

SECURITIES AND EXCHANGE BOARD OF INDIA

FINAL ORDER

UNDER SECTIONS 11(4), 11B AND 11D OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH REGULATION 11 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003.

IN THE MATTER OF KAREENA INFOTECH –

	NOTICEES	PAN
COMPANY –		
1.	KAREENA INFOTECH	NOT AVAILABLE
DIRECTORS –		
2.	MANOHAR PILLAI	NOT AVAILABLE

BACKGROUND –

1. Vide an *Ad-Interim Ex-Parte Order cum Show Cause Notice* dated January 12, 2016 (“**Interim Order**”), Securities and Exchange Board of India (“**SEBI**”) had *inter alia* restrained Kareena Infotech and its Director, viz. Manohar Pillai, from accessing the securities market and further prohibited them from buying, selling or otherwise dealing in securities in any manner whatsoever, either directly or indirectly.
2. As per the Interim Order, Kareena Infotech and its Director were *prima facie* found to have misrepresented Kareena Infotech as a SEBI registered Stock Broker (even though the aforementioned entity was never granted any Certificate of Registration in any capacity by SEBI) and was also found to have solicited funds from investors promising high returns. As a result of the aforementioned, Kareena Infotech and its Director were alleged to have violated the provisions of Section 12(1) and Section 12A(a)–(c) of the SEBI Act, 1992 (“**SEBI Act**”) read with Regulation 3(b)–(d) and Regulation 4(1) and 4(2)(k) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (“**PFUTP Regulations, 2003**”).
3. The Interim Order was forwarded to the aforementioned entities vide SEBI letter dated January 19, 2016. However, the said letter was returned as undelivered. The Interim Order was also uploaded on the SEBI website i.e. www.sebi.gov.in under the heads: **Enforcement >> Orders of Chairman/Members** and **Enforcement >> Orders that could not be**

served. However, no reply to the Interim Order was received from the aforementioned entities.

4. Subsequently, Kareena Infotech and its Director were granted an opportunity of personal hearing on November 13, 2018. SEBI had effected substituted service of the hearing notices through publication in three national newspapers on November 6, 2018. However, the aforementioned entities did not appear for the personal hearing on that date.
5. I have considered the Interim Order dated January 12, 2016 along with all the material available on record. Kareena Infotech and its Director have not filed any reply to the Interim Order or made any submission for consideration during the course of these proceedings. Even though Kareena Infotech and its Director remained *ex parte*, I find it relevant that I should be guided by the documents available on record as laid down by the Hon'ble SAT in its Order dated May 12, 2017 in the matter of *Shri B. Ramalinga Raju vs. SEBI (Appeal No. 286 of 2014)*. Accordingly, for the purpose of the instant proceedings, the issues for consideration are as under –
 - A. ***Whether Kareena Infotech and its Director offered services in the nature of stock broking without obtaining registration from SEBI to act as Stock Broker in contravention of Section 12(1) of the SEBI Act?***
 - B. ***Whether Kareena Infotech and its Director solicited investment from investors on receipt of requisite fees?***
 - C. ***Whether as a result of the aforementioned activities, Kareena Infotech and its Director committed 'fraud' in the securities market and as a result, violated Section 12A(a)–(c) of the SEBI Act read with Regulation 3(b)–(d) and Regulation 4(1) and 4(2)(k) of the PFUTP Regulations, 2003?***

From the material available on record, it is noted that –

6. A client of Kareena Infotech in a complaint (dated August 10, 2013) filed with SEBI, had alleged that the entity had claimed itself to be a SEBI registered intermediary and had displayed the following Registration numbers on its website i.e. CSD–INE–231376337; MCX–SX–INE–261383735 and USE–INE–271381359. It was also alleged in the aforesaid complaint that Kareena Infotech had solicited money from the public promising high returns on investment and that he had lost ₹25,000 as a result of investments in/through the aforesaid entity.

7. Kareena Infotech had earlier maintained a website i.e. <http://kareenainfotech.in> on which *inter alia* the following information was made available –
- Kareena Infotech is a licensed brokerage house and is regulated by the Foreign Exchange Management Act (“FEMA”) under the guidelines of SEBI. Kareena Infotech has offices in various locations such as Mumbai, Pune, Bangalore, Hyderabad Gurgaon, Noida, Agra, Dubai, etc.*
 - It offers its clients an opportunity to invest/trade in the international OTC markets into forex, commodities, stock exchange indices, shares and financial options.*
 - A prospective client needs to invest ₹50,000 and in turn would get ₹1000 daily through a one-year contract with no risk attached with this investment and such prospective client would be provided with undated capital PDCs (post-dated cheques) with the right to cancel the agreement anytime. Kareena Infotech indicated that it has several secured savings and current accounts with various banks. A prospective client will be handled and contacted by Mr. Manohar Pillai (Director-Marketing) whose telephone number is ‘9619318593’.*
 - A sample Investment Agreement was made available on the website for prospective clients wherein the terms of agreement have been delineated. As per the agreement, Kareena Infotech is into the business of finance consultancy and has diversified interests in the investment projects such as insurance, forex trading, share broking, etc. As per the terms of the sample agreement, Kareena Infotech would collect a lump sum amount of ₹1 Lakh towards a ‘trading plan’ and would pay its clients an assured sum of ₹2,000/- on daily basis for 5 days in a week.*
 - To make an investment, a prospective client must first become a member of kareenainfotech.in and once such client is signed up, he makes a deposit in any bank account provided by Kareena Infotech. The returns are credited to the client’s account from the next day of realization of the deposit amount. Any returns on investment is credited to the client’s available balance at the end of each day.*
8. I note that SEBI had never granted any Certificate of Registration in any capacity to any entity by the name of ‘Kareena Infotech’. Further, I note that SEBI had never issued any such Certificate of Registration with the aforementioned Registration numbers as represented by the Kareena Infotech on its website (refer to paragraph 6). In this context, I note that the Interim Order records that the registration numbers mentioned by the complainant, were not found to be available anywhere on the abovementioned website i.e. <http://kareenainfotech.in>. From the material available on record, I note that upon receipt of the complaint (mentioned at paragraph 6), SEBI had examined the same and upon discovering that the registration numbers were not mentioned on the aforementioned website, sought proof from the complainant regarding the same. In his reply to SEBI dated December 24, 2013, the complainant had submitted that the registration numbers had earlier been hosted on the aforesaid website. As on the date of the Interim Order, I

note that the website i.e. <http://kareenainfotech.in> was found to be inactive. Having regard to the aforementioned fact and in the absence of any reply/submission from the Noticees, I am inclined to accept that complainant's submission that Kareena Infotech had indeed mentioned the aforementioned Registration numbers on its website (which would have been removed subsequently) to misrepresent itself as a SEBI registered intermediary.

9. SEBI had also contacted the *Director-Marketing* of Kareena Infotech i.e. Manohar Pillai, on the mobile number listed on its website i.e. 9619318593, to enquire whether the said entity was registered with SEBI as a stock broker or had dealt with investment in securities market. In his response, Manohar Pillai informed SEBI that although he was not a registered stock broker, he nonetheless dealt with investment related services and referred to Alpari Financial Services (India) Pvt. Ltd. [formerly known as Alpari Forex (India) Private Limited] ("**Alpari Financial Service**"), a SEBI registered Stock Broker, as his parent company. However, in reply to SEBI's request for information made vide letter dated August 11, 2014, Alpari Financial Service (vide letter dated September 3, 2014) *inter alia* denied having any association with Kareena Infotech. Further, Alpari Financial Service also informed SEBI that its parent company i.e. Alpari (UK) Limited, was not associated with Kareena Infotech in any manner.
10. The provisions of Section 12(1) of the SEBI Act *inter alia* mandate that a person shall hold a Certificate of Registration from SEBI in order to be associated with the securities market as a '*Stock Broker*'. Upon a consideration of the aforementioned, it is observed that Kareena Infotech and its Director misrepresented the aforesaid entity as a *licensed brokerage house* having Registration numbers CSD-INE-231376337; MCX-SX-INE-261383735 and USE-INE-271381359 offering *inter alia* share broking services and accordingly, solicited investments from prospective clients/investors with the promise of high returns. Accordingly, I find Kareena Infotech and its Director had indeed contravened the provisions of Section 12(1) of the SEBI Act through the aforementioned actions.
11. Section 12A(a)–(c) of the SEBI Act read with Regulation 3(a)–(d) of the PFUTP Regulations, 2003 *inter alia* prohibit employment of any manipulative/deceptive device, scheme or artifice to defraud in connection with dealing in securities; engaging in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with dealing in securities. Regulation 4(1) of the PFUTP Regulations, 2003, provides for prohibition on indulging in fraudulent or unfair trade practices in securities while Regulation 4(2)(k) state that dealings in securities by a person shall be deemed as fraudulent if it involves '*fraud*' including misleading and false advertisements, which may influence the decision of investors.

12. Kareena Infotech and its Director offered and provided services in the nature of stock broking activity to their clients/investors in the securities market *inter alia* promising guaranteed returns on investments. As per the terms of the sample Investment Agreement, Kareena Infotech collects a lump sum amount of ₹1 Lakh towards a '*trading plan*' and pursuant to the same, pays its clients an assured sum of ₹2000 on daily basis for 5 days in a week. As also stated in the Interim Order, if such repayment as promised by Kareena Infotech in its sample Investment Agreement is made, a client stands to get upto ₹5.2 Lakhs a year in return for every ₹1 Lakh invested by him. As noted earlier, Kareena Infotech was never registered under the provisions of the SEBI Act either as a '*Stock Broker*' or as any other intermediary. Investments in the securities market are speculative in nature and involve market risks and assured returns can never be guaranteed. Therefore, the solicitation of funds coupled with the promise of guaranteed returns on investments in the securities market as made by Kareena Infotech and its Director to their clients/investors, was incorrect and deceitful and such misrepresentation with respect to the '*fast money with low risk in a short period of time*', etc. was within their knowledge when viewed in light of the aforesaid. This clearly resulted in '*fraud*' as defined under the PFUTP Regulations, 2003, being committed by Kareena Infotech and its Director, which in turn affected the interests of investors in the securities market. As a result of such false and deceitful representation, clients/investors were wrongly led to believe that any investment made in the securities market in/through Kareena Infotech (a supposed SEBI registered intermediary) and its Director would result in assured/guaranteed returns and thereby may have been influenced/induced to deal in securities. Upon a consideration of the aforementioned, I find that Kareena Infotech and its Director have contravened the provisions of Section 12A(a)–(c) of the SEBI Act read with Regulation 3(b)–(d) and Regulation 4(1) and 4(2)(k) of the PFUTP Regulations, 2003.

CONCLUSION –

13. SEBI has been entrusted with the mandate of protecting the interests of investors and safeguarding the integrity of the securities market under the provisions of the SEBI Act. It is, therefore, necessary that SEBI exercises these powers firmly and effectively to insulate the market and its investors from the fraudulent actions of any of the participants in the securities market, thereby fulfilling its legal mandate. The basic premise that underlines the integrity of securities market is that persons connected with securities market do not resort to dealing in securities in a fraudulent manner and conform to standards of transparency and ethical behaviour prescribed in securities laws.

14. As noted from the preceding paragraphs, Kareena Infotech was never registered with SEBI either as a '*Stock Broker*' or as any other intermediary. It is reiterated that Kareena Infotech and its Director have failed to participate in the instant proceedings either through filing of a reply to the Interim Order or through their appearance at the personal hearing to counter the allegations made in the aforesaid Order. Therefore, for the reasons detailed in the preceding paragraphs, I have no hesitation in concluding that Kareena Infotech and its Director have acted in a manner which was detrimental to the interests of investors in the Indian securities market and as a result, violated the aforementioned provisions of the SEBI Act read with the PFUTP Regulations, 2003.

ORDER –

15. In view of the foregoing, I, in exercise of the powers conferred upon me under Sections 11(4), 11B and 11D of the SEBI Act read with Regulation 11 of the PFUTP Regulations, 2003, hereby direct as under –
- i. Kareena Infotech and its Director i.e. Manohar Pillai, are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in the securities market, either directly or indirectly, for a period of **three years** from the date of this Order.
 - ii. Kareena Infotech and its Director i.e. Manohar Pillai, shall cease and desist from undertaking any activity in the securities market, directly or indirectly, in any manner whatsoever for a period of **three years** from the date of this Order.
 - iii. Kareena Infotech and its Director i.e. Manohar Pillai, are prohibited from mobilizing funds from the public, in whatever form, for a period of **three years** from the date of this Order.
16. This Order shall come into force with immediate effect.
17. The Interim Order dated January 12, 2016, is accordingly disposed of.

18. A copy of this Order shall be forwarded to the recognized Stock Exchanges and Depositories for information and necessary action. A copy of the Order shall also be forwarded to the Directorate of Enforcement, the Economic Offences Wing and the Income Tax Department for taking further necessary action at their end, if any.

Place: Mumbai
Date: December 20, 2018

G. MAHALINGAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA