

SEBI settles insider trading case with Rakesh Jhunjunwala

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The Securities and Exchange Board of India (SEBI) has moved to settle an 'insider trading' case involving ace investor Rakesh Jhunjunwala, wife Rekha Jhunjunwala and eight others who were accused of unusual dealing in shares of Aptech Computers.

The parties will have to pay ₹37 crore to settle the case, which includes settlement charges, disgorgement of ill-gotten gains and interest. The amount will be paid by ten individuals along with Jhunjunwala, who has a major stake in multiple companies.

BusinessLine had reported on January 18 that Jhunjunwala and others had offered to settle the insider trading charges with SEBI. It is one of SEBI's largest settlements involving individual traders.

SEBI's consent route

Jhunjunwala and others settled the case under SEBI's consent route where an alleged wrongdoer can close investigations and adjudications into the matter with SEBI without admitting or denying guilt and charges against them. Others who have settled the case include Ramesh Damani, Utpal Sheth, sister Usma Sheth. The total charges paid by Rakesh Jhunjunwala amount to ₹18.5 crore, of which the disgorgement amount is nearly ₹6 crore. His wife Rekha has paid ₹3.2 crore. Aptech board members, including investor Ramesh S Damani and director Madhu Jayakumar, have paid ₹6.2 crore and ₹1.7 crore respectively.

Jhunjunwala has management control over Aptech and is also on the board of the company. In September 2016, the share price of Aptech hit a 10 per cent upper circuit as Jhunjunwala's brother and sister picked up 2.5 lakh and 5 lakh shares respectively. Both these trades combined were worth more than ₹100 crore then. There were trades executed by others as well. In just a few days, Aptech announced its entry into the pre-school education segment.

Shareholding of promoters led by the Jhunjunwala family has increased to around 48 per cent in Aptech since the prominent investor first picked up a 10 per cent stake in the company in 2005. SEBI found that there existed unpublished price sensitive information in Aptech when the high-profile investors were dealing in the company shares.

Apart from Jhunjunwala, others who were probed by SEBI include Ramesh Damani, Jhunjunwala's brother Rajesh Kumar, a chartered accountant, wife Rekha, mother-in-law Sushiladevi Gupta, Ushma Sheth and Madhu Vadera Jayakumar. Ushma is the sister of Utpal Sheth, CEO, Rare Enterprises — Jhunjunwala's flagship investment company.

Jayakumar is a board member of Aptech. Notice and summons were issued to all these investors last year. Trading in Aptech by these investors between February and September 2016 was under SEBI scanner

What SEBI alleged

SEBI had alleged that Jhunjhunwala and others traded in Aptech when in possession of unpublished price sensitive information (UPSI). In September 2016, Aptech had announced its foray into the preschool segment. As per the SEBI order, this was an UPSI between March 14, 2016 and September 7, 2016, the date of official announcement.

“It is alleged that Utpal Seth and Rakesh Jhunjhunwala were in possession of the UPSI and communicated the same to other applicants. On the basis of the UPSI, Rakesh Jhunjhunwala, Rekha Jhunjhunwala, Rajeshkumar Jhunjhunwala, Shushila Devi Gupta, Sudha Gupta and Ushma Seth Sule are alleged to have traded in the scrip of Aptech during the UPSI period,” the SEBI order said.

“The Settlement Mechanism of SEBI borrows aspects from the settlement model adopted by US SEC. There are various cases where an entity files settlements only to avoid litigation and buy peace. Settlement per se does not mean any admission by the notice whatsoever. It is not even an indication that SEBI’s case was foolproof. Settlement is done without admitting or denying the findings of fact and conclusions of law.” said Sumit Agrawal, Former SEBI Officer and lawyer of Rakesh Jhunjhunwala.