the *Noticees* to defraud the common investors. It is therefore, alleged that the *Noticees* have violated the provisions of section 12A(a), (b) and (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), and 4(1), 4(2)(a), (f), (r) of the PFUTP Regulations, 2003.

(26) Further, as narrated in the foregoing paragraphs, Sripriya, Srikanth and Srihari appear to be persons acting in concert ('**PAC**') with the promoters of ZSL namely Sudarshan, Ramanujam, and Sthithi during the Investigation Period wherein they were together holding more than 25% of shareholding in the scrip of ZSL as on March 31, 2012. The promoters of ZSL along with Sripriya, Srikanth and Srihari while acting in concert, together acquired more than 5% shareholding of ZSL on gross basis during the period from April 01, 2012 to December 31, 2012. In the said process of continuous acquisition of shares, the threshold of 5% was breached on two occasions- July 10, 2012 and October 08, 2012 during the Investigation Period, warranting making of a public offer under regulation 3(2) of the SAST Regulations, 2011 which *Noticees no. 2* to *7* failed to make. Therefore, by making continuous purchase in the scrip of ZSL, the *Noticees no. 2* to *7* acquired more than 5% of voting rights in ZSL during the financial year 2012-13 on two separate occasions, without making public announcement, as required under regulation 3(2) of the SAST Regulations, 2011 and thus appear to have violated the aforesaid provision.

5. Based on various findings of the investigation, as narrated above, a common Show Cause Notice ('**SCN**') dated August 02, 2019 was issued to the *Noticees* alleging that:

(1) ZSL, by making false and misleading disclosure on October 19, 2012, has violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), 4(1), 4(2)(a), (f) & (r) of the PFUTP

Regulations, 2003 and section 21 of the SCRA, 1956 read with clause 36 of the Listing Agreement. At the same time, *Noticee no. 3 to 6*, being aware of and behind the said false and misleading disclosures of ZSL, have violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), 4(1) and 4(2)(a), (f) and (r) of the PFUTP Regulations, 2003.

(2) *Noticee no 3*, by giving false and misleading statement in media to the effect that promoters were increasing their shareholding, has violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(1), 4(2)(a), (f) & (r) of the PFUTP Regulations, 2003.

(3) By the acts of ZSL in funding the trades of its promoter entity, i.e., Sthithi, which have amounted to indulging in fraudulent and unfair trade practices while dealing in securities, both ZSL and Sthithi have violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) & 4 (1) of the PFUTP Regulations, 2003.

(4) ZSL, by its failure to disclose its various transactions with Sthithi and Sripriya in the 'related party transactions' section of its annual report for the FY 2011-12, has published false and misleading information, thereby, violating the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), 4(2)(f) & (r) of the PFUTP Regulations, 2003 as well as section 21 of the SCRA, 1956 read with Clauses 32 & 49 of the Listing Agreement.

(5) Sudarshan, Ramanujam and Srihari, by falsely vouching for the accuracy of the financial statements in the said annual report, have aided and abetted ZSL in publication of the aforesaid false and misleading information regarding 'related party transactions', thereby, violating the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(2)(f) & (r) of the PFUTP Regulations, 2003.

(6) ZSL, by funding the trades of Sripriya has violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(1) of the PFUTP Regulations, 2003.

(7) *Noticees no. 3* to *6*, being aware of and behind such acts of Aditicon and Effica as well as their directors, i.e., *Noticees no. 10 to 12*, and by aiding and abetting the funding of Sripriya's trades in the scrip of ZSL as discussed above in which the accounts of Aditicon and Effica were used as conduits for routing funds to Sripriya, have indulged in fraudulent and unfair trade practices while dealing in the shares of ZSL during the investigation period and have thereby violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) & 4(1) of the PFUTP Regulations, 2003.

(8) Srikanth, Sripriya and Srihari, being PACs with the promoters of ZSL viz. *Noticees no. 2* to *4* have acquired more than 5% of total shareholding of ZSL on two separate occasions during the period from April 01, 2012 to December 31, 2012 despite holding more than 25% of total shareholding of the *Company*, thereby have triggered the statutory requirement of an open offer under the provisions of regulation 3(2) of the SAST Regulations, 2011. By their failure to make a public announcement of an open offer, *Noticees no. 2 to 7* have violated the provisions of section 12A(f) of the SEBI Act, 1992 read with regulation 3(2) of the SAST Regulations, 2011.

(9) ZSL, by disclosing false and misleading information with respect to the promoter shareholding, has violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(1), 4(2)(f) & (r) of the PFUTP Regulations, 2003 and section 21 of the SCRA, 1956, read with clause 35 of the Listing Agreement. By lending their names to be used for acquisition of shares of ZSL, Sripriya and M V Ganesan, along with *Noticees no. 3* to *6*, had aided and abetted ZSL in disclosing false and misleading information with respect to the promoter shareholding, thereby violating the provisions of section 12A(a), (b), (c)

of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), 4(1), 4(2)(f) & (r) of the PFUTP Regulations, 2003.

(10) *Noticees no. 2* to *4*, by their failure to disclose their pledge related transactions in the scrip of ZSL during the Investigation Period to the *Company* (ZSL), as well as to BSE and NSE, have violated the provisions of regulations 31(1) & 31(2) read with 31(3) of the SAST Regulations, 2011. Similarly, *Noticees no. 2* to *4*, by their failure to disclose to the *Company* (ZSL) and also to BSE and NSE their transactions in the scrip of ZSL during the investigation period, have also violated the provisions of regulation 13(4A) read with 13(5) of the PIT Regulations, 1992 further read with regulation 12 of the SEBI (Prohibition of Insider Trading) Regulations, 2015.

(11) Srikanth, by his failure to disclose the transactions of his dependant namely his wife Sripriya, in the scrip of ZSL during the investigation period to the *Company* (ZSL) and to BSE and NSE, has violated the provisions of regulation 13(4) read with 13(5) of the PIT Regulations, 1992 further read with regulation 12 of the SEBI (Prohibition of Insider Trading) Regulations, 2015.

(12) ZSL, by disclosing Srikanth as Independent Director in its RHP as well as in its filings with Stock Exchanges despite him not being so, has violated the provisions of section 21 of the SCRA, 1956 read with clause 6.15.2 of the DIP Guidelines read with the ICDR Regulations, 2009 read with the ICDR Regulations 2018 read with clause 49 of the Listing Agreement.

(13) Further, Srikanth and Srihari, being the signatories of the RHP of ZSL, wherein various wrong and misleading information has been provided as discussed in the preceding paragraphs, have also violated the provisions of clause 6.15.2 of the DIP Guidelines read with the ICDR Regulations, 2009 further read with the ICDR Regulations 2018.

6. In view of the aforesaid allegations that have been brought in the SCN, the

Noticees were called upon to show cause as to why suitable directions under Sections 11(1), 11(4) and 11B(1) of the SEBI Act, 1992 should not be issued against them for committing the aforesaid alleged violations.

7. The SCN had to be served upon the *Noticees no. 2, 3, 4, 8* and *9* by way of publication in two newspapers namely Times of India (English) and Daily Thanthi (Tamil) on December 08, 2019 and October 24, 2020. Further, vide the said publication dated October 24, 2020, the *Noticees no. 2, 3, 4, 8* and *9* were also provided with an opportunity of personal hearing on October 28, 2020. However, neither the aforementioned *Noticees* submitted any reply nor any of them appeared before me for personal hearing.

8. As regards the *Noticees no. 1, 5, 6, 7, 10* and *12,* the SCN was served upon them way of Speed Post Acknowledgement Due (**SPAD**) and upon *Noticees no. 11* and *13* by way of affixture at their last known addresses. In terms of their respective requests, *Noticees no. 5, 6* and *7* were provided inspection of documents on February 13, 2020 and *Noticees no. 10* to *13* were granted inspections of documents on March 06, 2020.

9. Subsequently the *Noticees no. 5* to *7* and *10* to *13* submitted their respective replies to the SCN and sought opportunity of personal hearing in the matter. The said *Noticees no. 5* to *7* and *10* to *13* were granted with opportunity of personal hearing on August 18, 2020. Shri Ravichandran Hegde, Advocate appeared on behalf of *Noticees no. 5* to *7* and Shri Jaikishan Lakhwani, Advocate appeared on behalf of *Noticees no. 10* to *13* on the said date and presented arguments on behalf of these *Noticees*. Thus, personal hearing with respect to these 7 entities got concluded on the said date. Subsequent to the said personal hearing, *Noticees no. 5* to *7* and *Noticees no. 10* to *13* filed their respective affidavits along with certain additional submissions.

10. I also note that vide letter dated September 03, 2019 and September 09, 2020. *ZSL* submitted its reply to the SCN. Further, vide newspaper publication dated October 24, 2020 in two prominent newspapers namely the Times of

India (English) and Daily Thanthi (Tamil), the *Company* was provided with an opportunity of personal hearing on October 28, 2020. Subsequently, vide email dated October 27, 2020, Mr. Ashok Kohli, Advocate requested for adjournment of the said personal hearing. Accordingly, the personal hearing was adjourned to November 13, 2020 and on the said date Mr. Ashok Kohli, Advocate appeared on behalf of *ZSL* and reiterated the submissions already made by the *Noticee Company* vide its letters dated September 03, 2019, and September 09, 2020. Subsequent to the said hearing, the *Company* has also made certain additional submissions vide its letter dated December 03, 2020.

Replies of the *Noticees*:

11. *Noticee no. 1*, by way of letters dated September 03, 2019, September 09, 2020 and December 03, 2020 made its submissions as follows:

(1) ZSL was wound up and the Hon'ble Madras High Court has also appointed an Official Liquidator vide Order dated July 3. 2014. Further, Justice S Rajeswaran, Retd. Judge, Madras High Court, has been appointed as Administrator of the *Company*.

(2) The Administrator's report was submitted to the Hon'ble Madras High Court on June 12, 2019 concluding that ZSL '*is not a going concern*.' Subsequently, even the Official Liquidator after reviewing the financials and operations of ZSL, filed his final report on August 31, 2019. Thus, the Registrar of Companies and the Official Liquidator of Madras High Court have declared ZSL to be '*under liquidation.*' ZSL currently has no employees or officials and all the Independent Directors have also submitted their resignations in July 2019 pursuant to submission of the final report to the Hon'ble Madras High Court.

(3) Further, in terms of section 446 of the Companies Act, 1956, there operates an embargo on commencement of any suit or legal proceedings against ZSL. Therefore, the present proceedings against ZSL are irregular proceedings, unless SEBI obtains leave from the Hon'ble Madras High

Court to take action against ZSL. While adjudicating upon the same set of facts as of present proceeding, the Learned Adjudicating Officer has dropped proceedings against ZSL on this ground. It is urged that a similar view may be adopted by the Learned WTM in the present proceedings as well. For the same reason, ZSL was not made a part of pervious proceedings initiated under Section 11 and 11B of the SEBI Act, 1992 pertaining to failure to redress investor grievance and disposed of in terms of the Order dated October 16, 2017.

(4) Several constraints were faced to collate the records since erstwhile promoters viz. Ramanujam and Sudarshan did not cooperate and often misled the Administrator and they are absconding right now. The Administrator could not retrieve any information including the books of accounts of ZSL from Sudarshan or Ramanujam. Even the earlier statutory auditor of the *Company* was acting as per the instructions of the promoters and didn't extend any cooperation for which a complaint before ICAI was filed against it. Despite these constraints, the Administrator sent across all the available records to assist SEBI in its investigation.

(5) However, after a gap of almost a year, the captioned SCN has been issued to ZSL without mentioning any specific nature of measure that SEBI proposes to take against the *Company*.

(6) Ramanujam and Sudarshan were in charge of the day-to-day management of ZSL and were responsible for all the alleged mis-happenings. All actions and activities of ZSL were closely controlled and directed by the said two promoters with the active assistance and support from Viswanathan, the elder brother of Sudarshan, who was in-charge of the financial and secretarial operations of the entire ZSL Group. The same was also confirmed by M/s Ramadoss & Co, the auditor of ZSL and the declaration dated December 19, 2015 submitted by Ramanujam to the board of ZSL.

(7) Both, Sudarshan and Ramanujam were expelled from the board of ZSL by its shareholders in the Annual General Meetings held in November

2014 and November 2015, respectively. Moreover, a criminal complaint was filed against both of them in the Magistrate Court, Chennai in respect of the diversion of funds by them.

(8) The Administrator understands that Ramanujam and Sudarshan are not related with *Noticees no. 5* to *7*. Sripriya is the wife of Srikanth. Srikanth and Srihari were appointed as professional directors for assisting in the liquidation process before the Hon'ble Madras High Court.

(9) During the course of the clinical audit of ZSL's records, the Administrator studied the transactions of ZSL with Sthithi and Sripriya. The findings of the said audit, as submitted to SEBI and to the ROC, show that these transactions were genuine and not in violation of section 77A of the Companies Act, 1956. With Sthithi, the transactions were repayment of certain interest-free loans granted by Sthithi to ZSL. With Sripriya, the monetary transactions pertained to advance for purchase of land by ZSL from Sripriya. Subsequently, upon cancelling of the said deal, entire advance money was returned by Sripriya to ZSL.

12. The *Noticees no. 5, 6* and *7*, by way of separate letters dated September 03 and 04, 2019 and August 15, 2020 as well as one common letter dated September 18, 2020, made their respective as well as common submissions. These *Noticees, inter alia,* submitted as under:

(1) The investigation conducted by SEBI is an incomplete exercise and SEBI has failed to abide by the direction passed by the erstwhile WTM vide order dated June 7, 2016 which required completion of thorough investigation before arriving at any allegation *qua* the *Noticees* under the SAST Regulations, 2011. However, the present SCN came before the investigation was completed and the SCN itself is introduced with a statement that investigation could not be completed for want of complete records and information for reasons mentioned therein.

(2) SEBI has relied upon selective emails without any corroboration. Only the documents pertaining to KYC from the brokers wherein Srikanth was

listed for correspondence and some emails which were totally unconnected to the present controversy have been relied upon. Based on such documents, SEBI arrived at a finding that Srikanth was a key person managing and controlling the trading account of the *Noticees no. 2, 7* and *13*.

(3) The *Noticees no. 5* to *7* have been arraigned in the present proceedings based on premise that the funds of ZSL were utilised by Sripriya to deal in the shares of ZSL. However, SEBI failed to take note of the fact that the entire funding for the purchase of shares by Sripriya was done by her lenders and financial institutions who took coercive steps of selling the pledged shares upon her default. SEBI has also failed to appreciate that even the shares of the promoters of the ZSL which were pledged with the financial institutions were sold in distress because of non-payment of outstanding dues just as in the case of Sripriya. Hypothetically, if funds were available either with the *Company* or the promoters, it would be strange that the *Company* did not lend the same to its own promoters to avoid their default. Secondly, even assuming there was funding to Sripriya by ZSL, then Sripriya would have paid the lenders and avoided distress sale and also would have saved criminal proceedings initiated against her by the lender for the recovery of their dues. Thus, the funds given to Sripriya by ZSL were independent commercial transactions which fell through and the entire funds were returned back to ZSL.

(4) Based on this incorrect premise, clubbed with the position of Srikanth and Srihari's employment in ZSL, Sripriya has been considered as a PAC with promoters of ZSL.

(5) ZSL had three (3) promoters viz., Ramanujam, Sudarshan and Sthithi. Ramanujam and Sudarshan each having 50% shareholding in Sthithi. ZSL had actively engaged Viswanathan, the elder brother of Sudarshan, as the General Manager (Administration & Secretarial) to represent and effect the promoters' instructions in India. Viswanathan was also acting as the *de facto* CEO of Indian Operations. He was a signatory to all bank

accounts of ZSL and Sthithi and was always the second signatory to any cheque issued in this regard. Viswanathan was also the sole authorised person to represent Sthithi before all its lenders and brokers.

(6) Further, Sriram Ramesh Chakrapani (Financial Controller), a close relative of Ramanujam, and *Noticee no. 13* were also implementing the decisions of the promoters.

(7) The role of Viswanathan is also mentioned and elucidated in SCN but he is not named as a noticee. Further, his role is being investigated by CBI and he is named in the charge sheet filed by CBI on the basis of the following findings:

(a) Alongwith Sudarshan and Ramanujam, Viswanathan had executed the documents for availing the loans with Indian Overseas Bank, Federal bank and Dena Bank.
(b) Viswanathan operated bank accounts on behalf of Sthithi.
(c) The employees of ZSL used to execute the instructions of Ramanujam, conveyed to them through Viswanathan.

(8) Similarly, for the purpose of managing the trading activities of the promoters, Mr. Prabhakar was hired as an account executive in 2011 by Ramanujam on the basis of his prior experience in dealing with stock market intermediaries. Prabhakar also used to act according to the directions/instructions of the promoters of ZSL.

(9) As per the definition of 'control' under the Companies Act, 2013, the expression 'control' is defined in two parts. The first part includes the right to appoint a majority of the directors of a company and the second part refers to *de facto* control. There is no document on record to establish that Srikanth had a right in appointment of directors or was controlling the management. Merely relying upon certain emails and without going into the depth of the same, it is concluded that Srikanth was the person in control of the promoter's shareholding. SEBI has completely ignored the fact that Srikanth was only receiving the emails as the promoters were

constantly travelling abroad and Srikanth had simply forwarded those emails to them.

(10) Additionally, the Articles of Association of ZSL itself suggest that though Srikanth was made executive director, he cannot be construed as a director in accordance with the meaning of the Companies Act, 1956.

(11) SEBI has without any basis made an observation that Prabhakar was reporting to Srikanth. Prabhakar was appointed by the promoters and he was managing all related entities. Prabhakar in his statements has even confirmed this position despite which there is an observation that Srikanth was in charge and controlling the shares of promoters.

(12) A bare perusal of the KYC forms of Sthithi submitted to the brokers depict that it was Viswanathan who had signed all the forms. Despite the same, he has not been arraigned in the proceeding. However, merely because the email ID and mobile number of Srikanth were entered in the KYC forms, Srikanth has been dragged into this controversy.

(13) The accounts of Sthithi were managed and controlled by Prabhakar and the same has been stated by Prabhakar in his statement. He was in daily contact with all the intermediaries and acted upon the instructions of the promoters. Srikanth was requested to keep a watch on their trades due to their constant travelling. However, based on the reply of certain brokers, SEBI has alleged that Srikanth was placing trades for Sthithi. These statements are without any basis and without any supporting evidence viz. authority letter or voice recordings.

(14) Similarly, emails received by Srikanth were merely coordinative in nature and immediately forwarded to Prabhakar and promoters.

(15) ZSL's working capital finance started having problems in June 2011. This was due to a sudden and steep fluctuation in the USD (vs INR) rates, where the INR rate rose from INR 42 to INR 68 and settled down in the range of INR 61-62 against USD. ZSL's Packing Credit facility in foreign currency was sanctioned by a consortium of banks in Rupee terms,

whereas the availing of loan and repayment was 100% in foreign currency. Since the working capital (hereinafter referred to as **'WC'**) limits and procurement of loan was in cross-currency, it led to an overdraw in the WC account to the tune of INR 85 crores. The main banker who funded WC, started adjusting all the export realizations against the overdrawn limits. This severely affected the *Company*'s WC cycle.

(16) To tide over this, ZSL approached its consortium of banks for additional WC during the year 2012 and the same was refused due to then prevailing overdrawn limits in the WC which resulted in an additional shortfall of INR 104 crores. This further strained the WC cycle.

(17) Promoters of ZSL had pledged almost their entire shareholdings in ZSL and raised loans from various NBFCs such as Karvy, IFCI, Religare, etc. which were then lent to ZSL to bridge its WC shortfall. Since ZSL was not able to make timely repayment to promoters, they started defaulting on EMI payments to their main lender namely IFCI. This led to sale of pledged shares by IFCI (in 2012), which triggered an abrupt sale of the entire shares by Karvy and Religare, wherein there was no default and other institution followed suit. As a result, the scrip of ZSL faced down-freeze every single day leading to share price of INR 300 dropping to INR 66 per share in less than 20 trading sessions. The promoters of ZSL almost lost all of their shareholding in the *Company*.

(18) ZSL's foreign currency WC loan, equivalent to INR 350 crores, got converted to INR loan. This led to the interest rate becoming 16% from 2.75%. Therefore, further penalties were charged upon the *Company*. Foreign currency term loans obtained at INR to USD rate at INR 40/- crystalized at INR to USD rate at INR 62/- The entire crystallization increased the loan of ZSL by INR 175 crores.

(19) Additionally, the orders in pipeline dropped down sharply. Several contracts that were in execution mainly from various locations in USA got sabotaged resulting in cancellation of contracts and account-receivable write-offs due to the breach of the terms of contracts. Revenue

kept dropping down quarter after quarter. Payroll liabilities and the statutory payables were not in tandem to the revenue accrued, resulting in huge loss at EBIDTA level and IFIN moved legally seeking for winding up ZSL with the Hon'ble Madras High Court.

Background Facts of *Noticees no. 5, 6* and *7*:

(20) **Sripriya:** Sripriya is a regular investor and a shareholder of ZSL since 2002. Sripriya is also the wife of Srikanth. She is financially independent, and the trades in ZSL in her accounts were in her individual capacity. She had engaged few investment managers to manage her trading and they were handling the trading. Srikanth used to coordinate for operational part of her broking and NBFC account. Sripriya's relationship with ZSL was limited to her being a shareholder of the *Company*. In fact, she never had any voting rights or control over the shares of ZSL since the shares held by her were utilised as margin by the lenders who financed the purchase of shares of ZSL.

(21) **Srikanth:** Srikanth was appointed as an Independent Director of the *Company* in 2007 and later as Executive Director in May 2010. The control and management of ZSL was always with Ramanujam and Sudarshan. Due to their constant travels abroad, Srikanth was marked on various emails for the purpose of convenience and solely for seeking instructions on behalf of the promoters. However, no decision-making power was with Srikanth with respect to their holdings in ZSL or Sthithi.

(22) **Srihari:** Srihari is brother-in-law of Srikanth and he joined ZSL in May 2006 as Financial Controller. His designation was changed to Global Chief Financial Officer in May 2010. Srihari's role as CFO was limited in giving financial advice to the promoters of ZSL and he was marked on various emails for that purpose only. Final decision was always taken by Ramanujam and Sudarshan or by Viswanathan.

Acquisition of Shares by Sripriya.

(23) Somewhere around 2010, based on good market reviews and positive

reports from market analysts, Sripriya purchased shares of ZSL using loan against share facility from her stock-brokers and entered into loan agreements with them. As per the said loan agreements, all her shares of ZSL were pledged with the said lenders. The loan agreements with JM Financial and Motilal Oswal Securities Limited also ensured that the voting rights and all rights attached to such shares were vested with them. Therefore, she had no control or voting rights over such shares.

The failed land deal between ZSL and Sripriya:

(24) In or around December 2011, Mrs. Shobana Chandramouli, a long-time acquaintance of Sripriya, requested for financial assistance wherein Sripriya and Srikanth decided to aid her by buying a piece of land admeasuring 2.85 acres that she desired to sell in lieu of immediate financial payment.

(25) ZSL was looking to acquire land for setting up a disaster recovery centre to bid for large contracts. Therefore, pursuant to sale agreement dated April 02, 2012 between Sripriya and ZSL, ZSL made initial payments to Sripriya to the tune of INR 5.78 crores (5,78,44,609.85).

(26) However, after five months, Ramanujam conveyed their inability to pay rest of the amount due to lack of funds with ZSL and asked Sripriya to refund the initial payments. Although initially refused, Sripriya signed Deed of Cancellation dated December 03, 2012 and repaid the entire sum of INR 5,79,72,000/- to ZSL (i.e., INR 1,27,390.15/- over and above the advance of INR 5,78,44,609.85/- received from ZSL) in instalments during the period September 09, 2012 to November 30, 2012, due to the pressure created by ZSL on Srikanth. This fact is further certified by two chartered accountants viz. CA Usha Babu and Associates and CA T.R. Sarathy.

(27) A bare perusal of the aforementioned facts read with documents on record, justify the fact that the fund transfers between Sripriya and ZSL is independent of the acquisition of shares of ZSL by Sripriya.

Sripriya cannot be considered as PAC

(28) As per definition of PAC, the relevant persons are required to act with a common objective or purpose for the acquisition of shares or voting rights in, or exercising control over a target company with an agreement or an understanding with each other. SEBI on one hand has alleged that the promoters were facilitating their exit from ZSL whereas on other hand it has alleged that Sripriya was buying shares of ZSL.

(29) The very basic ingredient for the trigger of an open offer under the SAST Regulations, 2011 is the "*entitlement to exercise voting rights*". In the present case, the voting rights vested with the lenders of Sripriya and she had no entitlement to vote.

(30) Even the promoters had pledged their shares with their lenders who sold the shares in distress because of default in payment obligations by promoters and due to fall in price of the scrip of ZSL. Therefore, substantial portion of the shareholding of the promoters were also pledged, which further demolishes SEBI's claim of a trigger of open offer, as neither Sripriya nor the promoters had control over the shares held by them.

Sripriya's acquisition not funded by ZSL

(31) SEBI has made an incorrect inference, based on the receipt of funds by Sripriya from ZSL but has completely overlooked the documents on record, which also suggest that the entire money received by Sripriya was refunded back to ZSL, when the land deal did not fructify. SEBI has also ignored the fact that the acquisition of shares of ZSL by Sripriya was funded through the NBFCs/financial institutions as is evident from the loan documents.

(32) If the funds of the promoters as alleged were retained by Sripriya and used for acquisition of shares, then she wouldn't have defaulted towards the loan of NBFCs/financial institutions and the lenders wouldn't have initiated proceedings under section 138 of the Negotiable Instruments

Act, 1881, which eventually got settled only in 2016.

(33) Further, if the promoters had the money, which was allegedly used to fund Sripriya, it would be illogical for the promoters or ZSL to make payments to Sripriya when promoter holdings itself were in jeopardy with the creation of pledge and when funds were required to protect shares of promoters from any coercive steps by their lenders.

No relation of the *Noticees no. 5, 6 and 7* with the Promoters

(34) From the day of joining ZSL, Srikanth and Srihari primarily were handed over with the responsibility to interact with the analysts and institutional investors of ZSL by coordinating between promoters and finance team of ZSL. This was more so during quarterly results of ZSL, when conference calls with various brokerages, analysts and investors would happen to present the quarterly results of ZSL.

(35) The decisions of Ramanujam and Sudarshan were implemented by Viswanathan and the entire finance and accounts team at ZSL including Prabhakar, who was appointed as accounts executive of ZSL at the instance of Ramanujam as he was having experience in dealing with stock market intermediaries. Srikanth and Srihari were hired to implement and coordinate the decisions of the promoters of ZSL.

(36) Ganesan, Mohan and Santhanakumar have given statements under Section 164 of CrPC before a CBI magistrate court that they had acted under the instructions of Ramanujam and Sudarshan either directly or through Viswanathan.

Provisional Attachment Order of Enforcement Directorate only against promoters

(37) The promoters have committed complex fraud and have absconded since then. As a result of such wrongdoings of the promoters, CBI has initiated proceedings against Ramanujam and Sudarshan on the basis of the complaints filed by the Banks wherein the answering *Noticees* (*Noticees no. 5 to 7*) were summoned by CBI and it was informed to the *Noticees* that the SEBI Order being a regulatory issue and quasi-judicial order has

relevance in CBI proceedings.

(38) CBI has named the *Noticees* in the charge sheet based on the SEBI Order. The matter is still at the stage of service as the promoters are stated to be absconding and not responding to the Summons. Sripriya had filed a petition for quashing of proceedings under Section 482 of the CrPC before the Hon'ble High Court Madras wherein the Hon'ble Court directed Sripriya to approach the Lower Court for discharge and she will be filing the application when the proceedings would be continued. Srikanth has not been named as accused in any of the proceedings initiated by CBI against ZSL. However, Srikanth has been named as accused in the FIR lodged by Andhra Bank against Zylog Systems India Limited (hereinafter referred to as "**ZSIL**") (a subsidiary of ZSL) on account of position held by him in the said company.

(39) Enforcement Directorate (hereinafter referred to as "**ED**"), post investigation of complaints filed by CBI against ZSL and ZSIL, has issued the Provisional Attachment Order only against Ramanujam and Sudarshan, in light of their active involvement in designing such a fraud. On the other hand, the *Noticees no. 5, 6* and *7* had at all relevant time cooperated with ED and provided them assistance with respect to all details and information and their statements have also been recorded by the ED. Based on the findings of the investigation, the provisional order was passed by ED, attaching the movable and immovable assets of ZSL and its promoters.

(40) As explained above, when ED reviewed the records and looked for all explanation on the fund flow, ED agreed with the records and submissions made by the *Noticees no. 5, 6* and *7* and therefore did not proceed against the answering *Noticees no. 5, 6* and *7* despite some of them being named in the CBI charge sheet. No adverse directions were made against the *Noticees*, as they were not in connivance with the promoters and the proceeds of crime, if any, were only with the promoters of ZSL who have absconded.

Bona fides of the *Noticees no. 5, 6* and *7*:

(41) From the time of initiation of proceedings by SEBI, the *Noticees no. 5, 6* and *7* have pursued the proceedings initiated by SEBI diligently. The *Noticees no. 5, 6* and *7* cooperated with the Administrator to collate and compile all the available records of ZSL so that he could forward the same to SEBI. These *Noticees* have also cooperated with the investigating authority and provided all the requisite assistance from their end as and when sought for by the investigating authority.

(42) The *Noticees no. 5, 6* and *7* have assiduously appeared before the Whole Time Members of SEBI from time to time and made submissions to assist in disposing the proceedings. They have always been diligently pursuing the Adjudication proceedings as well.

Noticees no. 5 to *7* are already undergoing restraint from the securities market:

(43) Vide SEBI Order dated June 13, 2013, the *Noticees* have already been debarred from buying, selling and dealing in the securities market in any manner since the past seven years, which is more than what is generally imposed by SEBI in many other cases.

(44) Therefore, taking into account the restraint already undergone and hardships faced by the *Noticees*, it would be expedient that the captioned SCN be disposed without any adverse direction.

Open Offer is unwarranted and superfluous

(45) The process of winding up had been initiated against ZSL vide Order of the Hon'ble High Court of Madras dated July 03, 2014. The Administrator has already filed final report dated June 30, 2019 on the status of ZSL with the Hon'ble High Court on July 12, 2019, wherein he has recommended winding up the *Company* as all options of revival have been exhausted. Similarly, the Official Liquidator has also filed his report on August 31, 2019. Pursuant thereto, the RoC as well as the Office of Official Liquidator attached to the High Court of Madras have classified ZSL as a company "Under Liquidation".

(46) Since the liquidation process is underway, it would not be expedient to direct an open offer at such belated stage. For the same reason, ZSL was not made a part of another proceeding under Section l1 of the SEBI Act, 1992, which was concluded vide Order dated October 6, 2017 of the Whole Time Member. Further, the Adjudicating Officer adjudicating on a different show cause notice with same set of facts, has disposed of the proceedings against ZSL, given the settled legal proposition that no legal proceeding can be initiated against a company under liquidation, unless leave of the court has been attained as envisaged under section 446 of the Companies Act, 1956.

(47) In light of the facts of the present case, a pragmatic approach ought to be applied and as complete disregard has been shown by promoters to all their obligations, no direction could be made to other non- promoters to make an open offer.

Justification of disposal of the present proceedings

(48) The following mitigating factors should be considered and the captioned SCN must be disposed of without any adverse direction against the *Noticees no. 5* to *7* as a direction of public announcement of an open offer is futile and not possible.

(49) The only direction that remains is the imposition of direction of restraint in terms of section 11(1), 11(4) and 11B of the SEBI Act, 1992 for alleged violation of the PFUTP Regulations, 2003 and other disclosures-which has already been suffered by the *Noticees no. 5* to *7* and is still ongoing.

(50) In view of the aforesaid submission, it is apparent therefore that there is no requirement of any direction to be issued, especially in light of the present status of the *Company* and the prolonged debarment of almost seven years undergone by the *Noticees no. 5* to *7* and for the reason that the open offer is not triggered to begin with.

13. In addition to the abovementioned common submissions with the *Noticees no. 6* and *7*, the *Noticee no 5* made, *inter alia*, the following additional submissions:

(1) The SCN alleges that the *Noticee no. 5*, along with Sudarshan, Ramanujam and Srihari, was controlling and managing the shareholding of promoters and other related entities including Sthithi and Sripriya on the basis of email dated 17/05/2012, alleged to be sent by him to Prabhakar stating "*currently sthithi acts as the vehicle for Ramanujam and Sudarshan to increase their stake in zylog*". There is no mention of Sripriya in the said email.

(2) The allegation against the *Noticee no. 5* with respect to him being a "PAC" is unsustainable and baseless because of the following reasons:

(a) He was never a shareholder of ZSL

(b) He had no control over the management and day to day business of the *Company* and have acted only under the instructions of the promoters.

(c) Sripriya is financially independent and Srikanth has no role to play in her business decisions including the trading executed by her in scrips.

(3) The allegations with respect to the PFUTP Regulations, 2003 are based on an incorrect assumption that the *Noticee no. 5* was behind and aware in transferring of the funds of ZSL to his wife, which was in-turn used to deal in its shares. However, the fact is that his wife had borrowed funds from NBFCs/lenders vide loan agreements for dealing in the share market.

(4) SEBI has failed to consider the fact that his wife was dealing in the shares of ZSL since the year 2002. Prior to April 1, 2012, i.e., the earliest date of transfer of funds between his wife and ZSL, she was holding almost 16,44,361 (11%) shares of ZSL which were purchased by her over the years. Sripriya's trading in ZSL was based on her independent judgement and profit expectations and had nothing to do with the promoters of ZSL.

(5) If the *Noticee no. 5* was behind her investment decision and was aware about the actual status of ZSL, she would have known that Karvy and IFCI which had lent funds to the promoters of ZSL sold their shareholding in a distress sale which resulted in the price of the scrip fall

beyond imagination depleting all her lifetime holdings.

(6) Sripriya had not even forfeited any earnest money even though the Sale Agreement (under Clause 11) allowed her to forfeit a sum of INR 3 crores in the event of breach by ZSL. In fact, Sripriya was forced to return the earnest money since the promoters had threatened to remove *Noticee no. 5* from ZSL.

(7) As part of the bargain to make the repayment to ZSL and taking into consideration the financial difficulties faced by Sripriya, the promoters connected *Noticee no. 5* and Sripriya with certain financiers known to them, for granting friendly loans, without charging interest to enable Sripriya to honour her commitments with her NBFCs.

(8) Even the signing of guarantee by ZSL on behalf of Sripriya for loans taken by her from JM Financial and NSIPL is also in furtherance to the aforementioned arrangement with the promoters of ZSL. The promoters had also agreed to support Sripriya, as a stop gap arrangement by standing guarantee to loans availed by her from the NBFCs. However, not a single penny has been paid by either ZSL or its promoters to either the lenders or the NBFCs in this regard.

(9) The SCN incorrectly relies on the statements of independent directors of ZSL viz. Mr. S Rajagopal, Mr. A.P. Vasanthakumar and Mr. V.K. Ramani as they have merely stated that they were not aware of the said land dealings. The SCN does not even annex the copies of the minutes submitted by the said independent directors. Moreover, it fails to recognize the submissions made by ZSL itself, and also the Administrator appointed by the High Court of Madras, Chennai which confirm the occurrence of these events.

(10) ZSL had a full-time company secretary, who was also the designated Compliance Officer of ZSL. She was taking instructions directly from promoters or through Viswanathan, who was her reporting superior.

(11) In no case, the *Noticee no. 5* should be considered to be at fault for the

failure of ZSL to make certain disclosures either in RHP or in Annual Report or at other relevant places, without any allegation of collusion with the promoters. The SCN does not even remotely elucidate this and yet the allegation of fraud is levelled against him.

(12) As far as the allegations arising out of the replies received from IFCI Ltd. and Union Bank of India are concerned, the same is denied. Even assuming that such allegations are true, the *Noticee no. 5* was not aware of and was not involved in such misdeeds. The actual miscreants, i.e., the promoters of the *Company* have committed the fraud and have absconded.

(13) The failure to make disclosures under regulations 13(4) read with 13(5) of the PIT Regulations, 1992 was corrected by making disclosure to BSE and NSE on February 20, 2020 and as on date the same is complied with.

(14) Regarding the *Noticee no. 5* being shown as an Independent Director in the RHP and the Stock Exchange filing, the erstwhile Companies Act, 1956 did not contain any provision defining the scope and qualifications for a director as is alleged in the SCN. Further, clause 49 of the Listing Agreement gives an inclusive definition of an independent director and lays down that such a director himself should not be holding substantial shareholding in the company. However, it does not set out any restrictions with respect to shareholdings of the relatives of an independent director. Therefore, the disclosure made by ZSL in RHP and stock exchange with respect to me holding Independent directorship cannot be termed as incorrect.

(15) In any event, the elements of the PFUTP Regulations, 2003 are not attracted in the present case. Commission of ***'fraud'*** under the PFUTP Regulations, 2003 necessarily involves "inducement" of another to deal in securities, which is absent in the present case. Further, fraud cannot be proved only on alleged gross negligence, carelessness or recklessness as amounting to collusion and connivance on a preponderance of probabilities.

14. The *Noticee no. 6*, by way of letters dated September 04, 2019, August 15, 2020 and September 18, 2020, made the following additional submissions:

(1) Without there being any specific finding or observation qua him, the *Noticee no. 6* has been dragged into the entire controversy even though the material on record distinctly points out to the actual perpetrators of the misdoings, i.e., the promoters of ZSL and their accomplice (Viswanathan and Prabhakar).

(2) The *Noticee no. 6* joined ZSL in May 2006 as Financial Controller. Sometime in 2009, he was made Head of Indian Business Operations. Post-acquisition of Brainhunter, a CAD 200 Million company, in February 2010, he was appointed as CFO of this company and he was constantly travelling to seamlessly integrate Brainhunter with the operations of ZSL. Later, in May 2010, his designation in the *Company* had changed to Global Chief Financial Officer ("CFO").

(3) His duties in the *Company* were to oversee the financial aspect of the *Company* and execute the functions related to the same as per the directions of the promoters of the *Company*.

(4) He faced persistent issues with the promoters of the *Company* since they, being first generation entrepreneurs, wanted to control all activities in the *Company* including the finance activities personally without allowing anyone else to exercise control. He got the impression that he was recruited as a financial officer merely to please the outside world and to impress private equity firms. He often had qualms with the promoters with respect to the work culture and he even tried to resign from the *Company* on several occasions. When he has submitted his resignation letter in December 2011, Sudarshan convinced him to defer his resignation for a few months till June/July 2012 since the *Company* required his aid in raising funds.

(5) However, after a point in time it became increasingly difficult to satisfy the debts, and consequently, even the equity funds raising process got

hindered. This coupled with the steep fall in the share price of the *Company* completely disrupted the financials of the *Company*. While making earnest efforts to revive the *Company*, the *Noticee no. 6* even gave up his salary for 6-7 months. Thereafter, he could not take any further hit to his personal financials, and therefore, he stopped attending office from April 15, 2013 and he was relieved with effect from April 30, 2013.

(6) *Noticee no. 6* has put forth his preliminary submissions as under –

(a) He has never traded in the shares of ZSL, whether on his own behalf or on behalf of any other person. He was never involved in the false and misleading announcements made by the promoters of the *Company*.

(b) His request for the copy of the Investigation Report, to have clarity with regards the aforesaid details has been rejected without providing any substantial or reasonable basis, in complete defiance to the principle of natural justice and fair play.

(c) The promoters of ZSL, i.e., Sudarshan and Ramanujam are the key perpetrators of fraud and have absconded. Even the Administrator has filed a Police complaint against the said promoters.

(d) He was never in control of the management or any other decisions in ZSL. He was merely a salary paid employee of ZSL with no other rights or interest whatsoever. The decision-making of ZSL vested in the promoters and day to day management was undertaken by Promoters and Viswanathan, and their juniors.

(e) Viswanathan is named everywhere in the SCN. Despite clearly specifying his role, he is not arraigned as a noticee. There are more observations made against him in the SCN as compared to *Noticee no. 6*, however no action is proposed. Therefore, on parity, *Noticee no. 6* should also be let-of.

(f) The charging provisions in the SCN are mainly directed towards ZSL. However, liquidation proceedings have been initiated against the

Company. Considering that all allegations towards *Noticee no. 6* are stemming from the infractions by the *Company*, the present proceedings ought to be dropped.

(g) There is no basis to proceed against *Noticee no. 6* under the PFUTP Regulations, 2003 since the basic ingredients of the said regulations are not attracted. Even if all the allegations under the PFUTP Regulations, 2003 are taken as correct, the charges could be only against promoters and not against *Noticee no. 6* who did not control ZSL.

(7) The e-mails that form the basis for allegations against *Noticee no. 6* are not addressed by or to him. Merely because he was marked in some of the coordination e-mails between promoters and Srikanth, he also been alleged to be managing the impugned activities in ZSL.

(8) The *Noticee no. 6* was never involved in the shareholding related activities in ZSL. The promoters used to take their own trading decisions and the same used to be executed by Viswanathan and Prabhakar. Merely because he was marked in certain emails showing the shareholding patterns, he was roped into this allegation. He has not addressed any of the said emails. Even the email referred to in Paragraph 7.1.8 (ii) of the SCN is misinterpreted by SEBI to draw incorrect and inconsistent inferences against him. The said email was with regards to one of the issues being faced by the promoters wherein they had taken his professional advice.

(9) The *Noticee no. 6* did not know the promoters of the *Company* before he joined the *Company* in 2006. The SCN makes far-fetched connection between him and the promoters merely because he was an 'Article Student' with M/s Brahmayya & Co. during 1991 to 1994, which was later appointed as the statutory auditor of ZSL in 2006-07.

15. The *Noticees no. 8* and *9* did not make any submissions in response to the aforementioned SCN. The *Noticees no. 10, 11, 12* and *13*, vide their respective letters all dated August 14, 2020 and their respective affidavits dated October

12, 2020, have made identical submissions. In addition, the *Noticee no. 10* made the following submissions:

(1) First of all, the Investigation Report has not been furnished by SEBI till date. The same has been requested at the time of inspection of documents as well as by letter dated July 28, 2020. Further, copies of certain other documents requested for have also not been provided by SEBI.

(2) He was mere an employee of the ZSL having designation of Administrative Officer and was drawing a salary of approximately INR 25,630/- per month.

(3) He never reported to Srikanth and Srihari who were also following the instructions of the promoters of the *Company* and Viswanathan. He was directed by Sudarshan and Viswanathan to sign all the documents/blank cheques of Aditicon as part of his employment with ZSL, which was treated as part of his job and the same has been also recognized in the SCN. It was an unsaid rule that if he didn't sign the documents/blank cheque, he would face dire consequence like losing his job with ZSL.

(4) The complete control of Aditicon (including bank accounts, blank signed cheques) was always with Sudarshan, Ramanujam and Viswanathan and the signed blank cheque books relating to the bank account of Aditicon were retained by Viswanathan.

(5) At no point of time, he was aware for what purpose these bank accounts/blank cheques were being used since it was under direct control of Viswanathan.

(6) He has not derived any monetary benefit of any kind whatsoever from Aditicon, all that he has received is his salary which was paid to him by ZSL.

(7) He has no personal relations with the promoters/directors of ZSL.

(8) During his employment with ZSL, the *Noticees no. 3, 4* and Viswanathan time and again directed him to sign certain papers /blank cheque book

and as an employee of ZSL, he had no other option and hence signed the documents as directed by the *Noticees no. 3, 4* and Viswanathan.

(9) It came to his knowledge much later that he was appointed as a Director of Aditicon. He was given the impression that signing such documents were part of his job with ZSL. Further, he was never given an option to refuse, in fact any kind of refusal by him would have been dealt with dire consequences including loss of his job with ZSL.

(10) ZSL was managed and controlled by the *Noticees no. 3* and *4* under the guidance of Viswanathan who has not been named in the list of *Noticees*, although he occupied prominent position in the ZSL

(11) For all practical purposes Aditicon was a company owned by the *Noticees no. 3* and *4* and was completely controlled by the *Noticees no. 3, 4* and Viswanathan. The *Noticee no. 10* was only appointed as its employee director.

(12) The bank account statement of Aditicon clearly demonstrates that the account was used for the benefit of the *Noticees no. 1, 2, 3, 4* and Viswanathan and at no point of time *Noticee no. 10* derived any benefit from the said company.

(13) The *Noticee no. 10* was never a part of any manipulation or deceptive devices or contrivance in contravention of the provision of the alleged sections and regulations. Further, there is no evidence to establish his involvement or even that he had prior knowledge of the alleged *modus operandi* of the *Noticees no. 3, 4* and Viswanathan.

(14) The SCN also recognizes that the *Noticee no. 10* was not aware of the transaction and the entire *modus operandi* while admitting that the entire operation of Aditicon was under the control of the Key Management personnel of ZSL, i.e., the *Noticees no. 3, 4* and Viswanathan.

(15) The *Noticee no. 10* was working under the instruction of the *Noticees no. 3, 4* and Viswanathan and they were in control of the day-to-day affairs of the *Company*.

(16) No adverse direction has been issued against *Noticee no. 10* in various proceedings initiated against the *Company* by various agencies.

(17) A company is a juristic person, all its deeds and functions are the result of acts of others. Therefore, officers of a company who are responsible for acts done in the name of the company should be held liable. The said liability arises from being in charge of and responsible for the transaction at the relevant time and not merely holding a designation or office in a company. The liability depends on the role one plays in the affairs of the company and not on the designation or status.

(18) There has to be a specific finding against the *Noticee no. 10* that he was responsible for the transaction. The mere fact that he was the Director of Aditicon would not automatically make him responsible for the alleged transactions.

16. The *Noticees no. 11, 12* and *13* also made their respective submissions on the abovementioned grounds. *Noticee no. 11* submitted that he was Accounts Executive drawing a salary of INR 16,350 per month and all the acts alleged in the SCN were done by him under directions of the *Noticees no. 3, 4* and Viswanathan.

17. Similarly, *Noticees no. 12* and *13* submitted that they are husband and wife wherein the *Noticee no. 13*, the husband, was working at ZSL as Vice President, Corporate Accounts and was drawing a salary of less than INR 1,00,000 per month. Further, all the acts alleged in the SCN were done by them under the threat of *Noticee no. 13* losing his job at ZSL. The trading in the scrip of ZSL was also done in the trading account of the *Noticee no. 13* under coercion and duress and was under direct knowledge of the *Noticees no. 3* and *4*, whereas the *Noticee no. 13* was trading in various scrips other than the scrip of ZSL. The said trading done in the account of the *Noticee no. 13* were done by one Mr. Lokesh Kapoor of Prabhudas Liladhar Private Limited on the basis of a Power of Attorney signed by the *Noticee no. 13* under instructions from the *Noticees no. 3* and/or *4*.

18. Before proceeding to deal with the allegations as recorded above against the *Noticees*, I find it appropriate that for the purposes of easy reference, relevant provisions of the applicable sections, regulations, guidelines, etc. which have allegedly been contravened as per the SCN are reproduced hereunder:

The SEBI Act, 1992

Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

12A. *No person shall directly or indirectly—*

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(d) ……..

(e) ……...

(f) acquire control of any company or securities more than the percentage of equity share capital of a company whose securities are listed or proposed to be listed on a recognised stock exchange in contravention of the regulations made under this Act.

Securities Contracts (Regulation) Act, 1956

Conditions for listing.

21. *Where securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange.*

The PFUTP Regulations, 2003

3. *Prohibition of certain dealings in securities*

"No person shall directly or indirectly –

(a) buy, sell or otherwise deal in the securities in a fraudulent manner;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under."

4. *Prohibition of manipulative, fraudulent and unfair trade practices*

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—

(a) indulging in an act which creates false or misleading appearance of trading in the securities market;

(f) publishing or causing to publish or reporting or causing to report by a person dealing in securities any information which is not true or which he does not believe to be true prior to or in the course of dealing in securities;

(g) entering into a transaction in securities without intention of performing it or without intention of change of ownership of such security;

(r) planting false or misleading news which may induce sale or purchase of securities;"

The SAST Regulations, 2011

Substantial acquisition of shares or voting rights.

3(2) *No acquirer, who together with persons acting in concert with him, has acquired and*

holds in accordance with these regulations shares or voting rights in a target company entitling them to exercise twenty-five per cent or more of the voting rights in the target company but less than the maximum permissible non-public shareholding, shall acquire within any financial year additional shares or voting rights in such target company entitling them to exercise more than five per cent of the voting rights, unless the acquirer makes a public announcement of an open offer for acquiring shares of such target company in accordance with these regulations:

Provided that such acquirer shall not be entitled to acquire or enter into any agreement to acquire shares or voting rights exceeding such number of shares as would take the aggregate shareholding pursuant to the acquisition above the maximum permissible non-public shareholding.

Disclosure of encumbered shares.

31(1) *The promoter of every target company shall disclose details of shares in such target company encumbered by him or by persons acting in concert with him in such form as may be specified.*

(2) *The promoter of every target company shall disclose details of any invocation of such encumbrance or release of such encumbrance of shares in such form as may be specified.*

(3) *The disclosures required under sub-regulation (1) and sub-regulation (2) shall be made within seven working days from the creation or invocation or release of encumbrance, as the case may be to,—*

(a) every stock exchange where the shares of the target company are listed; and

(b) the target company at its registered office.

The PIT Regulations, 1992

Continual disclosure.

13(4) *Any person who is a director or officer of a listed company, shall disclose to the company and the stock exchange where the securities are listed in Form D, the total number of shares or voting rights held and change in shareholding or voting rights, if there has been a change in such holdings of such person and his dependents (as defined by the company) from the last disclosure made under sub-regulation (2) or under this subregulation, and the change exceeds Rs. 5 lakh in value or 25,000 shares or 1% of total shareholding or voting rights, whichever is lower.*

(4A) *Any person who is a promoter or part of promoter group of a listed company, shall disclose to the company and the stock exchange where the securities are listed in Form D, the total number of shares or voting rights held and change in shareholding or voting rights, if there has been a change in such holdings of such person from the last disclosure made under Listing Agreement or under sub-regulation (2A) or under this sub-regulation, and the change exceeds Rs. 5 lakh in value or 25,000 shares or 1% of total shareholding or voting rights, whichever is lower.*

(5) *The disclosure mentioned in sub-regulations (3), (4) and (4A) shall be made within two working days of :*

(a) the receipts of intimation of allotment of shares, or

(b) the acquisition or sale of shares or voting rights, as the case may be.

The DIP Guidelines

6.15.2 Declaration

The draft prospectus and final prospectus shall be approved by the Board of Directors of the issuer company and shall be signed by all the Directors (including the Managing Director), Chief Executive Officer and Chief Financial Officer of the issuer company. They shall also certify that all the disclosures made in the prospectus are true and correct.

Consideration and findings:

19. I have carefully considered the allegations made against the *Noticees* in the SCN, their replies and submissions made before me during personal hearing and the materials available on record. Before dealing with the replies of the *Noticees* on specific charges on merit, I deem it necessary to deal with the preliminary objections raised by the said *Noticees*. I note from the records before me that some of the *Noticees* had sought inspection of certain documents. In compliance with the principles of natural justice, inspection of the relevant original documents which have been relied upon and copies of which had been annexed to the SCN, was duly provided to such *Noticees*. In this regard, I deem it appropriate to be guided by the findings recorded by the Hon'ble Supreme Court of India in the matter of *SEBI Vs. Monarch Networth Capital Limited* [(2016) 6 SCC 368], wherein the Hon'ble Supreme Court, while

dealing with the issue of principles of natural justice, has, *inter alia*, observed that : "…*Insofar as the plea of violation of principles of natural justice, as raised on behalf of the respondent in C.A. No. 282/2014 (Monarch Networth Capital Ltd.) is concerned, we do not think the same to be justified in any manner. The relevant extracts of the trade log which have been perused by us, in view of the clear picture disclosed with regard to the particulars of the offending transactions, must be held to be sufficient compliance of the requirement of furnishing adverse materials to the affected party.*"

20. Further, the Hon'ble Securities Appellate Tribunal (**SAT**) in the matter of *Shruti Vora Vs. SEBI* (Date of decision: February 12, 2020) has, *inter alia,* held that only the documents which have been relied upon need to be provided to the noticee. It has also been held that in the absence of any law specifically imposing or casting duty to provide all the documents which are in the possession of SEBI though have not been relied upon, it would not be justified on the part of the noticees to ask for those documents which are not having a role in attributing the allegation made on the noticees and therefore, denial of all such documents would not *ipso facto* result in breach of principle of nature justice. In view of the foregoing observations of the Hon'ble Tribunal, I am of the considered view that the principles of natural justice have been adequately complied with in the present matter, as all documents which have been relied upon in the preparation of the present order against the *Noticees* have been duly provided to them.

21. Some of the *Noticees* have contended that the Investigation Report was not furnished to them. It is trite law to state that investigation report is typically a compilation of all the findings made during the investigation reproduced in a comprehensible manner. The materials that have been relied upon during investigation or the relevant extracts of the Investigation Report which are referred to or relied upon to impute allegations against the *Noticees* are all dealt with in detail in the body of SCN and also are annexed as annexures to the SCN wherever necessary. In this case, I find that all those materials that have been relied upon in the SCN for the purpose of the present proceedings have already been provided to the *Noticees* as a part of the annexures to the SCN

and the *Noticees* should not be concerned with those parts of the Investigation Report which have neither been relied upon nor used in any manner to bring allegations against them. The *Noticees* have not been able to demonstrate as to what grave prejudice has been caused to their interest by the non-receipt of the entire Investigation Report from SEBI so far as defending themselves against the allegations made against them in the SCN is concerned, when they have been provided inspection as well as copies of all relevant documents which have been relied upon in the SCN to impute various charges as alleged therein. It is the responsibility of the *Noticees* to confront the allegations made in the SCN based on the materials/documents so relied upon by SEBI and put forth their defence accordingly without being bothered with the other contents of the Investigation Report which have not been relied upon in the SCN. Considering the same, the request of the *Noticees* for copy of the Investigation Report does not warrant any consideration as all the allegations and observations relevant for the present proceedings have already been comprehensively mentioned in the SCN. Hence the objection raised by some of the *Noticees* on this ground of non-receipt of Investigation Report is found to be redundant and irrelevant without causing any prejudice to their interest and as such deserves rejection.

22. I also note that, citing the judicial decision of the apex court in the case of *Gorkha Securities Services vs. Govt. of NCT of Delhi*, ZSL, some of the *Noticees* have contended that the SCN doesn't mention the specific nature of any measure that SEBI proposes to take against the *Company* and other *Noticees*. In this regard, I note that vide SCN dated August 02, 2019, the *Noticees* have been called upon to show cause as to why appropriate directions under sections 11(1), 11(4) and 11B[1] of the SEBI Act, 1992 should not be issued against them for the alleged violation of the provisions of the PFUTP Regulations, 2003, the SCRA, 1956, the Listing Agreement, the PIT Regulations, 1992, the DIP Guidelines, etc. as alleged in the SCN. Further, the *Noticees no. 2* to *7* have been called upon to also show cause as to why appropriate directions under

[1] Subsequent to Amendment by way of Finance Act, 2018, to be read as Section 11B(1).

sections 11(1), 11(4) and 11B of the SEBI Act, 1992 including directions to make public announcement of an open offer should not be issued against them for the violations of the provisions of the SAST Regulations, 2011 and the SEBI Act, 1992 as alleged in the SCN.

23. A bare perusal of the SEBI Act, 1992 shows that a comprehensive list of possible directions have been outlined under Section 11(4) of the SEBI Act, 1992 which the authority under the SEBI Act, 1992 is empowered to issue and the aforesaid provision of law has already been specifically referred to in the SCN. Similarly, I also note that SEBI has power under regulation 32 of the SAST Regulations, 2011 to issue directions to any acquirer to make an open offer for acquiring shares of the target company at such offer price as determined by SEBI in accordance with the SAST Regulations, 2011. The SCN makes sufficient suggestion about directions that are likely to be issued, once the violations of the provisions are established, and therefore, I see the contention of the *Noticees* as frivolous. In this regard, I note that the SCN contains detailed enumeration of the allegations, the basis of each of those allegations, the documents relied upon for making such allegations as well as the relevant provisions of the Securities Laws supporting those allegations. Without prejudice to the foregoing, the Hon'ble Supreme Court has held in the case of *Fortune Impex Vs. Commissioner* - 2004 (167) ELT A 134 (SC), that "*non-mentioning of particular Section of Customs Act 1962 would not vitiate the proceedings when allegations and charges against all the appellants were mentioned in clear terms in the show cause notice.*" This position has been reiterated by the Hon'ble Supreme Court in several other cases as well. In view of the aforesaid settled proposition of law, even the non-mentioning of the provisions of law in the SCN would not vitiate the present proceedings. I reiterate that in the instant case, the SCN contains detailed charges against each of the *Noticees* and the basis of each allegation duly supported by certain documentary evidences. Needless to state that in an adjudication proceedings, the exact remedial measures that can be taken or the directions that can be issued against the noticees can be crystallised only after the proceedings reach its conclusion and

only after all the explanations and arguments are evaluated *vis-à-vis* the allegations based on the evidences, factual & circumstantial, available before the adjudicating authority. The SCN cannot pre-judge or pre-ordain the remedial or punitive consequences with certainty prior to commencement of the proceedings, but can acquaint the *Noticees* with the possible outcomes that may emanate from the proceedings based on the allegations of various contraventions brought against them which exactly has been indicated in the SCN to the *Noticees*. Hence, the contention raised by some of the *Noticees* in this regard lacks any iota of truth or substance worth its merit. Hence, I do not find any merit in contentions that SEBI has not stated in the SCN about the measures it proposes to take in the matter qua the *Noticees*. Additionally, I also find that reliance placed by the *Noticees* on *Gorkha Security* (*supra*) is factually distinguishable, where the observations were made pursuant to failure of a contract, which was commercial in nature, whereas the instant proceedings have emanated by way of exercise of statutory powers vested in a Regulator of the securities market, including the power to take appropriate measure and pass directions for protecting the interest of investors as well as for the development of the securities market.

24. Similarly, some of the *Noticees* have also contended that some other entities have not been proceeded against and unless those other entities are proceeded against, the proceedings against the *Noticees* should not be pursued. In my view, such an argument advanced by the *Noticees* does not serve their purpose. It is common knowledge that in a quasi-judicial proceeding, the adjudicator is bound within the four walls of the show cause notice before him. In the instant case, if after examining the role of other entities, SEBI has found that it is not necessary to proceed against them, the same logic cannot be extended to other entities. In fact, in the matter of *Systematix Shares & Stocks India Limited v. SEBI (2012),* the Hon'ble SAT also had the occasion to deal with a similar argument of the appellant therein contending that the Board should have proceeded against all wrong doers and the action taken against the appellant and a few entities alone was discriminatory. In the said case, the

Hon'ble SAT had held that *"We cannot subscribe to this view since the Board has set its own benchmark in selecting cases for action and, in any case, the appellant cannot plead himself innocent or his trades as lawful."* In the instant case as well, the Board after examining and considering the role of each of the entities, including the *Noticees* herein and depending upon the attendant facts & circumstances, have initiated proceedings against such entities. Be that as it may, the Board has set its criteria and exercised *intelligible differentia* while selecting cases for action and in the process some entities might not have been proceeded against based on the evidence or lack of evidence and other attending circumstances surrounding their case but that does not *ipso facto* give those entities who have been proceeded against any right or any ground of parity to plead innocence by basing their arguments on such extraneous reasons. It is for the *Noticees* to come out with their rebuttal and explanations in response to the allegations made in the SCN by putting forth their set of facts and evidences contrary to the facts & evidences, based on which allegations have been made against them, independently without bringing in such pleas about some other entities having been left out etc. since the claim of exclusion of certain entities in any case will not diminish the gravity of the charges made against them in the SCN nor can erase the facts & evidences based on which such charges have been made. Considering the foregoing, I reject this contention of the *Noticees* in *limine* and do not find it necessary to further deal with this contention.

25. I also find it relevant to mention here the harsh circumstances in which the investigation had to be conducted while facing continued non-cooperation from the side of certain *Noticees*. I note from the records that the *Noticees no. 2, 3* and *4*, i.e., the promoters of ZSL, had initially replied to SEBI letters at the time of *interim order* and confirmatory order. However, subsequently, they chose not to cooperate either with the Investigating Officer (hereinafter referred to as '**IO**') or with me during the course of present proceedings. The same can also be ascertained from the fact that the service of the SCN as well as the hearing notices to these three entities had to be done by way of publication in newspapers and nobody appeared from the side of the

promoters even subsequent to such service of the SCN and hearing notice.

26. Further, the *Noticees no. 5, 6* and *7* seem to have cooperated with IO at the initial stage during which they constantly expressed their ignorance about the fraudulent acts and alleged that all those acts were perpetrated by Sudarshan and Ramanujam with the help of Viswanathan. However, once the statement of Ganesan was recorded by IO on August 14, 2018, wherein grave allegations were made against them, these three *Noticees* stopped co-operating and avoided furnishing any kind of information sought by IO. Further, they were repeatedly summoned for recording of their statements, however, all three of them failed to appear for recording their statement taking one excuse or the other. I note that due to this non-cooperative attitude of the *Noticees no. 2* to *7*, the investigation was impeded and delayed.

27. I find it relevant to mention here that the aforesaid observation does not in any way should lead to the inference that the investigation is incomplete. I note from the Investigation Report as well as from other material available on record that the investigation was completed by the IO despite the non-cooperation of the concerned *Noticees* and after the conclusion of investigation, the Investigation Report has also been duly approved by the Competent Authority. The SCN in this matter was issued subsequent to such approval received from the Competent Authority. Therefore, the assertion of the *Noticees no. 5* to *7* that investigation remains incomplete lacks any basis and is certainly without any merit. Mere mention of difficulties and constraints faced during the course of investigation cannot mean that the investigation is incomplete. Investigation is a process of collection of facts and evidences and every investigation process has to be concluded within a reasonable period of time notwithstanding the challenges it confronts in collecting facts or data or other evidence due to recalcitrant attitude or non-cooperation by various entities, but the investigation report once prepared with its findings based on analysis and observations made on the basis of whatever facts & evidences that were possible to be collected during the process, has to be treated as a complete report more so when the Competent Authority has approved it as

a complete report. It is trite law that one should approach a court with clean hands. In the instant case, the *Noticees no. 5* to *7* first did not co-operate with SEBI during the investigation which caused some delay in the conclusion of investigation and despite their non-co-operation, when subsequent to the completion of investigation proceedings, an SCN was issued to them causing the initiation of the present proceedings, the same *Noticees* have now raised the bogey of incomplete investigation which is a specious and misleading claim sans any merit. Considering the above and the poor conduct of the *Noticees no. 5* to *7* in cooperating with the investigation process as discussed above, in my view these *Noticees* lack any *locus standi* and credibility to question the outcome of the investigation. In any case, as the fate of the present proceedings will be decided only after considering the materials and evidences that are before me either in the body of SCN or as annexures to the SCN or as annexure to the reply filed by the *Noticees* in rebuttal to the allegations made in the SCN and all other relevant attending circumstantial evidences, raising an issue about incomplete investigations at this stage, has become meaningless, irrelevant and of no consequence.

28. I also note that ZSL and the *Noticees no. 5* to *7* have contended that the *Company* being in liquidation, no proceedings can be initiated or continued against it without permission of the Hon'ble High Court of Madras in light of section 446 of the Companies Act, 1956 read with section 279 of the Companies Act, 2013 and, therefore, the present proceedings against the *Company* are not valid.

29. In this regard, I refer to the observations of the Hon'ble Supreme Court of India made in the matter of *S V Kondaskar vs V M Deshpande & ors* (AIR 1972 SC 878), wherein, while discussing the scope of section 446 of the Companies Act, 1956, the Hon'ble Apex Court of India has held as under:

"*While holding these assessment proceedings the Income-tax Officer does not, in our view, perform the functions of a court as contemplated by Section 446(2) of the Act. Looking at the legislative history and the scheme of the Indian Companies Act, particularly the language*

of Section 446 read as a whole, it appears to us that the expression "other" legal proceeding" in Sub-section (1) and the expression "legal proceeding" in Sub-section (2) convey the same sense and the proceedings in both the sub-sections must be such as can appropriately be dealt with by the winding up court. The Income-tax Act is, in our opinion, a complete code and it is particularly so with respect to the assessment and re-assessment of income-tax with which alone we are concerned in the present case. The fact that after the amount of tax payable by an assessee has been determined or quantified its realisation from a company in liquidation is governed by the Act because the income-tax payable also being a debt has to rank pari passu with other debts due from the company does not mean that the assessment proceedings for computing the amount of tax must be held to be such other legal proceedings as can only be started or continued with the leave of the liquidation court under Section 446 of the Act. The liquidation court, in our opinion, cannot perform the functions of Income-tax Officers while assessing the amount of tax payable by the assessees even if the assessee be the company which is being wound up by the court."

30. I find that the reasoning given by the Hon'ble Supreme Court would apply *mutatis mutandis* to present proceedings as the violations of various provisions of the Securities Laws are specific domain of SEBI which cannot be examined by the court where the winding up proceeding against the *Company* is going on which is the Hon'ble High Court of Madras in the instant matter. Further, I find similar provision being incorporated at section 14 of Insolvency and Bankruptcy Code, 2016. The object of the said provision was discussed by Insolvency Law Committee of February 2020 and the same has been stated in its report in the following terms:

"*8.2. The moratorium under Section 14 is intended to keep the corporate debtor's assets together during the insolvency resolution process and facilitating orderly completion of the processes envisaged during the insolvency resolution process and ensuring that the company may continue as a going concern while the creditors take a view on resolution of default. Keeping the corporate debtor running as a going concern during the CIRP helps in achieving resolution as a going concern as well, which is likely to maximize value for all stakeholders…..*

8.11. Further, the purpose of the moratorium is to keep the assets of the debtor together for successful insolvency resolution, and it does not bar all actions, especially where countervailing public policy concerns are involved. For instance, criminal proceedings are not considered to be barred by the moratorium, since they do not constitute "money claims or recovery" proceedings." (emphasis supplied)

31. I am of the view that the object of section 446 of the Companies Act, 1956 is same as quoted above. Therefore, as long as a proceeding does not have any impact on the assets of a company, no leave of the court is required for initiation or continuation of such proceedings. For the above stated reasons, I hold that the present proceedings are outside the purview of section 446 of the Companies Act, 1956 or section 279 of Companies Act, 2013 and the requirement of obtaining permission of the Hon'ble Madras High Court (where the winding up proceedings against the *Company* are in progress) doesn't apply in the present matter as the directions that may be issued to ZSL in the present proceedings will have no impact on the present assets of the *Company*.

32. Now, I proceed to examine as to whether or not, in the facts of this matter, the transactions and dealings of the *Noticees* in the shares of ZSL amounts to violation of the aforesaid provisions of law as alleged in the SCN. The SCN alleges that provisions of section 12A(a), (b), (c) & (f) of the SEBI Act, 1992, section 21 of the SCRA, 1956, regulations 3(a), (b), (c), (d), 4(1), 4(2) (a), (f), (g) and (r) of the PFUTP Regulations, 2003, regulations 3(2), 31(1), (2) and (3) of the SAST Regulations, 2011, regulation 13(4) & (4A) read with 13(5) of the PIT Regulations, 1992, clause 6.15.2 of the DIP Guidelines and clauses 32, 35, 36 and 49 of the Listing Agreement have been violated.

33. I have perused the replies and submissions of the *Noticees* and note that most of the replies/submissions made by the *Noticees* are on common lines. Further, some of the *Noticees* who are connected/related to each other by their own admission have filed common replies/submission to the SCN. Accordingly, the replies of the *Noticees* need to be dealt in an objective manner so as to

answer the following issues:

Issue 1: Whether false and misleading disclosures/statements were made in the RHP as well as in subsequent filings, submitted to the stock exchanges?

Issue 2: Whether *Noticees no. 2* to *7*, along with other *Noticees*, jointly or severally concocted an elaborate fraudulent scheme in furtherance of a common objective and, thereby, have violated the provisions of SEBI Act, 1992 and PFUTP Regulations, 2003?

Issue 3: Whether the *Noticees no. 2 to 7*, acting in concert with one another, have violated the provisions of regulation 3(2) of the SAST Regulations, 2011 and section 12A(f) of the SEBI Act, 1992?

34. I now set out to discuss the allegations made against the *Noticees*, issue wise in the following paragraphs.

Issue 1: - Whether false and misleading disclosures/statements were made in the RHP as well as in subsequent filings, submitted to the stock exchanges?

35. The SCN alleges that the following wrong/false information were disclosed in the RHP submitted by the *Company* for the purpose of its IPO:

(a) Srikanth's directorship in Twinkle Natural Resources Private Limited was not disclosed in the RHP.

(b) The *Company* did not disclose the relation amongst the *Noticees no. 5* to *7* in their RHP.

(c) Despite being related to the then 4th largest shareholder and the then Finance Controller, Srikanth was indicated and disclosed as an Independent Director in the RHP.

(d) Srikanth was also shown as Independent Director in the filings of ZSL with stock exchanges including the Annual Reports and a member of the Investors' grievance committee, Remuneration Committee etc. in his

capacity as Independent Director.

36. I note that the said RHP contained the details of the constitution of board of directors of ZSL. As per the said RHP, Srikanth was disclosed to be appointed as an Independent Director. He was also shown to be a member of the Audit Committee and Chairman of Compensation committee of ZSL as an Independent Director. Further, Srihari, the *Noticee no. 6* was holding designation of Finance Controller of ZSL since July 01, 2005, having a salary of INR 18,00,000 per annum at the time of IPO. Srihari was also designated as KMP by ZSL in its RHP. As per the details of the top 10 shareholders as on date of filing of RHP, mentioned on page 18 of RHP, Sripriya was holding 11,00,000 shares of the *Company* amounting to 8.56% of pre-IPO issued share capital of the *Company* as on date of filing of RHP and was the fourth largest shareholder of ZSL. She was classified as 'Others' in the shareholding pattern given in the RHP.

37. There is no dispute to the fact that Srikanth is the husband of Sripriya and Srihari is the brother of Sripriya. By virtue of this undisputed fact, Srikanth and Srihari are related as brothers-in-law. The said relationships amongst the *Noticees no. 5, 6* and *7* are relevant in the light of the appointment of Srikanth as an Independent Director of the *Company* and, therefore, the same was required to be disclosed in RHP to the prospective investors of ZSL. However, I find no mention of such an important relationship that exists amongst the *Noticees no. 5* to *7* having been disclosed in the whole RHP.

38. It is noted that, the *Noticee no. 5*, Srikanth has attempted to justify the non-disclosure of their relationship with one another in the RHP by contending that the erstwhile Companies Act, 1956 did not contain any provision defining the scope and qualifications for a director. At the same time, clause 49 of the Listing Agreement also defined independent director in inclusive manner and laid down that such director himself should not be holding substantial shareholding in the company. Therefore, his appointment as an Independent Director in ZSL was well within the provisions of the Listing Agreement and

there was no violation of any provisions of law due to such appointment or on account of non-disclosure of his relations with Sripriya and Srihari in the RHP.

39. I note that in terms of clause 49 of the Listing Agreement, as applicable at the time of the RHP, an Independent Director could not be a person who was having a substantial holding in a company, i.e., owning more than 2% or more shares. He shall also not be appointed as an executive at the company. Though the *Noticee no. 5* was not a shareholder or executive directly, his spouse was a substantial shareholder (11,00,000 shares amounting to 8.56% of pre-IPO issued share capital of the *Company*) and his brother-in-law was a KMP at ZSL earning a salary of INR 18,00,000 per year at the time of IPO.

40. In this respect, it is essential to understand the essence of the concept of Independent Director. As the name itself suggests, an Independent Director is a non-executive director of a company who helps the company in improving corporate credibility and governance standards and in order to improve the very concept, its existence and implication in the working of a company, the Independent Director is required to not have any kind of relationship with the company that may affect the independence of his/her judgment as he is also supposed to protect the interest of minority shareholders of the company. Thus, Independent Director is a person who ought to have '*no material or pecuniary interest*' in the company other than the sitting fee. The aforesaid view regarding the Independent Director has also been accepted by the Hon'ble Supreme Court of India, in the matter of *Needle Industries India Ltd. vs Needle Industries Newey (India) Holding Ltd.* (AIR 1981 SC 1298); wherein while reinforcing the interpretation of independent director as '*disinterested*' or '*uninterested*' director, it has been held that Independent Director should be one, who is not having vested interest in the affairs of the company **in any manner** and should be completely neutral so as to perform its role of Independent Director in the best possible manner, protecting the interest of shareholders, particularly the public shareholders.

41. As state above, the objective of induction of the institution of Independent Director in the board of Directors of a company was to improve the corporate governance framework of the company, more so in a listed company since it employs the funds of the public shareholders for its business. Therefore, it was felt necessary to have a system of an independent and an impartial oversight over the acts of the Board of Directors by such person(s) who could exercise independent judgment in the best interest of stakeholders of the company at large. In these circumstances, adoption of strictly literal interpretation of the concept of 'Independent Director' as the *Noticee no. 5* has tried to do, would defeat the whole purpose of institution of Independent Director in a company and would lead to continuation of the mischief which was attempted to be curbed by way of induction of Independent Directors in Board of directors of the companies.

42. In the instant matter, as mentioned above, the fact that Sripriya, wife of Srikanth, was the 4th largest shareholder of the *Company* at the time of IPO clearly make Srikanth anything but 'uninterested' or neutral in the affairs of the *Company*. Also, the allegations levelled against Srikanth in the present matter are very serious in nature and such a person occupying a position of Independent Director in the *Company* makes the whole institution of Independent Director infructuous and ineffectual.

43. Further, I note from the statement of Mr. Ganesan recorded before SEBI that Srikanth was an acquaintance of Ramanujam since 2001 and he only had recommended the name of Srihari for appointment at ZSL to the promoters of the *Company*. I also note from the RHP that Sripriya had acquired shares of ZSL from Ramanujam himself. In the above background, I find nothing concrete put forth by the *Noticees* to contend that the fact of *inter se* connection was not known to them at the time of filing of RHP. Also, there is nothing on record to contradict the fact that the *Noticees no. 5* to *7* were related to each other and the *Noticee no. 7* was the 4th largest shareholder having substantial beneficial holdings in the share capital of the *Company,* which she had acquired from the *Noticee no. 4*. Therefore, nothing has been brought to my notice to

contend that the *Company* was not aware of Srikanth's relationship with Sripriya and Srihari. In the light of this, the non-disclosure of relationships of Srikanth with Sripriya and Srihari appears to be a deliberate act on the part of the *Company* and is strongly suggestive of the fact that these three *Noticees* being part of the scheme cooked together by promoters of the *Company* and the appointment of Srikanth as an Independent Director was nothing but a eyewash as Srikanth cannot be held to be 'independent' at any point of time in any manner whatsoever even before the *Company* had floated its IPO.

44. I also note that Srikanth was holding directorship in two more companies namely ZSIL, a wholly owned subsidiary of ZSL, and YRSK Property Consultants Private Limited. As per the materials available before me, he was also a partner in Vijai Sarathy & Co., Chartered Accountants. It is alleged in the SCN that directorship of the *Noticee no. 5* in Twinkle Natural Resources Private Limited was not disclosed in the RHP. It is noted that the above facts have again not been refuted by Srikanth. Moreover, I find from the MCA records that Srikanth was appointed as a director of Twinkle Natural Resources Private Limited on April 06, 2000 and he was very much holding the said directorship even as on the date of filing of RHP. Considering the foregoing, I find that the *Noticees 1, 5 and 6* had made false and misleading disclosures/statements in the RHP as well as in the subsequent filings, submitted by ZSL to the stock exchanges.

45. I also note from the details about Srikanth as available on the MCA website that there were several instances wherein Srikanth's directorship with other companies was not disclosed in RHP. Some of those instances are mentioned below:

(a) Srikanth was a director of one company called Sri Ravinandan Mineralss Private Limited as on the date of RHP which was also not disclosed in the RHP.

(b) As on March 31, 2009, Srikanth was a director on the board of 5 companies, whereas, in the Annual Report of ZSL for FY 2008-09, he was

disclosed to be a director in only one company other than ZSL.

(c) Srikanth was disclosed not holding directorship in any company other than ZSL for the FY 2015-16. However, the database of MCA suggests that Srikanth was holding directorship in at least 6 other companies.

46. From the instances as cited above, anyone can see a pattern of wrong disclosures regarding directorship of Srikanth in various disclosures filed by ZSL and such wrong disclosure in the RHP of ZSL is not an one-off incident. I further note that both Srikanth and Srihari have contended that the responsibility to make such disclosures lies with the secretarial department of ZSL and consequently, the fault also lies with this Department which was never reporting to either Srikanth or Srihari. However, it is noted that Ms. Akila S, who worked as Company Secretary of ZSL from December 27, 2010 to February 12, 2013, stated in her letter dated October 23, 2018 that she was reporting to Srikanth as it was Srikanth who was managing secretarial activities at ZSL. This statement of Ms. Akila S appears logical in light of the fact that both Srikanth and Srihari are Chartered Accountants who were looking after various statutory and regulatory compliances at ZSL. Further, none of the employees of ZSL, whose statements had been recorded during the course of investigation, has even remotely suggested that Viswanathan was supervising secretarial activities of ZSL. I note from the records available before me that there are several email conversations between Ms. Akila S and Srikanth which clearly suggest that all the actions taken by her were approved by Srikanth. Further, Srikanth was shown as the Compliance Officer in the Annual Report of ZSL for FY 2015-16, making him responsible for the correctness of the disclosure in that Annual Report, and in the same Annual Report itself the information about his directorship in at least 6 companies was not disclosed.

47. To top it all, I find a declaration at the end of RHP has been made certifying that compliance has been made with all the guidelines issued by SEBI; that no statement made therein was contrary to SEBI Act, 1992 or rules made

thereunder; and that all statements made in the RHP are true and correct. I note that the said declaration was, *inter-alia,* signed by both Srikanth and Srihari. This shows that both Srikanth and Srihari, despite being aware of and despite knowing the significance of their *inter se* relationship with each other as well as their relationship with Sripriya which essentially required disclosure in the RHP, certified that the statements in the RHP weren't contrary to the guidelines of SEBI, in spite of knowing that such relationships haven't been disclosed in the RHP. Further, despite the fact that complete details of his directorship in all the companies were not disclosed in the RHP, Srikanth has vouched for the correctness of all the statements made in the RHP and has knowingly certified those wrong and false disclosures made in the RHP.

48. In the light of the foregoing discussions, the *Company* as well as the *Noticees no. 5 and 6* were well aware that Srikanth was an interested director and was in no way 'independent' of the acts and performance of the *Company*. Despite knowing the same, it was falsely affirmed that the statements in the RHP were 'true and correct'. The said statements made in the RHP were not only patently false, but had the potential to mislead investors in presuming that all the *Company* was being governed well by adhering to the relevant principles of corporate governance as mandated under the Companies Act, 1956 as well as other Rules and Regulations of SEBI.

49. As quoted earlier in this order, clause 6.15.2 of DIP Guidelines mandated the issuer company to give a declaration certifying the truth and correctness of all the disclosures made in the RHP and the said certification was required to be signed by all the Directors, CEO and Chief Financial Officer of the issuer company. The compliance with the provisions of the DIP Guidelines were relevant at the given point of time for listing of the shares of a company and under section 21 of the SCRA, 1956, continuous compliance of the same *vis-à-vis* other rules and regulations, was mandatory on a continuous basis so long as a listed entity was required to make disclosures under the said relevant provisions of law.

50. In view of the aforesaid, the fact that the *Noticees no. 5 to 7* are related to each other and further the fact that the *Noticees no. 5 and 6* have put their signature on the RHP filed by the *Company*, certifying the correctness of all facts stated in the RHP as true and correct, remain uncontroverted. Materials on record as discussed above clearly suggest that the two *Noticees* i.e. *Noticees no. 5 and 6* had been supervising the disclosures made to the stock exchanges from time to time. Moreover, the undisputed facts remains that the *Noticee no. 5* was never an 'independent' director within the true import & spirit of the relevant provisions of law as discussed above, but the facts surrounding his vested interests as well as conflict of interest in the *Company* through his wife and brother-in-law were not declared and disclosed to the public at large. As a result, he has not only certified the correctness of the RHP that contained wrong and false information as pointed out above but also has failed to bring any material to show that he had promptly taken any steps to rectify those mistakes. In view of the above, I am constrained to observe that so far as the aforesaid violations pertaining to non-disclosures by the *Noticees*, especially by *Noticees no. 5* and *6* in collusion with the *Company* are concerned, the same stand established. I also find that the *Noticee no. 6* has also failed to bring sufficient material in his defence to refute the aforesaid allegations and considering his *inter se* relation with other *Noticees* and the crucial post held by him in the *Company* during the relevant period, I find his contention that it was the *Company* that was responsible for the wrong and false disclosure devoid of any merit. Accordingly, I find that *Noticees no. 5 and 6* along with the *Company* are responsible for making wrong and false disclosures in the RHP.

51. Thus, by wrongly presenting Srikanth as an Independent Director, the *Company* has violated the provisions of clause 6.15.2 of the DIP Guidelines read with section 21 of the SCRA, 1956 read with regulation 115 of the ICDR Regulations, 2009 and regulation 301 of the ICDR Regulations, 2018. Further, by certifying that all the statements made in the RHP were true and correct, both Srikanth and Srihari have violated the provisions of clause 6.15.2 of the DIP Guidelines read with regulation 115 of the ICDR Regulations, 2009

further read with regulation 301 of the ICDR Regulations, 2018.

52. It is further observed that the aforesaid wrongdoing was continued by the *Company* till 2010 when Srikanth was appointed as the Executive Director of ZSL. Such continuation of wrongful disclosure finds corroboration from the Annual report of the *Company* for the FY 2008-09, wherein he was again shown as part of board of Directors of the *Company* as an Independent Director thereby indicating that the *Company* persisted with its wrongful assertion about the erroneous status of Srikanth as an Independent Director thereby continuing with the violation of the provisions of section 21 of the SCRA, 1956 read with clause 49 of Listing Agreement.

<u>Issue 2:</u> - Whether *Noticees no. 2* to *7*, along with other *Noticees*, jointly or severally concocted an elaborate fraudulent scheme in furtherance of a common objective and, thereby, violated the provisions of SEBI Act, 1992 and PFUTP Regulations, 2003?

53. It is alleged in the SCN that Sudarshan, Ramanujam, Srikanth and Srihari had known one another from the time much before the IPO of ZSL and that they have concocted an elaborate scheme to defraud the investors and other stakeholders of ZSL. Further, Sripriya was the 4th largest shareholder of ZSL as per the RHP of ZSL and she had received and transferred shares of ZSL from/to promoter group entity(ies) even before the IPO. Despite her above noted close connections with the promoters and promoter group entities noted during investigation, Sripriya was fraudulently disclosed as a public shareholder and not as part of the promoter group in the RHP.

54. In furtherance of the scheme allegedly devised by them, *Noticees no. 3* to *6* had incorporated companies viz. Aditicon and Effica by making certain employees of ZSL and their relatives viz. *Noticees no. 10* to *12* as directors in these companies. The demat and bank accounts opened in the name of these two companies were used to acquire shares of ZSL and route funds to the *Noticees no. 3* to *6* and entities connected with them.

55. Further, as part of the said scheme, Srikanth was managing accounts of Sthithi and Sripriya, wherein shares of ZSL were purchased using the funds received from the *Company* either directly or via its subsidiaries, its promoters as well as Aditicon and Effica. Such funds received in the accounts of these aforementioned *Noticees* were immediately transferred to their respective brokers, to be used for margin trading facility availed by them and also to certain NBFCs, towards repayment of loans obtained by them for their share trading purposes. At the same time, despite Sthithi and Sripriya being 'related parties', the said fund transfers to them were never disclosed as 'related party transactions' in the Annual Reports of ZSL for the FYs 2011-12 & 2012-13.

56. At the same time, on the basis of several emails, it has been alleged that Sudarshan, Ramanujam and Srihari were well aware of the said transactions taking place in the accounts of Sthithi, Sripriya as well as in the accounts of Aditicon and Effica both of which were acting as conduits and were also lending their accounts for being used for routing funds to Sripriya. Thus, Aditicon and Effica have also aided and abetted the aforesaid funding of Sripriya's trades in the scrip of ZSL in furtherance of the above noted fraudulent scheme conceived by *Noticees no. 3 to 6*, thereby rendering them as well as their respective name lending directors viz. *Noticees no. 10* to *12* parties to such fraudulent act. Under the circumstances, it appears that the *Noticees no. 1, 3* to *7*, Aditicon and Effica as well as the directors of Aditicon and Effica viz. the *Noticees no. 10* to *12* were party to the aforesaid fraudulent acts as have been alleged in the SCN. Considering the foregoing, it appears *prima facie* that the *Noticee no. 1* and *Noticees no. 3 to 12* have indulged in fraudulent and unfair trade practices while dealing in the scrip of ZSL during the IP, thereby violating the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) & 4 (1) of the PFUTP Regulations, 2003.

57. The *Noticees* have contended that the said fund transactions with ZSL by Sripriya were executed for a land deal entered into during April 2012 for the establishment of a Disaster Recovery Site(DRS). However, neither any disclosure was made to stock exchanges nor to the MCA regarding such land

deal nor any approval was ever taken from the Board of Directors of the *Company* prior to entering into such transactions. It, is therefore, alleged that ZSL had actually funded Sripriya and Sthithi to trade in the scrip of ZSL in violation of the provisions of section 77(2) of Companies Act, 1956 and those funds transactions are being falsely given a colour of land deal without any supporting evidence to corroborate such a claim.

58. While it is contended that the financial transactions with Sthithi were made towards repayment of loans taken by ZSL from it; no disclosure of the same was made in the financial statement of ZSL for the FY 2011-12. Further, it is also alleged that, by funding the trades of Sthithi and Sripriya, and not disclosing the said transactions under the category of 'related party transactions' in annual report for FY 2011-12 and Financial Statement for FY 2011-12, ZSL has published false and misleading information and has also indulged in fraudulent and unfair trade practices, thereby, violating the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), 4(1), 4(2)(f) & (r) of the PFUTP Regulations, 2003 and section 21 of the Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as 'the **SCRA, 1956**') read with Clauses 32 & 49 of the Listing Agreement.

59. In continuation of the above stated allegations, it is also alleged that Sudarshan, Ramanujam and Srihari, by falsely vouching for the accuracy of the financial statements in the annual report for FY 2011-12, appear to have aided and abetted ZSL in publication of the aforesaid false and misleading information, thereby violating the provisions of sections 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(2)(f) & (r) of the PFUTP Regulations, 2003.

60. At the same time, demat and bank accounts of Ganesan (*Noticee no. 13*) were also used in the same manner to divert funds and to acquire shares in Ganesan's name by using margin trading facility and loan against shares facility for amounts way beyond his(Ganesan's) financial capacity. Such

transactions were executed in Ganesan's name in a fictitious manner to implement the said nefarious scheme of *Noticees no. 3 to 6*, as part of which such shares purchased by the promoters in the name of Ganesan were fraudulently shown as part of public shareholding of the *Company*. At the same time, large amount of funds, received by Ganesan from Prabhudas Liladhar Financial Services Ltd. were later transferred to ZSL and its connected entities including Aditicon and Effica which further reinforces the fact that all the transactions in shares made in the name of Ganesan were in fact the transactions made by the promoters of the *Company* in his name.

61. On the basis of various factual findings as highlighted above, it is alleged that the *Noticees no. 7* and *13* were indeed part of the promoter group of ZSL. However, contrary to such factual position and their undeniable close nexus with the promoters and their related entities, *Noticees no. 7* and *13* were fraudulently shown as 'public shareholders', in the quarterly shareholding patterns of the *Company* as disclosed to the stock exchanges. Therefore, it is alleged that ZSL has disclosed false and misleading information about promoters shareholding to the stock exchanges in the submissions of its quarterly shareholding pattern. The same was apparently done in furtherance of the fraudulent scheme hatched by the *Noticees no. 3 to 6*, in terms of which, by lending their names to various transactions involving shares purchase of ZSL, Sripriya and Ganesan, have aided and abetted ZSL in making such false and misleading disclosure regarding promoters' shareholding.

62. As per the quarterly shareholding patterns submitted by ZSL to the stock exchanges, for all the quarters of Calendar Year 2012, the disclosed shareholding of the promoters viz. Sthithi, Sudarshan and Ramanujam was not matching with their actual shareholdings as per their demat statements. It was thus glaring that ZSL disclosed wrong information with respect to the promoters' shareholding to the stock exchanges in its quarterly shareholding patterns for all the 4 quarters of the Calendar Year 2012. From the above, it becomes clear that by disclosing false and misleading information with respect to the promoters' shareholding, ZSL has allegedly violated the provisions of

section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), and 4(1), 4(2)(f) and (r) of the PFUTP Regulations, 2003 and section 21 of the SCRA, 1956 read with clause 35 of the Listing Agreement. Further, by lending their names to various transactions and thereby acting as conduits to such transactions involving purchase of shares of ZSL, Sripriya and Ganesan along with Srikanth, Srihari, Sudarshan and Ramanujam have acted in concert with ZSL in disclosing false and misleading information with respect to promoters' shareholding. The above acts of disclosing false and misleading information were alleged to have been in violation of the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(1), 4(2)(f) and (r) of the PFUTP Regulations, 2003.

63. It is further alleged that ZSL was being run and managed by four key persons viz., Sudarshan, Ramanujam, Srikanth and Srihari. In this connection, various irregularities in running the affairs of the *Company* including disclosing Aditicon and Effica as vendors of ZSL, oral instruction being given to the staff handling various important desk functions, inadequate narration in books of accounts of the *Company* to indicate the nature of various funds transactions, etc. suggest that the operations of ZSL were not being conducted in compliance with even the basic norms of Corporate Governance.

64. It is also observed from the SCN that the *Company* was facing severe financial strain and its scrip had witnessed heavy downfall on October 18, 2012 due to invocation of pledge and subsequently sale of shares of promoters held in pledge by IFCI and Karvy on account of non-payment of interest dues by them. Despite being aware of such serious financial stress, ZSL informed BSE on October 19, 2012 that it was having *'business as usual'* and promoters were increasing their stake in the *Company* which is alleged to be a false and misleading disclosure in violation of the provisions of sections 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), and 4(1), 4(2)(a), (f), (r) of the PFUTP Regulations, 2003 and section 21 of the SCRA, 1956

read with Clause 36 of the Listing Agreement. At the same time, it was surprising that the *Noticees no. 3 to 6* being pretty well aware of about the chronic financial stress of the *Company*, were found to be involved in the said false disclosures made to the stock exchanges, thereby allegedly violating the provisions of sections 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), 4(1), and 4(2)(a), (f) and (r) of the PFUTP Regulations, 2003.

65. It is also observed that Sudarshan had stated to media that promoters were increasing their stake and there was no adverse impact on the *Company*'s business which were factually not true. This was published in Economic Times on November 02, 2012. In view of this, by giving allegedly false and misleading statement to the media, Sudarshan is alleged to have violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(1), 4(2)(a), (f) and (r) of the PFUTP Regulations, 2003.

66. It is further alleged that the promoters of ZSL viz. Sthithi, Sudarshan and Ramanujam had not made any disclosure regarding their transactions in the scrip of ZSL as well as about their pledge related transactions in the said scrip with the lenders, which was in violation of the provisions of regulations 31(1) and (2) read with 31(3) of the SAST Regulations, 2011 and regulation 13(4A) read with 13(5) of the PIT Regulations, 1992. At the same time, Srikanth also didn't disclose the transactions of his dependant, namely his wife Sripriya, in the scrip of ZSL, thereby allegedly violating the provisions of regulation 13(4) read with 13(5) of the PIT Regulations, 1992.

67. In the end, it is alleged in the SCN that, by funding Sthithi and Sripriya to trade in the scrip of ZSL and by making all the above-mentioned false and misleading disclosures as well as by committing various other malpractices and irregularities, ZSL and its connected entities have created a misleading impression in the minds of the investors that everything was all right with the *Company* and there was '*business as usual*'. Thus behind the smokescreen of

different name lending entities, their demat accounts, bank accounts and transactions in those accounts, the *Noticees no. 3* to *7* in their pursuit of a scheme to defraud the investors, have tried to create an elaborate but false impression in the minds of common investors about the good governance and good performance of the *Company* at a time when in fact the *Company* was saddled with financial problems and falsified reports, disclosures and mis-governance in its affairs much to the complete ignorance of the gullible public shareholders and other investors of the market. It has been therefore alleged that an elaborate fraud was played with the public shareholders by the *Noticees* in cahoots with each other in violation of the provisions of section 12A(a), (b) and (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), and 4(1), 4(2)(a), (f), (r) of the PFUTP Regulations, 2003.

A. Common Objective

68. The SCN alleges that the *Noticees no. 2 to 7*, by acting as a 'group', perpetrated the above described fraud by being involved with various wrongdoings elaborated as in the SCN in furtherance of a common objective.

69. It is an admitted fact that *Noticees no. 2, 3 and 4* were the promoters of ZSL at the relevant point in time. Further, *Noticee no. 3* was holding the position of Chairman and Chief Executive Officer while *Noticee no. 4* was the 'Managing Director and Chief Operating Officer' of the *Company* during the IP. At the same time, *Noticees no. 3 and 4* were the directors and the only shareholders of Sthithi in which, each of them held 50% stake. Therefore, *Noticees no. 3* and *4* were in complete control of the said entity. I find it relevant to mention here that various employees of ZSL, which were examined during the course of investigation, have stated that Sthithi was merely a company on paper having no separate operation and employees and therefore, it served as only a conduit in the hands of the *Noticees no. 3 and 4* to acquire and hold shares of ZSL. This leaves no scope for any doubt that *Noticee no. 1* being co-promoted and *Noticee no. 2*, being co-owned by *Noticees no. 3* & *4*, there was strong unity and commonality of objectives in the acts of all the promoters of *Noticee no. 1*, viz.

Noticees no. 2, 3 and *4*.

70. As already discussed above in this Order, the relationship amongst the *Noticees no. 5, 6 and 7*, namely Srikanth, Srihari and Sripriya, is an admitted fact wherein Srikanth and Sripriya are in spousal relationship and Srihari being the brother of Sripriya, is the brother-in-law of Srikanth. Therefore, by virtue of their close relations with one another, *Noticees no. 5 to 7* were connected and related with one another.

71. Srikanth was holding a position as a director in the *Company*, first as an 'Independent Director' from the date of RHP and thereafter as an 'Executive Director' since May 21, 2010 until he gave his resignation on August 14, 2013. Srihari was holding a designation of 'Finance Controller' of ZSL since July 01, 2005, drawing a salary of INR 18,00,000 per annum at the time of IPO and he was also declared as a KMP by the *Company*. However, I note that Srihari, in his profile on Social Media website LinkedIn, has proclaimed himself to be the Chief Financial Officer (hereinafter referred to as '**CFO**') at ZSL from June 2005 to April 2013. I also note that in compliance with the provisions of the DIP Guidelines, Srihari had certified the veracity of facts mentioned in the RHP which was actually the job of a CFO. At a later stage, his designation was changed to 'Global Chief Financial Officer' of ZSL. Various employees of ZSL viz. Ganesan, Prabhakar, S Akila, Sriram Ramesh Chakrapani, etc. in their respective replies/statements have stated that Srihari was handling Accounts and Finance Departments of ZSL along with Ramanujam. Therefore, I find that, irrespective of the nomenclature of designation used by him, Srihari was in effect acting as the CFO of the *Company*.

72. Sripriya was the fourth largest shareholder of ZSL at the time of issuance of RHP. I also note from page 16 of RHP that Sripriya, (wife of Srikanth) had received 5,50,000 shares from Ramanujam on January 18, 2002 and had transferred 50,000 shares to Ramanujam on February 04, 2007. This transaction itself reinforces the fact that Srikanth's acquaintance with Ramanujam dates back at least to 2002. Ganesan (*Noticee no. 13*), who worked

as Vice-president, Accounts in his statement recorded before SEBI, has also mentioned that Srikanth and Ramanujam were known to each other at least since 2001. In spite of sharing such close connection with Srikanth, the relationship between Srikanth and Sripriya and Srikanth's close acquaintance with the promoter i.e. Ramanujam were never disclosed to the public by ZSL during the entire period when the above noted fraudulent scheme was allegedly being executed by the *Noticees* in collusion with one another.

73. I note from Annexure 16 of the SCN that both Sthithi and Sripriya were quite active in the scrip of ZSL and were trading in huge quantities in the said scrip. During the calendar year 2012, Sthithi had purchased a total of 3,91,551 shares of ZSL in 517 different trades and sold a total number of 10,48,014 shares of ZSL in 1693 different trades. Similarly, Sripriya purchased a total number of 50,02,592 shares of ZSL in 10542 different trades and sold 55,37,276 shares of ZSL in 9613 different trades. All these trades were allegedly managed by Srikanth. In this regard, Srikanth has however contended that Viswanathan was the authorized signatory in the accounts of Sthithi and he was the one who was managing those accounts of Sthithi and Srikanth had no role and control in any of the transactions in relations to the said entities.

74. I note from the records before me that Sthithi had trading accounts with 5 different stock brokers and it had dealings with 4 NBFCs for its shares and funds related dealings and the details of all those entities are furnished on page 14 of the SCN. In majority of the said accounts, email ID of Srikanth and his mobile number were mentioned as contact details. Three out of these five stock brokers of Sthithi have stated that Srikanth was dealing on behalf of Sthithi which also corroborates with the statements of various employees of ZSL available on record. Similarly, two out of four NBFCs have submitted that in course of lending funds to Sthithi, it was Srikanth, who was the person dealing with them and two out of these four NBFCs also submitted that the emails were sent to Srikanth at his email IDs. The above noted submissions made by the brokers, NBFCs and the employees of ZSL also corroborate with the numerous email conversations of Srikanth with various NBFCs, placed at

Annexures 17, 18 and 19 of the SCN, wherein Srikanth is seen attempting to arrange funds for Sthithi by keeping shares of ZSL in pledge with the lenders. Surprisingly, contrary to the claim of Srikanth that it was Viswanathan who was handling the accounts of Sthithi as its authorized, I don't find copies of any of these emails having been marked to Viswanathan. It shows that all these email conversations and transactions were taking place by and with Srikanth completely bypassing the said authorized person of Sthithi, which vindicates the allegation that it was Srikanth who was in complete control of funds and the process for arrangement of funds of Sthithi.

75. I find numerous emails in the annexures to the SCN pertaining to dealings by Sthithi in the shares of ZSL which were addressed to or emanating from Srikanth's email ID. Certain emails have been reproduced herein for example:

(a) Vide email dated March 03, 2010, Srikanth had instructed Ganesan, a copy being marked to Srihari, to issue request letter on letter head of Sthithi to acquire promoters' funding against ZSL shares from IFCI. The email is quoted below:

"Ganesh

We are planning to take an approval for Promoter funding against Zylog shares with IFCI. In this regard we need to issue them a request letter in Sthithi's letter head, format as given below. Have it scanned & sent to me asap. Also have a copy faxed to them @ 044-28306650."

(b) Similarly, vide email dated December 14, 2010, Aditya Birla forwarded the account statement of Sthithi to Srikanth.

"Dear Srikanth Sir

Please find below the account of "Sthithi Insurance" currently and After. …"

(c) Vide email dated February 14, 2011, Srikanth instructed an employee of ZSL namely Ms. Nithya Pasupathy (copy marked to Ganesan and Srihari) to carry out certain instructions in the following terms:

"Nithya,

As discussed we need to send in a request letter to Tata Capital, Chennai & ILFS Chennai in Sthithi letter head. Ganesh has already given one for IFCI so have the same contents only is thing is that for Tata Capital the request is for Rs 21 cr and for ILFS its for Rs. 25 crores."

(d) Srikanth and Srihari were in constant touch with the auditor of Sthithi viz., K.R. Sudersan (KRS) and Co. by way of emails *inter alia* for provisional and/or finalized accounts of Sthithi, various filings and for funding requests in the name of Sthithi, etc.

(e) Vide email dated October 04, 2010 to JM Financials, Srikanth forwarded various brokerage plans negotiated by one Mr. Ganesh Venkant with 'Edelweiss' seemingly for the purpose of opening trading account of Sthithi, out of which one of those brokerage plan was selected by Srikanth by return mail to him.

76. I am of the considered view that the emails correspondences highlighted above provide sufficient evidences and leave no confusion in mind that Srikanth was actively involved in all the dealings on behalf of Sthithi in the matters relating to availing loans, repayments, addressing defaults/shortfalls, books of accounts, various statutory filings etc. I also observe that at times, various emails relating to Sthithi were also received by and/or forwarded and/or copied to Srihari, Sudarshan and Ramanujam.

77. Similarly, I also note from the records before me that Sripriya had trading accounts with 8 different stock brokers and she was dealing with 7 NBFCs for her shares and funds related dealings and the details of all those entities are provided on page 14 of the SCN. Similar to the case of Sthithi, in majority of these accounts, email ID of Srikanth and his mobile number have been provided as contact details. Seven out of these eight stock brokers and five out of seven NBFCs have confirmed that Srikanth was dealing on behalf of Sripriya. Three out of these seven NBFCs have submitted that the email communications on behalf of Sripriya were sent to Srikanth's email ID. I find

numerous emails in the annexures to the SCN with regard to dealings by Sripriya in the shares of ZSL which were addressed to or emanating from Srikanth's email ID. Certain emails have been reproduced herein for example:

(a) Vide email dated September 15, 2011, Srikanth has mentioned "*Also Fyi, I've transferred 17,050 zylog shares into S Sripriya ABML account yesterday (Prakash has confirmed the credit of the same as well) so that additional cushion is available for the margin funding account.*"

(b) In another Email dated May 07, 2012 to one Gautam Agarwal, Srikanth stated "*Hi Gautam, I've sent you the same through Sripriya's gmail id*".

(c) Another email dated August 19, 2012 from the Email ID of Srikanth to J M Financials read as below:
"***Subject:*** *Transfer request*
Hi Kalaiselvan
As discussed, I would like to transfer 100,000 (One Lakh only) shares of Zylog Systems Limited from my DP account with you to the following DP account of mine.
Ben/Client Name - ***Sripriya S***
DP Name - ***Prabhudas Lilladher Pvt Ltd.***
DP ID – ***12011300***
*Client ID -****00395231***
Request you to do the needful.
Regards
Sripriya Srikanth"

(d) Similarly, vide email dated February 16, 2011, Srikanth requested Aditya Birla Finance, the following:
"*As discussed, my wife Mrs S Sripriya has a trading account & DP account with your brokerage arm Aditya Birla Money. I would like to avail a Margin funding facility for this account, with a Limit of Rs.5 crores. She can provide shares of zylog systems as collateral for the same.*"

(e) Vide email dated August 05, 2012, Sripriya has sent newly created

password for her account at Motilal Oswal Online Trading System to Srikanth.

78. Both Srikanth and Sripriya have stated that Sripriya was independently managing her finances and was trading on her own with the help of investment managers appointed for the said purpose and Srikanth had no role and involvement in the said transactions. However, as discussed elsewhere in this order, she was funded by ZSL to trade in its own scrip and the records of ZSL itself show that Sripriya has been disclosed as a dependant of Srikanth. Srikanth has also failed to submit any proof of Sripriya trading on her own with the help of investment advisors, whereas the above quoted emails prove to the contrary by directly pointing out to the fact that it was Srikanth who was controlling and handling all her trading, demat and bank accounts and was in complete command & control over her transactions. The fact of close connection between Sripriya's transactions and the promoters of ZSL is further strengthened from the fact that 99.72% of total trading of Sripriya in terms of value, during the calendar year 2012 was done only in the scrip of ZSL, a fact which is also noted in *interim order*.

79. Srikanth has further attempted to transfer the responsibility to K Prabhakar claiming that he was appointed by the promoters to execute all the imputed share transactions in the scrip of ZSL and Srikanth had no role to play in the said transactions. Srikanth has also denied that Prabhakar was ever reporting to him. However, I note that Prabhakar, in his statement before SEBI, has clearly stated that he was handling dealings in the accounts of Sthithi and Sripriya and was reporting to Srikanth about all these dealings during the IP. I further note from the numerous emails correspondences submitted by Prabhakar that all the securities related transactions were done by him only after taking instructions from Srikanth. Both Ganesan and Akila S. have also submitted that Srikanth was taking care of all shares related transactions of promoter group entities. I also note that Twentyfirst Century Shares and Securities Ltd. (for short '**TCSS**') used to send emails informing details of share transactions in the account of Sthithi to Prabhakar while marking a copy

to Srikanth without keeping any of the promoters informed about such transactions in those mails. I also note that, J Chandramouly, the then Managing Director of TCSS, used to send emails to Srikanth which were then forwarded by him to Ganesan and Prabhakar. Therefore, the contention of Srikanth goes contrary to the facts on record and the very fact that Prabhakar, who was supposedly appointed by and acted as a confidante of promoters, was invariable keeping Srikanth in the loop in all his email correspondences instead of marking a copy to the promoters of the *Company* speaks volumes of the fact that it was Srikanth who was in complete command of all the transactions in the scrip of ZSL made by other connected entities on behalf of the promoters during the investigation period.

80. Therefore, all the emails referred to above unequivocally establish that Srikanth was the primary person managing, handling and controlling the trading and funding on behalf of both Sthithi and Sripriya. He was also found to be directing various other persons including Ganesan regarding transfer of shares amongst the demat accounts of the 3 promoters interchangeably to get maximum possible funding and leverages from various stock brokers and NBFCs for the purposes of margin funding/LAS. This fact has also been corroborated by the statements of various employees of ZSL. In fact, it appears from the statements and submissions of different employees that it was a common knowledge inside ZSL that Srikanth was managing share trading in all the accounts created inside ZSL, be it of Sthithi, Sripriya, Aditicon, Effica or of Ganesan, to achieve the aforesaid purpose of availing maximum possible funding and leverages from various stock brokers and NBFCs for the purposes of margin funding/LAS.. Considering the aforesaid factual exposition, I find that the contention of Srikanth lack merit and are mere empty claims without any substance more so when sufficient evidences have been placed on record to establish that Srikanth was practically managing all the share transactions as well as fund transactions on behalf of and in the accounts Sthithi and Sripriya at the behest of the *Company* and its promoters.

81. Similarly, I also find from various emails exchanges that Ramanujam,

Sudarshan and Srihari were constantly involved/aware of all the funds and share transactions taking place in various accounts including Sthithi and Sripriya. Some of these emails are being highlighted below:

(a) Vide email dated February 26, 2011, a copy of which was marked to Ramanujam, Sudarshan, Viswanathan V and Srihari, Srikanth has directed Nithya Pasupathy in the following terms:

> "….*As discussed last night, pls transfer 100,000 shares immediately from Sthithi Insurance's RK account to P Srivatsan's Indiainfoline Account wherein we were able to obtain a limit to buy upto 100,000 shares. This limit will be effective from Monday morning itself. We had earlier transferred 38,000 shares from Mrs. G Krishnaveni's account to P Srivatsan's Religare account wherein he has been given a limit of 25,000 shares which will be increased to 40,000 shares in a week's time. Also let us know whether we have received the shares from Edelweiss & the number of free shares available in Aditicon DP account with RK stocks*…"

(b) Vide email dated October 04, 2011, Srikanth informed Sudarshan, Ramanujam, Srihari and Ganesan that he had ordered JM Financials to purchase 11000 shares of ZSL in the account of Sripriya to maintain the scrip of ZSL above a certain level. Further, Srikanth also intimated the receivers of the said email that "*Now we need to quickly get back above 410 tomr itself and ensure we don't break 410 under any circumstance.*"

(c) Similarly, vide email dated March 29, 2012, Srikanth seems to be informing Ramanujam, Sudarshan and Srihari about the transfer of shares into individual accounts for the purpose of creating limits including depositing 60,000 shares in the demat account of Sripriya with Depository Participant Aditya Birla.

82. The aforesaid emails clearly show that apart from controlling the transactions involving the shares of ZSL and the corresponding funding arrangements, Srikanth was also attempting to manipulate the scrip of ZSL so as to maintain its price above a certain level in order to get maximum leverage on the pledged

shares. Further, while all the other employees and stock brokers/NBFCs were dealing with Srikanth directly for dealings in the accounts of Sthithi and Sripriya, Srikanth was constantly keeping *Noticees no. 3, 4 and 6* in loop regarding all the developments taking place in the accounts of these two entities. I also find that from September 2012 onwards, when the financial condition of the *Company* started deteriorating, there were numerous emails exchanged regarding shortfall/default in the loan/trading accounts of Sripriya, sent by various NBFCs/stock brokers. The said emails were constantly being forwarded by Srikanth to Sudarshan, Ramanujam and Srihari. I find no reason for Srikanth to share such trade details/developments in respect of the personal trading accounts of his wife with the *Noticees no. 3, 4* and *6* (which he claims that Sripriya was independently handling) unless these persons were also closely involved and party to these transactions executed in the accounts of Sripriya.

83. Keeping the aforesaid in view, it leaves no doubt in mind that the account of Sripriya was being used as a front for trading on behalf of the promoters of ZSL and the shares purchased in her demat accounts were used to obtain further margin funding/LAS facility. Certain emails reinforcing the said findings are illustrated below:

(a) Vide an internal email dated October 02, 2012 from K Prabhakar to Srikanth and Srihari with subject '*Holdings as on 30/09/2012 of Promoters-Reg*', the shareholding of Aditicon and Sripriya were shown under Sthithi for the purpose of 'statutory requirements. The shareholding of *Noticees no. 2, 3 and 4*, mentioned in the said email also matches exactly with their shareholding as disclosed in quarterly shareholding pattern submitted by ZSL to the stock exchanges.

(b) Vide email conversation with Aditya Birla Finance dated June 20, 2011, Srikanth was attempting to convert Sripriya's account from margin funding account to Promoter Funding Account.

(c) In the same manner, email dated March 24, 2011 involves JM financial informing Srikanth and Srihari about the details of payment received wherein they are *inter-alia* stating "*As discussed this morning, we have received the funds of Rs 2.70 crores in Mrs Sripriya's a/c and we are releasing 3 lac shares of Zylog in Sthithi's demat a/c. This will reflect as free balance tomorrow in Sthithi's demat a/c with us.*"

(d) Similarly, vide email dated April 29, 2012 Srikanth directed Nithya Pasupathy, copy marked to Sudarshan, Ramanujam, Viswanathan and Srihari, that "*As discussed please transfer 50,000 shares from Sthithi ac to S Sripriya's Aditya birla account as we have started buyin(g) there again the last 2 days and we need to buy more.*"

(e) Vide email dated September 06, 2011, a copy of which was marked to Srihari and Ganesan, Prabhakar had sent pledge details with JM Financials to Srikanth. In the said details, I find two entries with Loanee 'Sthithi-Ms. S Sripriya'.

84. Even a cursory look at these emails would lead any man of ordinary prudence to deduce therefrom that the accounts of Sripriya and Sthithi were used interchangeably in a way to obtain maximum possible margin limits from various brokers using those accounts. For the same reason, Sripriya's account was internally accepted as promoter group account. In furtherance of such objectives, there were frequent transfer of shares amongst the accounts of promoters and Sripriya under directions from Srikanth.

85. Continuing with above, I note that IFIN Securities Finance Ltd. (for short '**ISFL**'), vide its letter dated November 13, 2017, informed SEBI that ZSL had signed a guarantee deed for a loan taken by Sripriya from ISFL. Similarly, Srikanth, Ramanujam, Sudarshan and Sthithi were the guarantors to the loan of Sripriya with JM Financial Products Ltd. and had executed separate deeds of guarantee all dated November 16, 2012 to service the outstanding loan of approximately INR 20.95 crores of Sripriya.

86. I find no reason for ZSL and its promoters to sign the abovementioned guarantee deeds on behalf of Sripriya unless the *Company* and the promoters themselves were involved in and/or behind the said transactions in the account of Sripriya. The *Noticees no. 5 to 7* have stated that the said act of ZSL was in return of Sripriya transferring whole funds received by her for an alleged land deal. However the said land deal has been found to be nothing but an eyewash and a façade put up by the *Noticees no. 3 to 7* as have been discussed in details subsequently in this order. Therefore, the said act on the part of ZSL and its promoters clearly show their direct connection with Sripriya and also acknowledges that fact that Sripriya was only a name lender and all the transactions executed in her name including the transactions in shares of ZSL were nothing but the transactions/trades executed at the behest and for the benefit of the promoters of the *Company* which were carried out under the direct control and instructions of her husband, i.e. Srikanth. It also exposes the 'common intentions' of all the concerned *Noticees* viz. *Noticees no. 2 to 7* that lay hidden behind her dealings in the scrip of ZSL.

87. From all the above noted details, I am of the view that sufficient evidences have been placed on record to prove that Srikanth was managing and handling share related dealings including monitoring and managing shareholding in the accounts of both Sthithi and Sripriya. Sudarshan, Ramanujam and Srihari were well aware of and were actively involved in all such arrangements and dealings as Srikanth was informing and discussing all these transactions in the accounts of Sthithi and Sripriya with them at all the points of time during the IP. At the same time, from the contents of the emails exchanged among *Noticees no. 3 to 6*, it is clearly evident that trading accounts of Sthithi and Sripriya were being used interchangeably for trading in the shares of ZSL and/or availing funds for such trading, etc. to conspicuously increase promoters' shareholding in the *Company*.

88. As a logical extension to the aforesaid finding, I am of the view that Sripriya, by signing the loan agreements with the NBFCs and client broker agreements with various stock brokers, has constantly supported, abetted and allowed her

husband Srikanth to use her as a front entity of promoters of ZSL in fulfilling the role he has played in the whole fraudulent scheme discussed in this order.

89. Srihari has stated that he was not aware of the afore-stated transactions as he was not dealing in the accounts of the *Company*. However, I note that Ganesan has already stated in his statement before SEBI that Ramanujam and Srihari used to look after the accounts of ZSL. The said statement was also confirmed by Sriram Ramesh Chakrapani vide his email dated November 02, 2018 wherein he has stated that Ganesan was operating as head of Accounts Operations under the direct supervision of Ramanujam and Srihari. I find it difficult even to presume that Srihari, in his capacity as Global CFO of the *Company*, could have been completely unaware of and had no inkling of the fund transactions in crores of rupees that was taking place amongst ZSL, Sthithi and Sripriya; especially in light of the fact that he had certified the authenticity of financial statement for FY 2011-12. At the same time, numerous emails marked to Srihari as highlighted above, clearly exhibit that he was constantly kept abreast of all the transactions that were taking place in the accounts of different entities as part of the whole scheme of things that was ostensibly concocted by the *Noticees no. 3 to 6* in collusion with one another.

90. Srihari has submitted that he had resigned from ZSL in 2011 but continued in his position till 2013 upon request of Ramanujam. However, he has failed to provide any evidence in support of this claim. At the same time, I find it strange to accept that Srihari, who wanted to quit the *Company*, decided to stay at ZSL for more than 1.5 years merely on the request of a promoter, a claim which has not been vouched or confirmed by any of the employees whose statements before SEBI are available on record, which means none of the employees of the *Company* had any inkling regarding any rift between Srihari and the promoters due to which he purportedly wanted to leave the *Company*. Hence such a claim made by Srihari does not have any feet to stand the test of scrutiny.

91. I also find from the statement of Srinivasan Balakrishnan, Assistant Manager (Accounts) at ZSL from 2009 to 2017, that all the instructions regarding fund transfers were given by Ganesan either orally or by writing on a white board, some of which were for 'share trading'. He had also confirmed that the purpose of some of the fund transfers by ZSL to Sripriya was mentioned as 'share market'. Further, he has also stated that the only reason for which funds were transferred to various individual accounts was that these funds would be withdrawn in cash from those accounts.

92. The *Noticees no. 5 to 7* have contended that there was no 'common objective' behind the above said transactions. It is further submitted that Sripriya was purchasing the shares of ZSL when the promoters were selling. However, I note that the majority of trades were happening in the accounts of Sthithi and Sripriya only, both of which were being operated by Srikanth. At the same time, Sudarshan, Ramanujam and Srihari were completely in with the know of all the transactions undertaken by Srikanth in these two accounts. Therefore, the same person dealing in both these accounts *ipso facto* proves 'common intention'. Further, I also note from the trade details provided at Annexures 32 to the SCN that shares were being purchased in the account of Sripriya till the price was stable or increasing. Once the price witnessed a drastic fall due to invocation of pledge and subsequent sale of shares of ZSL by the lenders owned by Sthithi in the month of October 2012, shares from the account of Sripriya were also continuously sold. It appears from the materials available on record as well as from the statements made before SEBI by the lower ranking employees of ZSL at the relevant time, that the shares purchased in the accounts of *Noticees no. 2* and *7* (Sthithi and Sripriya) were used to raise maximum possible funds from various financial institutions and stock brokers and the said funds were either withdrawn in the form of cash or were diverted to various other accounts. This finding also gets strength from the fact that an audit of the accounts of ZSL conducted by an auditor appointed by Union Bank of India unearthed fund diversions from the accounts of ZSL on the basis of which Union Bank of India has filed an FIR

against the *Company* before Banking Securities and Fraud Cell, Central Bureau of Investigation. Further, investigation into the allegations of fund diversion against the *Company* is being conducted by the CBI and Enforcement Directorate.

93. Therefore, keeping in view all the compelling factual findings as demonstrated above and confronted with such overwhelming evidence in support of the alleged transactions and collusive nexus amongst the *Noticees no. 2* to *7*, I hold that the *Noticees no. 2* to *7* were acting as one common group in respect of their dealings in the scrip of ZSL in furtherance of their common fraudulent scheme, as highlighted above and as alleged in the SCN. In fact, I note from all the emails available on record that it was *Noticee no. 5* who was handling all the transactions, be it shares related (in terms of purchase, sale, pledging of shares) or fund related (in terms of margin funding or LAS), on behalf of both Sthithi and Sripriya with the active help and connivance of the *Noticees no. 2, 3, 4, 6* and *7*.

B. Role of other *Noticees.*

94. I note from the SCN that, along with Sthithi and Sripriya, the accounts of various other entities were also used to deal in the scrip of ZSL and for carrying out certain fund transactions in furtherance of their fraudulent scheme. In this regard, allegation of misuse of bank, demat and trading accounts of Aditicon, Effica and Ganesan have been made against *Noticees no. 3 to 6*.

Aditicon and Effica

95. I note from the data available on MCA portal that Aditicon was incorporated on February 15, 2008 with *Noticees no. 10 and 11* as its directors. *Noticee no. 10 and 11* have submitted in their respective affidavits before me that their salaries at ZSL were approximately INR 20000/- per month and approximately INR 10300/- per month respectively. Similarly, Effica was incorporated on June 18, 2009 with the *Noticees no. 11 and 12* as its directors

and both of them continued to be its only directors till 2016 when they resigned one after another from the said company, i.e. from Effica.

96. I note from the statements of K Prabhakar, Saravanan S P and Srinivasan B, all employed at junior level in the accounts department of ZSL during the IP, that both these companies were merely paper companies having no employees and were incorporated by making the abovementioned *Noticees no. 10, 11 and 12* as their Directors. They have also stated that various fund transactions with these entities were done by ZSL. Further, Ganesan, Saravanan S P and Srinivasan B, in their respective statements before SEBI have submitted that Aditicon and Effica were formed only for fund diversion towards the accounts of promoters and they were shown as venders in the books of accounts of ZSL for the purpose of obtaining loans from banks. In fact, it appears from the statements of all these persons that it was a well-known fact inside ZSL that Aditicon and Effica were mere paper companies incorporated in furtherance of the illicit activities of the promoters.

97. Additionally, various emails correspondences in the records show that *Noticees no. 3 to 6* as well as Ganesan were regularly connected with the shares and fund transactions carried out in the accounts of Aditicon, some of which are being cited below:

(a) Vide email dated October 02, 2012, Prabhakar forwarded '*Holdings as on 03/09/2012 of Promoters-Reg*' to Srikanth and Srihari wherein the shareholding of Aditicon was shown as part of shareholding of Sthithi.

(b) Vide different emails dated September 23, 2009, Sunil Raheja had forwarded summary of trades and ledger of Aditicon to Ganesan.

(c) Vide email dated December 21, 2009, Lokesh Kapoor informed the following to Srihari and Ganesan:
"*Dear Sir,*
As we are closing Aditicon account with IL & FS, we will be shifting all our stocks and debit to Aditicon new account SSJ Finance And Securities Pvt ltd. So, kindly fill

up the form as per specimen and Mr. Hari is supposed to sign as he was the old Director then."

98. I note from Annexure 91 to the SCN that the demat account of Aditicon has a mobile number attached to it which belonged to Lokesh Kapoor. I also note from letter dated December 07, 2018 of Prabhudas Liladhar Pvt. Ltd. to SEBI stating that Lokesh Kapoor was an employee of Sunil Raheja. Further, MCA database shows that both Sunil Raheja and Lokesh Kapoor are directors of one company called Big Nile Ventures Ltd. I also note from Annexure 90 of the SCN that Sunil Raheja was an acquaintance of Srikanth since numerous emails exchanged between them show that Srikanth was regularly in discussion with Sunil Raheja in respect of funding the investment in ZSL as well as for other personal ventures of Srikanth and certain other companies where he was a Director. Further, I find numerous emails exchanges, which were retrieved from the email dump obtained from Ganesan, vide which Lokesh Kapoor and Sunil Raheja had forwarded trade summaries and various other demat, trading and banking account details of Aditicon to Ganesan.

99. In the aforesaid context I find that Sripriya and Srikanth have claimed that Sunil Raheja was introduced to them by Ramanujam and Sudarshan after the so called land deal was cancelled. However, while the said land deal supposedly between the *Company* and Sripriya was cancelled in August-September 2012, I find that there are email conversations of Srikanth with Sunil Raheja on record which date back to as early as of 2009 in which Srikanth is seen discussing with him about various other entities, in which he was a director though those entities were not connected with ZSL. Therefore, the submissions of Srikanth and Sripriya that they came to know Sunil Raheja only after the cancellation of the above stated land deal (and not before that) are factually incorrect and grossly lacks credibility in the light of the above cited emails exchanges and other materials available on record.

100. Further, in light of connection of Lokesh Kapoor and Sunil Raheja with Srikanth, the picture that clearly emerges now is that the demat account of

Aditicon was also controlled and directed by Srikanth, directly or indirectly. I also note from the statement of S Prabhakar before SEBI that all the four persons in control viz. *Noticees no. 3 to 6* were well aware of all the share transactions being carried out in the accounts and in the names of Aditicon and Effica.

101. It is observed that, vide email dated June 15, 2016, Prabhakar forwarded bank statements of Aditicon to Ganesan. A perusal of the statement of the said Account No. "014010200028875" of Aditicon with Axis Bank shows Aditicon having multiple fund transactions with ZSL, Sthithi, Effica and Ganesan.

102. Vide email dated July 31, 2012, Prabhakar stated the following to Ganesan with copy marked to Srikanth and Srihari:

"*Dear Sir,*
We availed Rs. 2 crore loan from M/s VSL Securities Private Limited. We need to provide undated Cheque for Principle amount along with 12% interest - 20 % TDS. It comes Rs. 2,19,20,000/-in favour VSL Securities from Aditicon Services India Private Limited.
Kindly recommend to issue the undated cheque to be couriered to them."

103. Similarly, vide email dated February 06, 2012, Srikanth advised Ganesan to transfer INR 1.50 crores to Lokesh Kapoor from the account of Aditicon with a copy of the said email marked to Prabhakar, Ramanujam and Srihari. Subsequently, vide email dated February 07, 2012, Prabhakar informed Ganesan that a sum of INR 1.50 crores have been transferred from Sripriya to Aditicon. This chain of events clearly suggests that INR 1.50 crores were transferred from the account of Sripriya to Aditicon for it to in turn, remit the same to Lokesh Kapoor. This leaves no scope for any doubt that the accounts of various entities were glaringly used interchangeably as per the wish of the *Noticees no. 3 to 6* to suit their needs.

104. I note from the audit report of Sundar Srini & Sridhar, an auditor appointed

by Union Bank of India to audit the books of accounts of ZSL, that the following funds outflow, inflow and purchases have been shown in the account of Aditicon and Effica vis-a-vis ZSL in FYs 2011-12 & 2012-13:-

Table 2: Transactions of ZSL with Aditicon and Effica

Company	Fund outflow from ZSL (in INR crores)	Fund inflow to ZSL (in INR crores)	Purchases shown (in INR crores)
Aditicon	34.70	19.0	15.6
Effica	38.80	21.70	17.10

105. I note from the above table that substantial purchases were shown to have been made by ZSL from these entities. As already mentioned earlier that these companies were mere paper companies without any employee or operation, hence all the aforesaid transactions carried out in the names of these companies were *prima facie* nothing but paper transactions used as a devise to divert *Company's* funds to related/connected entities for carrying out those transactions in shares & funds as per the wish and interest of the promoters & related entities.

106. Similarly, there were numerous fund transactions noted in the bank accounts of Aditicon and Effica wherein funds were always transferred from Aditicon to Effica. No explanation has been submitted by either Aditicon for transferring out such funds or by Effica the reasons behind receiving such funds. However, all the emails exchanges extensively referred to above and other evidences placed in records before me clearly show that the accounts of Sripriya and Aditicon were used as conduits to acquire shares at the behest of the promoters, to raise funds from various entities including stock brokers and NBFCs and also to rotate funds amongst the front entities. Further, the accounts of Aditicon were also used for fund transactions with ZSL, Sthithi, Effica, Ganesan, etc. and no rationale or purpose behind such fund transactions are available on record.

107. I find that Saravanan S P and Srinivasan B have stated before SEBI that they

were working under Ganesan, who was leading the accounts department of ZSL, and all the instructions for the above cited fund transfers used to come from him orally or by writing on a white-board kept in his office. In some of the instances, the purpose of some of these fund transactions were mentioned as 'Share Trading' in their briefing. This clearly indicates that Ganesan was well aware of the true purpose behind those fund transactions.

108. Taking a holistic evaluations of the aforesaid factual evidences and discussion on the implication of those factual evidences pertaining to various transactions carried out in the accounts of the above named paper companies, it clearly establishes that the companies, viz. Aditicon and Effica were merely acting as front companies which were incorporated using identities of *Noticees no. 10 to 12* as its Directors, and these three *Noticees* due to their own financial or whatever other compulsions, willingly permitted the *Noticees no. 2 to 7* to misuse their names as Directors of these two paper companies that were created only to engage in fraudulent financial dealings and share trading as part of the pre-conceived plan of the promoters and related entities of the promoters. An analysis of the transactions carried out in these accounts clearly suggests that the said companies were also acting as conduits to divert funds from ZSL as per the suitability of and in furtherance of the fraudulent scheme concocted by *Noticees no. 3 to 6*. Again, it was *Noticee no. 5* who was also managing and controlling the demat account of Aditicon to acquire shares of ZSL which were used to raise funds from various entities in a similar fashion as were done in the names of *Noticees no. 2 and 7*.

M V Ganesan

109. It was observed during investigation that the name of one M Ganesan was appearing in the list of public shareholders holding more than 1% shares of ZSL since June 2009. Further investigation showed that the PAN of such shareholder is the same as that of the *Noticee no. 13* which showed that shares were held in the name of Ganesan and the same were constantly shown as part of public shareholding.

110. I observe that Ganesan had traded in the scrip of ZSL during the period from 2009 to 2012 through Prabhudas Liladhar Pvt. Ltd. ('**PLPL**') and through Karvy Stock Broking Limited (2007-2010). It was observed that most of the trades were executed though PLPL. At the same time, I also observe fund transfers in the bank account of Ganesan with Prabhudas Liladhar Financial Services Ltd. ('**PLFS**'), a NBFC and sister concern of PLPL.

111. It was observed that initially Ganesan was holding 2,28,998 shares of ZSL as on June 2009 out of which he had received 1,40,000 shares through off-market from Aditicon on June 15, 2009 and rest 88,998 shares were received through off-market from PLFS during June 19-26, 2009. Using those shares, Ganesan had availed margin funding and LAS facility from PLPL and PLFS.

112. I also note from letter dated December 07, 2018 of PLPL that it was introduced to Ganesan by Lokesh Kapoor and Sunil Raheja and Lokesh Kapoor was an employee of Sunil Raheja. PLPL also submitted that orders in the account of Ganesan were placed by Lokesh Kapoor and Trade Confirmation calls were made by Sunil Raheja.

113. In this regard, I note that an email was sent by PLFS (from email id JitenShah@plindia.com) bearing subject 'Client Profile form' to Lokesh Kapoor (lokesh31@rediffmail.com) attaching client profiling sheet of PLFS asking to send the same back duly filled in. Lokesh Kapoor forwarded this email to Srikanth on November 25, 2010.

114. It appears from the material available on record that PLPL was not aware of Ganesan being employee of ZSL as in the KYC documents of Ganesan (submitted to PLPL), he was fraudulently shown as a businessman with annual income of INR 12 Lakh. On the basis of this disclosure, PLPL opened account of Ganesan and also granted him loan of INR 2 crores. Further, the transactions in the account of Ganesan valued in crores, which I find suspicious as the annual income of Ganesan was shown to be INR 12,00,000/-.

115. During the relevant time, Ganesan was sending various instructions to PLPL and PLFS from his Gmail ID. This gets affirmed from the fact that once, when Ganesan sent an email from his ZSL domain ID to PLPL, presenting himself as an employee of ZSL, he was immediately advised by PLPL to not enter into speculative trades in the scrip of ZSL. He was also informed that in case of any further speculative trades, PLFS would recall the loan granted to him.

116. I note from the bank statement of bank account no. 014010100148214 of Ganesan maintained with Axis Bank that there were unexplained transactions with Aditicon, ZSL and Sudarshan whereby unusually large sums of money have been transferred to/from the account of Ganesan without any explanation. The amounts were sometimes in crores of rupees, highly unusual for a person having annual salary of less than INR 12,00,000. For the relevance of present proceedings, I note that an amount of INR Four crores received from PLFS in the said bank account on March 12, 2010 was transferred to Aditicon on March 15, 2010. Similarly, an amount of INR Two crores received from PLFS on March 17, 2010 was transferred to Aditicon on the same day itself; and an amount of INR 26.70 lakhs approximately received from PLFS on March 26, 2010 was transferred to Aditicon on same day itself, and these are some of the examples of transactions which remain unexplained by Ganesan as well as by *Noticees no. 3 to 6*. Further, PLFS has submitted to SEBI that the outstanding LAS in the account of Ganesan was INR 9.35 crores as on November 30, 2017.

117. I also find it relevant to mention that Ganesan, in his email dated December 08, 2009 in reply to email of Lokesh Kapoor advising him to send an email to PLFS to increase his margin funding limit, stated "*I cannot carry out this without srihari's instructions. Kindly excuse.*" This clearly shows that Ganesan was actively working under directions of Srihari.

118. Subsequently, Ganesan in his email dated November 09, 2012 to PLPL has stated that the transactions in his demat account in the scrip of ZSL were

carried out by somebody else. The same gets corroborated from letter dated December 07, 2018 wherein PLFS submitted to SEBI that when scrip of ZSL started touching lower circuit in October & November 2012, Ganesan started to referring their call for margin payment and clearance of dues to Srikanth for compliance. At the same time, I find numerous email conversations between Prabhakar and PLFS regarding the demat and trading accounts of Ganesan.

119. I also find that, Srikanth sent an email dated November 06, 2012 to PLPL stating the following:

"*…with respect to the 2 individual accounts namely MV Ganesan & S Sripriya, we understand that there is a margin shortfall issue which needs to be addressed. You can be rest assured that this will get restored in due course to your fullest satisfaction & we will also be reducing the position considerably.*
Meanwhile request your continued cooperation on the same.
I will again revert back to you during the day with more updates.…"

120. Also from the email backups provided by ZSL to SEBI, it was found that there were certain other emails exchanges relating to the matter, few of such important ones being cited hereinafter.

(a) PLPL sent an email to Srikanth, Sunil Raheja and Lokesh Kapoor on November 15, 2012 indicating client wise outstanding loan amount (Ganesan having outstanding of INR 4.01 crores approx.) and *inter alia* advised them to repay entire loan urgently. Srikanth forwarded this email on same day to Sudarshan, Ramanujam, Srihari, Ganesan, Prabhakar, and also to one ID 'svimaleshkumar@gmail.com'. This clearly shows that Srikanth, Srihari, Sudarshan and Ramanujam were aware of the dealings in the name of Ganesan and that his name was being used premeditatedly by them for carrying out the said transactions in shares.

(b) Similarly, I note from email dated May 03, 2013 from Srikanth to PLFS requesting PLFS not to invoke the pledge with respect to Ganesan's loan

account. In this regard, I find no reason for Srikanth to have sent the said emails to PLFS/PLPL on behalf of Ganesan's trades unless he was involved in the entire scheme of events that comprised trading in crores of rupees worth of shares in the name of Ganesan.

121. I am of the view that the apparent connections of Srikanth with Sunil Raheja and Lokesh Kapoor, already discussed earlier in this Order, coupled with the emails from Srikanth to PLPL and PLFS regarding margin and loan defaults in the account of Ganesan are more than sufficient evidences to arrive at a conclusion that at all points of time, the demat and trading account of Ganesan, as far as dealings in the scrip of ZSL is concerned, was controlled either directly or indirectly by Srikanth.

122. From the aforesaid discussions, I find that sufficient evidences have been mustered on record to establish that the demat and trading accounts were opened in the name of Ganesan with a well thought out plan wherein shares of ZSL were transferred to his (Ganesan's) account by the promoters against which LAS facility was obtained from PLFS and the said funds were again used to purchase shares of ZSL. This fact itself clearly unravels that in the scheme that was devised by the *Noticees no. 3 to 6*, Ganesan played the role of another proxy account to increase promoter shareholding without disclosing so to the outsiders as well as for using those shares acquired in his name, to raise maximum possible funds from various entities.

123. At the same time, on the basis of email dated November 09, 2012 of Ganesan to PLFS, already referred to above, I hold that he was aware of such misuse of his account and, despite knowing the same very well he continued to allow the *Noticees no. 3* to *6* to misuse his account. Therefore, by lending his name and willingly acting as a conduit for effecting those transactions in shares & funds at the behest of *Noticee no. 3 to 6* and the *Company*, Ganesan has aided and abetted ZSL and the *Noticees no. 3* to *6* in perpetrating the violations and in committing fraud on the shares holders of the *Company* as alleged in the SCN. The said role of Ganesan also becomes clearly manifest from the

examination of numerous emails received and/or sent by him through his Gmail ID (mvganesan@gmail.com).

124. Considering the foregoing, I have to hold that Srikanth, Srihari, Sudarshan, Ramanujam and Ganesan have violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), and 4(1), 4(2)(f) & (r) of the PFUTP Regulations, 2003.

C. Funding of Sthithi and Sripriya

125. As pointed out earlier, the SCN also alleges that the *Company* had, directly as well as through various connected entities, transferred funds to both Sthithi and Sripriya which were used by these entities for their dealings in the scrip of ZSL. Further, it is also alleged that Aditicon and Effica, which had been established to act as only conduit or pass-through companies in the hands of the *Noticees no. 3* to *6*, were used to route funds to Sthithi and Sripriya.

Allegation of Funding of trades of Sthithi –

126. As mentioned in pre-paragraphs, shareholding of Sthithi was equally divided between the *Noticees no. 3* and *4* who were its only directors. Further, I note from the reply dated May 25, 2018 of ZSL that Sthithi did not have any business operation of its own or any employee on its pay-roll. I also note from the statements of employees of ZSL that Sthithi was used as an instrument by Sudarshan and Ramanujam to increase their shareholding.

127. At the same time, as observed earlier, all the fund and share transactions of Sthithi were managed by the *Noticee no. 5,* i.e., Srikanth. I note that Ganesan, in his statement before SEBI, has submitted that he used to receive instructions regarding fund transfers for share purchases in the account of Sthithi from Srikanth and Srihari which he used to discuss and take approval from Ramanujam before execution.

128. Further, ZSL in its Annual Report for FY 2011-12 had disclosed Sthithi as a related party and their relationship was described as "*Enterprise influenced by Key*

Management personnel" thereby mandating the transactions between ZSL and Sthithi to be disclosed under 'related party transactions'. However, no fund transactions, whatsoever, between ZSL and Sthithi have been disclosed under "related party transactions" in the said Annual Report. At the same time, ZSL, vide its letter dated September 09, 2020, has submitted the Financial Statements of ZSL for FY 2010-11 to 2012-13. However, as in the case of the annual report, I find no mention of any loans granted by Sthithi to ZSL has been made in any of the aforementioned financial statements. I also note from the Annual Return of Sthithi for FY 2011-12, available on MCA website, that the total loans of Sthithi was shown as nil in the said Annual Return. However, it is pertinent to note that such an act of non-disclosure in the balance sheet for FY 2011-12 has been admitted by ZSL in its letter dated May 25, 2018.

129. Contrary to the aforesaid non-disclosures in the Annual Reports and Financial Statements of ZSL, as pointed out above, I note from the *interim order* that the following fund transactions had taken place from the accounts of ZSL to Sthithi and then to various NBFCs, as indicated in the table below:

Table 3: Details of fund transfers from ZSL to Sthithi and subsequent transfers from the account of Sthithi

Sr. No.	Date of transfer	Entity 1	Amount (in INR	Entity 2	Amount (in INR)	Entity 3
1	29-03-2012	ZSL	3,45,00,000	Sthithi	2,43,41,630	IFCI Limited
2	02-05-2012	ZSL	2,50,00,000	Sthithi	35,00,000	IFCI Limited
3	09-05-2012	ZSL	1,00,00,000	Sthithi	1,00,00,000	IFCI Limited
4	11-05-2012	ZSL	1,00,00,000	Sthithi	1,00,00,000	Cholamandalam Investment Finance
5	11-05-2012	ZSL	1,90,00,000	Sthithi	1,00,00,000	IFCI Limited
6	07-06-2012	ZSL	4,00,00,000	Sthithi	4,28,92,727	IFCI Limited
		ZSL	29,00,000			
7	07-06-2012	ZSL	20,80,822	Sthithi	20,80,822	Karvy Financial Services Ltd
8	29-06-2012	ZSL	91,50,000	Sthithi	87,58,856	IFCI Limited

9	29-06-2012				3,88,357	Cholamandalam Investment Finance
10	04-07-2012	ZSL	50,00,000	Sthithi	50,00,000	IFCI Limited
11	22-08-2012	ZSL	1,00,00,000	Sthithi	1,00,00,000	IFCI Limited
12	30-08-2012	ZSL	1,00,00,000	Sthithi	1,00,00,000	IFCI Limited

130. At the same time, I note from the SCN that Sthithi had entered into the following trades in ZSL shares with different stock brokers during the Investigation Period:

Table 4: Trade Details of Sthithi during IP

S. No.	Broker	No. of Buy Trades	Buy Quantity	Buy Value (in INR)	No. of Sell Trades	Sell Quantity	Sell Value (in INR)
1	IFCI Financial Services Ltd. (IFIN)	254	168546	65070021.8	574	144437	72688331.5
2	Reliable Stocks & Shares Mumbai Pvt. Ltd. (Reliable Mumbai)	2	6495	1862076.55	43	181156	57212398.95
3	Religare Securities Ltd. (Religare)	261	216510	64157473.95	0	0	0
4	Reliable Stocks & Shares (India) Ltd. (Reliable India)	0	0	0	84	188810	59702892
5	Twenty First Century Shares & Securities Ltd. (TCSS)	0	0	0	992	533611	151791090.2
	Total	**517**	**391551**	**131089572.3**	**1693**	**1048014**	**341394712.6**

131. I further note from the *interim order* that examination of bank statements of Axis Bank Account number '910020048551797' of Sthithi further revealed transfer of a total amount of INR 26.47 crores to ZSL in four instances during the FY 2011-12 and ZSL transferred a total of INR 14.89 crores to Sthithi in four instances during the same period. I note that neither the *Noticees no. 1* nor the *Noticee no. 2* has disputed the said transactions at any point of time during investigation or present proceedings.

132. However, it has been contended by ZSL that the aforesaid funds transfers

from its accounts were made towards repayment of loan to the extent of an amount of INR 57.15 crores taken from Sthithi at earlier time. In support of this, ZSL has also provided with a year wise loan amount outstanding in its books as at the end of FYs from FY 2010-11 to FY 2012-13. Reply on similar lines was also submitted by Sthithi during the time of investigation. However, at no point of time, any evidence supporting the existence of any such previous loans from Sthithi to ZSL has been provided by any of the concerned *Noticees* thereby rendering the claim of repayment of earlier loan taken by ZSL from Sthithi to be a specious claim sans any substance to rely upon.

133. I further note that despite various letters issued by SEBI, the *Company* failed to submit any independently verifiable documents such as the relevant loan agreements, audited balance sheet, Income Tax Returns or bank statements showing fund transactions between ZSL and Sthithi in order to substantiate its claim of having obtained any loan from Sthithi or repayment of loans made to Sthithi etc. In fact, the *Company* has not even been able to confirm the dates on which those fund transfers took place pursuant to granting of loans by Sthithi to ZSL as claimed by the *Company* so that the same could have been verified from the bank statements.

134. In this connection, ZSL has submitted a certificate dated August 25, 2013 from M/s. K. R. Sudarsan & Company, Chartered Accountant (CA), appointed by the *Company*. On the basis of the said certificate, it has been contended by the *Company* that Sthithi had provided loans to ZSL over the years and ZSL was repaying the same to Sthithi vide the funds transfers as have been highlighted in the above Table no. 3. It is noted from the said certificate dated August 25, 2013 that the CAs have given the said certificate apparently only for the purpose of SEBI inquiry and on the basis of "limited inspection" of the outstanding balance due from ZSL as on Mar 31, 2013 in the books of Sthithi which has been determined by them at INR 53.40 crores. However, from the said certificate it can be noted that the CAs have not certified the pre-existence of any loan transaction between ZSL and Sthithi as

claimed by the *Noticee no. 1*. In fact, it is observed that such a certification by the CAs has been purely based on the bank statements of Sthithi at Axis Bank, Federal Bank, Union Bank of India and HDFC Bank and the ledger statements of ZSL in the books of Sthithi and not on the basis of any loan agreement, audited accounts of ZSL and Sthithi or any other verifiable documents. Therefore, the said certificate prepared on the basis of bank statements, at the most, can establish various fund transfers between ZSL and Sthithi without getting into the details of the exact nature & purpose of each such fund transfers and can find out the outstanding balance due from ZSL as on Mar 31, 2013, in the books of Sthithi. However, such bank statements showing funds transfers cannot establish with certainty that the said fund transfers between ZSL and Sthithi actually pertained to any loans advanced by Sthithi to ZSL or the outstanding balance due from ZSL as on Mar 31, 2013, in the books of Sthithi actually represented the loans given by Sthithi to ZSL, as have been claimed by the *Noticee no. 1*. Therefore, in the of absence of any documentary evidence to establish the existence of any grant of loan from Sthithi to ZSL, the said contention does not merit any consideration and accordingly the funds transferred by ZSL to Sthithi as depicted in the Table no. 3 above cannot be accepted as repayment of loan by ZSL to Sthithi. Under the circumstances, I find that the two *Noticees*, viz. ZSL and Sthithi have grossly failed to explain the nature of the funds transfer between them and have nothing to offer in rebuttal of the allegations levelled against them with regard to such funds transfers.

135. I also note from the loan agreement dated March 12, 2011 between IFCI and Sthithi for a sum of INR 50 crores that one of the purposes of the said loan was stated to be investment in group companies of ZSL. Therefore, the transactions of Sthithi in the scrip of ZSL, coupled with the fact that the funds transferred by ZSL to Sthithi were immediately transferred to various NBFCs including IFCI, as indicated in Table 3 above, which NBFCs themselves were the sister concerns of brokers mentioned in Table no. 4 above (through which Sthithi was trading in the scrip of ZSL), raises a strong preponderance of

probability that the funds first raised by Sthithi from various NBFCs were used for transactions in the scrip of ZSL which were subsequently repaid using the funds transferred by ZSL to Sthithi, thus in effect, ZSL funded the trading transactions of Sthithi in its own scrip. In the larger scheme of things, such a *modus operandi* adopted by Sthithi in trading in ZSL shares with finances availed from NBFCs and then getting re-financed by the *Company* itself, fits well into the plan of the *Noticees no. 3* to *6* wherein Sthithi was used merely as a front for them to raise the funds from the market only to deal in the scrip of ZSL.

136. I note from the letters dated February 19, 2016 and June 02, 2016 of Ramanujam to SEBI wherein he has claimed that ZSL owes INR 6380.50 lakhs to Sthithi (provisional amount) as on March 31, 2014. He had further stated that he couldn't verify the same with the bank statement of ZSL by virtue of his ouster from ZSL w.e.f. November 14, 2015. However, I find this statement of Ramanujam unacceptable in light of the fact that till date, no legal proceeding has been initiated by Sthithi against ZSL for recovery of the said amount even after 7 years despite the fact that both the promoters of Sthithi have already been ousted from ZSL. If Sthithi was really an independent company having its own business operations, there was no reason for the two promoters of Sthithi for not taking any action against ZSL for so long. It shows that the two individual promoters and owners of Sthithi very well know that the funds transferred by Sthithi to ZSL were not its own money but the funds routed through it on behalf of the promoters and their related entities to deal in the shares of ZSL.

137. The aforesaid factual discussions reveal that by funding the transactions of Sthithi, the *Company* actually created an artifice, wherein it employed its own funds to deal in its own scrip thereby acquiring its own shares using Sthithi as a front. Section 77(2) of the Companies Act, 1956 proscribes any public company, and any private company which is a subsidiary of a public company, to give, whether directly or indirectly, and whether by means of a loan, guarantee, the provision of security or otherwise, any financial assistance for

the purpose of or in connection with a purchase or subscription made or to be made by any person of or for any shares in the company or in its holding company. In the instant case, as discussed before and as is clear from the records before me, the *Company* had funded the transactions of Sthithi in the shares of ZSL which is against the provisions of section 77(2) of the Companies Act, 1956, and which also amounts to fraudulent and unfair trade practice in terms of the provisions of section 12A(a), (b) & (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(1) of the PFUTP Regulations, 2003.

Allegation of Funding of trades of Sripriya –

138. I observe from the *interim order* that Sripriya had received funds from ZSL and its connected entities viz. Sthithi, Aditicon and Effica on numerous occasions in her bank accounts no. 910010048483095 with Axis Bank Ltd. and account no. 00048410003028 with HDFC Bank during the calendar year 2012 which were immediately transferred to various trading members and NBFCs.

139. I note from further investigation conducted by SEBI that ZSL itself has submitted a list of a total of 41 instances of fund transactions between itself and Sripriya during the period from March 31, 2012 to December 04, 2012 by way of its letter dated May 25, 2018, attached at Annexure 38 of the SCN. The said list is being reproduced as below:

Table 5: Fund Transactions between ZSL and Sripriya

S. No.	Date of Transaction	Debit	Credit	Amount	From	To
1	31-Mar-12	2,00,00,000.00	-	2,00,00,000.00	ZSL	SRIPRIYA
2	10-Apr-12		2,00,00,000.00	-	SRIPRIYA	ZSL
3	11-Apr-12	4,58,609.85	-	4,58,609.85	ZSL	SRIPRIYA
4	12-Apr-12		9,00,000.00	(441390.15)	CASH-Sripriya	Bank A/c details not available
5	03-May-12	2,00,00,000.00	-	1,95,58,609.85	ZSL	SRIPRIYA

6	11-May-12	1,50,00,000.00	-	3,45,58,609.85	ZSL	SRIPRIYA
7	15-May-12	1,00,00,000.00	-	4,45,58,609.85	ZSL	SRIPRIYA
8	18-May-12	70,00,000.00	-	5,15,58,609.85	ZSL	SRIPRIYA
9	12-Apr-12		9,00,000.00	5,06,58,609.85	CASH-Sripriya	Bank A/c details not available
10	25-Jul-12	4,00,000.00	-	5,10,58,609.85	ZSL	SRIPRIYA
11	10-Jun-12		9,00,000.00	5,01,58,609.85	CASH-Sripriya	Bank A/c details not available
12	10-Aug-12	16,86,000.00	-	5,18,44,609.85	ZSL	SRIPRIYA
13	30-Aug-12	50,00,000.00	-	5,68,44,609.85	ZSL	SRIPRIYA
14	01-Sep-12	10,00,000.00	-	5,78,44,609.85	ZSL	SRIPRIYA
15	10-Sep-12		50,00,000.00	5,28,44,609.85	S VIMLESH KUMAR	ADITICON
16	12-Sep-12		20,00,000.00	5,08,44,609.85	S VIMLESH KUMAR	ADITICON
17	26-Sep-12		9,00,000.00	4,99,44,609.85	CASH-Sripriya	STHITHI
28	28-Sep-12		9,00,000.00	4,90,44,609.85	CASH-Sripriya	ZSL
19	06-Oct-12		9,00,000.00	4,81,44,609.85	CASH-Sripriya	ZSL
20	08-Oct-12		9,00,000.00	4,72,44,609.85	CASH-Sripriya	ZSL
21	09-Oct-12		9,00,000.00	4,63,44,609.85	CASH-Sripriya	ZSL
22	09-Oct-12		9,00,000.00	4,54,44,609.85	CASH-Sripriya	STHITHI
23	11-Oct-12		4,95,000.00	4,49,49,609.85	CASH-Sripriya	ZSL
24	16-Oct-12		4,00,000.00	4,45,49,609.85	CASH-Sripriya	ZSL
25	16-Oct-12		4,00,000.00	4,41,49,609.85	CASH-Sripriya	ZSL
26	22-Oct-12		6,40,000.00	4,35,09,609.85	CASH-Sripriya	STHITHI
27	26-Oct-12		1,00,00,000.00	3,35,09,609.85	S R ASAITHAMBI	ZSL
28	26-Oct-12		48,00,000.00	2,87,09,609.85	CASH-Sripriya	STHITHI
29	26-Oct-12		2,00,000.00	2,85,09,609.85	CASH-Sripriya	STHITHI
30	27-Oct-12		1,00,00,000.00	1,85,09,609.85	S R ASAITHAMBI	ZSL
31	05-Nov-12		2,50,000.00	1,82,59,609.85	CASH-Sripriya	ZSL
32	29-Nov-12		15,00,000.00	1,67,59,609.85	CASH-Sripriya	ZSL
33	29-Nov-12		20,00,000.00	1,47,59,609.85	CASH-Sripriya	ZSL

34	29-Nov-12		15,00,000.00	1,32,59,609.85	CASH-Sripriya	ZSL
35	29-Nov-12		20,00,000.00	1,12,59,609.85	CASH-Sripriya	ZSL
36	29-Nov-12		15,00,000.00	97,59,609.85	CASH-Sripriya	STHITHI
37	29-Nov-12		20,00,000.00	77,59,609.85	CASH-Sripriya	STHITHI
38	30-Nov-12		20,00,000.00	57,59,609.85	CASH-Sripriya	STHITHI
39	30-Nov-12		30,00,000.00	27,59,609.85	CASH-Sripriya	ZSL
40	30-Nov-12		19,87,000.00	7,77,609.85	CASH-Sripriya	ZSL
41	04-Dec-12		9,00,000.00	(127390.15)	CASH-Sripriya	ZSL

140. I note that both ZSL and Sripriya have constantly maintained a stand that the said transactions between them were pursuant to a land deal wherein Sripriya had agreed to sell the land to ZSL at a price of INR 12,00,00,000. However, ZSL fell into financial troubles and couldn't arrange funds for the said deal resulting into its cancellation and Sripriya had returned all the money transferred by ZSL to her.

141. However, as I have already raised a number of red flags and concerns about the aforesaid claims made by ZSL and Sripriya in earlier part of this order, I find that the *bona fide* of such claims made by the aforesaid *Noticees* is shrouded in suspicion and falsehood for the following reasons :

(a) The *Company* has submitted that the said land deal was approved in the board meeting dated February 01, 2012 and it was cancelled as per approval taken in the board meeting dated August 13, 2012. However, I find no disclosure having been made either to NSE or BSE either about the purchase or cancellation of the said land deal purportedly made by the *Company* with Sripriya. The same has also been confirmed by BSE and NSE vide their respective emails dated January 04, 2019. I also do not find any mention of the said land deal either in the Annual Report of ZSL or in its filings to MCA.

(b) ZSL failed to submit minutes of the said board meeting citing theft of minute book and instead has provided an extract of board resolutions pertaining to the said board meeting, certified by an Assistant Manager

from its Secretarial Department and the veracity of this extracts is questionable. When advised by the IO to get the said minutes certified from the past or present directors, ZSL showed its inability citing non-cooperation of the said directors. I find it strange that Srikanth himself also refused to certify the said board resolution despite him being a director of ZSL both at the time when the said deal was supposedly signed and subsequently cancelled and he was also a director during May 2018 wherein such a direction was issued by the IO. The aforesaid approach of Srikanth goes contrary to his continuous assertion that he had been providing 'full cooperation' to the Administrator of ZSL, in the general interest of the investors.

(c) I further note that the then independent directors of ZSL Mr. S Rajagopal, Mr. A P Vasanthakumar and Mr. V K Ramani, in their separate letters have firmly stated that no such land deal was discussed in the board meetings held on February 01, 2012 and August 13, 2012. Therefore, the contention of approval having been taken for the said land deal from the Board of Directors, both at the time of entering and cancelling the said deal, does not stand at all in the light of the aforesaid submissions of the independent directors as well as by the very fact of non-disclosure of the same by ZSL at the relevant time.

(d) I also note that ZSL has submitted an 'Agreement for Sale' dated April 02, 2012 and an 'Deed of Cancellation' dated December 03, 2012 in support of its contention. First of all, the said 'Agreement for Sale' dated April 02, 2012, is found to be an unregistered agreement. Secondly, I find it strange that a transaction bearing a value of worth of INR 12,00,00,000 has been entered on the basis of an agreement executed on a non-judicial stamp paper of a value of mere INR 100/-. In fact, a man of a common prudence, while entering into a contract of a huge ticket size such as the above agreement for sale of a land, ensures to enter into a registered agreement which in future, in case of any unforeseen eventuality, may work in his/her favour. However, the aforementioned 'Agreement for Sale' apparently has

no enforceable characteristics and has been executed in a very slip-shod manner on a non-judicial stamp paper of only INR 100/-, which indicates not only the *malafide* intent of the *Noticees no. 3 to 7* but also the fact that it has been deliberately kept as an unregistered document as there was never an intention to get into any land deal as has been claimed by the said *Noticees*.

(e) I find it relevant to note here that Srikanth and Sripriya, vide their letters dated July 30, 2014, have submitted before the then WTM that they had forfeited the amount of INR 5.8 crores paid by ZSL to Sripriya due to its failure to pay the rest of the consideration resulting into termination of agreement. The said argument has been captured and dealt with in detail by the then Hon'ble WTM in his confirmatory order dated July 30, 2015. Subsequently, I find that Sripriya had attempted to change her statement by blaming her advocate for wrong submission of the fact, while at the same time admitting that she had seen the draft reply prepared by the Advocate before signing the said reply. It clearly emerges from the aforesaid conduct of Sripriya that her attempt to blame her advocate was nothing but an afterthought attempt to protect herself by showing her *bona fide* about the said land deal with ZSL. Under the circumstances, the present submission of Srikanth and Sripriya that they have refunded not only the whole amount but also have paid an extra amount of INR 1,27,390.15 to ZSL above and beyond what was due from Sripriya, is barred by principle of estoppel.

(f) Therefore, on the principle of estoppel, the contentions of ZSL, Srikanth, Sripriya and Srihari deserve *prima-facie* rejection. Without prejudice to the aforesaid observation, an in-depth analysis of Sripriya's latest stand that she had refunded the money back to ZSL is also fraught with numerous shortcomings as can be observed from the following paragraphs.

(g) The first transaction between ZSL and Sripriya in respect of the said land deal was a transfer of INR 2 crores from ZSL to Sripriya on March 31,

2012. The said fund transfer of money has not been disputed by either of the entities. I find it strange that a transaction to the tune of INR 2 crores was entered between ZSL and Sripriya even before signing the agreement for sale on April 02, 2012.

(h) I note that the land was claimed to have been purchased by Sripriya on February 17, 2012, i.e. barely one and half months before signing the agreement for sale with ZSL on April 02, 2012, at a price of INR 35 Lakh only from one Mrs. Shobana Chandramouli who is the wife of one Mr J Chandramouli, the then Managing Director of TCSS, one of the stock brokers of Sthithi with which Sthithi had funding arrangements. I find it relevant to note here that Srikanth was constantly in contact with Mr. J Chandramouli regarding various share transactions, reports of credit rating agencies, funding issues etc. I also note that TCSS itself has filed a complaint against J Chandramouli alleging irregularities in its funds transfers and transactions with Sthithi.

(i) The most noteworthy feature of the aforesaid land deal is that the land, purchased for INR 35 Lakh only a month & half before by Sripriya, was being sold to ZSL at a price of INR 12 crores which is more than 34 times the money paid by Sripriya. I find no reason and no rationale behind such steep appreciation of value of the said land within a short period of one and half months.

(j) No explanation has been advanced by the *Noticee no. 3 to 5* as to whether any due diligence was ever carried out to evaluate the price of the land or even a comparable ready reckoner rate was analysed before transferring such huge amount even prior to the signing of the above said unregistered agreement, to a person who is otherwise claimed to be stranger to the *Company* and its promoters.

(k) Sripriya has further stated that she was unwilling to sell the land to ZSL and was pressurized by the Promoters of ZSL through Srikanth to sell the

said land. I find it difficult to believe the same as Sripriya herself had stated to have consciously purchased the said land from Mrs. Shobana Chandramouli so as to help her from her financial troubles. In that situation, I find it inexplicable as to why a person wouldn't want to sell a property with an appreciation of 34 times the valuation paid by her only one & half months before, more so when the said property was purchased by her without any investment planning and merely to help a 'friend'.

(l) As per clause 11 of the said 'Agreement for Sale', Sripriya was entitled to keep INR 3 crores out of the consideration of such land deal in case of cancellation of the same by ZSL. However, Sripriya now has claimed to have foregone the said amount of INR 3 crores because of pressure and threat from the side of the *Company* and its promoters. Even presuming the said statement to be true for a moment, the same doesn't explain the reasons behind her returning INR 1,27,390.15 more than the amount paid by ZSL to her.

(m) As per the submissions of ZSL and Srikanth, the land deal was cancelled pursuant to a board resolution dated August 13, 2012. However, I also find there are four other transactions taking place as early as in the months of April and June, 2012 (prior to August 13, 2012) wherein Sripriya had transferred funds to ZSL. While in its earlier submission dated May 25, 2018, the *Company* had claimed those funds transfers to be receipt of refunds of consideration towards Land deal earlier paid by it to Sripriya, it changed its stance in its submission dated September 09, 2020 and claimed that those funds transactions were executed for some other purpose. Thus, such constant changes of stance by both ZSL and Sripriya *vis-à-vis* the said land deal, raise a lot of genuine suspicion on the *bona fide* and truthfulness of their respective submissions and instead of clearing the air surrounding the said land deal, the said *Noticees* have been giving contradictory and misleading submissions on the issue.

(n) Sripriya claimed to have started transferring funds back to ZSL from

September 2012 onwards and the same was also mentioned in the 'deed of cancellation'. However, one transaction dated December 04, 2012 involving cash deposit of INR 9,00,000 in the account of ZSL by Sripriya has not been mentioned in the said deed of cancellation despite ZSL admitting the receipt of the said funds to be against the cancellation of land deal, in its letter dated May 25, 2018.

(o) I also note from the list of the said 41 transactions as listed out in Table no. 5 above that majority of the transactions involving refunds of money made by Sripriya were made in favour of the bank accounts of ZSL, Sthithi and Aditicon. I find no reasons for Sripriya to deposit money in the accounts of Sthithi and Aditicon. Further, four such fund transfers identified as refund of money to ZSL against the said land deal have been made from the accounts of completely unknown entities viz. S Vimlesh Kumar and S R Aaithambi on behalf of Sripriya. I find no explanation as to why fund transfers have taken place from the accounts of completely stranger entities to the accounts of ZSL and why these entities made those money transfers on behalf of Sripriya to ZSL.

(p) I note that in 26 of total 31 instances (as indicated in Table no. 5 above) wherein funds have been returned by Sripriya to ZSL as per their claim, the funds were directly deposited in the bank accounts of ZSL and Sthithi in cash. Some of these cash transactions were as large as INR 1 crores. I find no reason behind indulging in such huge cash transactions which are difficult to track more so such cash transactions were made when as per Sripriya's claim, she was under pressure from promoters of ZSL to refund the money. Any common person in such a situation would like to keep track of transfers so as to prove the same in a court of law at a later stage, if it comes to that. However, no such precaution was taken by Sripriya. The source of making such huge amount of cash transactions also remains a concern which has neither been explained nor justified by the concerned *Noticees* before me.

(q) I note that a copy of a letter dated October 11, 2012 supposedly addressed by ZSL to Sripriya, requesting her to repay the money after deducting forfeiture amount, was submitted by ZSL to SEBI vide its letter dated May 25, 2018. I find the authenticity of the said letter strongly doubtful. It is on record that Sripriya had admittedly started refunding funds (pertaining to the cancelled land deal) back to ZSL since as early as September 10, 2012. Therefore, it doesn't make any sense for ZSL to write such a letter to Sripriya when Sripriya had already commenced refunding money to ZSL one month back. Further, despite ZSL itself 'suggesting' Sripriya to deduct forfeiture money, it is strange to note that Sripriya generously refunded more than what had been paid by ZSL to her for the purported land deal.

(r) One of the fund transfers from ZSL to Sripriya was for INR 4,58,609.85 on April 11, 2012 which has been shown as part of purchase consideration paid for the land to Sripriya. In a transaction involving purchase of land valued at a figure of INR 12 crores, I find it strange that ZSL has transferred money to Sripriya in paisa and unitary integers as part of the said land deal.

(s) By her own admission, Sripriya received INR 5,78,44,609.85 for the said land deal against which she returned a total sum of INR 5,79,72,000/- to ZSL, i.e., INR 1,27,390.15/- over and above the so called advance received from ZSL. In such kind of a situation wherein the deal is claimed to have been cancelled by ZSL, it is incomprehensible as to why Sripriya did not exercise her right to forfeit any sum of advance and decided to refund to ZSL even more than the amount of advance received by her.

(t) At the same time, I find that Sripriya had taken loans from various entities out of which promoters had been the guarantors of the loan taken by her from IFIN Securities Finance Ltd. and Srikanth was constantly sharing the details of funds and share transactions of Sripriya with the promoters.

(u) I note from the draft of a writ petition, purported to be filed by Sripriya, that the stated value of the said property was mentioned as INR 5 crores in the said petition. I also note from the said draft of writ petition that the dispute between Sripriya and Sunil Raheja had nothing to do with ZSL and it was a contractual dispute between them.

142. One of the arguments advanced by the *Noticees no. 5 to 7* is that the entire amount paid by ZSL to Sripriya for the land deal has already been repaid by Sripriya to ZSL and the same has been certified by Chartered Accountant. However, I note that the said Chartered Accountant has stated that she has provided her opinion using '*documents, information and explanation provided to us by Ms. S Sripriya*'. I have already dealt with the documents submitted by Sripriya. I also note that all the money, claimed by Sripriya to have been refunded to ZSL was paid through a series of 27 transactions all in cash. It is relevant to mention that some of these cash transactions were as large as INR 1 crore each, all of which paid in cash. While the *Noticees no. 5* to *7* have submitted certain receipts which appear to be signed by Sudarshan, dating back to 2013, the fact that the *Notices 2* to *7* have already been found to be acting as a group in furtherance of their fraudulent scheme coupled with the afore-mentions cash transactions of huge amounts made by Sripriya raise serious doubts regarding the authenticity of those receipts and renders the whole transaction look suspicious and implausible. Further, vide the aforesaid certificate given by a CA, it has been certified that Sripriya had INR 1,27,390.15/- receivables pending in ZSL books. No mention of such pending amount has been made anywhere in the replies submitted by *Noticees no. 5 to 7*. In light of the contention of the *Noticees no. 5* to *7* that their relations had soured with the promoters subsequent to cancellation of land deal, I find it implausible that Sripriya not only chose to refund more than the amount received by her from ZSL purportedly against sale of land but also has not even made any attempt to recover at least the above said excess amount refunded by her, from ZSL.

143. Keeping in view all the above stated gross deficiencies, contradictions and

shortcomings observed in the claim of land deal as well as in the unsubstantiated explanations offered to support the said claim of land deal, I am of the view that the claim of entering into the said land deal remained questionable from the very beginning and was put up as a façade to fraudulently hide the funding of Sripriya by ZSL to trade in the scrip of ZSL on behalf of its promoters. Further, in the light of the emails addressed by Prabhakar to Srikanth and Srihari dated July 04, 2012 and October 02, 2012 wherein the shareholding of Sripriya was consistently considered as a part of promoters shareholding for the purpose of filing of quarterly shareholding patterns for quarters ended June 30, 2012 and September 30, 2012, I am clearly persuaded by the allegation made in the SCN that whole claim of a land deal and cancellation thereof between ZSL and Sripriya is a concocted story, a pretence by the *Noticees 3 to 7* and a hoax which deserves to be rejected outright.

144. I further note from the *interim order* that there were various transactions wherein funds received from ZSL and its connected entities were immediately transferred by Sripriya to various stock brokers and NBFCs. Some of those instances have been reproduced below:

Table 6: Details of fund transfers from ZSL to Sripriya and subsequent transfers from the account of Sripriya

Sr. No.	Date of transfer	Entity 1	Amount (in INR)	Entity 2	Amount (in INR)	Entity 3
1	11-04-2012 and 12-042012	ZSL	4,58,609	Sripriya	4,58,609	Narayan Sriram Investments Pvt Ltd
2	03-05-2012 and 04-052012	ZSL	2,00,00,000	Sripriya	2,00,00,000	J M Financial Services P Ltd
3	08-05-2012 and 09-052012	Sthithi	7,44,578	Sripriya	7,44,578	Narayan Sriram Investments Pvt Ltd
4	11-05-2012	ZSL	1,50,00,000	Sripriya	1,50,00,000	IFCI Financial Services Limited
5	15-05-2012	ZSL	1,00,00,000	Sripriya	1,00,00,000	IFCI Financial Services Limited
6	17-05-2012	Ramanujam	28,00,000	Sripriya	28,00,000	IFCI Financial Services

						Limited
7	18-05-2012	ZSL	70,00,000	Sripriya	70,00,000	IFCI Financial Services Limited
8	25-07-2012	ZSL	4,00,000	Sripriya	4,00,000	IFCI Financial Services Limited
9	30-08-2012	ZSL	50,00,000	Sripriya	50,00,000	IFCI Financial Services Limited

145. I note that none of these transactions has been refuted by Sripriya. Further, the receipt of money in the above Table 6 matches date wise and amount wise with some of the fund transactions with ZSL already mentioned in Table 5 above. The above table clearly shows that the funds received from ZSL and its connected entities were being transferred by Sripriya to various stock brokers and NBFCs with whom she was dealing.

146. It is noted from the materials available on record that Sripriya had availed margin funding facility from Aditya Birla Finance Ltd. (**ABFL**) by pledging the shares of ZSL held by her. It is also noted that there were many instances wherein ZSL and its connected entities viz. Aditicon and Effica transferred funds to Sripriya, which were in turn transferred by her to ABFL towards repayment of her loan, the details of the same are indicated as under:

Table 7: Loan Repayment to ABFL by Sripriya and source of such funds

S. No.	Repayment of Loans by Sripriya to ABFL	Amount (in INR)	Source of Funds
1	August 27, 2012	10,00,000.00	ZSL
2	September 03, 2012	10,00,000.00	ZSL
3	September 05, 2012	10,00,000.00	Aditicon
4	October 04, 2012	90,00,000.00	Aditicon
5	October 19, 2012	1,00,00,000.00	Effica
6	October 22, 2012	25,00,000.00	Effica
7	October 31, 2012	75,00,000.00	ZSL

147. Similarly, Sripriya had also transferred funds received from ZSL and Aditicon to her broker IFCI Financial Services Limited (**IFIN**) during the investigation

period towards payment for her trades in the scrip of ZSL, the details of the which are highlighted as under:

Table 8: Loan Repayment to IFIN by Sripriya and source of such funds

S. No.	Date of Payment of funds to IFIN by Sripriya	Amount (in INR)	Source of Funds
1	January 03, 2012	46,00,000.00	Aditicon
2	January 06, 2012	30,00,258.93	Aditicon
3	January 06, 2012	12,07,461.41	Aditicon
4	January 06, 2012	42,63,319.59	Aditicon
5	January 13, 2012	75,00,000.00	Aditicon
6	May 08, 2012	1,26,50,000.00	Aditicon
7	May 15, 2012	1,50,00,000.00	ZSL
8	May 15, 2012	1,00,00,000.00	ZSL
10	May 18, 2012	70,00,000.00	ZSL
11	July 25, 2012	4,00,000	ZSL
12	August 30, 2012	50,00,000.00	ZSL
13	September 13, 2012	20,00,000.00	Aditicon
14	September 17, 2012	83,00,000.00	Aditicon
15	October 03, 2012	40,00,000.00	Aditicon
16	October 04, 2012	60,00,000.00	Aditicon

148. It is observed from the above tables that on numerous occasions, the source of funds paid by Sripriya to ABFL and IFIN were the funds received by her from ZSL, Aditicon and Effica. Further, it has already been established that the nature of funds transferred by ZSL, Aditicon and Effica to Sripriya were not loans as against what has been falsely portrayed by Sripriya and were rather transferred to primarily increase promoters' shareholding in ZSL by using Sripriya's account as a proxy and then for using those shares to raise funds for the promoters. I find from the Tables 7 & 8 above that the fund transactions of Sripriya with promoters and promoters connected entities of ZSL were continuing even before the aforesaid fraudulent land deal was executed by her with ZSL indicating that she was closely having a collusive nexus with the promoters and promoter group.

149. At the same time, I also note that Sripriya, in her letter dated April 05, 2018 to the IO, has admitted having entered into transactions with Sthithi, Aditicon and Effica during calendar years 2011 and 2012. Sripriya contended that all these fund transactions were on account of loans granted to her by Ramanujam and Sudarshan. Further, funds received by her from Aditicon were used by her as, "……*Payment for fresh purchase of shares over and above the limit available*….." However, as per her own submission, loans of a total amount of INR 23 crores (INR 18 crores from Aditicon and INR 5 crores from Effica) were still outstanding for repayment as on the date of that letter. Further, she has claimed to have repaid 80% of the loans taken from Sthithi, while not disclosing the total amount of loan. I find it surprising that despite more than 8 years have elapsed since the loan was given to her by Sthithi, Aditicon and Effica, no action has been taken by any of those entities to recover the outstanding amount from Sripriya that aggregated to more than INR 23 crores.

150. By her own admission, Sripriya had availed funding limits of INR 44 crores from various financial institutions which she had majorly used to trade in the scrip of ZSL. She was also in touch with promoters of ZSL through constant fund transfers and off-market share transfers. In a letter dated October 30, 2018, Sripriya described herself as a 'housewife' who was unable to 'systematically maintain' her accounts. If this was the true state of affairs with Sripriya, a serious doubt can crop up in the mind of anyone as to why various financial institutions would provide funding to the extent of INR 44 crores to such a housewife who was even unable to maintain accounts properly and why such a person would use such large sums of money to deal primarily, to the extent of more than 99% value of her trades in Calendar Year 2012, in the scrip of ZSL wherein her close connection with the promoters of the *Company* is now well established.

151. In view of the aforesaid, the fact that the funds borrowed from these NBFCs were used by Sripriya to deal in the scrip of ZSL, and then funds received from ZSL and its connected entities were used to repay those loans to the

NBFCs lead to the singular conclusion that ZSL and its connected entities were actually indirectly funding the dealings of Sripriya in the scrip of ZSL.

152. I also find the contention of Srikanth claiming that Sripriya was independently operating in the matter of her dealings with funds and share trading to be quite unconvincing in the light of the factual evidences available on records suggesting that she was funded by and used as a proxy entity by ZSL to trade in its own scrip and the records of ZSL itself present Sripriya as a dependant of Srikanth. Srikanth has also failed to submit any proof to support his claim that Sripriya was trading with the help of investment advisors, whereas I have already referred to several emails in the present order which point out to the fact that Srikanth was directly controlling all her trading, demat and Bank Accounts in connivance with Sudarshan, Ramanujam and Srihari. This is further strengthened from the fact that 99.72% of total trading of Sripriya in terms of value, during the calendar year 2012 was done only in the scrip of ZSL, as also noted in *interim order*.

153. Therefore, there is no doubt left that the trading account of Sripriya was being used by *Noticees no. 3* to *6* to trade in the scrip of ZSL and to conspicuously increase promoters' shareholding backed by funding by ZSL thereby exposing the fact that Sudarshan, Ramanujam, Srikanth and Srihari were actively behind as well as were aware of such trading and financial transactions happening in the name of Sripriya. I also note that Aditicon and Effica aided and abetted the aforesaid funding of Sripriya's trades in the scrip of ZSL by lending their accounts for routing funds to Sripriya wherein the directors of these companies, viz. *Noticees no. 10* to *12* have also actively connived with the promoters of the *Company* in execution of the above-mentioned wrongdoing, first by lending their names for incorporation of these companies and then by signing various documents in furtherance of fraudulent scheme devised by the *Noticees no. 3* to *6* as alleged above. Therefore, Aditicon, Effica and their directors namely, *Noticees no. 10* to *12* have actively participated in and abetted the aforesaid fraudulent acts of the *Noticees no. 3* to *6*. I note that under similar circumstances, in the case of *Gammon India Limited vs. SEBI*, the Hon'ble SAT

vide its order dated June 20, 2008 had held that providing funds to entities by the company for the purpose of buying its own shares amounts to a violation of the provisions of the PFUTP Regulations, 2003. In view of this, I hold that ZSL, Sudarshan, Ramanujam, Srikanth, Srihari, Sripriya, Aditicon & Effica and their then directors viz., the *Noticees no. 10* to *12* have indulged in fraudulent and unfair trade practices while dealing in the scrip of ZSL during the Investigation Period and thereby have violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) & 4(1) of the PFUTP Regulations, 2003.

D. False and misleading disclosures by the *Company* and Promoters

154. It is alleged in the SCN that in furtherance of their fraudulent scheme a number of false and misleading disclosures were made by *Noticees no. 2 to 7* in order to create a misleading positive impression about the *Company* in the securities market as well as to camouflage their fraudulent scheme. The said misleading disclosures are being discussed under three categories viz: firstly, misleading disclosures about promoter shareholding; secondly, failure to disclose pledge and other transactions under relevant provision of SAST Regulations, 2011 as well as under PIT Regulations, 1992; and thirdly, the *Company* fraudulently claiming that there is '*business as usual*' while promoters were indirectly increasing their stake in the *Company* and were indulging in non-disclosure of related party transactions.

Misleading disclosure of promoter shareholding

155. In terms of section 21 of the SCRA, 1956 read with clause 35 of the Listing Agreement, all listed companies are required to file their true and correct shareholding patterns on a quarterly basis with all the Stock Exchanges, where scrips of such companies are listed.

156. I note that discrepancies were noted on a *prima-facie* level in the *interim order* itself regarding the combined shareholding of the promoters in comparison

with the disclosures made in the quarterly shareholding pattern for all the quarters of Calendar year 2012 viz. quarters ending March 2012, June 2012, September 2012 and December 2012 as per table below:

Table 9: Disclosed Shareholding of promoters and actual shareholding of promoters as per depository data

Quarter ended	Holding of promoters as filed with BSE (% of equity capital)	Actual holding of promoters as seen from depository data (% of equity capital)
March 2012	68,30,034 (41.53%)	64,14,234 (39.00%)
June 2012	68,32,634 (41.54%)	63,56,834 (38.56%)
September 2012	1,39,89,064 (42.53%)	1,23,09,901 (37.42%)
December 2012	1,11,50,450 (33.90%)	84,81,793 (25.79%)

157. Subsequently, the promoters shareholding in ZSL was further verified with the depositories data as against the disclosed shareholding of the promoters at the time of investigation subsequent to the *interim order*. The comparison of these two sets of data are as below:

Table 10: Analysis of disclosure of promoters' shareholding against available Depository data

		As disclosed to BSE and NSE				As per holding statement of NSDL and CDSL			
Qtr ending		**No. of Shares held**	**% shareholding of ZSL**	**No. of shares pledged**	**% of promoter shareholding**	**No. of Shares held**	**% shareholding of ZSL**	**No. of shares pledged**	**% of promoter shareholding**
No. of equity shares of ZSL = 1,64,46,420									
March 2012	Sudarshan	1,27,990	0.78	0	0.00	1,27,990	0.78	0	0.00
	Ramanujam	60,268	0.37	0	0.00	60,268	0.37	0	0.00
	Sthithi	66,41,776	40.38	36,15,107	54.43	62,25,976	37.86	5355697	86.02
	Total	**68,30,034**	**41.53**	**36,15,107**	**52.93**	**64,14,234**	**39.00**	**5355697**	**83.50**
June 2012	Sudarshan	1,27,990	0.78	0	0.00	1,27,990	0.78	0	0.00
	Ramanujam	60,268	0.37	0	0.00	60,268	0.37	0	0.00
	Sthithi	66,44,376	40.40	36,15,107	54.41	61,68,576	37.51	5363697	86.95
	Total	**68,32,634**	**41.54**	**3615107**	**52.91**	**63,56,834**	**38.65**	**5363697**	**84.38**
With record date July 03, 2012, one ZSL share of INR 10 was sub-divided into two ZSL shares of INR 5 each resulting in the increase of no. of equity shares of ZSL to 32892840									
September 2012	Sudarshan	4,15,000	1.26	0	0.00	4,15,000	1.26	415000	100.00
	Ramanujam	2,85,000	0.87	0	0.00	2,85,000	0.87	285000	100.00
	Sthithi	1,32,89,064	40.40	72,30,214	54.41	1,16,09,901	35.30	10866394	93.60
	Total	**1,39,89,064**	**42.53**	**7230214**	**51.68**	**1,23,09,901**	**37.42**	**11566394**	**93.96**
December 2012	Sudarshan	4,73,500	1.44	4,73,500	100.00	4,73,500	1.44	473500	100.00
	Ramanujam	3,43,500	1.04	3,43,500	100.00	3,43,500	1.04	343500	100.00
	Sthithi	1,03,33,750	31.42	73,51,462	71.14	76,64,793	23.30	7351462	95.91
	Total	**1,11,50,750**	**33.90**	**81,68,462**	**73.25**	**84,81,793**	**25.79**	**8168462**	**96.31**

158. I note from the above table that the promoters' shareholding was disclosed to be more than the actual number of shares held by them in their demat accounts in all the quarterly shareholding patterns submitted by the *Company* during the Calendar Year 2012. Further, it is also observed that although the promoters' shareholding had actually decreased quarter-on-quarter in quarter ending September 2012, contrary disclosure was made to the stock exchanges

showing increment in promoters' shareholding in the *Company* as on the end of the said quarter. At the same time, the *Company* was constantly disclosing pledged shares less than the actual number/percentage of pledged shares, thereby, fraudulently creating a positive impression to the public that situation at the *Company* was normal and the promoters' shareholding in the *Company* was good, providing them abundant headroom to pledge additional shares to raise funds in any eventuality.

159. I find it relevant to mention here that the internal emails dated July 04, 2012 and October 02, 2012, sent by K Prabhakar to Srikanth with copy marked to Srihari, Sudarshan and Ramanujam, clearly show that the disclosed shareholding of Sthithi in ZSL also included shares held in the names of various stock brokers including TCSS as well as shares held in the names of Sripriya, Srivatsan, Srividhya and Aditicon. Coincidentally, the shareholding pattern mentioned in the email dated October 02, 2012 was exactly the same as the one disclosed in quarterly shareholding patterns for quarter ended September 2012. At the same time, TCSS has admitted during the course of investigation that it was holding the shares of ZSL in its own beneficiary account which actually belonged to Sthithi. Therefore, it is difficult to ascertain the actual shareholding of Sthithi in light of shares being scattered in the names and accounts of numerous other name lending conduit entities.

160. On the other hand, the shareholding pattern, disclosed on the stock exchanges, showed that promoters' shareholding in ZSL was more than 2600 shares over and above shareholding of the promoters as per the internal calculation made vide email dated July 04, 2012. Again vide email dated October 19, 2012, Akila S. informed the same to both Srikanth and Srihari with a copy marked to Prabhakar K bearing subject '*Promoters shareholding Pattern – Sept 30, 2012*':

Total Shareholding Increase Disclosure for SAST					
Circuit limit of 2% incr or decr			***Diff as compared to March***		
			# Shares	***%***	
Mar-11	*60,32,547*				
Sep-11	*67,79,203*		*7,46,656*	*4.54*	
Dec-11	*67,79,203*		*7,46,656*	*4.54*	
Mar-12	*68,30,034*		*7,97,487*	*4.85*	*0.31*
Jun-12	***68,32,634***		***2,600***	***0.02***	
Sep-12	*1,39,89,064*		*3,23,796*	*0.98*	*For the year 1%*

161. I observe from the above emails that even ZSL itself was not able to account for the discrepancy of 2600 shares in the shareholding pattern for quarter ended June 2012. The data regarding shareholding of the promoters, given in the above-mentioned table, has not been disputed by any of the *Noticees*. This clearly shows that the shareholding of the promoters was fraudulently increased in the quarterly disclosures made by the *Company* to provide a false sense of comfort to the investors, while at the same time the promoters as well as Sripriya continuously engaged in selling the shares of ZSL.

162. The fact that those false quarterly shareholding patterns were forwarded by the *Company* to the exchanges with the approval of Srikanth, Srihari, Sudarshan and Ramanujam; leaves no scope for any doubt regarding their complicity in this fraudulent disclosure.

163. It has already been established that the accounts of Sripriya and Ganesan were managed by Srikanth in consonance with Sudarshan, Ramanujam and Srihari. Despite this fact as well as the fact that the shareholding account of Sripriya had already been internally accepted as part of promoter group, entities like Sripriya and Ganesan were fraudulently shown as public shareholders of the *Company*.

164. Under the circumstances and looking at the aforesaid factual evidences pertaining to the disclosures made about promoters' shareholding, I find that the acts of wrong disclosure of promoters' shareholding and disclosure of

shareholding pattern with Sripriya and Ganesan being mentioned under public category was false and misleading information disseminated about the promoters' shareholding in the scrip of ZSL and when the same is looked into in the larger scheme of things, which the *Noticees no. 3 to 6* ultimately wanted to achieve, I can very well decipher that such misleading disclosures were made with a fraudulent intent. Also, by lending their names to be used by the *Noticees no. 3 to 6* for dealing in the shares of ZSL and other funds transactions, Sripriya and Ganesan have glaringly abetted and colluded with ZSL and *Noticees no. 3 to 6* in said violation. It is thus clear that ZSL has violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), and 4(1), 4(2)(f) & (r) of the PFUTP Regulations, 2003 as well as section 21 of the SCRA, 1956 read with clause 35 of the Listing Agreement. At the same time, *Noticees no. 3 to 7* and *Noticee no. 13*, by aiding and abetting ZSL in such fraudulent and misleading disclosures regarding promoter shareholding, have violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d) and 4(1), 4(2)(f) & (r) of the PFUTP Regulations, 2003.

Non-disclosure of Pledge and other transactions

165. In terms of regulation 31 of the SAST Regulations, 2011, the promoter of a company is required to disclose any creation, invocation or release of encumbrance on shares held by him or by his PAC within 7 working days from such transaction. Sthithi, Sudarshan and Ramanujam had been continuously pledging their shares with various NBFCs under LAS facility. Subsequently, when the *Company* started facing financial uncertainties and defaulted in repayments of loans, some of those pledges were invoked by the financial institutions. I find no disclosure regarding any of those pledge creation, revocation or invocation has been made on the stock exchange platforms. In this regard, I note from Annexure 74A of the SCN that there were 31 instances of pledge creation, 19 instances of pledge invocation and 14 instances of pledge revocation by the promoters. The promoters have already admitted non-disclosure of the said events, both to the *Company* and

to the stock exchanges under regulations 31(1) & 31(2) read with 31(3) of the SAST Regulations, 2011 in their letters dated October 07, 2013, March 01, 2014 and June 27, 2014. Further, I also note that penalty has already been imposed on promoters for the said violations vide adjudication order dated November 20, 2020.

166. Similarly, the promoter of a company is required to disclose under regulations 13(4A) read with 13(5) of the PIT Regulations, 1992 any change in his shareholding to the company and the exchanges, if such change in shareholding is more than INR 5 lakh in value or 25,000 shares or 1% of total shareholding or voting rights, whichever is lower, within 2 trading days of such transactions. I note that Sudarshan and Ramanujam had entered into 4 off-market transactions on September 25, 2012 and October 01, 2012 which were for more than 25,000 shares. Further, there were also 54 market and off-market transactions of Sthithi which were above the threshold of 25,000 shares or INR 5 lakh in value. The promoters have already admitted non-disclosure of the said transactions to the *Company* as well as to the stock exchanges vide their letters dated October 07, 2013, March 01, 2014 and June 27, 2014. I also note that the promoters have already been penalised for the said violation vide adjudication order dated November 20, 2020.

167. Similar to the promoters, a director in a company is also required to disclose under regulation 13(4) read with 13(5) of the PIT Regulations, 1992 any change in shareholding of his dependant to the company and to the stock exchange(s) within 2 working days, if such change is more than INR 5 lakh in value or 25,000 shares or 1% of total shareholding or voting rights, whichever is lower. I note from the email dated April 10, 2013 of ZSL to SEBI that Sripriya was a dependant of Srikanth in the records of ZSL. Further, Srikanth has contended that he had made the said disclosures only after a passage of more than 7 years in February 2020. It must be appreciated that the purpose of the said disclosures which is mandated under the aforesaid provisions of PIT Regulations, is to disseminate information to the shareholders and investors in a prompt manner and within the quickest time as prescribed

under the said Regulations hence, such inordinate delay of more than 7 years in making a disclosure when the *Company* by now has already been subjected to liquidation proceedings and the shareholders of the *Company* have already substantially suffered on account of these developments, don't serve any purpose and such unpardonable delay in disclosure surely deserves to be taken a very serious note of and cannot be considered as a valid disclosure at all. Moreover, for such failure of timely disclosure on the part of the *Noticee no. 5*, penalty has already been imposed on him vide adjudication order dated November 24, 2020.

168. I am of the view that the abovementioned incidents of non-disclosures under various provisions of SAST Regulations, 2011 and PIT Regulations, 1992 cannot be brushed aside as mere technical violations. When I consider these contraventions of provisions of Regulations in the context of the larger scheme of things wherein the *Noticees 2 to 7* have been found to have indulged themselves in several fraudulent acts to present a misleading appearance of the affairs of the *Company* to the public at large, I am persuaded by the allegations in the SCN that these non-disclosures clearly appear to be deliberate and as a part of the fraudulent scheme of *Noticees no. 3 to 6*. The Timely disclosure under the abovementioned provisions of SAST Regulations, 2011 and PIT Regulations, 1992 would have certainly created sufficient doubts in the mind of any prudent informed investor about the way the affairs of the *Company* were being conducted at that point in time and the acts of violations and manipulations that were committed as part of the alleged scheme of *Noticees no. 3 to 6* would have been exposed to the public. Therefore, I hold that, in their concerted attempt to hide detection of their fraud, the requisite disclosures of *Noticees no. 2 to 5* were deliberately not made in time to the stock exchanges so as to deprive the shareholders and investors of the crucial information that had significant implication on the governance of the *Company*.

Disclosure of Business as usual and promoters increasing their stake

169. I note from the materials available on record that trading in the scrip of ZSL had witnessed a sudden increase in volume alongwith a sharp downfall in its market price on October 18, 2012 and to assuage the market sentiments ZSL had issued a clarification to BSE and NSE stating that there have been no reportable significant developments and it is '*business as usual*'. Further, it was also informed that the promoters were increasing their stake in the *Company*. However, contrary to the above claim as already highlighted in the pre-paragraphs, the promoters' shareholding had witnessed a quarter-on-quarter decrease as understood from the position as on quarter ended September 2012. I also note from SCN that the shareholding of the promoters had further decreased in October 2012 largely due to sale of shares by promoters themselves and also due to invocation of pledge of 6,40,000 shares and 90,362 shares respectively by Karvy and IFCI. In this regard, the following transactions have been noted in the demat accounts of the Promoters during October 01 to October 19, 2012:

Table 11: Details of transactions in the accounts of promoters during the period of October 1-19, 2012

Date	On-Market (BSE/NSE)		Off-Market (CDSL/NSDL)		Net change in Quantity	Cumulative change in quantity (During October 01-19, 2012)
	Buy	Sell	Received	Transferred Out		
01/10/2012		10000	117000	117000	-10000	-10000
03/10/2012		10000	-	-	-10000	-20000
08/10/2012		15000			-15000	-35000
09/10/2012		5000			-5000	-40000
15/10/2012	8500	18078	45000*		-9578	-49578
16/10/2012	2319	1134			1185	-48393
17/10/2012	9239	2500			6739	-41654
18/10/2012				730362	-730362	-772016
19/10/2012				312694	-312694	**-1084710**
Net Increase / Decrease Quantity						**-1084710**

*-shares purchased earlier by Sthithi from its account at TCSS but deposited on October 15, 2012.

170. I also note from the confirmatory order passed in this case that it has been admitted by the *Noticees* before the then WTM of SEBI that the sale of shares from the account of Sthithi during October 01 to October 17, 2012 was not direct sales made by them but were 'distress sale made by the stock brokers viz. TCSS and IFIN due to the debit balance in Sthithi's ledger and the sale of shares was without their knowledge. The said submission was disputed by the stock brokers by stating that the sales were executed upon instructions from Sthithi over telephone. In this regard, IFIN has also submitted a clip of telephone call, along with its transcript, stated to have been made to it by the representative of Sthithi. Further, the concerned stock brokers, had, on the respective dates of sale of shares, had issued the electronic contract notes to Sthithi with regard to the sale of its shares held in ZSL. Therefore, going by the contentions made by the stock brokers supported by transcripts of telephonic conversations there is now no doubt that the *Noticees no. 3 to 6* were well aware of the sale of ZSL-shares in the account of Sthithi even before October 18, 2012.

171. I also note from letter dated October 15, 2012 from IFCI addressed to Srikanth that Sthithi had defaulted in payment of principal and interest payable on September 15, 2012 in respect the corporate loan facility advanced by IFCI and the next instalment also became due as on the date of the said letter. Subsequently, vide letter dated October 18, 2012, IFCI informed Sthithi and Srikanth that they had invoked pledge and sold shares of the value of INR 2.20 crores to recover part of their dues. Similarly, vide letters dated October 18 & 19, 2012, Karvy had also intimated ZSL regarding sale of shares of the *Company* by them.

172. I also note from the email dump made available to SEBI during investigation that a draft clarification was received by Srikanth from ygadodia@christensenir.com (PR agency of the *Company*) and the same was forwarded by him initially to Sudarshan, Ramanujam, Srihari and Ganesan

and then to Akila S. Thereafter, Akila S. returned the same email to Srikanth with subject '*FW: Clarification to the exchanges – Do I send this – Just wanted a confirmation that Karvy is not sending any disclosure to Exchanges*'.

173. All the afore-mentioned letters and emails clearly show that the *Company* and Srikanth were well aware of invocation of pledges by Karvy as well as IFCI. Therefore, the justification offered by ZSL that the disclosure made by them was correct in the light of their quarterly disclosure of shareholding and the *Company* wasn't aware of invocation of pledge by the stock brokers/lenders don't hold any ground in the light of the above emails and letters which clearly show that the *Noticees no. 3* to *6* were well aware of the default committed by ZSL and subsequent invocation of pledge and corresponding sale of shares by Karvy and IFCI.

174. Vide letter dated March 31, 2018, the Administrator of ZSL has submitted that the aforesaid erroneous disclosure was made by the then Company Secretary in terms of directions issued by Ramanujam to Srikanth to coordinate with PR agency of the *Company*. The Administrator has further stated that the information submitted by ZSL was factually correct in the light of the quarterly disclosure of shareholding pattern made by the *Company* for quarters ended June 2012 and September 2012.

175. However, as already established in the preceding paragraphs, the said quarterly disclosures were made contrary to the factual position in respect of the Promoters' shareholding in the *Company*. Thus I find that first, wrong disclosures were made to the exchanges and then, despite not disclosing Sripriya as a promoter, her shareholding was added in the shareholding of Sthithi. Further, no evidence of any instruction from Ramanujam to Srikanth was submitted either by the Administrator of ZSL or by Srikanth himself, *au contraire*, Srikanth himself had been playing a big part in the entire scheme and was issuing directions to make those false and misleading disclosures.

176. Therefore, despite knowing that the promoters' shareholding was constantly

decreasing mainly due to sale of shares by the promoter group itself and also due to the invocation of pledge by various institutions, the *Company* made a false and misleading disclosure to the public. The *Noticees no. 3* to *6* were well aware of the abovementioned disclosure being misleading in nature, and yet they facilitated the disclosure of the said false information to public.

177. At the same time, the *Company* has also portrayed in the said clarification dated October 19, 2012 that it was '*business as usual*' at its end despite being completely seized of the various adverse business developments which had taken place prior to issuance of the above said specious clarification:

(a) Vide email dated October 04, 2012, Akila S. had informed Sudarshan, Ramanujam, Srikanth, Srihari, Ganesan and Sriram Chakrapani that ZSL had received legal notices dated September 27, 2012 from one Watchdata Technologies India Pvt. Ltd. regarding dishonoring of four cheques total amounting to INR 99,99,152/-.

(b) Vide email dated October 07, 2012, Ganesan informed Ramanujam, Srihari and Srikanth that the loan account of ZSL with Federal Bank had been classified as Non-Performing Asset w.e.f. September 30, 2012.

(c) Vide emails October 11 & 12, 2012, Srikanth informed Ramanujam, Sriram Chakrapani and Srihari that ZSL was in need of financial assistance and that they were planning to contact various financial institutions for availing loans & financial support.

(d) Vide email dated October 17, 2012, Akila S. had informed Ramanujam, Sudarshan, Srikanth, Srihari and Ganesan that the last day for depositing funds for payment of dividend was October 22 and till the date of said email, funds were not deposited in the account created for payment of dividend, creating the possibility of default.

(e) Vide emails dated September 21 & 27, 2012 L&T Finance informed ZSL that the very first instalment cheque regarding loans taken by ZSL had

bounced. L&T Finance had requested ZSL to release the payment with regard to the said instalment. Subsequently, one legal notice dated September 28, 2012 was also served by L&T Finance for dishonouring of cheques amounting to INR 2,83,75,015/- by the *Company*.

178. All the above noted developments which took place before and around the time when the said clarification dated October 19, 2012 was issued by the *Company*, suggest that the *Company* was already facing financial difficulties. The same is further evident from the default committed by the *Company* in payment of dividend to the shareholders and the delay made in payment of salaries to its employees, both of which happened immediately subsequent to the said clarification. Therefore, the condition of the *Company* cannot be described as '*business as usual*' in any manner much against what the *Company* wanted to inform the public.

179. In the light of the aforesaid discussions, I hold that the *Company* is liable for publishing false and misleading information about promoters increasing their stake in the *Company* and the *Company* having '*business as usual*', while in reality, the promoters' shareholding in the *Company* was depleting and the business was never as usual contrary to what the *Company* proclaimed before the public, thereby inducing its investors and public shareholders in violation of the provisions of section 12A(a), (b) & (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), and 4(1), 4(2)(a), (f) & (r) of the PFUTP Regulations, 2003 as well as section 21 of the SCRA, 1956 read with clause 36 of the Listing Agreement.

180. I further note from the written reply dated October 23, 2018 of Akila S., the then Company Secretary of ZSL that the disclosure dated October 19, 2012 made by the *Company* was based on information disclosed by Srikanth. In the light of this statement of Akila S. coupled with the corroboration by various emails sent by her to Sudarshan, Ramanujam, Srikanth and Srihari, it can be clearly observed that all of them were well aware of and were also actively behind the said misleading disclosure made by ZSL. Therefore, I have to hold

Sudarshan, Ramanujam, Srikanth and Srihari liable for the violation of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), and 4(1), 4(2)(a), (f) & (r) of the PFUTP Regulations, 2003.

181. In continuation with the aforesaid, I note from the *interim order* that a news article titled '*Zylog crashes 40% on pledged share sale talk; CEO blames crash on panic by speculators*' was published in November 02, 2012 edition of Economic Times wherein the following was reported:

"*Sudarshan Venkatraman, chairman & CEO, attributed the stock price fall to "panic" created by speculators. "Promoters and large institutions have increased their share holding over the past two weeks, coinciding with the fall in the share price." He said there was no adverse impact on the company's business....*"

182. In this regard, I note from the materials available on record including the replies of various stock brokers, that the shareholding of Sthithi in the scrip of ZSL had further reduced during the period of October 18-November 02, 2012 due to market trades, pledge invocations and off-market transactions. The same has also been confirmed by Cameo India, the Registrar and Share Transfer Agent of ZSL vide its letter dated December 06, 2017. At the same time, it has already been established that the information regarding invocation of pledge was already known to the *Noticees no. 3* to *6*.

183. Therefore, I hold that, despite being clearly aware of the actual difficult situation that prevailed in the financial affairs of the *Company* during the relevant period and the fact that various stock brokers were invoking the pledge and selling the shares pledged with them by the promoters, Sudarshan has made such factually false and misleading statements in the public domain, thereby inducing public into dealing in the scrip of ZSL believing in the said disclosure about increasing promoters' shareholding in the *Company* although the said proclamations made by Sudarshan to the media was factually not true. In light of the fact that the promoters were constantly offloading their shares of ZSL in market, the said disclosure on the part of Sudarshan appears to be

an attempt to fraudulently misguide the investors which ultimately helped the promoters in offloading their shares in the market. Thus the said statement made by Sudarshan to the media further establishes the culpability of Sudarshan in those false and misleading disclosures made by the *Company* regarding promoters' shareholding. I also note that various emails were addressed by the IO to Sudarshan advising him to provide relevant details and documents with respect to his above quoted statement in the media so as to justify that the promoters had increased their shareholding despite price fall of the scrip, but the emails of IO have failed to evoke any reply from him in this regard. Under the circumstances, for making such false and misleading disclosure, I have to hold that Sudarshan has violated the provisions of section 12A(a), (b), (c) of the SEBI Act, 1992 read with regulations 3(a), (b), (c), (d), 4(1), 4(2)(a), (f) & (r) of the PFUTP Regulations, 2003.

Non-disclosure of related party transactions

184. I note from the annual report of ZSL for the FY 2011-12 that Sthithi was shown under related parties describing it as '*Enterprise influenced by Key Management Personnel*'. Further, as mentioned earlier, Sthithi transferred a total sum of INR 26.47 crores from its Axis Bank Account number 910020048551797 to ZSL on four instances during the FY 2011-12 while ZSL transferred a total sum of INR 14.89 crores to Sthithi on four instances during the same period. Similarly, Srikanth was shown as a related party in the said annual report. As already established above, certain transactions, including an admitted fund transfer of INR 2 crores on March 31, 2012, had taken place between Sripriya (wife of Srikanth) and ZSL. However, no disclosure of any of the aforesaid transactions was made in the annual report of ZSL for FY 2011-12.

185. In my view, the incorrect, false and misleading disclosures as well as non-disclosure of certain material information as highlighted in the foregoing paragraphs hold enormous significance, from the angle of market integrity, more so when there is a very sharp movement in the market price of the scrip

and the promoters/directors themselves are involved in the trading in the scrip of their *Company*, directly or indirectly through various conduit entities. From the factual exposition and discussions that I had in the preceding paragraphs about false disclosure of promoters' shareholding, the dealings in shares & funds made through different conduit entities, and also from the misleading clarifications and media statements issued by the *Company* and its promoters about the *Company*'s business affairs, it is clear that the *Noticees* especially the *Noticees no. 3* to *6* have indulged in various fraudulent or unfair trade practices in securities, including publication of information which is not true or trustworthy and public statements that were misleading and contained information in a distorted manner, all of which were prohibited by the PFUTP Regulations, 2003.

186. The aforesaid false disclosures and other misleading public statements, when analysed in the context of the larger scheme of things in which such contraventions were committed, cannot be passed off as violations of technical in nature, rather deserve to be perceived as calculated moves made by the promoters as part of the said scheme to defraud the public, since any disclosure of information about the true and correct affairs of the *Company*, if placed in public domain, could have created suspicion in mind of any inquisitive investor who was carefully following the developments happening in the *Company*. Therefore, in my view, all the correct information about the *Company* were carefully hidden and suppressed from public as part of a well-planned strategy so as to deliberately mislead and distract the attention of the shareholders and investors from the irregularities and fraudulent activities being indulged in by the *Noticees no. 2 to 7* during the relevant period.

<u>Issue 3</u>:- Whether the *Noticees no. 2 to 7*, acting in concert with one another, have violated the provisions of regulation 3(2) of the SAST Regulations, 2011 and section 12A(f) of the SEBI Act, 1992?

187. The SCN narrates that the *Noticees no. 3 to 6* were controlling and managing the shareholdings of the promoters and other related entities including *Noticees*

no. 2 and 7 while the *Noticee no. 5* was the key person who was placing orders on behalf of the *Noticees no. 2 and 7*. It was his contact number and email id that was recorded in the KYC documents executed with Stock Brokers/ NBFCs and further, *Noticee no. 5* was also noticed to be using email Id of the *Noticee no. 7*. Similarly, several emails with regard to various dealings (availing loans, repayments, addressing matters relating to defaults/shortfalls, books of accounts) show that the *Noticee no. 5* was actively involved with the dealings of *Noticee no. 2*. The demat shareholding statement reveal that promoters of ZSL viz., *Noticee no. 2 to 4* were holding 39.00% shares of ZSL as on March 31, 2012 and the *Noticee no. 7* was holding 10.49% shares of ZSL as on March 31, 2012. Considering the inextricable connection that the *Noticee no. 7* enjoyed with the promoters of ZSL through the *Noticee no. 5 and 6*, frequent fund transactions of the *Noticees no. 2 and 7* and usage of the funds so received from the *Noticees no. 1, 2, 8 and 9* for transacting in the scrip of ZSL by the *Noticee no. 7* and considering the fact that the control and decision of such trades executed in the name of *Noticee no. 7* were invariably taken by the *Noticee no. 5* there remained absolutely no doubt that the name of *Noticee no. 7* was only being used for all dealings including dealings in ZSL shares on behalf of the promoters only. Under the circumstances where *Noticee no. 7* was acting as a person acting in concert with or a mere conduit for the promoters, it was noticed that the acquisitions of ZSL shares by the promoters and the *Noticee no. 7* taken together during the period from April to December 2012 on a gross basis breached 5% threshold twice during the period, first on July 10, 2012 (with their gross acquisition since April 01, 2012 being 5.07%), and subsequently crossing 10% on October 08, 2012, and such transgression of the prescribed thresholds by the promoters and *Noticee no. 7* together is alleged to be in contravention of Regulation 3 (2) of SAST Regulations, 2011 and Section 12A(f) of SEBI Act, 1992.

188. Before I proceed to deal with the allegations, I reiterate here that the undisputable close connection enjoyed by the *Noticees no. 2 to 7* among themselves has already been discussed, upheld and recorded by me in the

earlier part of this order. Having examined the materials on record, I have already recorded that the *Noticees no. 2 to 7* were found acting in unison to fulfil their common objectives by devising a scheme wherein each of these *Noticees* has been found to be playing its role either in making false and misleading disclosures; or in concealing crucial and material information from the public knowledge be it relating to the *Noticee no. 5* being wrongfully disclosed as Independent Director, be it regarding frequent transfers of funds from the *Company* and its related entities to the *Noticees no. 2* and 7 without disclosing the same under the head 'related parties transactions' which was immediately used to trade in the scrip of ZSL or be it about non-disclosure of *Noticee no. 7* as promoter despite including her shareholding in ZSL as part of promoters' holding in the internal records of the *Company*. Although I have already recorded my observations in detail on the issue of how the *Noticees no. 2 to 7* were closely connected and have acted in concert with each other, in the context of dealing with the above stated allegation of breach of SAST Regulations, 2011, I would have to reiterate those factual details of connections in brief so as to emphasise on the fact that *Noticees no. 2 to 7* were indeed acting in concert.

189. As stated above, the SCN has charged the *Noticees no. 2 to 7* by alleging that while acting together they had breached the provision 3(2) of the SAST Regulations, 2011. In terms of the provisions of regulation 3(2) of the SAST Regulations, 2011 any acquirer along with his PACs, holding more than 25% of the total shareholding of a company, is required to make an open offer if the shareholding of such acquirer taken together with the shareholding of his PACs increases by more than 5% of total shareholding of the company.

190. I note that the *Noticees no. 5* to *7* have contested the said allegations on the following three grounds –

(a) Sripriya was not a PAC with the *Noticees no. 2 to 4*; and
(b) Sripriya's shareholding individually never crossed 5% of total shareholding of the *Company*; and

(c) Sripriya didn't have voting rights in respect of shares and the same was vested with the lenders viz. JM Financial and Motilal Oswal Financial Ltd.

191. I note that the term PAC is defined in clause 2(1)(q) of the 'SAST Regulations, 2011 and the said provision as was applicable during the relevant time is reproduced herein below:

"(q) "persons acting in concert" means, —

(1) persons who, with a common objective or purpose of acquisition of shares or voting rights in, or exercising control over a target company, pursuant to an agreement or understanding, formal or informal, directly or indirectly co-operate for acquisition of shares or voting rights in, or exercise of control over the target company.

(2) Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be persons acting in concert with other persons within the same category, unless the contrary is established, —

(i) a company, its holding company, subsidiary company and any company under the same management or control;

(ii) a company, its directors, and any person entrusted with the management of the company;

(iii) directors of companies referred to in item (i) and (ii) of this sub-clause and associates of such directors;

(iv) promoters and members of the promoter group;

(v) immediate relatives;

……

Explanation. — For the purposes of this clause "associate" of a person means, —
(a) any immediate relative of such person;
(b) trusts of which such person or his immediate relative is a trustee;
(c) partnership firm in which such person or his immediate relative is a partner; and
(d) members of Hindu undivided families of which such person is a coparcener;

192. In this regard, it is an established fact that the *Noticees no. 2, 3 and 4* were the

promoters of ZSL and at the same time, *Noticees no. 3 and 4* were the directors and were the only two shareholders of Sthithi (*Noticee no. 2*) with each holding 50% stake in it. The investigation reveals that the *Noticee no. 2* was merely a company on paper having no separate operation and no employees of its own and it was only a conduit in the hands of the *Noticees no. 3* and *4* to acquire and hold shares of ZSL. The above stated fact further shows that the *Noticees no. 2, 3 and 4* were acting in concert and were united with common objectives.

193. As already discussed above in this Order, the close relationship that existed amongst the *Noticees no. 5, 6* and *7*, namely Srikanth, Srihari and Sripriya, is an admitted fact wherein Srikanth and Sripriya are in spousal relationship and Srihari is the brother of Sripriya making him brother-in-law of Srikanth. There is also no dispute to the fact that the *Noticee no. 7* had acquired shares of ZSL from the *Noticee no. 3* on January 18, 2002 and February 05, 2007 (even prior to IPO) and the *Noticee no. 5* was a director in the wholly owned subsidiary of ZSL (since December 2005). However these vital information was concealed from the public and the *Company* further exceeded its brief when Srikanth was shown in the RHP as an Independent Director, despite the glaring fact that his wife, the *Noticee no. 7* was having substantial stake in the *Company* and he himself was closely connected with the promoters of the *Company*. The *Noticee no. 6* was controlling finance of the *Company* since July, 2005. From the above, it is clear and visible that the *Noticees no. 2 to 7* were known to each other, even well before the IPO of the *Company*.

194. I have also observed in details earlier as to how the two *Noticees* i.e. the *Noticees no. 2 and 7* had indulged in transfer of shares on frequent basis. Moreover, transfer of shares through off market mode between these two *Noticees* (*Noticees no. 2 and 7*) clearly shows that the persons at the helm of the affairs of the *Noticees no. 1 and 2* were practically exercising all control over the account of the *Noticee no. 7*. The same is clearly visible from the email dated April 29, 2012 of Srikanth to Nithya Pasupathy, copy marked to Sudarshan, Ramanujam, Viswanathan and Srihari, directing her to transfer 50,000 shares of ZSL from the account of Sthithi to Sripriya so as to help him increase the

margin limit of Sripriya to acquire more shares of ZSL. Without prejudice to the above observation, even if we consider that *Noticee no. 7* was handling her share dealings independently or through her husband, in the absence of any justification offered by her behind her indulgence in such off market transactions in the ZSL shares on various occasions, it leads to an inference that the *Noticee no. 7* was knowingly working in coordination with the *Noticees no. 2 to 4* to help them achieve their fraudulent objectives. The investigation has also found that there were frequent transfers of funds from the *Noticee no. 2* and other entities controlled and created by the *Noticee no. 3 to 6* (including the *Noticees no. 8 and 9*) to the accounts of *Noticee no. 7* and these funds were used by the *Noticee no. 7* for trading in the shares of the *Company*. The records also show express consent of the *Noticee no. 7* in allowing her trading account to be used as a promoter funding account so as to facilitate the promoters to avail more funding against the shares held in her account. In this respect, it is also observed that the trades in her account were executed by none other than her husband (*Noticee no. 5*) who was evidently calling the shots for and on behalf of the *Noticee no. 2* also and was handling all the transactions in the trading and bank accounts of his wife as per the requirement and at the behest of the promoters.

195. The *Noticee no. 7* has contended that she was taking her independent decisions to buy and sell ZSL shares in her account, whereas the materials on record including the email correspondences exchanged amongst *Noticees no. 2 to 7* as highlighted earlier in this Order sufficiently establish that the decisions to move shares off market between the accounts of *Noticee no. 2, 7 and 8* were not being taken by her, but were taken based on the funding needs of the *Company* as determined in consultation with the *Noticee no. 3 and 4* while the orders for the above-stated transactions were being given by the *Noticee no. 5*. Further, although the *Noticee no. 7* makes an assertion of being independent, the records including her Income Tax Return do not support her trading activities in the stock market. On the contrary, the records show that the purchases of shares of ZSL made in her account were actually done by using

the margin funding facility/LAS facility availed from Brokers & NBFCs including the funds received from the promoters' related entities. The unity of purpose and action between the promoters and *Noticee no. 7* is further evident from the fact that the *Noticee no. 1* (ZSL) had signed a guarantee deed dated December 29, 2012 for the loan taken by *Noticee no. 7* and had executed a multi-partite agreement dated March 28, 2013 to service the outstanding loan of approximately INR 3.95 crore on behalf of *Noticee no. 7*. In the said deed of guarantee and other multi-partite agreements, ZSL was shown as 'Principal Borrower' and not merely a guarantor and interestingly, the *Noticees no. 2 to 5* stood the guarantors to the said loan which was defaulted by the *Noticee no. 7* and had executed a deed of guarantee dated November 16, 2012 to service the said outstanding loan of approximately INR 20.95 crore of the *Noticee no. 7*. The above acts of providing funding to the *Noticee no. 7* and further execution of several agreements including those agreements in which the *Noticee no. 2 to 5* stood as guarantors clearly suggest that they were all acting in unison in furtherance of their common objective of defrauding the investors and there was *prima facie* a prior meeting of minds which was glaring in all their actions.

196. Further, the investigation has unearthed certain email communications pertaining to the trading done by the *Noticees no. 2 and 7*, and extract of some of such emails are reproduced below:

i) Email dated 20/06/11 from Aditya Birla Finance to the *Noticee no. 5*, bearing subject '*Change of Margin Funding Account to Promoter Funding Account – Ms. Sripriya*', wherein the following was inter-alia stated:
"…….*the conversion of MTF (Margin Trade Funding) Account into Promoter Funding Account for Ms. Sripriya with reference to transfer of 5.75 lakh shares and the loan outstanding, from ABML to ABFL. We are trying all options to do it seamlessly without affecting the SEBI guidelines and our compliance norms and we are having deliberations at all levels on the same. Nonetheless, request you to try if there are any possibilities for transferring 7 lakh shares (for Rs.10 Cr) to Ms. Sripriya's promoter funding account so that we can pay off the loan outstanding in the MTF*

account and release the 5.75 lakh shares lying there to your account within 5 working days. Meanwhile, I will also keep you posted on the developments from my side. Currently we have all the approvals in place for Rs.10 Cr under Promoter Funding for Ms. Sripriya."

ii) Similarly, in another email dated 30/04/12, the *Noticee no. 6*, while addressing to the *Noticee no. 3* with a copy marked to the *Noticee no. 5* bearing subject, '*Dividend Shortfall' inter alia* has stated the following:

"*In the below call it was decided that I come back with a plan for effecting this 2 lac shares transfer. The objective of this plan is to give effect to this transfer without having any financial payout from the Company's side, given the present financial position we are in today and also to start this transferring process at the earliest. This is how the committed transfer will be effected;*

1. *There is a free balance of 60,000 shares in Sthithi post requesting for a release of additional shares from Karvy and a balance of 20,000 free shares in Aditicon account. From this cumulative balance of 80,000 free shares, 40,000 shares can be transferred to my account and the balance to Edelweiss Sripriya account so that we can build the balances in Edelweiss new account and the same can be used towards buying fresh market shares against the proposed limit being issued by them... In case if this proposal goes wrong anywhere the same can be treated as refund of shares taken from Sripriya's account towards loan transaction that we had taken for effecting the Syndicated Bank transaction.*
2. *Against this transfer of 40,000 shares to my account I am setting up a 4 day limit to buy shares in Edelweiss. This limit I will use to buy shares from VB in tranches - Looks like we can start this transaction from Thursday.. We have requested VB to issue the payout to Aditicon instead of my account so that the dues in aditicon can also be closed in this process as the initial payout to VB happened from Aditicon account only .. This money post getting credited to Aditicon should be immly transferred to my account and in turn I will fund my Edelweiss account to square off the funding utilised. In this rotation process over a 30-45 days period, VB's 1,00,000 shares could get transferred to my account.*
3. *This totals up to transferring 1,40,000 shares to me without having any financial*

payout to the Company and the same would leave a balance of 60,000 shares post effecting these transfers..

Will get back to you with a further plan for the balance 60,000 shares transfer in due course of time along with a plan for increasing the free shares in Edelweiss Sripriya's account to buy fresh shares against the proposed limit. We will start immediately with Step 1 as given above and in case there is any change in step 2, I will get back to you.., Will give instructions to Prabhakar/Ganesh accordingly."

The contents of the above noted email correspondences not only completely demolishes the claim of the *Noticee no. 7* that she was managing her trading and financial transactions independently but also at the same time further reinforces that the *Noticees no. 5 and 6* were playing a very crucial role along with the other *Noticees* (*Noticees no. 2 to 4*) in managing the trading of the *Noticees no. 2 and 7* in scrip of ZSL.

197. In this respect, I have already established that the land deal between ZSL and Sripriya was nothing but an eyewash and a blatantly false claim propounded by the *Company* and Sripriya so as to justify the fund transfers between them. At the same time, I have already noted that, based upon the contents of several emails conversations collected in the course investigation, it is established beyond doubt that it was the *Noticee no. 5* who was instrumental in taking and executing all the trading and funds transfer decisions on behalf of *Noticee no. 2* as well as the *Noticee no. 7*. I have found that huge funds were transferred to the *Noticee no. 7* from the accounts of the *Noticees no. 8 and 9* and the said amount were used either to repay the loans taken by the *Noticee no. 7* or for trading in the scrip of the *Company*. In this respect, the *Noticee no. 7* vide her email dated April 05, 2018 has acknowledged that funds so received from promoters related entities were used to purchase shares.

198. I also note that the *Noticee no. 5* has also pleaded that he was made Executive Director by the *Noticees no. 3 and 4* in May, 2010 and as per the Articles of Association (for short '**AoA**') of ZSL, an executive director of ZSL shall not

be construed as a Director of the *Company* and shall not have any of the rights and powers or be subject to any duties of a Director of the *Company*. His appointment as Executive Director was mainly to provide professional guidance in strategizing new business initiatives of ZSL as the *Company* was aggressively expanding at that time and to present the quarterly performance of ZSL during the analysts calls.

199. I don't find any merit in the above submission for the basic reason that the AoA of the company can't have overriding effect on the provisions of law. The distinction between Executive and Non- Executive is evident from its nomenclature itself apart from the these two categories of Directors having been dealt with in detail in the Companies Act, 1956. I find it not only unusual but patently illegal on the part of a well-qualified person like *Noticee no. 5*, who despite having close nexus with the promoters, first deceitfully disclosed himself to be an Independent Director and subsequently accepted to become an Executive Director of the *Company* and yet is not willing to be held responsible for the acts committed and the role performed by him in the affairs of the *Company* taking the alibi of AoA of the *Company*. The *Noticee no. 5* has failed to place before me any document apart from the AoA of the *Company* to substantiate he acted only as a shadow for the *Noticees no. 3 and 4* and did not have accountability of any nature, whatsoever. On the contrary, I find that the decision of the *Noticee no. 5* to become the Executive Director of the *Company*, when read with the active role played by him in the fraud perpetrated on the shareholders of the *Company* as has been discussed in detail in earlier paragraphs, clearly manifest that the *Noticees no. 3 to 7* were working as a group towards meeting a common objective. The said fact is further substantiated from the undisputed records where he was found to be taking decision in the matter of trading in ZSL shares and availing finance/loans etc. on behalf of the *Noticees no. 2 and 7* at the same time. The allegations that the *Noticees no. 2 to 7* were working in concert is also evident from the records which revealed that the internal working of ZSL, the holding of the *Noticee no. 7* was considered and has been included in the promoters' shareholding of

ZSL.

200. Without prejudice to the above discussion, I also note that an Executive Director, appointed as such by Board of Directors of the *Company*, was exempted from liabilities of a Directors by virtue of Article 95 of AoA. Without plunging into the legality of such an Article, I note that the power to appoint an executive director was vested with the Board of Directors of the *Company* directly, i.e., without any requirement of shareholders approval. However, I note from the resolution passed in the Extraordinary General Body Meeting dated July 15, 2010 that the appointment of Srikanth was approved by the shareholders. Further, I note from the Form-32 in respect of the *Noticee no. 5* filed by the *Company* with RoC on June 14, 2010 that he was appointed as a Whole-Time Director (not as Executive Director as claimed) of the *Company*. Therefore, in the light of the above facts, I hold that the provision of Article 95 of AoA of the *Company* was not applicable on the appointment of Srikanth in any case as he was appointed as a Whole-Time Director of the *Company*.

201. Moving on the reliance placed by the *Noticee no. 7* on various judicial decisions in support of her submissions claiming to be independent of the promoters in her dealing in ZSL shares and other transactions, I have gone through those judicial decisions and find that the ratio laid down in those judicial decisions are not helpful as they are not furthering the contentions of the *Noticees*. Moreover, the observations made in those decisions are distinguishable on facts as well on merit. Those cases represent the instances of dealing with simpliciter violation of mandatory the open offer obligation, whereas in the instant matter, I find that the alleged contravention of regulation 3(2) of the SAST Regulations, 2011 is just one of the violations. In the instant matter, *Noticees no. 2 to 7* are found to have committed several contraventions and the SCN has raised against these *Noticees* the serious charges of fraud for their acts of concealing material facts from the public or knowingly making false and misleading disclosures. Under the circumstances, it is highly unbecoming to permit the *Noticees no. 2 to 7* to seek shelter under various technicalities, when

the violations pertaining to fraud have already been established as discussed aforesaid. Entities who have been found to have indulged in serious frauds should not be allowed to escape from the outcome of the proceedings. For illustration in this case, *Noticee no. 5* apart from fraudulently disclosing himself to be an Independent Director and then becoming an Executive Director of the *Company* without owning up any accountability for his actions, uses the trading & bank accounts of the *Noticee no. 7* without any resistance from her and clubs the shareholding of *Noticee no. 7* with the shareholdings of the *Noticees no. 2 to 4* and such acts of *Noticee no. 5* in handling the trading & other transactions in the name of *Noticee no. 7* was very well known to *Noticee no. 6* as well as *Noticee no. 7*. However, for some reasons best known to them and the promoters, the name of the *Noticee no. 7* was not disclosed as a promoter in the prospectus or other disclosures made to the public. However such wilful omission on the part of the *Noticees no. 3 to 6* will not render *Noticee no. 7* as an independent public shareholder on the face of such incontrovertible evidences available on records pointing to the fact that *Noticee no. 7* was indeed inextricably connected to the promoters and being merely a conduit for them, all her shareholding in ZSL was in fact was the shareholding of the promoters in ZSL. Under the circumstances, while working together in the course of implementation of their fraudulent scheme, it is evident on record that the *Noticee no. 2 to 6* together with *Noticee no. 7* have crossed the prescribed threshold of acquisition of shares of ZSL and thereby have breached the 5% limit stipulated under the regulation 3 of the SAST Regulations, 2011 on two separate instances during the investigation period.

202. I therefore find no merit in the contention that the *Noticee no. 7* was not a promoter and her holding and acquisition of shares of ZSL ought not to be taken together with the holdings of the *Noticees no. 2 to 4*. It is noted that although the *Noticee no. 7* was the 4th largest shareholder of the *Company* at the time of IPO that would not *ipso facto* make her a promoter unless expressed to be so in the IPO offer documents(RHP). In terms of the DIP Guidelines of 2007 which was applicable to the present case, the term 'Promoter' was

defined to include: (a) the person or persons who are in over-all control of the company; (b) the person or persons who are instrumental in the formulation of a plan or programme pursuant to which the securities are offered to the public; (c) the persons or persons named in the prospectus as promoters(s).

203. In this regard, there is no dispute that the name of *Noticee no. 7* was not mentioned in the RHP as a promoter. Although the records before me do not suggest any active involvement of *Noticee no. 7* in the formulation of a plan or programme pursuant to which the securities were offered to the public, from a holistic examination of the materials on records, and considering the facts that she was found to be receiving funds from the entities related to *Noticees no. 2* to *4*, indulging in frequent off market transactions with the *Noticee no. 2*, knowingly permitting her holdings and trading account to be used by *Noticee no. 5* in the interest of the promoters; her KYCs details bearing the email id and phone number of the *Noticee no. 5* who was dealing with the lenders and brokers on behalf of her as well as having access to her email id and placing trade orders on her behalf coupled with the facts that the *Noticee no. 6* (brother of the *Noticee no. 7*) and *Noticees no. 5* (husband) were constantly interacting with the promoters on issues like Benpos Analysis, Margin Funding, promoter funding queries, target price, shares to buy, shortfall and cash margin equipment etc. while *Noticee no. 5* was simultaneously placing trade orders on behalf of the *Noticees no. 2 and 7* clearly suggest that the *Noticees no. 2 to 7* were working in tandem with each other as a close-knit group in furtherance of a common objective. Confronted with such compelling factual and circumstantial evidences the mere fact that her name was not disclosed in the prospectus/RHP as promoter would not be *suo motu* sufficient to grant her exoneration from the charge of conducting herself as a person acting in concert with the promoters in holding the shares of ZSL alongwith the promoters themselves and the fact that she along with other five *Noticees* were completely in agreement and were acting in concert with one another regarding matters related to the *Company* makes her fall in the category of

person or persons who were in over-all control of the *Company*. Thus, even though she was not disclosed as a promoter in the RHP, the acts and conducts displayed by her as discussed above clearly establish that the *Noticees no. 2 to 7* were working in terms of 2(q)(1) of SAST Regulations, 2011 for common objective or purpose of acquisition of shares or voting rights in, or exercising control over a target company, pursuant to an agreement or understanding, formal or informal, directly or indirectly co-operated for acquisition of shares or voting rights in, or exercise of control over the target company.

204. It has been contended that the trading pattern of the *Noticee no. 2 and 7* were not identical and therefore their trading cannot be clubbed so as to hold that their acquisition of shares in ZSL was in contravention of regulation 3(2) of the SAST Regulations, 2011. I find no merit in this contention of the *Noticees no. 5 to 7*. Though, initially, *Noticees no. 2 and 7* were little in variance in their trading pattern but subsequently, it is noticed that *Noticee no. 7* was purchasing shares till the start of October 2012 when there was nil or minuscule selling from the trading account of *Noticee no. 2*. Subsequent to invocation of pledge by IFCI and Karvy and the sale of such invoked shares that led to drastic fall in the price of the scrip of ZSL, I find that *Noticee no. 7* was also making continuous attempts to sell the shares of ZSL. Thus in ultimate effect, I find not much variance in the trading pattern of the aforesaid two *Noticees* and rather the common objective pursued by these two *Noticees* in collusion with the promoters and promoter related entities becomes more apparent from various emails exchanged relating to adjustment of balance of shares available in the accounts of *Noticees no. 2 and 7*. It has already been seen and established earlier that the frequent off market transfer of shares made in the accounts of these two *Noticees* was aimed at maximising the funding available from brokers and NBFCs by pledging the shares so acquired in off-market to those funds givers, and then again to acquire more shares to get more funds. Thus, funds obtained by pledging shares have been utilized to make further purchase of shares. Keeping the aforesaid in view, I find that *Noticee no. 5 to 7* were indeed acting in concert with *Noticees no. 2 to 4*, who planned and executed their

scheme with the help of the *Noticees no. 5 and 6*.

205. In view of the aforesaid discussions and my observations, another contention raised by the *Noticees no. 5 to 7* is that Sripriya herself never crossed the threshold of 5% shareholding of the *Company*. However, I note that there is no requirement of any threshold to be crossed by an individual shareholder under regulation 3(2) of the SAST Regulations, 2011 for triggering open offer. Therefore, this contention of *Noticees no. 5 to 7* also lacks merit and becomes redundant. The only requirement mandated under the said regulation is that the acquirer along with PAC should be holding at least 25% shares of the company at the start of a financial year and the said combined shareholding should increase by at least 5% in the said financial year; both of which are getting fulfilled in the present matter so as to trigger an open offer.

206. Finally, I note from the material available on record as well as from the submissions of *Noticees no. 5 to 7* that majority of shares held by Sripriya in ZSL were kept by her with various NBFCs by way of pledge. In this regard, regulation 58 of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 (hereinafter referred to as '**DP Regulations**') prescribe the manner of creation of pledge or hypothecation. For the benefit of consideration, the said Regulation is reproduced as below:

"*Manner of creating pledge or hypothecation.*

58(8) Subject to the provisions of the pledge document, the pledgee may invoke the pledge and on such invocation, the depository shall register the pledgee as beneficial owner of such securities and amend its records accordingly"

207. The only manner in which there can be change of beneficial ownership in case of a pledge is prescribed under regulation 58(8) of the DP Regulations, 1996. No other way of transfer of beneficial ownership of pledged shares is allowed in the Depository system. It is trite law that a provision of a contract cannot supersede the provision of an express law and if the provision of a commercial contract tries to over-rule a statutory provision, the presumption

would always be in favour of legality of any action of an activity unless anything contrary to the same is proved under the law. Therefore, irrespective of any provisions made in the agreement between the *Noticees* and lenders to the contrary, it is the provision of regulations 58 of the DP Regulations, 1996 that will apply in the case of a pledge of shares made by the *Noticee no. 7*.

208. Further, the burden of proof lies on Sripriya to satisfy that the pledge was not created in violation of provisions of regulation 58 of the DP Regulations, 1996. In this regard, Sripriya has submitted the disclosures made under regulation 29(2) of the SAST Regulations, 2011 by JM Financials to suggest that the beneficial ownership of her shares lied with JM Financials. However, I note that the said disclosure was necessary upon JM Financials to make by virtue of regulation 29(4) of the SAST Regulations, 2011 and it doesn't prove that the ownership and voting rights of those shares were also in the control of JM Financials. Therefore, I hold that the ground taken by Sripriya in her defence under the pretext of compliance by JM Financials with regulation 29(2) of the SAST Regulations, 2011 has failed to fulfil her burden of proof in the present matter to satisfy that the pledge was not created in violation of provisions of regulation 58 of the DP Regulations, 1996.

209. Consequently, as per the stated position of law and in terms of the provisions of regulation 58 of the DP Regulations, 1996 the beneficial ownership of the shares pledged by Sripriya with the lenders had remained with her until invocation of pledge took place due to default on her part in repaying the loans to the lenders. By virtue of this, the voting rights of shares of ZSL acquired by her also remained with her only till they were sold by the lenders. This legal position further gets conclusively established in view of the factual disclosure of her shareholdings by the *Company* as part of its quarterly shareholding patterns, wherein her entire shareholding including the shares pledged with various stock brokers/NBFCs have been disclosed as part of her public shareholding on a regular basis.

210. In view of all the foregoing discussions, I am fully persuaded to hold that the

Noticees no. 5 to 7 were the persons who were acting in concert with the *Noticees no. 2 to 4* by virtue of their prior close connections as well as their common objectives to perpetrate fraud on the investors and shareholder by way of executing an elaborate scheme that was devised by them to achieve those common objectives as discussed at length earlier in the preceding paragraphs of this present order. In this regard, I note that the combined shareholding of *Noticees no. 2 to 4* along with the PACs namely the *Noticees no. 5* to *7* was more than 25% of total shareholding of the *Company* as at the end of the FY 2011-12. Therefore, in terms of regulation 3(2) of the SAST Regulations, 2011 the *Noticees no. 2* to *7* were required to make an open offer in case their shareholding increased by more than 5% of total shareholding of the *Company*. In this regard, I find that entity wise details of the transactions of the *Noticees no. 2* to *7* have been attached in Annexure 32 to the SCN. An extract of those details are being reproduced below for ready reference :

Table 12: Day-wise gross acquisitions by *Noticees no. 2* to *7* and cumulative shareholding change w.r.t. Regulation 3(2) of the SAST Regulations, 2011

Trade Date	Buy + Off-Mkt Rec	Sell + Off-Mkt Tfr	Net Acquisition	Net Acquisition as % of shareholding of ZSL	Cumulative change in shareholding
02/04/2012	1147	5000	-3853	0.00%	0.00%
03/04/2012	7280	0	7280	0.04%	0.04%
04/04/2012	42056	9046	33010	0.20%	0.24%
09/04/2012	12480	0	12480	0.08%	0.32%
10/04/2012	9954	1742	8212	0.05%	0.37%
11/04/2012	10500	0	10500	0.06%	0.43%
12/04/2012	4614	2516	2098	0.01%	0.45%
13/04/2012	23776	0	23776	0.14%	0.59%
16/04/2012	12300	12856	-556	0.00%	0.59%
17/04/2012	11550	4708	6842	0.04%	0.63%
18/04/2012	2973	3416	-443	0.00%	0.63%
19/04/2012	7500	6601	899	0.01%	0.64%

Trade Date	Buy + Off-Mkt Rec	Sell + Off-Mkt Tfr	Net Acquisition	Net Acquisition as % of shareholding of ZSL	Cumulative change in shareholding
20/04/2012	15213	0	15213	0.09%	0.73%
23/04/2012	6309	2488	3821	0.02%	0.75%
24/04/2012	13450	300	13150	0.08%	0.83%
25/04/2012	5940	755	5185	0.03%	0.87%
26/04/2012	2800	200	2600	0.02%	0.88%
27/04/2012	8200	4902	3298	0.02%	0.90%
28/04/2012	445	1255	-810	0.00%	0.90%
30/04/2012	9887	580	9307	0.06%	0.96%
02/05/2012	2611	82094	-79483	0.00%	0.96%
03/05/2012	55999	5268	50731	0.31%	1.27%
04/05/2012	60294	1030	59264	0.36%	1.63%
07/05/2012	16240	400	15840	0.10%	1.72%
08/05/2012	9770	350	9420	0.06%	1.78%
09/05/2012	45970	60350	-14380	0.00%	1.78%
10/05/2012	11600	421	11179	0.07%	1.85%
11/05/2012	11150	789	10361	0.06%	1.91%
14/05/2012	0	1300	-1300	0.00%	1.91%
15/05/2012	6990	1830	5160	0.03%	1.94%
16/05/2012	24050	350	23700	0.14%	2.09%
17/05/2012	0	9170	-9170	0.00%	2.09%
18/05/2012	14850	0	14850	0.09%	2.18%
21/05/2012	14130	6003	8127	0.05%	2.23%
22/05/2012	11560	3826	7734	0.05%	2.27%
23/05/2012	8930	31379	-22449	0.00%	2.27%
24/05/2012	8687	13668	-4981	0.00%	2.27%
25/05/2012	14336	57851	-43515	0.00%	2.27%
28/05/2012	42540	1707	40833	0.25%	2.52%
29/05/2012	48697	300	48397	0.29%	2.82%
30/05/2012	41482	64736	-23254	0.00%	2.82%
31/05/2012	900	12065	-11165	0.00%	2.82%
01/06/2012	47160	3666	43494	0.26%	3.08%
04/06/2012	9955	5600	4355	0.03%	3.11%

Trade Date	Buy + Off-Mkt Rec	Sell + Off-Mkt Tfr	Net Acquisition	Net Acquisition as % of shareholding of ZSL	Cumulative change in shareholding
05/06/2012	8867	4500	4367	0.03%	3.13%
06/06/2012	10624	7191	3433	0.02%	3.16%
07/06/2012	5624	3975	1649	0.01%	3.17%
08/06/2012	5700	6184	-484	0.00%	3.17%
11/06/2012	13084	6148	6936	0.04%	3.21%
12/06/2012	6350	36959	-30609	0.00%	3.21%
13/06/2012	21100	5456	15644	0.10%	3.30%
14/06/2012	11002	34194	-23192	0.00%	3.30%
15/06/2012	15597	32243	-16646	0.00%	3.30%
18/06/2012	4043	2078	1965	0.01%	3.31%
19/06/2012	10962	2698	8264	0.05%	3.36%
20/06/2012	8840	300	8540	0.05%	3.42%
21/06/2012	9284	3669	5615	0.03%	3.45%
22/06/2012	15432	10890	4542	0.03%	3.48%
23/06/2012	137	0	137	0.00%	3.48%
25/06/2012	4300	8104	-3804	0.00%	3.48%
26/06/2012	6805	4199	2606	0.02%	3.50%
27/06/2012	89650	11636	78014	0.47%	3.97%
28/06/2012	25100	27923	-2823	0.00%	3.97%
29/06/2012	12488	0	12488	0.08%	4.05%
02/07/2012	16949	6000	10949	0.07%	4.11%
03/07/2012	31540	943	30597	0.09%	4.20%
04/07/2012	164093	3300	160793	0.49%	4.69%
05/07/2012	86729	12892	73837	0.22%	4.92%
06/07/2012	18869	403	18466	0.06%	4.97%
09/07/2012	10700	7809	2891	0.01%	4.98%
10/07/2012	**29435**	**0**	**29435**	**0.09%**	**5.07%**
11/07/2012	11143	9600	1543	0.00%	5.08%
12/07/2012	14590	3919	10671	0.03%	5.11%
13/07/2012	139547	85163	54384	0.17%	5.28%
14/07/2012	285000	370163	-85163	0.00%	5.28%
16/07/2012	88000	78065	9935	0.03%	5.31%

Trade Date	Buy + Off-Mkt Rec	Sell + Off-Mkt Tfr	Net Acquisition	Net Acquisition as % of shareholding of ZSL	Cumulative change in shareholding
17/07/2012	215105	63000	152105	0.46%	5.77%
18/07/2012	24545	17091	7454	0.02%	5.79%
19/07/2012	30097	36683	-6586	0.00%	5.79%
20/07/2012	23861	13790	10071	0.03%	5.82%
23/07/2012	160000	247381	-87381	0.00%	5.82%
24/07/2012	121000	115323	5677	0.02%	5.84%
25/07/2012	0	206	-206	0.00%	5.84%
26/07/2012	122559	50	122509	0.37%	6.21%
27/07/2012	284855	201000	83855	0.25%	6.47%
30/07/2012	0	100000	-100000	0.00%	6.47%
31/07/2012	30000	0	30000	0.09%	6.56%
01/08/2012	150700	125000	25700	0.08%	6.64%
02/08/2012	110900	45000	65900	0.20%	6.84%
03/08/2012	197757	285890	-88133	0.00%	6.84%
04/08/2012	0	195000	-195000	0.00%	6.84%
06/08/2012	139495	100700	38795	0.12%	6.95%
07/08/2012	151224	148746	2478	0.01%	6.96%
08/08/2012	198518	102834	95684	0.29%	7.25%
09/08/2012	248924	54097	194827	0.59%	7.84%
10/08/2012	197156	282842	-85686	0.00%	7.84%
11/08/2012	20	0	20	0.00%	7.84%
13/08/2012	76150	286350	-210200	0.00%	7.84%
14/08/2012	97060	116532	-19472	0.00%	7.84%
16/08/2012	8720	79977	-71257	0.00%	7.84%
17/08/2012	9121	60611	-51490	0.00%	7.84%
21/08/2012	19926	51849	-31923	0.00%	7.84%
22/08/2012	8376	52814	-44438	0.00%	7.84%
23/08/2012	13532	58222	-44690	0.00%	7.84%
24/08/2012	21031	101550	-80519	0.00%	7.84%
27/08/2012	19100	0	19100	0.06%	7.90%
28/08/2012	28410	1668	26742	0.08%	7.98%
29/08/2012	50590	15878	34712	0.11%	8.09%

Trade Date	Buy + Off-Mkt Rec	Sell + Off-Mkt Tfr	Net Acquisition	Net Acquisition as % of shareholding of ZSL	Cumulative change in shareholding
30/08/2012	47363	25995	21368	0.06%	8.15%
31/08/2012	31572	0	31572	0.10%	8.25%
03/09/2012	66455	0	66455	0.20%	8.45%
04/09/2012	84860	34200	50660	0.15%	8.61%
05/09/2012	28257	600	27657	0.08%	8.69%
06/09/2012	36921	330	36591	0.11%	8.80%
07/09/2012	20530	71	20459	0.06%	8.86%
08/09/2012	2050	802	1248	0.00%	8.87%
11/09/2012	6495	7968	-1473	0.00%	8.87%
12/09/2012	19912	24808	-4896	0.00%	8.87%
13/09/2012	23800	5300	18500	0.06%	8.92%
14/09/2012	25000	30000	-5000	0.00%	8.92%
17/09/2012	50749	162000	-111251	0.00%	8.92%
18/09/2012	132460	102439	30021	0.09%	9.01%
20/09/2012	72574	119430	-46856	0.00%	9.01%
21/09/2012	71682	7746	63936	0.19%	9.21%
22/09/2012	773	0	773	0.00%	9.21%
24/09/2012	34820	2489	32331	0.10%	9.31%
25/09/2012	356153	288488	67665	0.21%	9.52%
26/09/2012	46051	81475	-35424	0.00%	9.52%
27/09/2012	346005	430248	-84243	0.00%	9.52%
28/09/2012	122164	97302	24862	0.08%	9.59%
29/09/2012	42638	0	42638	0.13%	9.72%
01/10/2012	146060	186383	-40323	0.00%	9.72%
03/10/2012	89464	44275	45189	0.14%	9.86%
04/10/2012	28650	53973	-25323	0.00%	9.86%
05/10/2012	44522	599	43923	0.13%	9.99%
08/10/2012	**213639**	**19938**	**193701**	**0.59%**	**10.58%**

211. I note from the records that none of the *Noticees* has disputed any of the abovementioned transactions. From the above table, I note that the combined shareholding of the *Noticees no. 2* to *7* had increased by more than 10% of total

shareholding of the *Company* on gross level. Therefore, the *Noticees no. 2* to *7* have crossed the threshold of 5%, as stipulated in regulation 3(2) of the SAST Regulations, 2011, thereby triggering the requirement of making open offer on two separate occasions viz. on July 10, 2012 and October 08, 2012. However, it is an admitted fact that no such open offer was made by the *Noticees no. 2* to *7* at that time.

212. The aforesaid factual details clearly establish that the *Noticees no. 2* to *7* had triggered the requirement of open offer under regulation 3(2) of the SAST Regulations, 2011 on two separate occasions during the FY 2012-13, i.e. on July 10, 2012 and on October 08, 2012. It is an admitted fact that no open offer was made on either of the occasions. Therefore, by their failure to make open offer within the stipulated time period, the *Noticees no. 2* to *7* have violated the provisions of regulation 3(2) of the SAST Regulations, 2011.

Concluding Remarks

213. Before concluding this order, I find it necessary to re-visit in brief, the misconduct and misdemeanours displayed by the *Noticees* by devising a sophisticated scheme in which Sudarshan, Ramanujam, Srikanth and Srihari played very crucial roles with the help of the other *Noticees*, so as to perpetrate fraud on the public shareholders and other stakeholders of ZSL that ultimately led to complete destruction of value of the *Company* causing heavy losses to the public shareholders and other stakeholders of the *Company*. The same was visibly clear not only from the share price of ZSL reaching closer to zero after the information of the said wrongdoing by the *Noticees* became public knowledge but also in the liquidation order of the Hon'ble Madras High Court and consequent delisting of the *Company*.

214. As stated earlier, Sudarshan, Ramanujam Srikanth and Srihari had known each other much before the IPO of ZSL during 2007. As per the available records, I find the connection among these persons to be in existence at least since 2002, when share transactions between Ramanujam and Sripriya was noticed.

Besides, I find from material available on record that Srihari was associated with Brahmayya & Co. at least since 1991 where he did his Articleship till 1994 and later Brahmayya & Co. was appointed as the statutory auditor of ZSL just a year prior to floating of IPO but the relationship between Srihari and Brahmayya & Co. was never disclosed either in the RHP or anywhere else despite Srihari himself being a signatory to the said RHP.

215. Besides, Srikanth was disclosed as an Independent Director in the RHP despite him being deeply 'interested' in the *Company*, by virtue of him being husband of the fourth largest shareholder and brother-in-law of the Financial Controller of the *Company*. The same was done by deliberately hiding his relationships with Srihari, the then Financial Controller (Chief Financial Officer) of ZSL, and Sripriya, the then 4th largest shareholder of ZSL. His connection with promoters has already been established by virtue of share related transactions between Sripriya and Ramanujam as well as by the statement of Ganesan. I find that Srikanth has continuously made deliberate attempts not to disclose his relationship with the promoters even during the investigation by SEBI in complete disregard of the factual evidences suggesting his close relationship with the promoters and submitted vague replies stating that he happened to know them through a common friend.

216. It also emerges from the examination of email dump received from ZSL as well other emails collected during the investigation that Sudarshan, Ramanujam, Srikanth and Srihari were having absolute control over the activities of the *Company* and all the functions, small or big, were executed after taking approval from them. All the persons recruited in relevant positions were somehow known to these four persons. To cite as an example, the then head of Administration (Viswanathan V) was the brother of Sudarshan, the financial controller (Sriram Chakrapani) was from the same town as that of the promoters and he was a neighbour of the promoters as well. Srihari himself was also appointed on the recommendation of Srikanth.

217. Sudarshan, Ramanujam, Srikanth and Srihari floated entities in the names of

the employees of ZSL and such entities (Aditicon and Effica) were presented as related to ZSL as vendors. The same has also been admitted by ZSL in its email dated April 10, 2013. All the instructions to the staff handling desk functions used to be given orally, the manner of book keeping was slip-shod with inadequate narrations as a result of which funds to the tune of crores of rupees were transferred without mentioning any reasons in the book of accounts.

218. I have already demonstrated in the beginning of this order that Srikanth was exercising complete control over the dealings of Sthithi and Sripriya in the scrip of ZSL in coordination with and in agreement with the other three *Noticees* viz., Sudarshan, Ramanujam and Srihari. He was the one placing the orders/receiving confirmation of trades/interacting with the respective Brokers/NBFCs for the dealings of both Sripriya and Sthithi. In fact, I have noticed earlier the arrangements which Srikanth had with certain brokers to buy shares for and on behalf of entities related to ZSL.

219. As already elaborated in this Order, the trading & demat accounts of Aditicon were used as a proxy to raise promoters' shareholding and the bank accounts of Aditicon and Effica were used as conduits to route funds to various other connected entities.

220. Similarly, fund transactions with various related entities especially with Sthithi and Sripriya were conspicuously not disclosed by the *Company* under head of related party transactions to evade any detection of fraud while the said funds transactions were primarily meant for dealing in the scrip of ZSL by these entities. Funds ranging in crores of rupees were being transferred by ZSL to its related/known entities including to the accounts of Sripriya on oral instructions and at times in cash to avoid to avoid detection. In the said acts, the directors of these companies aided and abetted Sudarshan, Ramanujam, Srikanth and Srihari in the fraudulent scheme.

221. On the whole what emerges from the aforesaid factual revelations pertaining

to the conduct of the *Noticees* is that the *Noticees no. 3* to *6* were in pursuit of holding shares of the *Company* in the names of various proxy accounts through which they were constantly on the lookout for raising as much funds as possible by way of margin funding or LAS scheme from various entities which was, at the same time, helping them in preventing these transactions from being detected and also in avoiding triggering open offer. At the same time, loans in garb of working capital were acquired from Banks and those funds were used in making long term investments. The *Noticees no. 3, 4, 5* and *6* were successful in their scheme for a large period of times, which ultimately collapsed due to eruption of financial troubles in the *Company* that was triggered by virtue of currency fluctuation in the international market.

222. In furtherance of their scheme, the *Noticees no. 2 to 7* ended up making all kinds of wrong disclosures to create a fraudulent and misleading imagery before the investors that everything was going well in the *Company* and it was '*business as usual*' while at the same time contrary to the aforesaid claim, pledges created by promoters in favour of the lenders were getting invoked and were being constantly being sold in the share market. At the same time, the *Noticees no 2 to 7* themselves were selling shares in the market. In an attempt to hide such constant selling of shares, erroneous and misleading figures of promoters' shareholding was being disclosed constantly to hide the actual declines taking place in the promoters' shareholding in ZSL. Further, as stated earlier, shares were purchased in the names of proxy accounts viz. Ganesan, Aditicon, etc. to raise funds by way of margin funding and LAS and Sripriya & Ganesan were shown as public shareholders to avoid any detection of their roles in the fraudulent scheme of *Noticees no. 3 to 6*. At the same time, it was seen that the shareholding of Aditicon was included in shareholding of Sthithi to artificially elevate promoters' shareholding without disclosing these entities as promoters.

223. I find from the RHP that both Srikanth and Srihari joined ZSL after having a long experience as Chartered Accountants. The fact that they were paid handsomely is evident from the RHP as well as from the annual reports

available in public domain. I note from the RHP that Srihari was being paid INR 18,00,000 per annum at the time of IPO of the *Company*. At the same time, Srikanth was being paid INR 60,00,000 as a whole time director during 2011-12 and then was reappointed for 2012-13 at a remuneration of INR 64,00,000 per annum.

224. I find that time and again attempts have been made by ZSL, Srikanth, Sripriya and Srihari during the investigation as well as during the present proceedings that it was Viswanathan who was managing and controlling all the aspects of the *Company*. It was stated that all the financial and operational management was taken over by Viswanathan since both Ramanujam and Sudarshan used to stay outside India most of their time.

225. However, I note from the RHP that, Viswanathan was having a qualification of only B. Sc., and was being paid less than INR 10,00,000 per annum. I am of the view that, remuneration and qualification are two crucial criterion to evaluate and adjudge the significance of a position held by a person in an organisation and his importance and status in participating in the management of a company. I find it difficult to believe that both Srikanth and Srihari, being more qualified and earning much more than Viswanathan, can claim that they were working under Viswanathan and were executing his commands in the *Company*, more so when it has already been observed on the basis of overwhelming factual evidence that both Srikanth and Srihari being very close to the promoters, have played crucial roles in giving effect to various transactions in shares and funds in the names of different conduit entities at their behest.

226. Further, if Viswanathan is believed to be the person who was supposedly in control of financials and management of ZSL, the *Noticees no. 5 to 7* have no explanation to offer as to why he was completely excluded from the majority of email conversations that took place amongst the *Noticees no. 3* to *6* as well as between the *Noticees no. 3* to *6* and outsider entities like NBFCs and share brokers. In fact, from the statements of Srinivasan Balakrishnan, it emerges

that Viswanathan was primarily involved in administrative functions like infrastructure, AC Maintenance, housekeeping and other administrative functions. The said statement of Srinivasan Balakrishnan also support the materials available on record wherein I could find only one email initiated by Viswanathan at the time when discussion regarding payment of pending salary of employees of ZSL was going on.

227. Therefore, I hold that the defense taken by ZSL, Srikanth, Sripriya and Srihari by shifting the blames on to the shoulders of Viswanathan is nothing but an afterthought attempt to defend themselves from the possible adverse outcome of the present proceedings.

228. Srikanth and Srihari have attempted to show their *bona fide* time & again by stating that they were re-appointed by shareholders of ZSL as independent directors vide AGM dated February 13, 2016 since they were already working with Administrator appointed by the Hon'ble Madras High Court to revive the *Company* in the beneficial interest of the shareholders of the *Company*. However, I note from the email dated March 16, 2016, addressed by Mr. N Rajaraman, Advocate on Record, on behalf of certain investors raising a grievance that various crucial information e.g. SEBI's directions against Srikanth, Srihari and Sripriya; and the fact of *Company* going under liquidation, etc. were not disclosed in the Notice of AGM. Therefore, it *prima-facie* appears from the said email that the appointment of Srikanth and Srihari was done while hiding above noted crucial information from the knowledge of the shareholders. Further, considering the acts of misconduct of Srikanth and Srihari as highlighted at various paragraphs in the present order, I find that the afore-mentioned grievance of the said investors as communicated by Mr. N Rajaraman, Advocate on Record, makes a lot of sense since no prudent and reasonable investor would ever vote for appointment of a person like Srikanth or Srihari as Independent Director with such an adverse history of regulatory action against them.

229. The aforesaid desperate attempts being made before me by Srikanth and

Srihari to clear their names from all the alleged transactions on one pretext or the other further highlight the fact that despite managing the almost the entire fraudulent scheme by way of controlling and supervising all the transactions in funds and shares made in all the proxy accounts and other promoter related entities on behalf of the promoters, to present a misleading appearance of the financial affairs and other governance aspects of the *Company* before the shareholders & stakeholders, both Srikanth and Srihari have tried to create almost a perfect smoke-screen to hide their names and activities from the glares of the shareholders. In my view, had it not been for the emails recovered from Ganesan and Prabhakar and the email dump sent by ZSL, it would have been very difficult to establish their culpability in the whole scam. All these things as pointed out above show that they have completely misused their knowledge and experience as professional Chartered Accountants to perpetrate the whole fraudulent scheme behind the scenes.

230. I further note that the aforesaid scheme of the *Noticees no. 3, 4, 5* and *6* to acquire more and more shares in the *Company* through their dummy entities and also to raise more and more funds by way of availing margin funding and LAS from the lenders/brokers faltered due to depreciation in rupee leading to sudden increase in the value of various loans already availed in US Dollar denomination by the *Company*. This led the banks to recall the resultant excess credit exposures, which ZSL found it difficult in servicing, thereby leading to delays and defaults. On account of these developments, the banks too got suspicious and decided to review the loan accounts already sanctioned to ZSL. In the course of such review, the banks have reportedly discovered about the unprofessional management and lack of governance in the affairs of ZSL besides unearthing various other malpractices indulged in by the *Company* which have been further elaborated in the following paragraphs.

231. I note from the First Information Report filed by the Union Bank of India at Banking Securities and Fraud Cell, Central Bureau of Investigation at Bengaluru with respect to ZSL and its subsidiary ZSIL that the account of ZSL was already reported as fraudulent account by various other banks viz.

Syndicate Bank, Dena bank, Federal bank and Andhra Bank on account of diversion of funds/non-creation of assets and submission of fake bills etc. I also note from the said FIR that Union Bank of India has declared ZSL as a wilful defaulter.

232. Further, an audit of the books of account of ZSL was conducted by Sunder Srini & Sridhar, Chartered Accountants on behalf of Union Bank of India wherein numerous irregularities including unusual increase in billings in August & September 2012 in export related revenues, large invoices in the name of entities, mismatch of contract amount with invoices raised on certain entities, raising of invoices on undeclared related parties, incorrect project details and doubtful invoices, abnormal increase in accounts receivable, no direct collection from overseas debtors in respect of invoices raised in India etc. were observed.

233. Subsequently, I note that the financial crisis in the *Company* further deepened as the promoters failed to service margin calls of various brokers/NBFCs against various loans/exposure taken by them leading to these entities invoking the pledge of shares and offloading those shares in the market. Invocation of pledge and sale of shares of ZSL by these NBFCs had a downward snowballing effect on market price of shares of ZSL resulting in further depletion of value of the shares and leading to a situation which could no longer be managed by the above mentioned four KMPs and their fraudulent acts got exposed before law enforcement agencies and general public.

234. The aforesaid discussions give an unambiguous impression that ZSL was being run in a highly unprofessional manner with the management, control and decision making being completely left in the hands of the four key persons viz., Srikanth, Srihari, Sudarshan, Ramanujam; who ran the scheme as elaborated above for a long period of time to defraud public shareholders, stakeholders and various financial institutions and in the process also unduly enriched themselves.

235. The said NBFCs/Banks have also submitted that ZSL, in their attempt to defraud them, had allegedly indulged in fraudulent activities including (but not limited to) submission of fake documents relating to land ownership, generating fake contracts/bills, mis-utilisation of loans, raising of invoices on undeclared related parties, making abnormal entries in project expenses, availing loans from other banks without any disclosure to earlier creditor banks, submitting fake contract/bills, mis-utilization of funds availed at avenues other than disclosed to the banks/NBFCs, raising of invoices on undeclared related parties, etc.

236. In view of the overall picture as can be seen from the aforesaid narration of facts and circumstances, I find that Sudarshan, Ramanujam, Srikanth and Srihari, by using Sripriya, Sthithi, Aditicon and Effica as front entities, have conceived an elaborate scheme to defraud various stakeholders including investors and public shareholders of the *Company* who suffered extensive losses due to destruction of value of the *Company* upon exposure of the said fraudulent scheme. The said scheme of these entities was aided and abetted by *Noticees no. 10 to 13* by their activities which have already been elaborated in the present order.

237. In the process of execution of their scheme, the *Noticees no. 2 to 7* crossed the threshold limit of shareholding in ZSL as prescribed under regulation 3(2) of SAST Regulations, 2011 on two occasions requiring open offer to be made to the public, but they have failed to make those open offers within the prescribed time period. In this regard, *Noticees no. 5 to 7* have contended that the direction of making an open offer at this stage would be futile and is not possible to implement in the light of the delisting of the *Company* from both BSE and NSE and liquidation proceedings going on before Hon'ble Madras High Court.

238. In this regard, I note that Regulation 32 of the SAST Regulations, 2011 which provides for the consequences to be visited for the breach of the SAST Regulations, 2011, gives flexibility to SEBI to enforce Regulation 3(1) and

3(2) by way of issuing several possible directions. Here, it would be appropriate to refer to the observations made by Hon'ble SAT in its order dated September 08, 2011 in the matter of *Nirvana Holdings Ltd. Vs. SEBI* wherein Hon'ble SAT in respect of Regulations 10, 11 and 12 of SEBI (SAST) Regulations, 1997 which are *pari materia* to Regulations 3(1), 3(2) and 4 of the SAST Regulations, 2011, observed as under:

"*5. Having upheld the finding that the appellant violated* Regulation *11(1) of the takeover code by not making a public announcement, the question that next arises is what direction should be issued to it. The whole time member has directed the appellant to disinvest 1,34,905 shares constituting 1.17 per cent of the equity capital of the target company which was in excess of the permissible limit of 5 per cent and transfer the profits, if any, to the Investor Protection Fund(s) of the concerned stock exchanges. He appears to have blindly accepted the plea of the appellant in this regard that was made in the supplementary reply dated May 25, 2010 as noticed above. Since the plea of the appellant is covered by the provisions of* Regulation *44(a) of the takeover code, the whole time member has without recording any reasons directed the appellant to disinvest the shares in excess of the permissible limit. It must be remembered that whenever an acquirer violates* Regulation *10, 11 or 12 of the takeover code by not making a public announcement, he should be directed to comply with the provision by making a public offer. The words "unless such acquirer makes a public announcement" appearing in* Regulations *10 and 11(1) make these provisions mandatory and a public announcement has to be made. Similar words appear in* Regulation *12 as well. These provisions make the acquisition conditional upon a public announcement being made. The primary object of the takeover code is to provide an exit route to the public shareholders when there is substantial acquisition of shares or a take over. This right to exit is an invaluable right and the shareholders cannot be deprived of this right lightly. It is only when larger interest of investor protection or that of the securities market demands that this right could be taken away. Therefore, as a normal rule, a direction to make a public announcement to acquire shares of the target company should issue to an acquirer who fails to do that. The Board need not give reasons as to why such a direction is being issued because that is the mandate of* Regulations *10, 11 and 12. However, if the issuance of such a direction is not in the interest of the securities market or for the protection of interest of*

investors, the Board may deviate from the normal rule and issue any other direction as envisaged in Regulation 44 of the takeover code. In that event, the Board should record reasons for deviation" (emphasis supplied)

239. In the present matter, subsequent to the issuance of SCN dated August 02, 2019, the Target company i.e. ZSL has been compulsorily delisted by BSE and NSE. In this regard, I note that Hon'ble SAT in its order dated June 28, 2018 in the matter of *Rudra Securities Ltd. & Ors. Vs. SEBI*, while dealing with the contention raised by the acquirers/appellants *inter alia* on non-feasibility of directions given by SEBI to make open offer where the target company was delisted, observed as under:

> *"33. We do not agree with the arguments of the appellants that a public announcement for open offer is now impossible in view of the fact that PCL has been compulsorily delisted by the BSE on November 29, 2017. We note that while issuing the order on compulsory delisting by BSE on November 29, 2017, inter-alia, the following directions were given: "Promoters of these delisted companies will be required to purchase the shares from the public shareholders as per the fair value determined by the independent valuer appointed by the Exchange, as mentioned in the Public Notice to be issued shortly. " Accordingly, there is no difficulty in buying back the shares by the promoters and PACs, including the appellants in three appeals here who have been directed to do so under SAST Regulations, 1997 "*

240. I note that in the present matter also ZSL has been compulsorily delisted by NSE vide order dated February 03, 2021 and by BSE vide order dated March 20, 2021 with directions issued to the promoters of ZSL which are same as those directions issued in the matter of Rudra Securities matter (*Supra*). It has already been established that *Noticees no. 2 to 7* were acting as PACs wherein shares in ZSL were purchased by Sthithi (already a promoter) and Sripriya (internally accepted as a promoter). Therefore, I find that the compulsory delisting of ZSL herein cannot be an impediment in the way of carrying out

of an open offer obligation on the part of the *Noticees no. 2 to 7*. Further, the suit for liquidation is still pending before the Hon'ble Madras High Court. In the absence of final order in the said matter, the *Company* has not been liquidated and that there may still be some possibility for the revival of the *Company* by making an open offer.

241. As per the information furnished before me, the Hon'ble Madras High Court vide its Order dated July 03 2014, has appointed the Official Liquidator, as the Provisional Liquidator of the *Company*, however, no further order on winding up of the *Company* has been passed till date. I find that at this stage, direction of any nature against the *Company* may not serve any purpose. However, having regard to the nature of violations and misconduct of rest of the *Noticees*, particularly the *Noticees no. 2 to 7*, issue of regulatory directions under Sections 11(1), 11(4) and 11B of the SEBI Act, 1992, against them is called for in the present matter.

242. I note that in terms of Regulation 24 of the SEBI (Delisting of Equity Shares) Regulations, 2009 (hereinafter referred to as "**Delisting Regulations**"), the company which has been compulsorily delisted, its whole-time directors, its promoters and other companies promoted by any such person, shall not directly or indirectly access the securities markets for a period of ten years from the date of such compulsory delisting. Further, Regulation 23(3) of the Delisting Regulations provides that pursuant to compulsory delisting of a company, the promoters shall acquire the delisted equity shares from the public shareholders, subject to their option of retaining their equity shares, by paying them the fair value, as determined by the independent valuer appointed by the concerned recognised stock exchange. In addition to the restriction imposed under Regulation 24, SEBI Circular dated September 07, 2016 further provides that in case exit opportunity to the public shareholders of compulsorily delisted company is not provided despite the fair value of the shares being positive, such a company and the depositories of such companies shall not effect transfer, by way of sale, pledge, etc., of any of the equity shares and the corporate benefits like dividend, rights, bonus shares, split, etc. shall

be frozen, for all the equity shares, held by the promoters/promoter group till the promoters of such company provide an exit option to the public shareholders in compliance with Regulation 23(3) of the Delisting Regulations. Also the promoters and the whole-time directors of the compulsorily delisted company shall also not be eligible to become directors of any listed company till the exit option to the public shareholder is provided. In the present matter, since ZSL is a compulsorily delisted company, all the aforesaid measures apply to it and its promoters viz. *Noticees no. 2 to 7*.

243. It emerges from the aforesaid discussions that even though directions for open offer has to be normally issued in case of acquisitions beyond the threshold limits provided under Regulations 3(1), 3(2) and 4 of the SAST Regulations, 2011, however, the same can be deviated depending on the specific facts and circumstances of a particular case. In this case, even though ZSL has been compulsorily delisted, I am of the view that given the specific facts and circumstances of the case, since the open offer under the SAST Regulations, 2011 was triggered twice, an open offer deserves to be made in this case. The Hon'ble SAT also in its order passed in the matter of Rudra Securities matter (*Supra*) had held that there is no bar in directing open offer even in case a target company is compulsorily delisted, more particularly, considering the kind of fraud perpetrated by the persons who were at the helm of the affaires of the *Company*.

244. As noted above, *Noticees no. 2 to 7* while acquiring the shares of ZSL, have crossed the threshold limits prescribed in terms of Regulation 3(2) of SAST Regulations, 2011 on two occasions viz. July 10, 2012 and October 08, 2012. In terms of the said provisions of Regulation 3(2) of SAST Regulations, 2011, *Noticees no. 2 to 7* were required to make open offer on these two occasions, which they have failed to make. However, at the same time I am fully aware of the fact that no pragmatic outcome will be achieved by directing the said *Noticees* to give two separate consecutive open offers. Hence, as a measure of feasibility and practicality, I find that a single open offer by *Noticees no. 2 to 7* shall suffice in the facts and circumstances of the case.

245. I also note that under the SAST Regulations, 2011, one of the principles underlying these regulations is the exit opportunity given to the public shareholders of the target company at the best price. Accordingly, Regulation 8 of SAST Regulations, 2011 which deals with offer price, provides that the offer price in an open offer has to be the highest of the prices of shares of the target company derived through various alternative methods enlisted therein. Thus, I note that the public shareholders of ZSL are entitled to the highest of the offer price to be computed in accordance with Regulation 8 of the SAST Regulations, 2011, from each date of trigger.

246. Given the sacrosanct statutory duties of protecting the investors and safeguarding the integrity of the securities market which has been entrusted to SEBI and the commensurate statutory powers vested in it under the securities laws, it is necessary that SEBI exercise these powers firmly and effectively to insulate the market and its investors from the fraudulent actions of the participants in the securities market, so as to fulfil its legal mandate. A basic premise that underlies the integrity of securities market is that participants conform to the standards of transparency, good governance and ethical behaviour prescribed in securities laws and do not resort to fraudulent activities. In this case, the conduct of the promoters/directors/their dependents and certain other *Noticees*, as brought out quite succinctly in the foregoing discussions has been violative of this basic obligation cast by law. This is also a fit case where SEBI needs to send out a firm message to deter the companies and their promoters/directors from indulging in such acts of unethical, unfair and fraudulent behaviour as observed in this case. In my view, therefore, in the facts and circumstances of this case strong remedial action needs to be taken by way of present order.

Directions

247. Having carefully considered the materials available on record and the submissions advanced by the *Noticees* and following the principles of preponderance of probabilities, I hold that the charges relating to violation of

the provisions of the SEBI Act, 1992, the PFUTP Regulations, 2003, SAST Regulations, 2011, PIT Regulations, 1992, SCRA, 1956, DIP Guidelines and Listing Agreement as brought out in detail by the SCN are found to have been substantially established. In view of the foregoing, I, in exercise of the powers conferred upon me under Section 11(1), 11(4), and 11B(1) read with Section 19 of the SEBI Act, 1992 pass the following directions:

(i) *Noticees no. 2 to 7* are directed to make a public offer within 45 days of the present order, through a merchant banker, to acquire the shares of the *Company* from public shareholders in terms of the provisions of SAST Regualtions, 2011. The said open offer shall be made by the *Noticees no. 2 to 7* before providing the exit opportunity to the shareholders of ZSL, as required to be provided in terms of the provisions of Delisting Regulations, 2021.

(ii) *Noticees no. 2 to 7* shall pay interest at the rate of 10% per annum along with the offer price, for the period starting from the date when these *Noticees* became liable to make open offer for the first time i.e. from July 10, 2012 till the date of payment of consideration, to the shareholders who were holding shares of ZSL on the date of violation and whose shares are accepted in the open offer, after adjustment of dividend paid, if any.

(iii) BSE is directed to facilitate valuation of shares to be purchased as directed at (i) above.

(iv) *Noticees 2 to 7* are restrained from accessing the securities market including by issuing prospectus, offer document or advertisement soliciting money from the public and are further prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, from the date of this order, till the expiry of two years from the date of completion of open offer, as directed above. It is further clarified that

the abovementioned debarment period is in addition to the period undergone by *Noticees 2 to 6* in pursuance to *Interim Order*.

(v) *Noticee no. 3 to 7* are hereby restrained from holding the post of director, or any key managerial position or associating themselves in any capacity with any listed public company and any public company which intends to raise money from the public, or any intermediary registered with SEBI from the date of this order, till the expiry of two years from the date of completion of open offer, as directed above.

(vi) *Noticees no. 8 to 13* are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities (including units of mutual funds), directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of one year from the date of this order.

(vii) The abovementioned restraint imposed upon the *Noticees* from accessing the securities market shall stand relaxed only for the compliance with direction contained in sub-para (i) & (ii) above; and

(viii) The proceeding against the Noticee no. 1 is disposed of in terms of observations made at paragraph 241 above.

(ix) Obligation of the debarred *Noticees*, in respect of settlement of securities, if any, purchased or sold in the cash segment of the recognized stock exchange(s), as existing on the date of this Order, can take place irrespective of the restraint/prohibition imposed by this Order in respect of pending transactions, if any. Further, all open positions, if any, of the aforesaid debarred *Noticees* in the F&O segment of the stock exchange, are permitted to be squared off, irrespective of the restraint/prohibition imposed by this Order.

(x) The Order shall come into force with the immediate effect.

248. A copy of this order shall be served upon the *Noticees*, Stock Exchanges,

Depositories and Registrar and Share Transfer Agents of all Mutual Funds for ensuring compliance with the above direction.

-Sd-

Date: June 14, 2021 **S. K. MOHANTY**

Place: Mumbai **WHOLE TIME MEMBER**