BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/PM/AN/2021-22/12209]

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995

In respect of –

Kukati Parvathi

(PAN- ACIPP8586G)

In the matter of Palred Technologies Limited

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as ***"SEBI"***) conducted an investigation into the scrip of Palred Technologies Limited (hereinafter referred to as ***"PTL/ Company"***) for the period from September 18, 2012 to November 30, 2013 (hereinafter referred to as ***"the investigation period/ IP"***) to ascertain the possible violation of the provisions of the SEBI Act, 1992 (hereinafter referred to as ***"SEBI Act"***) and SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as ***"PIT Regulations 1992"***).

2. PTL was incorporated in the year 1999. The Company had changed its name from Four Soft Limited to PTL w.e.f. December 09, 2013. The scrip of PTL was listed on National Stock Exchange Limited (hereinafter referred to as ***"NSE"***) and Bombay Stock Exchange (hereinafter referred to as ***"BSE"***). The names of the directors during the investigation period were as follows:

Directors 01-Sep-2012 to 31-Mar-2014			
Name	**Designation**	**Date of Joining**	**Date of Cessation**
Palem S. Reddy	Chairman & Managing Director	24.12.1999	NA
A. Mohan Krishna Reddy	Non-Executive Independent Director	19.06.2009	NA
T.R.Sivarama Krishnan	Non-Executive Independent Director	06.02.2009	NA
Edara Srinivas Prasad	Non-Executive Independent Director	19.03.2009	NA
Prof.Janat Shah	Non-Executive Independent Director	12.11.2010	01.10.2013
K.V.Ramakrishna	Nominee Director	11.10.2005	30.09.2013
P Soujanya Reddy	Non-Executive Director	09.08.2011	13.10.2013
A.Sridhar	Company Secretary and Compliance Officer	10.08.2012	09.03.2013
M. Raghuram		09.03.2013	NA

3. SEBI Investigation revealed that PTL made a corporate announcement of slump sale on August 10, 2013 of its software solutions business to Kewill group and a one-time special dividend post the closure of sale transaction on October 14, 2013. Both these information being price sensitive information, it was alleged in the investigation report that Palem Srikanth Reddy, the Chairman and Managing Director (CMD) of PTL, employees of PTL, past employees of PTL and certain other entities including Kukati Parvathi, traded during the UPSI period that preceded the actual announcement to the public. The CMD of the company acquired shares from the beginning of discussions till the signing of non-binding offer between the Company and the buyers, and stopped trading thereafter. Moreover, it was also alleged that he communicated directly or indirectly the UPSI to other entities in the matter, who began trading in PTL shares beginning from June 2013 onwards and bought 4,25,615 shares till the announcement on August 10, 2013.

APPOINTMENT OF ADJUDICATING OFFICER

4. Pursuant to the investigation, Shri Nagendra Parekh was appointed as Adjudicating Officer (hereinafter referred to as ***"AO"***) SEBI Act read with Rule 3 of the SEBI (Procedure of Holding Inquire and Imposing Penalties by Adjudicating Officer) Rules, 1995, vide order dated June 02, 2016, to inquire into and adjudge against the Kukati Parvathi (hereinafter referred to as ***"Noticee"***), in terms of Section 15G of SEBI Act, for the alleged violation of Regulation 3(i) and 3(ii) of PIT Regulations, 1992 and Section 12A(d) and 12A(e) of the SEBI Act read with Regulation 12 of SEBI (Prevention of Insider Trading) Regulations, 2015 (hereinafter referred to as ***"PIT Regulations 2015"***) by the Noticee. Subsequently, the matter of conducting Adjudication Proceedings in the matter of PTL was assigned to the undersigned and the undersigned was appointed as AO vide Order dated May 18, 2017. The appointment of the undersigned as AO was communicated vide communique dated August 02, 2017.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. Show Cause Notice No. SEBI/EAD/PM/RR/18360/2017 dated August 03, 2017 (hereinafter referred to as ***"SCN"***), was issued to the Noticee in terms of Rule 4(1) of SEBI (Procedure for Holding Inquiry and imposing penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as ***"Adjudication Rules"***).

   [# With effect from March 8, 2019, SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 was amended to SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995]

6. The aforesaid SCN placed the Unpublished Price Sensitive Information (UPSI) under two heads i.e. UPSI in respect of Slump sale of software solution business to Kewill group ('UPSI-I') and UPSI in respect of Declaration of Interim Dividend of Rs. 29 per share and reduction of 50% of the capital of the Company by paying a value

of Rs. 29 per share ('UPSI-II'). As per the SCN, UPSI-I came into existence on September 18, 2012, when the non-disclosure agreement ('NDA') was executed between the buyers and the company, and continued till the decision of the slump sale of the business was announced by the Company on August 10, 2013. Therefore, the period of UPSI-I was considered to be September 18, 2012 to August 10, 2013 and the Company informed that the trading window closure period was from August 08, 2013 to August 13, 2103. Similarly, UPSI-II came into existence on September 12, 2013 (the day when decision to refund by capital reduction was first initiated) and continued till October 14, 2013 (the day when the Company informed BSE that the BoD at their meeting held on October 13, 2013 had approved the dividend of Rs. 29/- per share and reduction of capital to the extent of 50% of paid up capital by paying Rs. 29/- per share). Therefore, UPSI-II period was September 12, 2013 to October 14, 2013 and the Company informed that the trading window closure period was from October 10, 2013 to October 15, 2013. The SCN alleged that the Noticee was relative of Palem Srikanth Reddy (the Chairman and Managing Director (CMD) of the Company), now Late Palem Srikanth Reddy. He was the son of the Noticee's cousin. It was further alleged that Late Palem S Reddy, being CMD of the Company, was involved in the talks with the Kewill group for slump sale of the Company and also involved in decision of declaration of dividend, quantum of dividend and capital reduction by 50%. Therefore, Late Palem S Reddy had access to UPSI-I and UPSI-II. From KYC details submitted by the Noticee to trading members, it was observed that Noticee's income was in the range of Rs. 1 to Rs. 5 lacs. The Noticee had bought 34900 shares during UPSI-I and invested approximately Rs. 5.70 lacs which is far in excess of her reported income i.e., investing Rs. 5.15 lacs within two months (June, 2013 and July, 2013). The SCN further mentioned that the Noticee had purchased 9000 shares of the Company in September, 2011 and 2500 shares in December, 2012. She also bought 9000 shares in GVK Power in May 2012. Other than these, no major purchases in any other scrip was observed between April 2011 to June 2013. The Noticee had stated that the purchases in shares of the Company were made after selling shares of GVK

Power wherein she received approximately Rs. 1.27 lacs. The Noticee further stated that other sources were her own funds i.e. rents & agriculture income. Considering Noticee's relation with the CMD of the company alongwith the facts that the Noticee's investment in the shares of the Company was not commensurate with her income and also that such huge investment was in a not-so-frequently traded company at the relevant period, it was concluded in the SCN that the investments in shares of the Company have been made through specific insider information. Her trading pattern in PTL viewed together with her age and background evidenced the fact that she had specific source of information which led to the conclusion that Palem S. Reddy communicated or counselled, directly or indirectly, the UPSI to the Noticee, who in turn had traded in the shares of PTL. The Noticee was an insider in terms of Reg. 2(c) and 2(e) of the PIT Regulations, 1992. In view of above, the Noticee was alleged to have violated the provisions of Regulation 3(i) and 3(ii) of SEBI PIT Regulations, 1992 and Regulation 12A(d) and 12A(e) of the SEBI Act read with Regulation 12 of SEBI PIT Regulations, 2015.

7. In response to the SCN, the Noticee vide her letter dated August 22, 2017 sought eight weeks extension of time to file reply. Subsequently, vide her letter dated October 22, 2017, the Noticee sought inspection of the documents relied upon by SEBI along with the complete investigation report. In this regard, I note that all the relevant documents that have been relied upon in the instant Adjudication Proceedings, had been provided along with the SCN. The SCN contained findings of the investigation. While replying the same as aforesaid to the Noticee vide email February 17, 2021, reliance was placed on the observations of the Hon'ble SAT in the matter of Mayrose Capfin Private Limited Vs. SEBI (decided on 30.03.2012) wherein SAT observed that:

".....the principles of natural justice require that the inquiry officer should make available such document and material to the delinquent on which reliance is being placed in the inquiry. It is not necessary for the inquiry officer to make available

all the material that might have been collected during the course of investigation but has not been relied upon for proving charge against the delinquent. No prejudice can, therefore, be said to have been caused to the appellant on this count...."

8. Further, reliance was also placed on the observations of Hon'ble SAT, in its order dated February 12, 2020, in the matter of Shruti Vora vs. SEBI, while addressing the demand of the Noticee w.r.t. the inspection of relied upon documents and seeking complete investigation report as aforesaid:

"Reliance was also made of a decision of the Supreme Court in Union of India and Others vs E. Bashyan (1988) 2 SCC 196 which has no bearing to the controversy involved in the present context, in as much as, the said decision relates to a disciplinary proceedings wherein the Supreme Court observed that the inquiry report was required to be made available to the delinquent. An inquiry report is totally distinct and different from an investigation report. The inquiry report considers all the materials in the inquiry proceedings which form the basis of the final order and therefore the said report is required to be made available to the delinquent. In the instant case, the show cause notice relies upon certain documents which have been made available. Thus the investigation report is not required to be supplied".

"The learned counsel has also placed reliance upon a minority view of this Tribunal in Price Waterhouse vs Securities and Exchange Board of India decided by this Tribunal in Appeal No. 8 of 2011 on June 1, 2011 wherein it was observed that fairness demands that the entire material collected during the course of investigation should be made available for inspection to the person whose conduct was in question and that said material should also be supplied. In our opinion, the said minority view is directly against the decision of the Supreme Court in Natwar Singh case (supra)".

"A bare reading of the provisions of the Act and the Rules as referred to above do not provide supply of documents upon which no reliance has been placed by the AO, nor even the principles of natural justice require supply of such documents

which has not been relied upon by the AO. We are of the opinion that we cannot compel the AO to deviate from the prescribed procedure and supply of such documents, which is not warranted in law. In our view, on a reading of the Act and the Rules we find that there is no duty cast upon the AO to disclose or provide all the documents in his possession especially when such documents are not being relied upon."

9. Furthermore, the following observations of Hon'ble SAT in the matter of Anant R Sathe Vs SEBI (Appeal No. 150 of 2020) vide Order dated July 17, 2020, which has reaffirmed the principle elucidated in the judgment of Shruti Vora's case, was also relied upon while replying to the Noticee vide our email dated February 17, 2021 as aforesaid:

"the Authority is required to supply the documents that they rely upon while serving the show cause notice which in the instant case has been done and which is sufficient for the purpose of filing an efficacious reply in his defence".

10. Considering that since all the documents which were relevant and relied upon in the instant proceedings have been provided to the Noticee and the principles of natural justice have been duly complied with, in the instant proceedings and that the interest of the Noticee has not been prejudiced in any manner, final opportunity to file reply by March 03, 2021 was provided to the Noticee along with the date of Hearing on March 09, 2021, vide email dated February 17, 2021. In view of the difficulties faced by all the concerned due to Covid-19 Pandemic, hearing opportunity was provided online through videoconferencing on the Webex platform. Subsequent to the grant of hearing opportunity as aforesaid, the Noticee sought further extension of time to file reply and hearing. Finally, reply of the Noticee was received vide email dated March 31, 2021 and the personal hearing was scheduled on April 16, 2021, which was duly availed by the Noticee.

11. Submissions of the Noticee received vide her email dated March 31, 2021 is summarized as hereunder:

a. *That the Noticee is an old lady of about 80 years and happens to be distant aunt of Late Mr. Palem Srikanth Reddy.*

b. *That the Noticee has been filing returns with Income Tax department for the last 40 years. The Income Tax returns filed by the Noticee for the financial years 2012-2013 and 2013-2014 are marked collectively and attached.*

c. *That the Noticee is an active investor and regularly trades/invests in the securities market. The Noticee is having a portfolio of Rs.15 lakhs. A copy of holding statement of the Noticee is marked and annexed.*

d. *That the Noticee is having an agricultural land in Nellore and a residential home in a prime area in Chennai. Further the Noticee was having sufficient funds/income to invest in the shares of the Company during the investigation period. That the income of the Noticee was commensurate with the investment of Rs. 5,39,167 made by her in the shares of the Company and that SEBI has wrongly considered the Noticee as an insider.*

e. *That SEBI has wrongly assessed her income to be in the range of Rs. 1 lakhs to Rs.5 lakhs based on KYC submitted to trading members. It is requested to consider the income tax filings from 2010 to 2013 which clearly indicate her income between 7 lakhs to 13.85 lakhs. Investment of Rs. 5.70 lakhs in 2012-2013 as against income of Rs. 10.56 lakhs in 2012 and 13.85 lakhs in 2013 cannot be considered as excess of reported income.*

f. *That the Noticee had bought 34900 shares during UPSI -I and 900 shares during UPSI-II. It is vehemently denied that Late Mr. Palem Srikanth Reddy ('Mr. Reddy'), the promoter of the company and son of Noticee's cousin, have counselled or communicated UPSI regarding Slump Sale or UPSI regarding Dividend. There are rare occasions when the Noticee gets the chance to interact with Mr. Reddy and the Noticee did not have any contact with him regarding the UPSI at any point in time whatsoever.*

g. *That the SEBI has not provided any evidence whatsoever to show that the Noticee has ever received any UPSI from Mr. Reddy.*

h. *That the Noticee was holding substantial amount of shares in her portfolio during April 2011 to June 2013. As on March 31, 2013, the Noticee was holding shares worth Rs.14.63 lakhs in her portfolio. The Noticee has an investment background and she was holding shares of nearly 12 companies in her portfolio.*

i. *That the Noticee had purchased shares of PTL prior and after the alleged period. After the investigation period, in 2015 also she purchased 46,000 shares of PTL.*

j. *that the Noticee has been discharged by Honourable Whole Time Member through his order no. WTM/GM/EFD/29 /2019-20 dated August 13, 2019 on the same set of allegations.*

CONSIDERATION OF ISSUES AND FINDINGS

12. I have carefully perused the charges levelled against the Noticee, his reply dated March 31, 2021, presentation made during the hearing and the documents/ material available on record. The issues that arise for consideration in the present case are:

Issue No. I: Whether the Noticee has violated the provisions of Regulation 3(i) and 3(ii) of PIT Regulations, 1992 and Section 12A(d) and 12A(e) of the SEBI Act read with Regulation 12 of PIT Regulations, 2015?

Issue No. II: If yes, whether the failure, on the part of the Noticee would attract monetary penalty under Section 15G of the SEBI Act, for the violation as mentioned in Issue No. I?

Issue No. III: If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of SEBI Act?

13. Before proceeding further, I would like to refer to the relevant provisions of PIT Regulations, 1992, PIT Regulations 2015 and SEBI Act as alleged to have been violated by the Noticee:

Relevant provisions of PIT Regulations, 1992:

Definitions

Regulation2(c) "connected person" means any person who—

i. is a director, as defined in clause (13) of section 2 of the Companies Act, 1956 (1 of 1956), of a company, or is deemed to be a director of that company by virtue of sub-clause (10) of section 307 of that Act or

ii. occupies the position as an officer or an employee of the company or holds a position involving a professional or business relationship between himself and the company [whether temporary or permanent] and who may reasonably be expected to have an access to unpublished price sensitive information in relation to that company:

[Explanation:—For the purpose of clause (c), the words "connected person" shall [mean] any person who is a connected person six months prior to an act of insider trading;]

Regulation 2(e) "insider" means any person who -

i. is or was connected with the company or is deemed to have been connected with the company and is reasonably expected to have access to unpublished price sensitive information in respect of securities of a company, or

ii. has received or has had access to such unpublished price sensitive information;

Prohibition on dealing, communicating or counselling on matters relating to insider trading.

Regulation 3. No insider shall—

i. *either on his own behalf or on behalf of any other person, deal in securities of a company listed on any stock exchange [when in possession of] any unpublished price sensitive information; or*

ii. *communicate [or] counsel or procure directly or indirectly any unpublished price sensitive information to any person who while in possession of such unpublished price sensitive information shall not deal in securities :*

Provided that nothing contained above shall be applicable to any communication required in the ordinary course of business [or profession or employment] or under any law.

<u>Relevant provisions of PIT Regulations, 2015:</u>

Repeal and Savings

Regulation 12. (1) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 are hereby repealed.

(2) Notwithstanding such repeal,—

(a) the previous operation of the repealed regulations or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the repealed regulations, any penalty, forfeiture or punishment incurred in respect of any offence committed against the repealed regulations, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid, shall remain unaffected as if the repealed regulations had never been repealed; and

(b) anything done or any action taken or purported to have been done or taken including any adjudication, enquiry or investigation commenced or show-cause notice issued under the repealed regulations prior to such repeal, shall be deemed to have been done or taken under the corresponding provisions of these regulations;

(3) After the repeal of Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, any reference thereto in any other regulations made, guidelines or circulars issued thereunder by the Board shall be deemed to be a reference to the corresponding provisions of these regulations.

Relevant provisions of SEBI Act, 1992

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

Regulation 12A. No person shall directly or indirectly—

(d) engage in insider trading;

(e) deal in securities while in possession of material or non-public information or communicate such material or non-public information to any other person, in a manner which is in contravention of the provisions of this Act or the rules or the regulations made thereunder;

14. Now I deal with the issues on merit in the matter.

Issue No. I: Whether the Noticee has violated the provisions of Regulation 3(i) and 3(ii) of PIT Regulations, 1992 and Section 12A(d) and 12A(e) of the SEBI Act read with Regulation 12 of PIT Regulations, 2015?

15. As regards the Issue no. I, I note that the Noticee has denied all charges and allegations levied in the SCN. The Noticee has also submitted that she has been exonerated from the charges of Regulation 3(i) and (ii) of PIT Regulations, 1992 and Section 12A(d) and 12A(e) of SEBI Act, 1992 read with regulation 12 of SEBI (Prohibition of Insider Trading) Regulations, 2015 for the same set of allegations in the similar matter, under 11B proceedings by Hon'ble WTM, SEBI vide his Order dated August 13, 2019. I further note from the said Order of Hon'ble WTM, SEBI that the UPSI- I period was revised from *"September 18, 2012 to August 10, 2013"* to *"May 09, 2013 to August 10, 2013"* and UPSI– II period was revised from *"September 12, 2013 to October 14, 2013 (at 08:54 hrs)"* to *"October 4, 2013 to October 14, 2013 (at 08:54 hrs)"*. From perusal of the said Order dated August 13, 2019 of the WTM in the matter passed under section 11(1), 11(4) and 11B of SEBI Act and considering the facts, figures and material on record, I agree with the view of the Hon'ble WTM w.r.t. the revised UPSI- I period i.e. *"May 09, 2013 to August 10, 2013"* and revised UPSI- II period i.e. *"October 4, 2013 to October 14, 2013 (at*

08:54 hrs). I note that Kukati Parvathi was a relative of Late Mr. Palem S. Reddy, CMD of the company (Late Mr. Palem S. Reddy was her cousin sister's son). SCN has further alleged that Kukati Parvathi's income was in the range of Rs.1 to Rs. 5 lacs as per the KYC, but she bought 34,900 shares during UPSI-I and invested Rs.5.70 lacs approx. which is far in excess of her reported income. It is further noted that she had purchased 9000 PTL shares in Sep-2011 and 2500 PTL shares in Dec.2012. She also bought 9000 shares in GVK Power in May 2012. Other than these, no major purchases in any other scrip was observed since April 2011 till June 2013. Upon seeking reason/rationale for trading in PTL, source of funds, funding by third party, connection with company/promoters/ directors/other suspected entities, Kukati Parvathi replied that the purchases in PTL were made after selling shares in scrip-GVK Power wherein she received Rs. 1.27 lacs approx. She stated that other sources were her own funds i.e. rents & agriculture income. SCN alleged that the huge investment in a not-so-frequently traded company at the relevant period pointed to the fact that it could have been on the basis of specific insider information. Based on her trading pattern in PTL and her background, SCN alleged that she had specific source of information and that Late Mr. Palem S. Reddy communicated or counselled, directly or indirectly, the UPSI to Kukati Parvathi, who in turn has traded in the shares of PTL. Therefore, it was alleged in the SCN that Kukati Parvathi, had dealt in the shares of PTL on the basis of UPSI communicated or counselled by Late Mr. Palem S. Reddy.

16. In response to the said allegation Kukati Parvathi submitted that she had sufficient funds/income to invest in the shares of the Company during the investigation period as can be observed from the following table:

Source of income	**2010**	**2011**	**2012**	**2013**
Rents	4,35,000	4,20,000	7,80,000	10,85,000
Agricultural Income	1,86,100	1,60,500	1,80,000	1,80,000
Interest	61,264	1,20,499	8,287	12,673
Dividends	56,700	47,250	49,713	11,436

Profit on sale of investment		6,13,812	28,142	
Income Tax Refund				96,250
Total	**7,39,064**	**13,62,061**	**10,46,142**	**13,85,359**

17. She submitted that her income was commensurate with the investment of Rs. 5,39,167 made by her in the shares of the Company. However, SEBI has wrongly considered the Noticee as an insider. As regards her relationship with Palem S. Reddy, it has been submitted by the Noticee that Late Mr. Palem S. Reddy was the son of her cousin and on rare occasions she had the chance to interact with him. Further, it has been submitted by the Noticee that she did not have any contact with Palem S. Reddy regarding the UPSI at any point of time.

18. I note from the records that she had purchased shares of PTL shares prior and after the alleged period also as under:-

S. No	Year	No. of shares of PTL purchased
1.	2009	9,900
2.	2011	9,000
3.	2012	2,500
4.	2013	35,100
5.	2014	6,700
6.	2015	46,000

19. From the above table, it is clearly seen that the Noticee had been purchasing shares of PTL from the market. After the investigation period, in 2015 also she purchased 46,000 shares of PTL. She had submitted her income tax return for the financial year 2011-12 and 2012-13. From the income tax statement and the attached balance sheet, it cannot be said that her income is not commensurate with the investment of Rs. 5,39,167 made by her in the shares of PTL. I have also noted that she had been a constant investor in the securities market prior to and after the investigation period

in different scrips. Moreover, the degree of relationship with Palem is not that proximate. Therefore, I am of the view that the Noticee has not violated provisions of Regulation 3(i) and 3(ii) of SEBI (Prohibition of Insider Trading) Regulations, 1992 and Section 12A(d) and 12A(e) of SEBI Act, 1992 read with regulation 12 of SEBI (Prohibition of Insider Trading) Regulations, 2015.

ORDER

20. After taking into consideration the facts and circumstances of the case, material available on record and also the submissions of the Noticee, I, in exercise of the powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules, dispose of the SCN issued to the Noticee.

21. In terms of the provisions of Rule 6 of the Adjudication Rules, copy of this order is being sent to the Noticee viz. Kukati Parvathi and also to the Securities and Exchange Board of India.

Date: June 14, 2021
Place: Mumbai

Prasanta Mahapatra
Adjudicating Officer