Mangalam Drugs and Organics Ltd.

Regd. Office : Rupam Building, 3rd Floor, 239 P. D'Mello Road, Near G. P. O. Mumbai - 400 001.
91-22-22616200 / 6300 / 8787 91-22-22619090 • CIN : L24230MH1972PLC116413

MANGALAM
WHO-GMP
Accredited

REF: MDOL/CS-SE/2020-21/022 **September 25, 2020**

To,

Listing Department
BSE Ltd
1st Floor, New Trade Wing,
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001.

Scrip Code: 532637

Listing Department
National Stock Exchange of India Limited
"Exchange Plaza", 5th Floor,
Plot No. C-1, Block G,
Bandra - Kurla Complex,
Bandra(E), Mumbai – 400 051
Symbol: MANGALAM

Subject: Intimation of material information in terms of Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir / Madam,

We wish to inform you that Securities and Exchange Board of India (SEBI) through its whole-time member, Mr. Ananta Barua, has passed an order dated September 22, 2020 (SEBI Order), *inter-alia*,alleging certain compliance / disclosure lapses on the part of the Company in relation to preferential allotment of warrants to one of the promoter group entities which were undertaken in September 2015.

In terms of SEBI Order, the Company and the certain entities / individuals part of the promoter and promoter group have been restrained from accessing the securities market through issue of securities or subscription to securities, directly or indirectly, for a period 6 months and certain monetary penalties have been imposed on each of them. The copy of the said SEBI Order is available on the website of the SEBI and also enclosed herewith for ready reference.

The Company and entities / individuals part of the promoter and promoter group are duly reviewing the alleged findings reached in the SEBI Order and are evaluating to consider taking appropriate legal recourse as available under law, based on legal advice as may be received.

Kindly take the above information on your records.

Thanking You,

Yours Faithfully,
For **Mangalam Drugs & Organics Limited**

MANGALAM DRUGS & ORGANICS LTD. MUMBAI

Geeta Karira
Company Secretary & Compliance Officer

Encl.: As above

WTM/ AB / IVD / 11 / 2020-21

SECURITIES AND EXCHANGE BOARD OF INDIA
FINAL ORDER

Under Sections 11(1), 11(4), 11(4A), 11B read with 15HA and 15HB of Securities and Exchange Board of India Act, 1992 (SEBI Act) and Rule 4 of SEBI (Procedure for holding inquiry and imposing penalties) Rules, 1995

In respect of:

Noticee no.	Name of the Noticee	PAN
1.	Mangalam Drugs and Organics Ltd.	AAACM7880P
2.	Shri J B Pharma LLP	ACVFS7536G
3.	Mangalam Laboratories Pvt. Ltd.	AABCM6035H
4.	Raga Organics Pvt. Ltd.	AAACM7836M
5.	Ajay R Dhoot	AAEPD1211G
6.	Aditya R Dhoot	AACPD0896R
7.	Brijmohan M Dhoot	AEZPD7225B
8.	Govardhan M Dhoot	AEZPD7222G
9.	Ramniwas R Dhoot	AAEPD1210H

The aforesaid entities are hereinafter referred to individually, by their respective names/ Noticee numbers and collectively as "the Noticees"

In the matter of Mangalam Drugs and Organics Ltd.

1. The present proceedings have emanated from a show cause notice dated December 31, 2019 (hereinafter referred to as "**SCN**") issued by Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") to the aforesaid 9 Noticees calling upon them to show cause as to why suitable directions including directions to pay the consideration amount to Noticee no. 1 for warrants /equity shares issued to Noticee no. 2 be issued to them and also why appropriate penalty

under Sections 11(1), 11(4), 11(4A) and 11B read with Section 15HA and 15HB of the SEBI Act, 1992 should not be imposed on them. The SCN is based on an investigation in the scrip of Mangalam Drugs and Organics Ltd. (hereinafter also referred to as **"the Company"**) for the period starting from March 17, 2015 and ending on December 31, 2015 (hereinafter referred to as **"Investigation Period"/ "IP"**).

2. The SCN *inter alia* alleges that, the Company, (i) Mangalam Drugs and Organics Ltd. (Noticee no. 1) and its directors Govardhan M Dhoot, and Brijmohan M Dhoot, (Noticee nos. 7 and 8 respectively) and (ii) Shri J B Pharma LLP (Noticee no. 2) along with its partners Ajay R Dhoot, Aditya R Dhoot, Govardhan M Dhoot and Ramniwas R Dhoot (Noticee nos. 5, 6, 8 and 9 respectively) have violated Regulation 77(2) and 77(3) of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (hereinafter referred to as **"ICDR Regulations 2009"**) (since repealed) read with Regulation 169(2) of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (hereinafter referred to as **"ICDR Regulations 2018"**) and Sections 12A(a),(b),(c) of SEBI Act, 1992 read with Regulations 3(a),(b),(c),(d) & 4(1) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as **"PFUTP Regulations, 2003 "**) since warrants / shares on a preferential basis of Noticee no. 1 was issued to Noticee no. 2, without receipt of consideration .

3. Further, it is alleged that by acting as a conduit for transfer of funds from Noticee no. 1 to Noticee no. 2 in the above act, (i) Mangalam Laboratories Pvt. Ltd. (Noticee no. 3) and its directors Ajay R Dhoot, Aditya R Dhoot, Brijmohan M Dhoot and Govardhan M Dhoot (Noticee nos. 5, 6, 7 and 8, respectively) and (ii) Raga Organics Pvt. Ltd. (Noticee no. 4) and its directors Ajay R Dhoot, Aditya R Dhoot, Brijmohan M Dhoot and Ramniwas R Dhoot (Noticee nos. 5, 6, 7 and 9, respectively) have violated Sections 12A(a),(b),(c) of SEBI Act, 1992 read with Regulations 3(a),(b),(c),(d) & 4(1) of PFUTP Regulation, 2003.

4. The brief facts and allegations, as stated in the SCN are as under:

4.1. SEBI conducted an investigation in the matter of trading activities of certain entities in the scrip of Mangalam Drugs and Organics Ltd., for the IP. The company was listed with effect from May 23, 2005 and is listed on BSE and NSE.

4.2. The investigation, *inter alia*, revealed that pursuant to AGM of Noticee no. 1 held on September 03, 2015, Noticee No. 2 was allotted 26,50,000 warrants at Rs. 65/- each, on a preferential basis, with an option to convert each warrant into 1 equity share of face value of Rs. 10/- at a premium of Rs. 55/.

4.3. As per the minutes of the AGM of Noticee no. 1, held on September 03, 2015, wherein the issue of warrants to Noticee no. 2 was approved, the terms of issue of warrants indicating the payment pattern was as under-

> *"RESOLVED FURTHER THAT the Warrants shall be issued by the Company on Preferential basis on the following terms and conditions"*
>
> *Each warrant shall be convertible into one Equity share of nominal value of Rs. 10/- (Rupess Ten only) each at a issue price of Rs. 65/- (including premium of Rs. 55/-) determined in accordance with SEBI ICDR Regulations"*
> *The warrant holders are, on the date of allotment of Warrants, required to pay an amount equivalent to at least 25% of the total consideration per warrant.*
>
> *The conversion of Warrants into Equity shares shall be made in one of more tranches within a period of 18 (Eighteen months from the date of allotment of Warrants, as per the option exercised by the Warrant holders"*

4.4. As per the extract of the bank statement provided by Noticee no. 1 and the submission made by Noticee no. 1 vide email dated June 24, 2019, the payment was received from Noticee no. 2 for acquisition of warrants/equity shares as under:

Table-1

Date	Amount received (Rs.)
28/09/2015	4,30,62,500.00
28/09/2015	5,59,81,250.00
29/09/2015	5,59,81,250.00
03/11/2015	78,00,000.00
26/05/2016	94,25,000.00
Total	**17,22,50,000.00**

4.5. Further, vide email dated August 01, 2019, Noticee no. 1 informed that the details of allotment of equity shares to Noticee no. 2 was as under:

Table-2

Date	Total Amount received (Rs.)	Purpose of payment (allotment of warrants / conversion into equity shares)	No. equity shares allotted	Date of Board meeting where conversion to equity shares approved
16.11.2015	17,22,50,000	Conversion into Equity Shares	12,00,000	16.11.2015
10.06.2016			14,50,000	10.06.2016

4.6. Bank statements of Noticee no. 1 and Noticee no. 2 were sought from the banks. As per the bank statements of Noticee no. 2 (A/c no. 0452102000011404 IDBI Bank Ltd.), it was observed that it had received funds from Noticee no. 3 on each instance when payment was made to Noticee no. 1 towards acquisition of warrants and thereafter on conversion of warrants to equity shares, as given in Table-1 above.

4.7. Subsequently from the bank statement of Noticee no. 3 (A/c no. 45212010003003 IDBI Bank Ltd.,) it was observed that the said funds were in turn received by Noticee no. 3 from Noticee no. 4 on the same date as

and when the payment was made by Noticee no. 3 to Noticee no. 2. Subsequently, perusal of the bank statement of Noticee no. 4 (A/c no 0452102000008839, IDBI Bank) indicated that these funds which were used to make payment to Noticee no. 3 were received from Noticee no. 1 (through its account no. 45235110904466 – IDBI Bank), on the same day as payment was made by Noticee no. 4 to Noticee no. 3.

4.8. On each instance that payment has been made by Noticee no. 2 to Noticee no. 1 towards acquisition of warrants / equity shares, the payment has been received by Noticee no. 2 from Noticee no. 1 itself, through Noticee no. 3 and Noticee no. 4, on the same day itself. Details of these transactions were sought from Noticees no. 1 to 4. In response to the same, the entities informed vide their letters dated August 21, 2019 that the transactions between them, as brought out above, were in the nature of loans taken / loans repaid to the respective entities.

4.9. However, in response to SEBI clarification seeking documentary evidence and details of the loans taken / repaid as submitted by them, the said entities vide e-mails dated August 26, 2019 submitted that no formal loan agreements were entered into by them for the above loans.

4.10. Noticee no. 1 had submitted vide its letter dated August 22, 2019 that funds transferred to Noticee no. 4 were towards repayment of loans taken from it earlier. In this regard, Noticee no. 1 submitted a statement of loans taken by it from Noticee no. 4 and also a copy of its bank statement in support of the same. A perusal of the same indicates that the Noticee no. 1 had received an amount of Rs. 21,00,67,384 from Noticee no. 4 in 17 instances during the period September 24, 2013 to February 18, 2015. However, the amount transferred to Noticee no. 4 was Rs. 17,22,50,000 during 28.09.2015 to 26.05.2016 in 5 tranches.

4.11. Similar details of the above transactions between Noticee no. 4 and Noticee no. 3 were submitted by Noticee no. 4 vide email dated August 28, 2019.

4.12. In view of the above and the fact that the amount transferred from Noticee no. 1 to Noticee no. 4, from Noticee no. 4 to Noticee no. 3 and Noticee no. 3 to Noticee no. 2 was exactly the same as the amount paid by Noticee no. 2 to Noticee no. 1 towards acquisition of warrants / shares and that all the said transactions between the entities took place on the same date(s), the submission of the entities that these transfers were in the nature of loans given / loans repaid, cannot be accepted.

4.13. When a company raises capital through share issuance, it is a capital infusion and ordinary investor perceives such capital infusion as a measure which strengthens the company's financial fundamentals thereby attracting the investing public to transact in the shares of the company. However, in the present instance, although Noticee no. 1 gave a public impression of such capital infusion through preferential allotment, in reality, Noticee no. 1, *inter-alia*, allotted shares to Noticee no. 2 without receiving full consideration. In view of the above, it is alleged that by providing benefit to Noticee no. 2 through the preferential allotment scheme, Noticee no. 1 along with Noticee no. 2 had perpetrated a fraud on the other allottees, shareholders and the ordinary investing public who had transacted in the shares post preferential allotment.

4.14. It was further observed from the replies of the above entities that during the investigation period, the promoters / directors of Noticee no. 1 were common with / connected to the directors / partners of Noticee no. 2, directors of Noticee no. 3 and Noticee no. 4, details of which are given below:

Name of Company → Name of entity	**Mangalam Drugs & Organics Ltd.**	**Mangalam Laboratories**	**Raga Organics Pvt. Ltd. (Noticee no. 4)**	**Shri J B Pharma LLP**

↓	(Noticee no. 1)	Pvt. Ltd. (Noticee no. 3)		(Noticee no. 2)
Ajay R Dhoot (Noticee no. 5)	Promoter group	Director	Director	Designated partner
Aditya R Dhoot (Noticee no. 6)	Promoter group	Director	Director	Designated partner
Brijmohan M Dhoot (Noticee no. 7)	Director / Promoter	Director	Director	
Govardhan M Dhoot (Noticee no. 8)	Director / Promoter	Director		Designated partner
Ramniwas R Dhoot (Noticee no. 9)			Director	Partner

** Further, Shri Brijmohan M Dhoot and Govardhan M Dhoot are brothers, and Shri Ajay R Dhoot and Aditya R Dhoot are brothers.*

4.15. Hence the above mentioned entities are the common directors / partners in Noticee no. 1, Noticee no. 3, Noticee no. 4 and / or Noticee no. 2 and are therefore responsible for the fraudulent act of the Company of issuing warrants / shares on a preferential basis to Noticee no. 2, without receipt of consideration.

5. SCN called upon the Noticee no. 1 to 9 as to why suitable directions including the direction to pay the consideration to Noticee no. 1 for warrants/equity shares issued to Noticee no. 2 should not be issued against them under Section 11 and 11B of the SEBI Act, 1992 including penalty under Sections 15HA on Noticee no. 1 to 9 and penalty under Section 15HB of the SEBI Act, 1992 on Noticee no. 1, 2, 5 to 9.

6. In view of the aforesaid, SCN, as stated in paragraph 1 above, was issued to the Noticees. The following documents were provided as Annexure to the SCN:

Annexure No.	Particulars
1.	Extract of bank statement of Mangalam Drugs and Organics Ltd. and submissions of Mangalam Drugs and Organics Ltd vide email dated June 24, 2019.
2.	Submissions of Mangalam Drugs and Organics Ltd. vide email dated August 01, 2019.
3.	Copies of bank statements of Mangalam Drugs and Organics Ltd., Shri J B Pharma LLP Mangalam Laboratories Pvt. Ltd. and Raga Organics Pvt. Ltd.
4.	Replies received from Mangalam Drugs and Organics Ltd., Shri J B Pharma LLP Mangalam Laboratories Pvt. Ltd. and Raga Organics Pvt. Ltd. vide letters dated August 21, 2019.
5.	Replies received from Mangalam Drugs and Organics Ltd., Shri J B Pharma LLP Mangalam Laboratories Pvt. Ltd. and Raga Organics Pvt. Ltd. vide emails dated August 26, 2019.

7. The Noticees have filed a common reply dated January 22, 2020 wherein they have submitted as under:

7.1. The allegation of Noticee 1 issuing the warrants/ shares on a preferential basis ("Preferential Allotment") to Noticee 2 without receipt of consideration is completely misconceived and erroneous.

7.2. The Preferential Allotment to Noticee 2 was undertaken in due compliance of applicable laws including specifically the provisions of Section 62(1)(c) of the Companies Act, 2013 read with rules framed thereunder and regulations for preferential issue contained in Chapter VII of the ICDR Regulations 2009.

7.3. It is pertinent to note that the key provision /amendment introduced in the then newly enacted Companies Act, 2013(many provisions of which came into effect from April 1, 2014) in relation to issue of shares /securities on preferential basis is the requirement of having a separate bank account designated only for receipt of share/ securities application money, and only after due compliance of all provisions in relation to issue /allotment of such

shares/ securities that the issuer company could transfer/ utilize such share/ securities application money. This is one of the key mandatory provisions to be adhered to while undertaking a preferential issue of shares / securities, which also needs to be duly confirmed/ certified by the directors of the issuer company /professionals as part of the secretarial compliances.

7.4. Given that the Companies Act, 2013 was a newly enacted law with many dramatic changes in the provisions governing the functioning and management of the companies, it was evolving and there was lack of clarity for effective implementation of many provisions. The aforesaid requirement of receipt of share/securities application money in a separate bank account in case of a preferential issue under Companies Act 2013 was one such provision, which posed certain operational /procedural challenges in case of issue of shares for certain transactions including conversion of existing loans into equity. In case of conversion of existing loans into equity under a preferential issue transaction, in absence of any specific exemption or relaxation under the Companies Act, 2013, the issuer company would still be required to comply with the said mandatory provision of receipt of share/ securities application money in a separate bank account. Given the stringent penalties for violation of these requirements and certification of such compliance by the professionals, it was very imperative for the issuer companies to ensure due compliance of requirement of receipt of share / securities application money in a separate bank account.

7.5. Therefore, in the initial phase of implementation of the provisions of the newly enacted Companies Act, 2013, in case of conversion of existing loans into equity under a preferential issue transaction, it was a wise option, or in fact a compulsion, for the issuer companies to repay the loan and then again receive it back in the form of share /securities application money in a separate designated bank account in order to ensure due compliance of aforesaid provisions and to avoid any adverse consequences of violations seen as such.

7.6. The conversion of existing loans into equity is a well-accepted mode of share capital issuance and the same is considered as a positive development as the debt / loan on the balance sheet of the company (which is a liability subject to repayment obligations) is converted into a share capital (which is a permanent capital with no obligation of repayment) which strengthens the balance sheet of the company on many counts.

7.7. The Noticees state that the above backdrop outlines the core objectives and the whole essence of undertaking the transactions as stated in the Notices (which are further clarified / explained hereunder), which are grossly misconceived and alleged as undertaken for fraudulent purposes without properly appreciating the facts on record. The objective of undertaking the stated transaction the way it was undertaken, was to ensure compliance of provisions of Companies Act, 2013 as stated above, but sadly the same is alleged as undertaken for fraudulent purposes.

7.8. The Noticees would further like to briefly state that the Noticee 1 being a listed company, is subject to stringent compliance requirements and regulatory oversight with adequate checks and balances internally as well as through external parties (like professionals, ROC, lenders etc.) for ensuring due compliance, it would be incorrect to allege that the Noticee / issued warrants /shares to the tune of Rs. 17.22 Crores without receipt of consideration.

7.9. The Noticees would like to put forth the factual position with supporting evidence and the underlying reasons for undertaking the said transactions in the manner they were undertaken as follows:

7.10. Outstanding Loan of Noticee 4 in the books of Noticee 1 :

7.11. The Noticee 1 had taken the unsecured loans from the promoter group through the Noticee 4 from time to time for its business purposes. As on March 31, 2015, the outstanding loan of Noticee 4 in the books of Noticee 1 was Rs. 21.10 Crores. This is admittedly acknowledged in para 4.9 of SCN:

> *"...In this regard, Noticee no. 1 submitted a statement of loans taken by it from Noticee no. 4 and also a copy of its bank statement in support of the same. A perusal of the same indicates that the Noticee no. 4 in 17 instances during the period September 24, 2013 to February 18,2015 ... "*

7.12. Further, the same is evident in various disclosures made in the Annual Report of Noticee 1 for FY 2014-15. Therefore, it is evident beyond doubts that there was an outstanding loan of Noticee 4 amounting to Rs. 21. 10 Crores as on March 31, 2015 in the books of Noticee 1.With an intent to strengthen the financial position of Noticee no.1 the promoter group decided to convert the said outstanding loan into share capital through issue of warrants under a preferential issue given the mandatory requirement of receipt of shares/ securities application money in a separate bank account as detailed above, the Noticee no.1 temporarily arranged the requisite funds to repay the outstanding loans of promoter group received through Noticee no. 4 so that promoter group can again infuse it back in the form of share/ securities application money in the separate designated bank account of Noticee 1. This is evident from the fact that while loan was repaid from regular operational bank account of Noticee 1 (IDBI Bank A/c No. 45235 110904466) the said funds were received back in the form of share/securities application money in the separate designated bank account of Noticee 1 (IDBI Bank A/c No. 0452102000011413).

7.13. Further for various commercial understanding including the terms of inter se understanding between family members of promoter group the promoter group decided to subscribe to shares/ warrants through a LLP entity, Noticee 2 (which is also a part of promoter group and evidently disclosed as such in all the filings at the time of allotment of warrants specifically in the Notice of AGM held on September 3, 2015 wherein the approval of members of the Noticee 1 was obtained for issuance of warrants /shares to Noticee 2 and till today). Therefore, the loans repaid back by Noticee 1 and received back by promoter group through Noticee 4 were internally transferred to payoff certain internal existing loan balances and finally the said funds were

invested back by Noticee 2 in the form of share/ securities application money in the separate designated bank account of Noticee 1.

7.14. In this context, it is pertinent to note that the total debt / borrowings of Noticee 1 as on March 31, 2015 was Rs. 77.92 Crores (which included promoter group loan through Noticee 4 of Rs. 21.10 Crores), which reduced substantially to Rs. 59.82 Crores as on March 31, 2016, post conversion of promoter group loan into warrants/ shares, which had a corresponding positive effect of increase in the shareholders' funds/ net worth of Noticee 1 from Rs. 29.36 Crores as on March 31, 2015 to Rs. 61.52 Crores as on March 31, 2016. These amounts are highlighted in balance sheet on page no. 38 of Annual Report of Noticee 1 for FY 2015-16. The summary details are as follows

(Amount in Rs. Crores)

Particulars	**As at March 31, 2015**	**As at March 31, 2016**
Total Debt/ borrowings		
Long Term Borrowings	39.37	16.92
Current maturities of Long Term Debt	6.73	7.52
Short Term Borrowings	31.82	35.38
	77.92	59.82
Total Shareholders' Funds	2936	61.52
Debt to Equity Ration	2.65	0.97

7.15. Therefore, it is evident that the debt-equity ratio of Noticee 1 greatly improved from 2.65 as on March 31, 2015 to 0.97as on March 31, 2016. This greatly helped Noticee 1 in strengthening its balance sheet for future growth opportunities and for capital expansion project undertaken in subsequent years.

7.16. In para 4.9 of the Notice, at the end, it is stated that funds transferred by Noticee 1 to Noticee 4 was only Rs. 17,22,50,000 in 5 tranches during September 28, 2015 to May 26, 2016. Here, it is to be noted that Noticee 1 repaid back loans to Noticee 4 only to the extent of proposed issue size of the warrants / shares being Rs. 17.22 Crore. To provide clarity, this issue size was determined so as to ensure compliance of creeping acquisition limits under the SEBI Takeover Regulations. The balance loan amount of around Rs. 4.72Crore as on March 31, 2016 (as one transfer of Rs. 0.94 Crores was undertaken on May 26, 2016 in FY 2016-17) and Rs. 3.77 Crores was still outstanding as on March 31, 2017, post issuance of warrants / shares. This is evident on page no. 51 of Annual Report of Noticee 1 for FY 2015-16 and page no. 57of Annual Report of Noticee 1 for FY 2016-17.

7.17. Further, it is pertinent to note that the promoter group loans were repaid with the objective to invest back these loans as capital in Noticee 1, all the transactions were undertaken on the same day. These funds were temporarily arranged by Noticee 1 solely to ensure compliance of law, as stated above. Just because all the transactions were undertaken through regular banking channels on the same day, it does not at all warrant any adverse inference or suspicion that the said transfers cannot be in the nature of loans given/ loans repaid. It would be highly erroneous to reach to such findings (as stated in para 4.11 of the Notice), just because all transfers were undertaken on the same day disregarding the substance and underlying nature of such transactions as established and corroborated with sufficient evidence.

7.18. As the said loan transactions were in the nature of unsecured loans taken from the promoter group of Noticee 1 from time to time depending on the fund requirements in the business, the parties did not execute the formal loan agreements. There is no mandatory requirement that loan transactions should be undertaken only through execution of formal loan agreements. The formal / written loan agreements would generally be required by lenders to secure repayment of such loans and to provide for various other terms

relating thereto. Here, as the promoter group had lent funds to Noticee 1 which was and is under their control and management, the promoter group did not require any such loans agreement to be executed. With respect to contents of para 4.8 of the Notice, the Noticees would like to clarify that Noticees in their respective emails dated August 26, 2019 had stated that there was no formal loan agreement for such loan transactions. However, there are sufficient alternate documentary evidence available on record to confirm such loan transactions as stated herein specifically in clause 3.3.1.

7.19. All these were genuine transactions undertaken through regular banking channels duly recorded in books of accounts and presented in the audited financial statements. The objectives of aforesaid fund transfers amongst these entities were solely to ensure compliance of provisions of Companies Act 2013 for the reasons stated herein and to ensure that Noticee 2 (being a promoter group entity) subscribes warrants / shares of Noticee 1 against the loans outstanding of promoter group in Noticee 1. Thus, there is no question of any benefit given to Noticee 2 through the preferential allotment scheme, the said warrants were subscribed by promoter group through Noticee 2 against the outstanding loans of promoter group in Noticee 1.Therefore, the allegation of perpetrating a fraud on the other allottees, shareholders and the ordinary investing public who might have transacted in the shares of Noticee post preferential allotment for the stated reasons, is erroneous without any merit.

7.20. Looking solely at the fund movements in bank accounts without appreciating, or simply disregarding, the underlying nature of transactions associated with each such fund movement as evident from facts on records, would be a gross error and alleging fraudulent activities on such basis would be unjust and unfair. Therefore, it would be erroneous and bad in law to allege that Noticee 1 issued warrants I shares to Noticee 2 without receipt of consideration and that all the Noticees are responsible for alleged fraudulent acts, which never existed but just in conjectures and surmises.

7.21. The whole basis and crux of reaching to the allegations of non-compliances or violations of stated SEBI Regulations on the part of Noticees were on the sole ground that Noticee 1 issued warrants / shares to Noticee 2 under preferential allotment route without receipt of consideration, which, in our opinion, is erroneous and in view of submissions made herein, it is established beyond doubt that Noticee 1 did, in fact, receive the requisite consideration for issuance of warrants / shares to Noticee 2. Therefore, it would be unfair and bad in law to continue the subject proceedings against the Noticees and contemplate any adverse actions in this regard.

7.22. There was no ill-intent, motive or inducement for the Noticees to indulge into the alleged violations with a view to derive any kind of benefits out of it or to deceive the investors as alleged.

7.23. The alleged violations did not affect the interest or caused any harm at all to the investors.

7.24. In view of the same the Noticees have prayed that the SCN be disposed of without any direction or a lenient view be taken in the matter.

8. An opportunity of hearing was provided to the Noticees on July 17, 2020. On the said date, Authorized Representatives of the Noticees appeared through video conference and made submissions reiterating the reply submitted on behalf of the Noticees.

Consideration of submissions and findings:

9. I have considered the allegations levelled against the Noticees in the SCN, the annexures to the SCN, reply of the Noticees and the submissions made by the Authorized Representatives of the Noticees during the personal hearing. Before dealing with the submissions made by the Noticees, it would be appropriate to refer to the relevant provisions of law pertaining to the matter, extract whereof is reproduced below:

Relevant extract of provisions of 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;"

Relevant extract of provisions of ICDR Regulations, 2009:

"Payment of consideration.

77. (1)…

(2) An amount equivalent to at least twenty five per cent. of the consideration determined in terms of regulation 76 shall be paid against each warrant on the date of allotment of warrants.

(3)The balance seventy five per cent. of the consideration shall be paid at the time of allotment of equity shares pursuant to exercise of option against each such warrant by the warrant holder."

Relevant extract of provisions of 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.

....."

10. The brief case, as alleged in the SCN, is that Noticee no. 1 made a preferential allotment of 26,50,000 warrants at a price of Rs. 65/- per warrant, in favour of Noticee no. 2, on September 28, 2015. Each of the said warrant was convertible into one equity share of the Company within a period 18 months from the date of allotment of the warrants, at the option of the allottee i.e. Noticee no. 2. Thus, the Company was to receive a total consideration of Rs. 17,22,50,000/- out of which 25% was to be paid by the allottee i.e. Noticee no. 2 at the time of allotment of warrant and remaining consideration was to be paid at the time of conversion of warrants into equity shares, in terms of Regulation 77(2) and 77(3) of the ICDR Regulations, 2009. SCN alleges that the consideration amount of Rs. 17,22,50,000/- which was paid by Noticee no. 2 to Noticee no. 1, for warrants and equity shares issued on preference basis, was received by Noticee no. 2 from Noticee no. 3 which in turn was received by Noticee no. 3 from Noticee no. 4 which in turn was received by Noticee no. 4 from Noticee no.1. Thus, SCN alleges that Noticee no. 1 made preferential issue of warrants to Noticee no. 2 without receipt of consideration, in violation of Regulation 77(2) and 77(3) of ICDR Regulations,

2009 and thus committed a fraudulent act. SCN alleges that Noticee no. 5 to 9 are the common directors/partners in Noticee no. 1, Noticee no. 3, Noticee no. 4 and/or Noticee no. 2 and are therefore, responsible for the fraudulent act of the Company.

11. The Noticees have not denied the fact that a total amount of Rs. 17,22,50,000/- which was paid by Noticee no. 2 to Noticee no. 1, as consideration for warrants and equity shares issued on preference basis, was in fact received by Noticee no. 2 from Noticee no. 3 who received it from Noticee no. 4 who in turn had received it from Noticee no. 1 itself. Noticees have submitted that the reason for such transfer by Noticee no. 1 in favour of Noticee no. 4 was that the said preferential allotment of warrants in favour of Noticee no. 2 was made by it for converting the part of the loan of Rs. 21. 10 Crore given by Noticee no. 4 to it, into equity. It has been further submitted that Noticee no. 1 had transferred amount of Rs. 17,22,50,000.00 i.e. consideration amount for warrants/equity shares issued by it, to ensure procedural compliance of the Companies Act, 2013 which laid down strict framework in relation to issue of shares on preferential basis and stipulated that a separate bank account was to be designated only for receipt of share application money, and only after due compliance of all provisions in relation to issue/allotment of such shares that the issuer company could transfer/utilize such share application money.

12. I note that further issue of capital by a company is dealt under Section 62 of the Companies Act, 2013, which *inter alia* deals with preferential allotment as well as conversion of loan into equity. The relevant extract of Section 62, as existing at the relevant time, is reproduced as under:

> ***"62. Further issue of share capital.***— *(1) Where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered—*
> *(a) to persons who, at the date of the offer, are holders of equity shares of the company in proportion, as nearly as circumstances admit, to the paid-up share capital on those shares by sending a letter of offer subject to the following conditions, namely:—*

(i) the offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;
(ii) unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice referred to in clause (i) shall contain a statement of this right;
(iii) after the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not disadvantageous to the shareholders and the company;
(b) to employees under a scheme of employees' stock option, subject to special resolution passed by company and subject to such conditions as may be prescribed; or
(c) to any persons, if it is authorised by a special resolution, whether or not those persons include the persons referred to in clause (a) or clause (b), either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer subject to such conditions as may be prescribed.

(2) The notice referred to in sub-clause (i) of clause (a) of sub-section (1) shall be despatched through registered post or speed post or through electronic mode to all the existing shareholders at least three days before the opening of the issue.

(3) Nothing in this section shall apply to the increase of the subscribed capital of a company caused by the exercise of an option as a term attached to the debentures issued or loan raised by the company to convert such debentures or loans into shares in the company:
Provided that the terms of issue of such debentures or loan containing such an option have been approved before the issue of such debentures or the raising of loan by a special resolution passed by the company in general meeting.

....."

13. As can be noted from the above quoted Section 62(3) of the Companies Act, 2013, a company can issue further capital *inter alia* in order to convert a loan taken by it subject to the conditions that option to convert the loan into equity capital must be one of the terms of the loan and the loan containing such option has been approved

before the raising of such loan by the company, by a special resolution passed in the general meeting of the company. In this case, I note that Noticees have submitted that Noticee no. 1 had taken loan worth Rs. 21.10 crore from Noticee no. 4 in in 17 instances during the period September 24, 2013 to February 18, 2015, which was subsequently decided by them to convert it into equity. Noticees have also submitted that such loan was given by the Noticee no. 4 without any written loan agreement. Thus, it is clear that term of loan taken by Noticee no. 1 was not that the lender will have an option to convert the same into equity. Also, such loan containing the option to convert the loan into equity was required to be approved by the shareholders of Noticee no. 1 by a special resolution before raising of such loan which has not been done in the present case. Therefore, the shareholders of Noticee no. 1 were not aware of loan with an option to convert the same into equity, taken by the Noticee no. 1 from Noticee no. 4. The Noticee have contended that the loan taken by the Noticee no. 1 from Noticee no. 4 was disclosed in the Annual Report of the Noticee no. 1 for the financial year FY 2014-15. In this regard, I note that though Annual Report discloses the total loans/debts of the Noticee no. 1, however, said disclosures do not mention that such loans have been raised with an option to lender to convert the same into equity. In any case, disclosures of the total loan amount made in the Annual Report can not substitute the requirement of Section 62(3) which requires that firstly, there should be specific term in the loan agreement to convert the loan into equity and secondly, passing of special resolution by the shareholders before raising of any loan which provides an option to lender to convert the same into equity. Moreover, by Noticees' own submission, the preferential issue of warrants was made under Section 62(1)(c) of the Companies Act, 2013 which when read together with Regulation 77 of ICDR Regulations, 2009 envisages that in case of preferential allotment of warrants 25% of the consideration shall be paid at the time of issue of warrants and remaining 75% consideration shall be paid at the time of allotment of shares upon conversion of such warrants, and does not contemplate the conversion of loan already taken by the issuer into equity.

14. Noticees have contended that though preferential allotment was made by Noticee no. 1 to convert the loan taken by it from Noticee no. 4 in to equity, however, it had to transfer the loan amount to the account of Noticee no. 4 so as to comply with the requirements of the Companies Act, 2013 which required keeping of proceeds of preferential allotment in a separate bank account by the issuer, till the compliance with all legal requirements. In this regard, I note that the Noticee no. 1 might have been trying to comply with the provisions of Companies Act, 2013 which as per its understanding contemplated receipt of consideration amount by issuer company from the allottee in a separate bank account, however, that does not allow the Company to use its own money for payment of consideration by the allootee i.e. Noticee no. 2.

15. Besides the absence of legal backing for the contention of conversion of loan into equity, as discussed above, if at all, preferential issue was made to convert the loan of Noticee no. 4 into equity, as contended by the Noticees, there was no need for issue of warrant (a convertible instrument) in favour of a Noticee no. 2 who was not even lender and the loan could have been straightway converted into equity.

16. I also note that even for the loans that was purportedly owed by Noticee no. 4 to Noticee no. 3 and by Noticee no. 3 to Noticee no. 2, the Noticees have failed to provide any details like terms and conditions of loan including interest rates, time period, default, etc. This coupled with the fact that the AGM minutes approving the preferential issue, makes no mention of such a loan leads to the inference that this explanation provided by the Noticees for the flow of funds from Noticee No.1 to Noticee no. 4 and thereafter from Noticee no. 4 to Noticee no.3 and subsequently from Noticee no. 3 to Noticee no. 2, is an afterthought. I also note that the Noticees have failed to explain why after being repaid the loan by Noticee no. 1, Noticee no. 4 did not make this amount directly available to Noticee no. 2 and circuitously routed it through Noticee no. 3. This conduct of Noticee no. 4 further shows that the Noticees were making an effort to avoid regulatory detection of their preferential allotment made without receipt consideration as stipulated by the provisions of

Regulation 77 of the ICDR Regulations, 2009 and masquerade it as the one made with consideration.

17. In addition to the above, I note that the minutes of the Annual General Meeting of the shareholders of Noticee no. 1, held on September 03, 2015 (wherein the issue of warrants to Noticee no. 2 was approved) reads as follows, with reference to the preferential issue:

> *"Special resolution for creating issuing and offering 26,50,000 Warrants of Rs.65/- each with an option to convert into each warrant into one Equity share of nominal value of Rs.10/- at a premium of Rs.55/- to Shri JB Pharma LLP.*
> *RESOLVED THAT pursuant to the provisions of Section 62(1)(c) and all other applicable provisions, if any, of the Companies Act, 2013 (hereinafter referred to as the "Companies Act") (including any statutory modification(s) or reenactment thereof for the time being in force), and any other applicable provisions of the Companies Act, 2013 the Memorandum of Association and Articles of Association of the Company and the Listing Agreements entered into with the Bombay Stock Exchange Ltd. and the National Stock Exchange of India Ltd., where the Company's Equity Shares are listed, Regulations for Preferential Issue contained in Chapter VII of the Securities and Exchange board of India ("SEBI") (Issue of Capital & Disclosure Requirements) Regulations, 2009 and the SEBI(Substantial Acquisition of Shares and Takeovers) Regulations, 2011 as may be modified or reenacted from time to time (hereinafter referred to as "SEBI Regulations") the applicable Rules, Notifications, Regulation issued by the Government of India, SEBI and subject to the approvals, consents, permissions and /or sanctions of the stock exchanges where the shares of the Company are listed ("Stock Exchanges") , SEBI, the Registrar of Companies ("the RoC") or all concerned statutory and other authorities as may be necessary, and subject to such conditions and modifications as may be prescribed, stipulated or imposed by any of them while granting such approvals, consents , permissions, sanctions, the Board of Directors of the Company (hereinafter referred to as "the Board") , which term shall be deemed to include any Committee of the Directors for the time being exercising the power conferred to the Boards be and is hereby authorized on behalf of the Company to create, offer, issue and allot in one or more tranches upto 26,50,000 Warrants of RS. 65/- each with an option to convert each warrant into one Equity Share of nominal value pf Rs.10/- each at a issue price of Rs.65/- (including premium of Rs.55/-) determined in accordance with SEBI ICDR Regulations; on terms and conditions mentioned*

hereinafter in this resolution to Shri JB Pharma LLP ("Equity under Promoter Group") with an option to the proposed allottee to convert the same into Equity Shares of the Company in one or more tranches, not later than 18 months from the date of their allotment in accordance with SEBI Regulations or other provisions of the law as may be prevailing at the time of allotment of Equity Shares/ exercise of warrants:

RESOLVED FURTHER THAT the Warrants shall be issued by the Company on Preferential basis on the following terms and conditions:

i. The Warrants shall be convertible (at the option of warrants holders) at any time within a period of 18 (Eighteen) months from the date of allotment of Warrants.

ii. Each warrant shall be convertible into one Equity Shares of nominal value of Rs. 10/- (Rupees Ten only) each at a issue price of Rs. 65/- (including premium of Rs.55/-) determined in accordance with SEBI ICDR Regulations.

iii. The warrant holders are, on the date of allotment of Warrants, required to pay an amount, equivalent to at least 25% (Twenty-Five percent) of the total consideration per warrant.

iv. The conversion of Warrants into Equity Shares shall be made in one or more tranches within a period of 18 (eighteen) months from the date of allotment of warrants, s per the option exercised by the Warrant holders.

v. The amount referred in point (iii) above shall be forfeited, if the option to take Equity Shares against any of the warrants held by the warrant holder is not exercised within a period of 18 (Eighteen) months from the date of allotment of Warrants.

vi. The lock in period of Warrants and Equity Shares acquired by exercise of Warrants shall be in accordance with the SEBI Regulations.

vii. Warrants by itself do not give to the prosed allottee any rights of the Equity Shareholders of the Company unless converted into Equity Shares of the Company.

viii. The resultant Equity Shares will be subject to Memorandum and Articles of Association of the Company in all respects.

RESOLVED FURTHER THAT the Relevant Date for the purpose of calculating the minimum price for the warrants under Chapter VI of relevant SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 will be 04 August, 2015 being the date 30 days prior to the date of passing this Resolution to approve the propped preferential issue in terms of Section 62(1) (c) pf the Act.

RESOLVED FURTHER THAT the Equity Shares, if allotted on the conversion of warrants, shall rank pari passu in all respects with the existing Equity Shares of the Company with a right to receive dividend and other distributions to be declared thereafter during the year.

RESOLVED FURTHER THAT for the purpose of giving effect to this Resolution, the Board of Directors/ Committee thereof be and is hereby authorized, on behalf of the Company, to take all actions and do all such deed, matters and things as it may, in its absolute discretion, deem necessary, desirable, or expedient to the issue or allotment of aforesaid warrants and Equity Shares if allotted upon exercise of right(s) attached to such warrants and to list such Equity Shares with the Stock Exchange(s) , as may be appropriate, and to resolve and settle all question(s) or difficult(ies) or doubt(S) that may arise in connection with the proposed offer, issue and allotment of any of the said warrants and/ or the Equity Shares if allotted upon exercise of option(s) so attached to such warrants and to do all acts, deeds, and things in connection therewith and incidental thereto as the Board may, in its absolute discretion, deem fit, without being required to seek any further consent or approval of the Members or otherwise to the end and intent that they shall be deemed to have given their approval thereto expressly by the authority of this Resolution.

RESOLVED FURTHR THAT the Board of Directors of the Company be and is hereby authorized to delegate any or all the powers conferred upon it by this Resolution, to any Committee formed thereof, or to any individual so authorized by the Board."

18. A perusal of the abovesaid minutes of AGM of the shareholders of Noticee no.1, dated September 03, 2015 indicates that this special resolution was *inter alia* passed for allotting 26,50,000 warrants of Rs.65/- each with an option to convert each warrant into one equity share of nominal value of Rs.10/- at a premium of Rs.55/- to Shri JB Pharma LLP i.e. Noticee no. 2 and to list shares allotted pursuant to conversion of such warrants, on the stock exchanges. There is no mention that the shareholders approved the preferential allotment *in lieu* of the loans taken by the Company. On the contrary, it lays down that 25% of the total consideration for warrant shall be paid by the allottee (i.e. Noticee no. 2) to the Company i.e. Noticee no. 1, at the time of allotment of warrants. Thus, the aforesaid special resolution has been passed by the shareholders of Noticee no. 1, authorising a preferential

allotment of warrants without any reference to conversion of loan into equity with the understanding that such preferential allotment would infuse more funds in the Company. Thus, the existing shareholders and the prospective investors in the securities of Noticee no. 1 were given an impression that by way of this preferential issue of warrants, new funds would be infused in Noticee no.1 i.e. 25% of the consideration of the warrants amounting to Rs. 4,31,62500/- at the time of allotment of warrants and 75% of the total consideration amounting to Rs. 12,91,87,500/- at the time of conversions of warrants into equity shares, whereas in fact Noticee no. 1 is claiming that this preferential issue was for setting off the pre-existing loan of the Noticee no. 4 and thus there was no infusion of the new funds in the Company. Thus, assuming that Noticee no. 1 made this preferential allotment of warrants to purportedly set off the loan taken by Noticee no. 1 from Noticee no. 4 , it had been done without the knowledge/approval of shareholders of Noticee no. 1 and contrary to the approval of the shareholders of the Noticee no. 1, and has misled the shareholders of the Noticee no. 1 and the prospective investors in the securities of Noticee no. 1, a listed company, since investors might have been induced to invest/ deal with/ remain invested in the shares of Noticee no.1 with the impression that there has been an infusion of funds in Noticee no.1 whereas the issue of warrants/ shares was purportedly adjusted against a loan and that also in an unauthorized manner without following the proper procedure.

19. I agree with the observation in the SCN that when a company raises capital through share issuance, it is a capital infusion and ordinary investor perceives such capital infusion as a measure which strengthens the company's financial fundamentals thereby attracting the investing public to transact in the shares of the company. However, in the present instance, although Noticee no. 1 gave a public impression of such capital infusion through preferential allotment, in reality, Noticee no. 1, *inter alia*, allotted shares to Noticee no. 2 without receiving full consideration. In view of the above, I find that by providing benefit to Noticee no. 2 through the preferential allotment scheme, Noticee no. 1 along with Noticee no. 2 had perpetrated a fraud on the other allottees, shareholders and the ordinary investing public who had

transacted in the shares post preferential allotment and Noticee nos. 3 and 4 have also participated in the fraudulent activity by acting as a conduit for transfer of funds from Noticee no. 1 to Noticee no. 2.

20. I also note that during the investigation period, the promoters / directors of Noticee no. 1 were common with / connected to the directors / partners of Noticee no. 2, directors of Noticee no. 3 and Noticee no. 4. The details of the same are tabulated below:

Name of Company → Name of entity ↓	**Mangalam Drugs & Organics Ltd. (Noticee no. 1)**	**Mangalam Laboratories Pvt. Ltd. (Noticee no. 3)**	**Raga Organics Pvt. Ltd. (Noticee no. 4)**	**Shri J B Pharma LLP (Noticee no. 2)**
Ajay R Dhoot (Noticee no. 5)	Promoter group	Director	Director	Designated partner
Aditya R Dhoot (Noticee no. 6)	Promoter group	Director	Director	Designated partner
Brijmohan M Dhoot (Noticee no. 7)	Director / Promoter	Director	Director	
Govardhan M Dhoot (Noticee no. 8)	Director / Promoter	Director		Designated partner
Ramniwas R Dhoot (Noticee no. 9)			Director	Partner

I find that Noticee nos. 5, 6, 8 and 9 were partners in Noticee no. 2 which is a LLP. Noticee no. 5 is also director in Noticee no. 3 and 4 and is promoter of Notcee no. 1. Noticee no. 6 is director of Noticee no. 3 and 4 and is promoter of Noticee no. 1. Also Noticee no. 8 is the promoters/ director of Noticee no.1 as well as the director of Noticee no. 3. Noticee no. 9 is a director of Noticee no. 4. Noticee No. 7 is director of Noticee no. 3 and 4 and is a promoter/director of Noticee no. 1. Therefore, Noticee no. 5 to 9 are liable for the respective violations of Noticee no. 1 to 4 wherein they were directors/promoter/designated partners, as alleged in the SCN.

In the present case, Noticee no.1 was the issuer company, Noticee no. 2 was the allottee which received the warrants/ shares without bringing in the money for allotment and Noticee nos. 3 and 4 were conduits through which Noticee no. 1 paid an amount of Rs. 17,22,50,000/- to Noticee no. 2 which was used by Noticee no. 2 to subscribe to warrants/ shares of Noticee no.1.

21. In the SCN, Noticees except Noticee no. 1, have been called upon to show cause as to why suitable directions including the direction to pay the consideration amount of Rs. 17.22 crore (approx.) to Noticee no. 1 be not issued to the them. In this regard, I note that the Noticees have submitted that the total debt / borrowings of Noticee no. 1 as on March 31, 2015 was Rs. 77.92 Crores (which included promoter group loan through Noticee no. 4 of Rs. 21.10 Crores), which reduced substantially to Rs. 59.82 Crores as on March 31, 2016, post conversion of promoter group loan into warrants/ shares, which had a corresponding positive effect of increase in the shareholders' funds/ net worth of Noticee no. 1 from Rs. 29.36 Crores as on March 31, 2015 to Rs. 61.52 Crores as on March 31, 2016. Though conversion of loan of Noticee no. 4 into equity was not in accordance with law, as stated above, however, it is fact as mentioned in the Annual Reports of the Noticee no. 1 that after conversion of aforesaid loan into equity, debt/borrowings of Noticee no. 1 reduced. In view of this, I find that the question of paying consideration to Noticee no. 1 may not arise, in the facts and circumstances of the case, as the present case relates to preferential issue of warrants by misleading the shareholders and investors of Noticee no. 1 which was a fraudulent act.

22. In view of the discussion in previous paras, I find that Mangalam Drugs and Organics Ltd. (Noticee no. 1) and its directors Govardhan M Dhoot, and Brijmohan M Dhoot, (Noticee nos. 7 and 8 respectively) and (ii) Shri J B Pharma LLP (Noticee no. 2) along with its partners Ajay R Dhoot, Aditya R Dhoot, Govardhan M Dhoot and Ramniwas R Dhoot (Noticee nos. 5, 6, 8 and 9 respectively) have violated Regulation 77(2) and 77(3) of ICDR Regulations 2009 read with Regulation 169(2) of ICDR Regulations, 2018 and Sections 12A(a) of SEBI Act, 1992 read with

Regulations 3 (b) & 4(1) of PFUTP Regulations, 2003. Further, by acting as a conduit for transfer of funds from Noticee no. 1 to Noticee no. 2 in the above act, (i) Mangalam Laboratories Pvt. Ltd. (Noticee no. 3) and its directors Ajay R Dhoot, Aditya R Dhoot, Brijmohan M Dhoot and Govardhan M Dhoot (Noticee nos. 5 to 8, respectively) and (ii) Raga Organics Pvt. Ltd. (Noticee no. 4) and its directors Ajay R Dhoot, Aditya R Dhoot, Brijmohan M Dhoot and Ramniwas R Dhoot (Noticee nos. 5 to 7 and 9, respectively) have violated Sections 12A(a) of SEBI Act, 1992 read with Regulations 3 (b) & 4(1) of PFUTP Regulation, 2003.

23. The Noticee no. 1 is a listed company. It is required to act in transparent manner as required under the securities laws. In the present case, the conduct of Noticee no. 1 of converting loan already taken by it from Noticee no. 4 into equity without following the legal requirements as well as by giving an impression to the investors that preferential allotment would result into infusion of new funds in the Company, has committed a fraud on the investors. Thus, the violations by the Noticees call for issue of regulatory directions under Sections 11 and 11B and also makes them liable for imposition of monetary penalty under Sections 15HA and 15HB, of the SEBI Act, 1992. While imposing monetary penalty, the Board is required to take into consideration the factors enumerated in Section 15J of the SEBI Act, 1992 which provides as under:

> *15J. While adjudging quantum of penalty under 115-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely: —*
>
> *(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
>
> *(b) the amount of loss caused to an investor or group of investors as a result of the default;*
>
> *(c) the repetitive nature of the default.*
>
> *Explanation. —For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.23.*

24. I note that in the present case, the shareholders of Noticee no. 1 were deprived of taking informed decision at the time of passing of Special Resolution in the AGM of the investors of Noticee no.1 dated September 03, 2015 as it was not disclosed to the shareholders that a pre-existing loan of the Company was purportedly being converted into shares and that there was no infusion of new funds into Noticee no. 1. The existing and prospective investors were also deprived of taking timely investment and disinvestment decision by giving an impression that funds to the tune of approximately Rs. 17.22 crores will be infused by the allotee into the Company. Further, Notice no. 4 was purportedly able to convert its loan into shares which were allotted to Noticee no.2 and Noticee no.2 was able to subscribe to shares/ warrants without bringing in any consideration. I also note that this loss or gain, in the facts and circumstance of the case, cannot be quantified in monetary terms.further, in these proceedings restraint order as per para 25 is being passed. However, in terms of Section 15HA and 15HB of the SEBI Act, 1992 a minimum penalty of Rs. five lakh and Rs. one lakh, respectively, has to be mandatorily imposed on the Noticees.

Directions:

25. In view of the above, I, in exercise of the powers conferred upon me under Sections 11(1), 11(4), 11B, 15HA and 15HB of the SEBI Act, 1992 of the SEBI Act, 1992 read with Section 19 of the SEBI Act, 1992, hereby directs as under:

(i) Noticee no. 1 to 9 are restrained from accessing the securities market through issue of securities or subscription to securities, directly or indirectly, for a period 6 months; and

(ii) Noticee no. 1 to 9 shall pay the penalty which is imposed upon them as follows:

Noticee no.	Name of the Noticee	Penalty Amounts
1.	Mangalam Drugs and Organics Ltd.	Rs.6,00,000/- under Sections 15HA and 15HB of SEBI Act, 1992.
2.	Shri J B Pharma LLP	Rs.6,00,000/- under Sections 15HA and 15HB of SEBI Act, 1992.
3.	Mangalam Laboratories Pvt. Ltd.	Rs.5,00,000/- under Sections 15HA of SEBI Act, 1992.
4.	Raga Organics Pvt. Ltd.	Rs.5,00,000/- under Sections 15HA of SEBI Act, 1992.
5.	Ajay R Dhoot	Rs.6,00,000/- under Sections 15HA and 15HB of SEBI Act, 1992.
6.	Aditya R Dhoot	Rs.6,00,000/- under Sections 15HA and 15HB of SEBI Act, 1992.
7.	Brijmohan M Dhoot	Rs.6,00,000/- under Sections 15HA and 15HB of SEBI Act, 1992.
8.	Govardhan M Dhoot	Rs.6,00,000/- under Sections 15HA and 15HB of SEBI Act, 1992.
9.	Ramniwas R Dhoot	Rs.6,00,000/- under Sections 15HA and 15HB of SEBI Act, 1992.

26. The penalty shall be paid by the Noticee within a period of forty-five (45) days, from the date of coming into force of this direction, by way of Demand Draft payable in favour of "SEBI -Penalties Remittable to Government of India", payable at Mumbai. The Demand Draft shall be sent to "The Division Chief, IVD-ID6, Securities and Exchange Board of India, SEBI Bhavan II, Plot no. C-7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai -400 051".Payment can also be made online by following the below path at SEBI website:

ENFORCEMENT → Orders → Orders of Chairman/Members → Click on PAY NOW

OR

at https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html

27. This Order comes into force with immediate effect.

28. A copy of this Order shall be forwarded to the Noticees, recognized stock exchanges, for information and necessary action.

ANANTA BARUA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

Date: September 22, 2020
Place: Mumbai