

THE SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

IN THE MATTER OF DIRECTIONS UNDER SECTION 11B 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 SHRI P SHIVSHANKAR, DIRECTOR, RAJESH EXPORTS LIMITED

CO/ /2003/IES/FUTP

1.0 M/s Rajesh Exports Ltd. (hereinafter referred to as "REL") came out with a Public Issue of 20 lakh 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 lakh shares aggregating Rs. 9.25 crores. The issue opened for public subscription on November 13, 1995 and closed on November 18, 1995. Shri P Shivshanker was one of the Directors of REL at relevant time.

1.2 Investigations were initiated by the Securities and Exchange Board of India (hereinafter referred to as "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.

2.0 Pursuant to these findings and allegations of violations of the Companies Act, SEBI Act, its Regulations and Guidelines, vide Show Cause Notice dated 13.12.2000 and 29.8.2002, Shri P. Shivshankar was advised 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 him from accessing the capital market and dealing in securities for a suitable period, should not be issued. No reply has however been received from him to the said SCN.

2.1 Investigations revealed that State Bank of India, Ashram Road, Ahmedabad (State Bank) had issued 200 stockinvests for an aggregate amount of Rs. 17.50 lacs. From the information/documents furnished by State Bank, it was observed that the said stock invests 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 stock invest issue Register furnished by State Bank, show that while stock invest nos. 24751 to 24808 and 24813 to 24904 were issued on 24/11/95, stock invest nos. 011501 to 011550 were issued on 11/12/95. Moreover, all these 200 stock invests were antedated.

Details of these stock invests are as follows:

Stock invest 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

The above fact was admitted by State Bank in its reply to queries raised by SEBI during the course of investigations.

2.2 Investigations also revealed that Tamil Nadu Mercantile Bank, BVK Iyengar Road Branch (TN Bank), Bangalore had received 3800 applications for an aggregate of 31,20,000 shares of REL with Viswapriya Financial Services & Securities Ltd. (hereinafter referred to as "VFSL") as Power of Attorney holders for the applicants. These applications were accompanied with stockinvest instruments numbering 121933 to 125732. issued by Central Bank of India, Adyar, Chennai (Central Bank). During the course of investigations with Central Bank, 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(hereinafter referred to as "Prime"), their Power of Attorney holders. The said stockinvests were issued against 2 Fixed Deposits (FDs) in the name of Prime, which were opened on 1/12/95 and 5/12/95. All these stockinvests were antedated and all applications accompanied by these stockinvests were received after the closure of the Issue. This fact was admitted by Central Bank of India in its reply to queries raised by SEBI during the course of investigations

2.3 Further investigations with Central Bank brought out that REL opened a Current Account (No. 860) with Central 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 the account holder is shown as 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 and hereinafter referred to as "VTSL"), an associate of VFSL, to operate the said Current Account. As per REL's letter to Central Bank, dated 21/11/95, this Power of Attorney was to be irrevocable till REL discharged all its dues and obligations to VTSL and such discharge was intimated in writing to Central Bank by VTSL. On 21/11/95, VTSL wrote to Central bank seeking confirmation of its having recorded the said Power of Attorney. The Central Bank responded to it by confirming recording of the said Power of Attorney. As informed by the Central Bank, 2278 of these stockinvests aggregating Rs.1.139 crores were realised on 22/12/95.

2.4 It was also noted from the extracts of REL's Current Account provided by Central Bank that an amount of Rs.118 lakhs was realised against the stockinvests issued by Global Trust Bank, Mylapore on 22/12/95 and thereafter a cheque for Rs.118 Lakhs was issued from the said account on 22.12.1995 in favour of Vishwapriya Gold Hire Purchase Limited, a group company of VFSL. Similarly, it is seen that a transfer credit of Rs.118.75 Lakhs was received into the account on 3.1.1996 and a cheque for the said amount was issued in favour of Vishwapriya Gold Hire Purchase Limited. It is significant to note that the said cheque was signed by an authorised signatory of VFSL "for Rajesh Exports Limited". 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.

3.0 I have considered the facts of the matter, material and evidence available on record. I have also noted that Shri P. Shivshankar did not prefer to file his reply to the Show cause notice. A reasonable opportunity was afforded to him to show cause why action should not be taken against him as director of REL for the violations by REL while he was a director of REL. He chose not to avail the same. I, therefore, proceed further in the matter based on material available on record.

3.1 I find that REL made irregular allotments to applicants whose applications, accompanied by antedated stock invests, were received after the closure of the Issue. The statements of State Bank and Central Bank show that the stock invests were issued by these banks on 24.11.95, 11.12.95, 5.12.95 and 6.12.95, which is after the issue closed on 18.11.95. It is not disputed by the company that the applicants who have submitted the said stock invests have been allotted shares against their applications. Hence, all applications accompanied by such stock invests 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. It is therefore apparent that REL allotted shares against applications received after date of closure of issue. These allotments to applicants who had applied after the closure of the issue, were made at the cost of genuine applicants 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. The allotment to these late applicants was also in violation of Section 69 of the Companies Act, 1956, SEBI Guidelines on Disclosure and Investor Protection and also the terms and conditions of the Prospectus for the Issue. As a director of REL during the relevant period, Shri P. Shivshankar is liable for the aforementioned violations

4.2 I find that the proceeds of the public issue were used by REL to buy its own shares. Investigations with the Central Bank have revealed that REL opened a current account with them on 21.11.95 i.e. 3 days after closure of the issue. Thereafter, REL issued an irrevocable power of attorney to VTSL. I note that an amount of Rs.118 lakhs was realised against the stockinvests issued by Global Trust Bank, Mylapore on 22/12/95 and thereafter a cheque for Rs.118 Lakhs was issued from the said account on 22.12.1995 in favour of Vishwapriya Gold Hire Purchase Limited, a group company of VSFL. Similarly, a transfer credit of Rs.118.75 Lakhs was received into the account on 3.1.1996 and a cheque for the said amount was issued in favour of Vishwapriya Gold Hire Purchase Limited. I note that the said cheque was signed by an authorised signatory of VFSL "for Rajesh Exports Limited". In the light of the above, I find that there was an arrangement between REL, VFSL & its associate VTSL vide which finances were made available to applicants to purchase the shares of REL in the public issue and thereafter these amounts were returned to VFSL from the proceeds of the public issue. Therefore, I find that REL has 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 the Companies Act, 1956. As a director of REL during the relevant period, you are liable for the aforementioned violations

5.0 I find that in view of the above mentioned violations by REL, of which Shri P. Shivshankar is a Director the interest of investors has been harmed considerably. It is therefore necessary that steps are taken to prevent recurrence of such instances and to restore the investors' confidence.

5.1 Therefore, in the interest of the investors and safety and security of the capital market, in exercise of powers conferred on me under Section 4(3) read with Section 11 and 11B of SEBI Act and Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, I, hereby, direct that Shri P SHIVSHANKAR, shall dissociate himself from the capital market for a period of 3 years and that he is also prohibited from dealing in securities for a period of three years.

This order shall come into effect immediately.

G. N. BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA

Date: January 27, 2003

Place: Mumbai