

ORDER UNDER SECTION 11 B of the SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995 AGAINST M/S RAJESH EXPORTS LTD.

Rajesh Exports Ltd. (REL) came out with a Public Issue of 20 lac equity shares of Rs. 10/- each for cash at a premium of Rs. 40/- per share aggregating Rs. 10 crores. Out of the said issue, the net offer to Resident Indian Public was of 18.5 lac shares aggregating Rs. 9.25 crores. The issue opened for public subscription on November 13, 1995 and closed on November 18, 1995. Investigations were initiated by SEBI into alleged irregularities in the Public Issue of REL. Investigations revealed that REL had made irregular allotments in the issue by allotting shares against applications received after the closure of the issue. Investigations also revealed that REL made available proceeds of the public issue for purchase of its own shares through a circuitous financing arrangement with Viswapriya Group.

Investigations revealed that State Bank of India, Ashram Road, Ahmedabad had issued 200 stockinvests for an aggregate amount of Rs. 17.50 lacs. From the information/documents furnished by the bank, it has been observed that the stockinvests were issued from 2 accounts with the bank, one of Narendra Parmar and the other of Mayur N Desai & Ila Desai. The extracts from the Stockinvest Issue Register furnished by the bank, shows that while stockinvest nos. 24751 to 24808 and 24813 to 24904 were issued on 24/11/95, stockinvest nos. 011501 to 011550 were issued on 11/12/95. Since the Issue had closed for subscription on 18/11/95, all these 200 stockinvests were antedated. Hence, all applications accompanied by such stockinvests were received after the closure of the Issue and were invalid in terms of Clause 12 of the "Procedure for Payment by Stockinvest and Disposal of Application Money" of REL's Prospectus dated 13/10/95.

Details of these stockinvests are as follows:

Stockinvest No.	Issued from account of	Date of Issue	Amount (Rs/lacs)
24751-24808	Narendra Parmar	24/11/95	3.30
24813-24904	-do-	24/11/95	9.20
011501-011550	Mayur N Desai & Ila Desai	11/12/95	5.00

This aspect has also been admitted by State Bank of India in its reply to queries raised by SEBI during the course of investigations.

Investigations also revealed that Tamilnadu Mercantile Bank, BVK Iyengar Road Branch, Bangalore had received 3800 applications for an aggregate of 31,20,000 shares of REL with Viswapriya Financial Services & Securities Ltd. (VFSL) as Power of Attorney holders for the applicants. These applications were accompanied with stockinvest instruments numbering 121933 to 125732. These stock invests were issued by Central Bank of India, Adyar, Chennai.

During the course of investigations with Central Bank of India, Adyar, Chennai, it was gathered that these stockinvests were issued on 5/12/95 and 6/12/95 to 3800 persons who had applied for stockinvests aggregating Rs. 3.90 crores through Prime Advance & Investors, their Power of Attorney holders. The stockinvests were issued against 2 FDRs taken in the name of Prime, which were opened on 1/12/95 and 5/12/95. With the issue having closed for subscription on 18/11/95, all these stockinvests were antedated and all applications accompanied by these stockinvests were received after the closure of the Issue. This aspect has been admitted by Central Bank of India in its reply to queries raised by SEBI during the course of investigations

Further investigations with Central Bank of India, Adyar, Chennai, brought out that REL opened a Current Account (No. 860) with the bank on 21/11/95 i.e. 3 days after the closure of the Issue. The address of REL in the Account Opening Form is shown as "Viswapriya", No. 2, I Cross Road, KB Nagar, Chennai-20, and is introduced by VFSL. On the same date, REL issued an irrevocable Power of Attorney to Viswapriya Trading Services Ltd. (now known as Pentagon Trading Services), an associate of VFSL, to operate the Current Account with the bank. As per REL's letter to the bank, dated 21/11/95, this PoA was irrevocable till REL discharged all its dues and obligations to VTSL and such discharge was intimated in writing to the bank by Viswapriya Trading Services Ltd. (VTSL). Again on 21/11/95, VTSL wrote to the bank seeking confirmation of bank's recording of irrevocable PoA from REL to operate REL's Current Account with the bank, to which the bank responded confirming recording of irrevocable PoA. As informed by the bank, 2278 of these stockinvests aggregating Rs. 1.139 crores were realised on 22/12/95.

From the extracts of REL's Current Account with Central Bank of India, Adyar, Chennai, it is observed that the amount realised against the stockinvests on 22/12/95 was returned to Viswapriya Group. From the above, it is clear that there was an arrangement between REL and VFSL and its associates VTSL and Prime, through which finances were made available to REL. The finances were made available for making application in public issue and later the proceeds gathered from public issue were used for buying shares allotted to Prime, which made applications in names of various nominees.

REL thus entered into a circuitous route for arranging finance for the public issue and made available proceeds of Public Issue for purchase of its own shares, in contravention of Section 77 of Companies Act, 1956. Investigations have revealed that REL and its Directors made irregular allotments of 2,27,800 shares to applicants whose applications, accompanied by antedated stockinvests, were received after the closure of the Issue. These allotments to applicants who had applied after the closure of the issue, were made at the cost of genuine applicants which was in violation of Section 69 of the Companies Act, 1956, SEBI Guidelines and also the terms and conditions of the Prospectus for the Issue. These acts of REL also facilitated grey market operations and artificial benchmarking of prices. REL thus also violated Regulations 4 (a) and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.

Pursuant to these findings and prima facie violations of Companies Act, SEBI Act, its Regulations and Guidelines, Rajesh Exports and its Directors were asked to show cause as to why suitable Directions u/s 11B of the SEBI Act, 1992 read with Regulation 11 of SEBI

(Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, including directions for prohibiting REL from accessing the capital market and dealing in securities for a suitable period, may not be issued.

The company in its reply to the show cause has stated that they are not involved in making irregular allotments in the public issue. They have said that there was no way in which they could have ascertained that the stock invests were ante-dated. The Company has also denied the allegation of circuitous funding levied on them.

The Company was granted hearing on 03/12/2001 but they did not turn up for the hearing. They were granted another opportunity for hearing on 30/04/2002. The Company was represented by Shri Rajesh Mehta (Chairman-REL).

I have considered the material and evidence available on record, submissions made by Rajesh Exports Ltd and its Directors from time to time. I find that allegations made in the show cause notice have been substantiated. REL made irregular allotments to applicants whose applications, accompanied by antedated stockinvests, were received after the closure of the Issue. The allotment to these late applicants was in violation of Section 69 of the Companies Act, 1956, SEBI Guidelines and also the terms and conditions of the Prospectus for the Issue. I also find that public issue proceeds were used to buy its own shares by REL from associate of Vishwapriya. In the light of the above mentioned violations by Rajesh Exports Ltd, I am of the view that interest of the investors has been harmed considerably. It will be necessary that such companies are prohibited for a suitable period from accessing the capital market. I, therefore, in the interest of the investors and healthy growth of capital market, in exercise of powers given to me under Section 4(3) read with Section 11B of SEBI Act and Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 direct that Rajesh Exports Ltd be prohibited from accessing the capital market and from dealing in securities for a period of three years.

G. N. BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA

Date: 11th September 2002

Place: Mumbai