

SECURITIES AND EXCHANGE BOARD OF INDIA

Directions under regulation 11B of SEBI Act, 1992 read with Regulation 11 and 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995 against Shri Basanti Lal Kakrecha.

Mandu Industries Ltd.(herein after refer as 'MIL') having its registered office at 147-151-A, Sector F, Industrial Area, Sanwer Road, Indore – 452003 came out with a public issue of 53,62,500 equity shares of Rs.10/- each for cash at par on April 22, 1996. As per the prospectus, the company was promoted by Shri Madhusudan Jain and his uncle Shir Himmatlal Kakrecha,. Shri Madhusudan Jain was the Managing Director of MIL. Shri Basanti Lal Kakrecha was the Chairman of MIL and his uncle Mr.Madanlal Jain was the Chief Executive Officer of MIL

Pursuant to complaints received in respect of alleged price manipulation in the scrip of MIL, investigations were initiated in the scrip by the Securities and Exchange Board of India (hereinafter referred as SEBI) vide order dated January 07, 1998. The investigations revealed that Shri Basanti Lal Kakrecha was involved in creating false market in the shares of MIL.

A show cause notice was issued to Shri Basanti Lal Kakrecha, vide letter dated 30th March 2001, calling upon him as to why directions under Section 11B of SEBI Act, 1992 read with Regulation 11 and 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 should not be issued. The findings of investigations were communicated along with the documents relied upon by SEBI in the aforesaid show cause notice.

Mr. Basanti Lal Kakrecha vide his letter dated 5/5/2001 replied to the above show cause. He has stated as follows.

1. "Mandu Industries Ltd (MIL) had advanced Short Term Intercompany deposits amounting to Rs.85 lacs to Shreyas Securities & Finance Ltd (SSFL). These ICDs have been fully repaid by cheques and the same were accounted for before 31st December, 1995 prior to three months of the Public Issue of MIL and thus it is unfair to judge that SSFL subscribed in the Public Issue of MIL through their investors with the money of MIL. It is false that I have transacted in the script of MIL with the help of SSFL and my family members are also involved.
2. My brother Mr. Madan Lal Jain left MIL before his transactions took place with SSFL. This has already been recorded in the statements of my son and Mr. Madan Lal Jain. Further there had never been monetary transactions between my brother and my family.
3. It is denied that I had approached Mr. Yogesh Tiwari for off loading MIL shares. In fact Mr. Yogesh Tiwari approached me to purchase shares of MIL and he was directed by me to meet Mr. Nuwal since Mr. Nuwal had approached me for selling his shares. No deal was struck with Mr. Talati and his statement is totally false. Also no money transaction had taken place and this can also be inspected from the pass books of all our family members. Had Mr. Talati sold 50000 shares he must have definitely received payments and the same may well be verified with his books of accounts and bank statements.
4. My son had admitted having met Mr. Talati in the office of M/s. D.S. Sancheti Securities & Financial Services Ltd (DSSSFSL). He had also admitted that some of the deliveries from the market had been taken by Mr. Talati and the same were transferred in Talati's name.
5. Betala and Belli families are known by my brother Mr. Madan Lal Jain and the shares sold by them were not at my instance. Also no money transactions took place between my family and Betala/ Belli families.
6. I totally deny that I have ever entered into any structured deals with anybody. My son had only placed order for selling shares of MIL under instructions from Swarnim Caplease. He had never directed DSSSFSL to execute orders of MIL shares. Orders for Nuwal family was placed by Mr. Talati in collusion with Mr. Nirmal Sancheti of DSSSFSL. In fact all the records of dealing in shares of MIL were changed by them when NSE faxed a letter to them asking for details in the trading of shares of MIL. Some of the original contract notes/ bills can be produced before you for inspection of the same. Statements recorded by Mr. Nirmal Sancheti and the document submitted are all fabricated. In fact the payments which were to be made to Sarnim Caplease was stopped for more than a month beyond the due date and Mr. Nirmal Sancheti forced my son to prepare order slips for shares sold by Swarnim Caplease as well as Nuwal family. In order to take payments my son prepared order slips of Swarnim Caplease and refused to prepare order slips of Nuwal family. He had been told to prepare order slips for those days when he was in Faridabad to attend District Court on some legal matters. I totally deny that I have manipulated the price as my daughter has only sold shares held by Swarnim Caplease in the 19th settlement. My son/daughter have never traded in the shares of MIL before this settlement. The above shares have been acquired by Swarnim at a price of Rs.61/- and they have made a profit of around Rs.50000/- only.
7. I have admitted that my daughter had sold shares which are held by Swarnim as mentioned above.
8. The Nuwal family has been associated with MIL in the year 1989 for a period of only 6 months. I once again deny that I had placed orders on behalf of Nuwals.
9. I deny that I have created a false market through Brokers. My son has only placed orders to sell 30000 shares of MIL upon instructions from my daughter.
10. It is wrong to sum up that I have violated regulations 4 of SEBI. All the brokers/ persons who have done transaction have nothing to do with me and it is the easiest and the safest pleas for them to put the blame on Promoters.
11. In the interest of JUSTICE, I humbly pray you to grant a personal hearing so that all the Original Bills/ Contract Notes/ Internal memos prepared by DSSSFSL may be produced before you along with all passbooks of myself and my family members for your inspection and verification."

Subsequently, an opportunity of oral hearing was given to Shri Basanti Lal Kakrecha on 11/12/2001, which was adjourned at his request and rescheduled to February 8, 2002. Vide letter dated 6/2/2001 (which should be 6/2/2002) Shri Basanti Lal Kakrecha has stated that he is not in a position to attend the personal hearing. He requested that the additional evidence/ clarifications submitted by Shri Madhusudan Jain during December 2001 may be treated as clarification from him in support of his case. In his letter dated 8/12/2001 Shri Madhusudan Jain submitted as follows:

Ø A certificate from the Auditors M/s Ajmera Bhandari & Co. dated 8.12.01 stating that MIL had advanced an Inter corporate deposit of Rs.85 lacs to M/s Shreyash Securities & Finance Ltd. during the financial year 1995-96 and the same was fully received during the same financial year 1995-96. Hence he stated that he had not got the public issue of MIL subscribed with the help of SSFL by extending ICD.

Ø To the point that Shri Madhusudan Jain had entered into structured deals with Smt. Sushila Nuwal and Vaibhav Nuwal in order to create a false market in shares and to manipulate price, and that he had placed orders on behalf of Nuwals and Swarnim also, he categorically denied any involvement in clandestine transactions and produced copies of certain contract notes, bills and delivery inward memos in the name of one 'Vikas'. He requested SEBI to 'Vouchsafe' his documentary evidence (abovementioned contract notes, bills etc) with that of the submission of contract notes, bills, delivery inward memos by DSSSFL to SEBI.

Ø He enclosed copies of pass books of his family members viz. Pass book of his father Shri B L Kakrecha (December 1997 to August 1997), his mother Smt. Vimla Kakrecha (March 1997 to December 1997), his sister Ms. Sarita Jain (December 1996 to November 1997), his sister Ms. Sunita Jain (May 1997 to November 1997), his wife Ms. Suchita Kakrecha (September 1996 to January 1998), his daughter Ms. Surbhi Kakrecha (March 1995 to December 1997), and copies of his own pass books from March 1997 to November 1997, August 1996 to September 1997.

During the course of the hearing held on 8th February 2002, Shri Madhusudan Jain produced some contract notes in original in the name of Vikas, which he stated that he had obtained through his sources in D.S. Sancheti Securities & Financial Services Ltd. (DSSSFL). He further stated that the contract notes and the dealings for which he has been charged were not his dealings but were done by Vikas who is related to Shri Nirmal Sancheti, Director, DSSSFL. In view of the submissions made by Shri Madhusudan Jain, the then Chairman directed that the aspect relating to two different contract notes for same transactions be looked into again. Shri Madhusudan Jain was also advised to send written submissions with respect to contract notes issued by DSSSFL to two parties for the same transactions.

Pursuant to the above direction, Shri Madhusudan Jain was given an opportunity to present himself and to furnish documentary evidence in support of his contentions. He appeared on 11/6/2002 before the Investigating Officer and submitted that

- Vikas in whose name one set of contract notes stood, was a relative of Shri Nirmal Sancheti, Director, D. S. Sancheti Securities and Financial Services Ltd. He stated that when NSE had sought details of transactions in the scrip of Mandu, all names of Vikas, Swarnim, etc. was entered into the books and fresh bills / contract notes were generated by DSSSFL.

- He further stated that though the bills given to him contain details of both buy and sell, the buy transactions were not on account of Swarnim, and Swarnim had only sold shares in settlement nos. 19 and 20. He claimed that contract notes for these 2 settlements had not been issued to him.

- When questioned as to why he accepted net amount of Rs.5 lacs as full and final payment, (i.e. sell-buy,) he claimed that because of his father in law's business relation and to avoid litigation, he did so.

After recording the explanation of Shri Madhusudan Jain, an opportunity of hearing before me was given to Shri Basanti Lal Kakrecha on 30/11/2002 for which he or his representative did not appear.

Adequate opportunity was given to Shri Basanti Lal Kakrecha to defend his case. In view of the same no further opportunity of oral hearing is warranted and therefore, I proceed to pass the order herein after considering the submissions made by Shri Basanti Lal Kakrecha in his letters dated 5/5/2001 and 8/12/2001, during the hearing held on 8/2/2002 and the explanation given thereafter as referred above.

On careful consideration of the findings of the investigation and the submissions made by Shri Basanti Lal Kakrecha. I find that

§ In the statement recorded on oath, Shri Basanti Lal Kakrecha's brother, Mr. Madan Lal Jain stated that Shreyas Securities & Finance Ltd.(SSFL), member - MPSE had arranged subscription in the public issue of MIL through their investors and they wanted to sell the shares in the market.

§ Shri Basanti Lal Kakrecha's association with SSFL is substantiated by the fact that he through MIL extended inter-corporate deposits to the tune of Rs.85.00 lakhs to SSFL as disclosed in the public issue prospectus.

§ In the statement recorded on oath, Shri Kakrecha's son Shri Madhusudan Jain, Managing Director of MIL had mentioned that the dealings of SSFL could be the possible reason for the rise in the prices of MIL shares.

§ It appears that after getting the public issue of MIL subscribed with the help of SSFL by extending inter corporate deposit in advance of public issue, Shri Basanti Lal Kakrecha in association with SSFL started transacting in the scrip. SSFL traded in MIL through three brokers namely M/s. M K Poladia (BSE member), M/s. Saurashtra Capital Services Pvt. Ltd. (BSE member) and Arihant Fincap Ltd. (NSE member). The transactions at the counters of M/s M. K. Poladia and M/s Saurashtra Capital Services Pvt. Ltd. were routed through sub-brokers namely Neeraj Investment and Allied Shares & Securities, respectively.

§ Further, Shri Basanti Lal Kakrecha's brother Mr. Madanlal Jain who is also the Chief Executive Officer of MIL had admittedly purchased 25,200 shares of MIL at Rs.43.85 on March 9, 1997 from SSFL in an off-market deal, when the market price for the share was around Rs.63 to Rs.75. He did not pay any money for purchase of these shares nor did he lodge those shares with the company for transfer in his favour. The shares were purchased by him in the name of J K Suppliers of which he was the proprietor. He sold the said shares through Nouveau Securities Pvt. Ltd. as a client by the name of J.K. Suppliers on May 5, 1997 and May 6, 1997, and he received cheques number 937112 and 937113 drawn on Canara Bank, NSE Branch issued by Nouveau Shares amounting to Rs.12,87,594 and Rs.2,00,000 respectively. Shri Madanlal Jain himself admitted to have made a profit of Rs.4-5 lacs.

§ As per the statement recorded on oath of Mr. Sanjay Talati, Shri Basanti Lal Kakrecha approached Mr. Yogesh Tiwari in the context of offloading MIL shares in the open market and Shri Basanti Lal Kakrecha had met Shri Talati in Mr. Tiwari's office at Andheri. He had also met Shri Basanti Lal Kakrecha from time to time in places like Hotel Centaur, his daughter's residence etc. Shri Talati agreed to sell the shares of MIL provided they were transferred in his name and that the sale proceeds would be paid in cash after deducting his commission of 3%. Accordingly, approximately 50,000 shares of MIL was sold by him.

§ Shares were also bought and sold through various brokers by Betala and Belli families, known to Shri Kakrecha's family, perhaps at his instance.

§ The documents received and the statements recorded reveal that Shri Basanti Lal Kakrecha's son Mr. Madhusudan Jain who is also the Managing Director of MIL had entered into structured deals (buying and selling within a group of persons) with Smt. Sushila Nuwal and Mr. Vaibhav Nuwal to create a false market in the shares and manipulate the price. He used to place orders for both buying and selling on behalf of Nuwals as well as Swarnim Caplease Pvt. Ltd. He as the son in law of one of the directors of D S Sancheti Securities and Financial Services Ltd. (DSSSFSL) used to sit in front of the NSE terminal and direct them (DSSSFSL) to execute the orders of MIL. After thus having manipulated the price, he had sold shares held by him in the name of Swarnim Caplease Pvt. Ltd. By this way, Shri Basanti Lal Kakrecha's son Mr. Madhusudan Jain had sold a total of 23,000 shares and made a profit of approximately Rs.14.40 lakhs.

§ Shri Basanti Lal Kakrecha's daughter Smt. Sunita Jain is a director in Swarnim Caplease Pvt. Ltd., which is also a major share-holding entity of MIL. Shri Basanti Lal Kakrecha had admitted that his daughter had sold around 20,000 to 25,000 shares of MIL in the market.

§ In addition, Nuwal family who is closely known to Shri Kakrecha and was associated with the project of MIL had also dealt in the shares of MIL and the orders on behalf of Nuwals were reportedly executed by Shri Basanti Lal Kakrecha's son Mr. Madhusudan Jain.

§ Thus, after creating market for the shares of MIL through various brokers, Shri Kakrecha, his family members and associates offloaded shares in the market, either directly or through third parties.

The transactions on NSE in the shares of MIL through Shri Kakrecha's various front entities can be summed up as follows:

Figures are for settlement no.6 to 19 (1997) of NSE.

Entities acted on behalf of Promoters of MIL	Broker Name	Gross Purchase	Gross Sell	Net Transaction
Shreyas Securities	Arihant Fincap	10,800	11,400	-600
Nuwal Family	D.S. Sancheti	1,88,000	2,14,600	-26,600
	Nouvea Shares	0	5,000	-5,000
J. K. Suppliers	Nouvea Shares	0	25,100	-25,100
Swarnim Caplease	D. S. Sancheti	43,400	66,600	-23,200
	Total	2,42,200	3,22,700	-80,500
	Gross Trading			5,64,900

Thus, Shri Kakrecha's gross exposure in MIL during aforementioned period was to the extent of 5,64,900 shares, with a net sell position of 80,500 shares. The trading pattern of the entities mentioned above indicate that there was a concerted action in earlier settlements to create volume and increase the price and thereafter, they succeeded in offloading of shares in just 2 settlements when the price has been brought to a certain level. This is borne out by the fact that out of total net delivery of approximately 1,07,000 shares at NSE through settlements 6 to 19, delivery of 79,900 shares (constituting almost 75% of total deliveries) came only in 2 settlements namely settlement no. 18 and 19 and were effected by persons closely connected to Shri Kakrecha, as shown below:

Net quantity Delivered by the Promoters/Persons connected with them

Settlement no.	Name of the Promoters and Persons connected with them			Total Quantity Delivered
	Vaibhav Nuwal	Swarnim Caplease	J K Suppliers	
	Sushila Nuwal			
18	24,400	Nil	25,100	49,500
19	7,200	23,200	Nil	30,400
Total	31,600	23,200	25,100	79,900
Avg. Earnings	33,74,400	14,38,400	14,55,800	62,68,600

The above is in addition to 50,000 shares reportedly offloaded by Shri Basanti Lal Kakrecha through Shri Sanjay Talati in BSE/NSE.

Further, from the explanation given by Shri Madhusudan Jain, I observe that Shri Madhusudan Jain when charged with price manipulation, resorted to bringing up the issue of duplicate contract notes, bills, etc. issued to Vikas. He had accepted/ settled for net payment i.e. payment in respect of his net position and therefore his explanation is not convincing and I further note that

1. Shri Madhusudan Jain had not brought the above mentioned facts to the notice of SEBI during investigation.
2. He had accepted/ settled for net payment i.e. payment in respect of his net position and therefore, he cannot now claim that the purchases were not on his own account.
3. I also note that he enjoyed more than a broker-client relationship on account of his being son in law of one of the directors.

4. He accepted that he had continued to trade with DSSSFL as no broker in Indore was prepared to work with him.

This will not be the conduct of any client who had been wrongly billed to his detriment.

In view of the above, it is evident that Shri Basanti Lal Kakrecha has indulged in creating a false market by making sales and purchases through the counters of various brokers with the sole purpose of inducing interest in the scrip with a view to benefit. I therefore conclude that Shri Basanti Lal Kakrecha is guilty of violating regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market), Regulations, 1995. The conduct of Shri Basanti Lal Kakrecha is detrimental to the interest of investors and the safety and orderly development of securities market.

In the facts and circumstances as discussed above, I, in exercise of the powers conferred upon me under Section 4(3) of the SEBI Act 1992 read with Section 11B and Regulation 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995 debar Shri Basanti Lal Kakrecha from dealing in securities and accessing the capital market for a period of two years. This order will come into force with immediate effect.

G. N. BAJPAI

Place: Mumbai

CHAIRMAN

Date : 10TH March, 2003

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