

SECURITIES AND EXCHANGE BOARD OF INDIA

DIRECTION 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 Markets) Regulations, 1995 AGAINST SHRI DINESH DALMIA AND DSQ BIOTECH LTD

CO/ /IES/2003/FUTP

1.1 Investigation was undertaken by SEBI after receiving complaints against M/s.DSQ Biotech Ltd alleging price manipulation and insider trading in the scrip. Substantial price movement accompanied by surge in volumes was witnessed in the scrip of DSQ Biotech Ltd. (herein after termed as 'DSQB') during the period June 1994 to December 1994 and again after the closure of the rights issue during the period June 1995 to March 1996. During the period June 1994 to December 1994 the scrip price of DSQB rose significantly from Rs.20 (June 1994) to touch a high of Rs.92 (during September 1994). Similarly, the scrip moved up from Rs.37 during July 1995 and touched a high of Rs.112 by the end of November 1995. Investigations brought out that auction in the scrip had taken place during the first quarter of 1996 and fairly large number of shares were auctioned at Madras Stock Exchange (MSE). During both the periods mentioned above there was also a surge in volumes accompanied by price rise particularly at MSE, Calcutta Stock Exchange (CSE) and Bombay Stock Exchange (BSE).

1.2 It was revealed during the course of investigations that large quantities of shares of DSQB were purchased from the market through the group company of DSQB viz.. DSQ Holdings Ltd. (earlier known as Square D Holdings Ltd. and termed as SDHL) prior to coming out with the rights issue at a premium. After the closure of the rights issue of DSQB, the price movement in the scrip was contributed due to the large scale buying in the scrip employed by Pillayar Pattiyaar Textiles Ltd (PPTL) which is another promoter group company of DSQB. Investigations also revealed that during the aforementioned periods there were several other entities (mostly based at Calcutta) who had acquired significant quantities of shares of DSQB and were acting in concert with the management of DSQB and Shri Dinesh Dalmia. Investigations brought out that the purchases by the group companies of DSQB during the above stated two periods were made with a view to create artificial / false market in the scrip of the company and this also contributed to the steep price movement, which have taken place in the scrip during the two periods referred above. Investigation disclosed that Shri Dinesh Dalmiya and DSQB had played a significant role in the price manipulation of the scrip prior to the rights issue and also immediately after the closure of the said issue.

1.3 DSQB was earlier known as Usha-Te Biotech Industries Ltd and the company was taken over by the DSQ management during April 1994. Investigations revealed that the scrip of Usha Te Biotech Industries Ltd was not actively traded on the exchanges and the scrip was highly illiquid. It was only after the takeover of the company by the DSQ Group that the scrip of DSQB witnessed movement both in terms of price and volume. Investigations revealed that immediately after the DSQ group took over the company during April 1994, a rights issue of DSQB was brought out at a premium of Rs.35/-. The rights issue of DSQB opened for subscription on July 7, 1995 and closed on August 8, 1995.

1.4 As per the distribution schedule of DSQB, the total paid up capital of the company, as on December 27, 1995 was 1,32,44,700 shares, out of which promoter group companies were holding 59, 61,342 shares constituting 45.009% of the paid up capital. Further, some OCBs (other corporate bodies) who appeared to have direct/indirect relationship with the DSQ Group / Shri.Dinesh Dalmia were holding approx. 43% of paid up equity capital of the company. An analysis of Floating Stock of the company is given as under:

Sr. No.	Name of the entity/company	No of shares held	%age Holding
1.	Lexus Exports Ltd. (Promoter Group)	10,83,398	8.180
2.	Square D Holdings Ltd. (Promoter Gr.)	30,51,995	23.043
3.	Square D Software Ltd. (Promoter Gr.)	15,00,000	11.325
4.	Lexus Exports Ltd. (Promoter Gr.)	3,25,949	2.461
5.	<i>Powerflow Holding & Trad Ltd. (OBC)*</i>	<i>7,05,105</i>	<i>5.324</i>
6.	<i>Swagatham Lefin Pvt. Ltd. (OBC)*</i>	<i>3,55,800</i>	<i>2.686</i>
7.	<i>Snehil Exim India Ltd. (OBC)*</i>	<i>2,56,000</i>	<i>1.933</i>
8.	<i>Pillaiyar P Textiles Ltd. (OBC)*</i>	<i>6,80,418</i>	<i>5.137</i>
9.	<i>Square D Textiles & Exports Ltd. (OBC)*</i>	<i>27,36,443</i>	<i>20.661</i>
10.	<i>Hulda Properties & Trades Ltd. (OBC)*</i>	<i>4,99,716</i>	<i>3.773</i>
11.	<i>Others*</i>	<i>3,84,070</i>	<i>2.899</i>
	Total holding of DSQ Group	1,15,78,894	87.422

(In case of Other Body Corporates (OBC) {Shown in Italics} listed above, almost all of them have connections with the promoter group i.e. Square D group and / or its promoter Shri.Dinesh Dalmia and this was established in the investigations [through funds flow]). While Pillaiyar Pattiyaar Textiles Ltd. and Square D Textiles and Exports Ltd. are the group companies of Square D.Group, corporate bodies such as M/s Swagatham Lefin Pvt. Ltd., M/s Powerflow Holding & Trading Ltd. and M/s Snehil Exim India Ltd. are also associated with the DSQ group as the investigations revealed that the purchases of these entities in the scrip of DSQB from the secondary market during the year 1994 from Anush & Co., Member MSE, were funded in entirety by Square D Holdings Ltd., another group company of Square D group .

2.1 Therefore, Shri Dinesh Dalmia, promoter of DSQ Biotech Ltd and DSQB were charged for being guilty of violating the provisions of Regulation 4(a), (b) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 vide show cause notice dated July 9, 2002 issued by SEBI. Shri Dinesh Dalmia and DSQB, vide the said notice were required to show cause as to why suitable directions including such directions debarring / prohibiting him / DSQB from dealing in securities market for a suitable period should not be issued under

Section 11 B 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 for the alleged violation. He was also asked to submit his reply supported by necessary record / evidences, he may like to adduce in his support, failing which SEBI would be constrained to pass such orders in terms of SEBI Act, 1992 and the Regulations framed thereunder.

3.1 Shri Dinesh Dalmiya submitted his reply dated July 30, 2002 to SEBI. In his reply, Shri Dalmia had set out certain facts he thought were relevant to the purpose of his reply. The background of his case as explained by Shri Dalmia is given as follows :

a) DSQ Holdings Ltd was promoted in 1992 by him with the purpose of setting up and investing in companies for carrying on the following activities : (i) software development (ii) granite production and cutting ; (iii) cotton yarn production and export ; and (iv) agro based activities for the purpose of export. Separate companies were set up for the purpose of carrying on each of the aforesaid activities. The philosophy of the DSQ Group was that the Group would have substantial control of its companies, which in any event would not be less than 70%-75%. Initially all the companies were owned and controlled by DSQ Holdings Ltd to the extent that nearly was 100%. When it was decided to list the software company on the stock exchanges, the shareholding of the Group was diluted only to the extent of 30% approx. DSQ Holdings Ltd continued to hold 70% of the shares of the software company post the issue in 1993 ; the other two companies continued to be and are even today owned and controlled by DSQ Holdings Ltd to the extent of nearly 100%.

b. In late 1993, DSQ Holdings Ltd entered into discussions for the acquisition of majority shares in DSQB, which was and continuous to be a company involved in agro based activities (of manufacturing starch based chemicals). DSQB was originally promoted by KND Engineering and Technologies Ltd as a joint venture with the Tamil Nadu Industrial Development Corporation Ltd (TIDCO) for setting up of a plant for manufacture of tapioca based starch and downstream products like liquid glucose, high fructose syrup etc.. DSQB was loss making at the time of acquisition by Shri Dalmiya.

It was decided by DSQ Holdings Ltd that it would be commercially prudent to acquire control over an existing company already involved in agricultural production rather than to commence such activity through a newly set up company. Having identified DSQB in late 1993, consistent with the Group's philosophy, it was intended that DSQ Holdings Ltd should own and control at least approx. 75% of DSQB. In the erstwhile Usha Te Biotech Industries Ltd., TIDCO held 20% and KND Engineering held 30.94% of shares. KND Engineering Ltd negotiated with TIDCO to acquire its 20% and agreed to sell the entire block of 50.94% to DSQ Holdings Ltd. An additional 25% of the shares of DSQB were proposed to be acquired by DSQ Holdings Ltd of which 20% was intended to be through the mandatory open offer.

c. Consequently, on April 30, 1994 DSQ Holdings Ltd, Square D Exports (now Square D Textiles Ltd) and Lexus Exports Ltd executed an agreement to acquire and acquired 44,98,995 equity shares constituting 50.94% of the paid up equity share capital of DSQB at a price of Rs.15.94 per share from KND Engineering Ltd.

d. On May 5, 1994 the Board of DSQ Holdings Ltd decided to make an open offer to acquire an additional 20% of equity share capital of DSQB. The fact that DSQ Holdings Ltd was making an open offer to acquire 20% of the equity share capital of DSQB was made public on May 5, 1994 pursuant to an advertisement that appeared in the Indian Express, Madras edition. The open offer document stated that the DSQ Holdings Ltd have identified agro based industries as a thrust area in view of their high growth potential and bright prospects for exports and that the acquisition of DSQB, as part of its long term strategy, reflected the keenness of DSQ Holdings Ltd to enter into this area. The said document also states that DSQ Holdings Ltd realizes that given appropriate inputs in the form of finance, marketing infrastructure and other management support, DSQB had the potential to operate profitably in light of the export potential of its products. Upon acquisition of 50.94% of the share capital of DSQB and making an open offer to acquire a further 20% of the shares, it was a well published fact that DSQ Holdings Ltd was desirous of acquiring atleast 70.94% equity control of DSQB. After fulfilling the regulatory requirements, the letter of offer for the open offer was dispatched on August 12, 1994, the said Offer opened on Oct 1, 1994 and closed on Nov 23, 1994. The offer price was determined at Rs.15.94 per share based on the regulatory requirements prevalent at the relevant time. However, the market price during that period was higher than Rs.15.94 per share ;

e. Pursuant to DSQ Holdings objective of consolidation and increasing the shareholding of the DSQ Group in DSQB, in view of their keenness to enter the agro based industry, DSQ Holdings Ltd continued to acquire shares of DSQB in the secondary market especially during the period from June 1994 onwards ;

f. On July 30, 1994, the Board of DSQB at its 41st meeting, first discussed the proposal for a rights issue by DSQB. The purpose of the rights issue was to raise capital required to finance the expansion of the production capacity of DSQB.

g. On September 30, 1994, the following events occurred :

i. The shareholders of DSQB at the 7th AGM inter alia approved the rights issue ;

ii. The Board of DSQB in their 43rd Board meeting held after the aforesaid AGM finalized the terms and conditions for the rights issue including the price, size, ratio, etc.. It was decided that the rights issue would be at a premium of Rs.35 per share at ratio of one share for every two shares held in DSQB

h. On July 7, 1995, the rights issue opened for subscription and closed on August 8, 1995.

3.2 Shri Dalmia in his reply has mentioned that since the intentions of the Management was made clear by investing 50.94% and going in for open offer for 20% thereby investing upto 70% in the capital of DSQ Biotech Ltd, they cannot be accused of purchasing the shares with a view to manipulate the price so that public would be induced to invest in the rights issue of the Company nor had the purchases been made with a view to create artificial market in the scrip, according to Shri Dalmia. He also denied the allegation that there was no commensurate growth in the company to justify the price movement. Moreover the upward price movement after the takeover of the company by DSQ Group, according to Shri Dalmia was due to his goodwill the Group companies enjoyed in the public. Also, he said that the price movement was in line with the general index of the stock exchanges when most other scrips had

witnessed an upward trend. Further, Shri Dalmia has submitted the fact that the volumes had declined during 1997 - 1998 only suggested that their intention was not to offload the shares purchased during the previous periods but to hold on them for longer periods.

3.3 Shri Dalmia stated in his reply that the transactions with Powerflow Holdings, Swagatham Lefin and Snehil Exim India P. Ltd was that of a financial nature. He also said that they had repaid the amount advanced to them. It was his defense that since the intention of the DSQ Group to have control of around 70% of the capital of DSQB had been made clear at the time of acquisition of control of Usha Te Biotech Ltd by making open offer for acquiring 20% of the capital, it cannot therefore be alleged that he kept buying the shares just to push the price up before and after the rights issue.

3.4 Regarding the allegation that M/s.Snehil Exim India Ltd purchased 2 lakhs shares through Anush & Co and DSQ Holdings Ltd had paid for these shares to Anush & Co, Shri Dinesh Dalmiya had replied that the payment was made to Anush & Co. at the request of Snehil Exim India Ltd. According to him, it was a commercial transaction and the amount was repaid by Snehil Exim India Ltd.

3.5 Regarding the allegation that M/s.Swagatham Lefin P Ltd purchased 2 lakhs shares through Anush & Co. and that DSQ Holdings Ltd had paid for these shares to Anush & Co, the payment for which was made to Anush & Co. at the request of Swagatham Lefin Pvt. Ltd, Shri Dinesh Dalmiya reiterated that the same was only a commercial transaction and the amount was repaid by Swagatham Lefin P Ltd. The allegation that Swagatham Lefin was acting in concert with the DSQ Group to manipulate the scrip price was also denied by Shri Dalmiya.

3.6 Shri Dalmiya also denied the allegation that M/s.Powerflow Holding & Trading Pvt Ltd had purchased 3 lakhs shares through Anush & Co and DSQ Holdings Ltd had paid for these shares to Anush & Co. saying that the same was also a commercial transaction and the amount had been repaid by Powerflow Holding & Trading P. Ltd.

3.7 Shri Dalmiya also said that the transactions in the case of Escorts Finvest Pvt Ltd, Himadri Electronics P Ltd and Gateway Financial Services through Anush & Co. during the period June 1995 were commercial in nature. Further, he said that the trading done by BKG Management Services P Ltd , Glix Merchants Pvt. Ltd, Hemangi Vinimoy Pvt Ltd and Olypab Commercial Pvt Ltd were done by those entities through Sabari Stocks, Madras on their own and had nothing to do with DSQ Group. He also said that PPTL had requested some of the above entities to lend money when those entities advised Sabari Stocks to transfer the credits lying in their accounts to the account of PPTL and that these loans were subsequently repaid to the respective entities.

3.8 Regarding the allegation about BKG Management, Hari Om Vanijya etc.. having offered their shares in the auction and proceeds being passed on to PPTL, Shri Dalmiya submitted that the transactions with these entities were only on commercial basis and that some persons with the entities were known to Shri Dalmiya and on his request the shares were pledged to UTI Bank Ltd for availing the loan facility granted to DSQ Industries Ltd. Hence he said that it cannot be construed that the entities had acted in concert.

3.9 Shri Dalmiya had also stated that the shares of DSQB were provided as security for the loans availed from banks mainly by DSQ Industries Ltd and that such shares were secondary collateral or additional security to secure borrowings by DSQ Industries Ltd. Such borrowings were used for general cognizance, capital expenditure and expansion. Shri Dalmia strongly denied that the same were deployed in the market to acquire DSQB shares for manipulating the market. He also submitted that neither the promoter nor the Group had the intention for price manipulation or inducing the general public for investing in the company's shares. He also refuted the charge about contravention of the 1994 Regulations as baseless. According to Shri Dalmiya, the charge of violating Regulations 4(a) (b) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 has to be laid down with specific and elaborate details and not in a vague and general manner as had been done in the notice.

3.10 Shri Dalmiya also submitted that there has been no prejudice caused to any party nor has his group made any profit or derived any advantage from the alleged contravention of the SEBI Regulations. According to Shri Dalmiya, the acquisitions in the secondary market during the alleged period had resulted in substantial profit and not loss.

3.11 An opportunity of oral hearing was granted to Shri Dalmiya on 28.10.2002. However, no one appeared on behalf of DSQ Group / Shri. Dinesh Dalmiya. SEBI had received a fax on the scheduled date from DSQB stating that due to unforeseen circumstances, they were unable to attend the hearing and requested for another date. Subsequently, a further hearing was granted on 14.12.2002 which was postponed to 18.12.2002 and the same was communicated vide letter dated December 4, 2002. No one appeared on behalf of DSQ Group / Shri.Dinesh Dalmia. Shri. Dinesh Dalmia through their Advocates M/s.Vaidyanathan Associates vide their letter dated 16.12.2002 requested for postponement of the hearing by 2 weeks citing personal commitments on 18.12.02.

4.1 I have carefully considered the findings of the investigation and the submissions made by Shri.Dinesh Dalmia. Upon analysis of the trading pattern in the scrip of the erstwhile Usha Te Biotech Ltd. at the exchanges prior to the take over by the DSQ group, it was observed that the total number of transactions recorded in the scrip was very few with the scrip price hovering in the region between Rs 13 to Rs 18. During the two calendar years beginning October 1993 to December 1993 and January 94 to June 1994 it was observed that the scrip touched a high of Rs 18 only on few occasions i.e three to four times. The volumes too were negligible during the two years, implying that the scrip was not actively traded at the exchanges prior to June 1994. The scrip movement both in terms of volume and price was witnessed immediately after the DSQ group took over the company from the erstwhile promoters and the scrip registered a sharp increase w.e.f June 1994 onwards. The records indicated that Square D Holdings Ltd., a group company of DSQ along with three other companies (acting as a front to the DSQ group) together purchased approximately 14,00,000 shares of DSQB through members of MSE, BSE and CSE during the period June 1994 to November 1994 which pushed up the scrip price significantly from Rs.21/- to Rs.92/- levels within a short span of 3 to 4 months. The records revealed that Square D holdings Ltd. resorted to continuous buying in the scrip, which squeezed the available floating stock in the market. This resulted in the steep price rise during the above period. It is

understood that this exercise could have been to push up the scrip price prior to the Rights issue of DSQB so as to get a favourable pricing in the issue and also to lift up the sagging sentiments in the scrip. It may be noted that the Rights issue opened for subscription at a premium of Rs 35. Considering the price movement, track record, and activity in the scrip prior to June 1994, the price movement from Rs 21 to Rs 92 is not justified. There was also no commensurate corporate development that had taken place to justify the above price movement.

4.2 During the period between January 1995 to June 1995, the total volumes (quantity traded) recorded in the scrip at MSE were just 19,300 shares. The scrip, which was traded at Rs 73 as on 3.1.95, was gradually going down and it was traded in the region between Rs 33 – Rs 40 during the middle/end of May 1995. The volumes and price in the scrip once again started picking up w.e.f June 1995 onwards and this movement sustained till March 1996. The scrip price touched a high of Rs 112 by the end of November 1995 and the upward movement sustained till March 1996. The trading records submitted by the exchange indicated that the price/volume movement in the scrip during June 1994 to December 1994 and from June 1995 to March 1996 was entirely due to the significant purchases in the scrip by two group companies of DSQB viz. Square D Holdings Ltd and Pilliyar Pattiya Textiles Ltd. Also the records obtained from MSE, BSE and CSE indicated that the two group companies of DSQ put together were responsible for about 63 to 65% of the total market activity in the scrip at MSE during the above period, thereby pushing up the scrip price significantly. Therefore, it can be said in no uncertain terms that the price movement in the scrip of DSQB prior to and after the rights issue was entirely contributed by the DSQ group companies and there was no genuine investor interest /buying in the scrip.

4.3 After the closure of the Rights issue during August 1995, the scrip of DSQB was active till March 1996, both in terms of price and volumes. Investigations revealed that the reasons behind the activity in the scrip during the aforesaid period was entirely due to the consistent buying in the scrip by the DSQ group companies through brokers of MSE, BSE and CSE. There was no other genuine investor interest or buying activity in the scrip during the above stated period and almost the entire trades in the scrip were contributed by the DSQ group companies and also other entities who were employed as "front entities" to act on behalf of the DSQ group. After August 1996, the scrip of DSQB did not witness any major trading activity at all. In fact, trading records obtained from MSE indicated that volumes in the scrip started falling gradually from April 1996 onwards and the last trade reported during the calendar year 1996 was on 3.9.96 wherein only 100 shares were traded at Rs 33 (which was much below the Rights issue price of Rs 10 + Rs 35). During the calendar year 1997, only 14 trades for a total of 1600 shares were reported at MSE. During the year 1998, only one trade for 100 shares was reported. At BSE, during the calendar year 1997, the scrip was traded below the rights issue price on all the trading days. During the calendar year 1998, the scrip of DSQB touched a low of Rs 8 as on 31.12.98. The above statistics clearly goes to prove that the scrip of DSQB was manipulated prior to and immediately after the rights issue due to the role played by the DSQ group entities during the period June 1994 to December 1994 and again during June 1995 to March 1996.

4.4 The analysis of the price movement immediately prior to the Rights issue and the price movement after the Rights revealed that scrip witnessed movement during both the periods only due to trading activity in the scrip contributed by DSQ group entities. The study of the price movement in the scrip during the period June 1994 to December 1994 and again from June 1995 to March 1996 clearly suggested that genuine investor interest/buying in the scrip during the above stated periods was absent and an artificial market was created in the scrip by the DSQ group entities.

4.5 The analysis of the scrip volume report of DSQB submitted by MSE revealed that during the period between 1.1.94 to 31.5.94, the total traded quantity in the scrip was 1,85,960 shares. However, between the period June 94 to December 1994 the total traded quantity in the scrip rose significantly and the number of shares traded during this period was 8,26,008 shares. It was found that M/s Anush and Co. (now Anush Shares and Securities Pvt. Ltd.) member MSE accounted for almost 62% (about 513000 shares) of the total volume in the scrip at MSE during the period June 1994 to December 1994. Anush and Company had purchased the shares between June 01, 1994 to November 04, 1994 for and on behalf of Square D Holdings Ltd , a DSQ group company. During the period January 1995 to June 1995, the total traded volume in the scrip of DSQB was only 19,300 shares. The volumes started rising steeply w.e.f June 1995 and the movement sustained till March 1996. The volumes in the scrip started picking up significantly from October 1995 onwards at MSE. During the period July 1995 to March 1996, M/s Anush and Co and M/s Sabari Stocks were the two main brokers who had traded substantially in the scrip. The two brokers put together contributed about 64% of the total number of transactions recorded in the scrip at MSE during the above mentioned period. The transactions of the remaining brokers in the scrip was way behind with each individual broker contributing less than 4.5 % of the total number of transactions recorded in the scrip during the above stated period. Both Anush and Co and Sabari Stocks had apparently transacted in the scrip on behalf of two group companies of DSQB viz. Pilliyar Pattiya Textiles Ltd and Square D Holdings Ltd. Besides, during the aforesaid period, the two brokers also traded on behalf of various other entities /companies and the records revealed that the purchases of these entities were directly funded from the account of Square D holdings Ltd.

4.6 After the closure of the Rights issue of DSQB, it can be said that the scrip of DSQB was not very active and trading activity in negligible quantities were witnessed till July/August 1996. The purchases in the scrip by Square D Holdings Ltd and Pilliyar Pattiya Textiles Ltd pushed up the scrip price and also the volume and in the process, the floating stock in the scrip was squeezed by the group companies of DSQB. During the above referred two periods, the scrip of DSQB was active at MSE, BSE and CSE and the group companies of DSQ by enrolling as " common clients " to the brokers of MSE, BSE and CSE, managed to corner substantial portion of the floating stock of DSQB. Both Square D Holdings Ltd, and PPTL also bought significant quantities of shares through brokers of BSE and CSE by enrolling as common clients to them. PPTL bought 1,98,500 shares of DSQB through Anush & Co, Member MSE, during the period between October 1995 to December 1995, bought 1,38,300 shares of DSQB through M/s.Sabari Stocks, MSE, during October 1995 to February 1996, bought 1,39,000 shares of DSQB through M/s.B M Gandhi, Member BSE during the period October 1995 to November 1995 and also bought 1,01,000 shares of DSQB through M/s.Riddhi Investments of Calcutta during October 1995 to November 1995.

4.7 The total paid up capital of the company as on December 27, 1995 (after the Rights Issue in August 1995) was Rs. 13,24,47,000/- divided into 1,32,44,700 shares of Rs. 10 Each. The promoter group were holding approximately

88% of the post issue capital. Thus, the floating stock on the same works out to be approximately 15,89,364 shares.

4.8 The calculation of the floating stock of the scrip during the period beginning June 1994, and the manner in which the same was squeezed as a result of consistent buying by DSQ Group companies, is given below. It may be noted that the DSQ group started buying the shares from the secondary market w.e.f June 1994.

Sr. No.	Name of the entity/company	No of shares held	%age Holding
1.	Floating stock as on Dec 27, 1995	15,89,364	12%
2.	PPTL (Purchased thru B. M. Gandhi, BSE-August 95 – November 95)	1,39,000	
3.	PPTL (Purchased thru Riddhi Investments, CSE)	1,01,000	
4.	PPTL (Purchased thru Sabari Stocks, MSE)	1,38,300	
5.	PPTL (Purchased thru Anush & Co., MSE)	1,98,500	
	Sub Total (Purchases after the rights issue i.e. expanded capital)	21,66,164	
	Floating stock after adjusting for rights issue i.e. 1:2.	10,83,082	
6.	DSQ Holdings Ltd. (Purchased thru Anush & Co till November 1994)	5,77,800	
7.	Snehl Exim India Ltd. (Purchased thru Anush & Co.)	2,00,000	
8.	Swagatham Lefin P Ltd. (Purchased thru Anush & Co)	2,00,000	
9.	Powerflow Holding & Trading Pvt. Ltd. (purchased thru Anush & Co.)	3,00,000	
	Total	23,60,802	26.73

The floating stock during the period June 1994 when DSQ Holdings Ltd. started buying the shares from the secondary market was approximately around 23, 60, 802 shares constituting roughly 26.73% of the paid up capital of the company. It can further be seen from the above table that the available floating stock was squeezed by the DSQ group companies within a short span of time as a result of consistent buying from the brokers of MSE, BSE and CSE. The DSQ group companies particularly SDHL and PPTL by enrolling as common clients to the brokers of MSE, BSE and CSE cornered substantial portion of the floating stock in the scrip. The above analysis does not include the purchases in the scrip by entities such as Escorts Finvest, Gateway Financials, Himadiri Textiles etc. Investigations revealed that purchases by these entities were funded in entirety by DSQ holdings Ltd. Therefore, if the positions of these entities are to be included, the impact on the overall floating stock position would be more. It is clear from the above that the DSQ group companies cornered substantial portion of the floating stock in the scrip of DSQB thereby distorting the market equilibrium. This was further proved from the manner in which the auctions in the scrip had taken place particularly during the first quarter of 1996 as a result of short selling that have taken place in the scrip.

4.9 Regarding the auction in the scrip, investigations revealed that continuous purchase of the shares of DSQB by the group companies of DSQ viz. SDHL and PPTL from the market had resulted in squeezing the floating stock in the scrip. This had led to abnormal price movement in the scrip during the periods June 1994 to December 1994 and again during the period June 1995 to March 1996. The analysis of the total purchase positions of the above entities in the scrip vis a vis. the floating stock revealed that almost 70 to 75% of the floating stock were cornered by the above mentioned entities by the end of December 1995 and towards the beginning of the first quarter of 1996. Consequently, short selling in the scrip was found to have taken place and short sellers had been trapped. It was observed that auctions had taken place at MSE in the scrip for about 51,000 shares during the first quarter of 1996. M/s Sabari Stocks, Member, MSE offered about 47,800 shares during the months February and March 1996 at rates ranging between Rs.112 to Rs.114. The following table indicates the details of auction in the scrip through M/s Sabari Stocks, MSE.

NAME OF THE OFFEROR	DATE OF AUCTION	QUANTITY OFFERED	REMARKS
BKG Mgmt Sec.	1.2.96 & 1.3.96	14,900 shares	Broker adjusted the auction proceeds amount (rs 11.78 lacs) by means of a journal entry to M/s PPTL on 5.12.96.
M/s Glix Merchants P.Ltd.	1.2.96 and 15.3.96	12,800 shares	A part payment made to Glix by the broker. For the remaining amount broker transferred the same by means of a journal entry to the account of PPTL on 5.12.96
Hari Om Vanijya	1.2.96	5000 shares	Broker made payment directly to Hari Om Vanijya Ltd. by means of DD. However, DSQ Mgmt appeared to have a relationship with this client and this was confirmed from the bank records. [shares pledged with UTI Bank Ltd.] ##
Himadri Electronics Pvt.Ltd.	1.2.96	2000 shares	Broker made payment directly to Himadiri Electronics by means of DD. However, DSQ Mgmt appeared to have a relationship with this client and this was confirmed from the bank records. [details of shares pledged with UTI Bank Ltd.] ##
Hemangi Vinimoy Pvt.Ltd	15.3.96	8200 shares	Full amount adjusted against the account of Pillayar Patiiyar Textiles on 5.12.96.
Olypab Comercial P.L.	1.2.96 & 15.3.96	4900 shares	Part payment made to Olypab. In respect of the balance, amount adjusted by means of journal entry to M/s PPTLA/c.

The bank records obtained from M/s UTI Bank Ltd indicated that DSQB shares held in the name of Hari Om Vanijya and Himadiri Electronics were pledged as collateral security towards loan facility sanctioned to DSQ Industries Ltd or Lexus Exports Ltd, the borrower. This indicates the strong connections of DSQ Group with the above mentioned

entities. This apart, the manner in which journal entries were passed to adjust the auction proceeds to the account of PPTL only suggests that PPTL was very much vitally interested in these transactions (i.e. the auctions).

4.10 It is very clear from the above table that the auctions proceeds which ought to have been credited into the respective accounts of the above clients had been passed on to PPTL (group Company of DSQ) on a continuous basis, implying that DSQ group had offered the shares against the auctions. The DSQ group companies viz. PPTL and SDHL were continuously buying the shares of DSQB from the market . The quantity of shares auctioned during the first quarter of 1996 vis a vis the floating stock at that point of time was also high. The representative of DSQ in his sworn statement given to the investigating team had categorically stated that the offerors in the auctions were entities independent of the DSQ group and neither the DSQ group companies nor Shri Dinesh Dalmia was interested in these companies. In response to another query regarding the nature of funds flow/adjustments made etc, Shri Gopalakrishnan stated that the transactions shown to him (i.e the Journal Entry adjustments) could be normal commercial transactions and reiterated that the above entities had no connections with the DSQ group and/or Shri Dinesh Dalmia. The reply given by Shri Gopalakrishnan, is baseless and without any conviction. It is amply clear from the above transactions that the DSQ group was directly connected to the offerors in the auctions. The trading pattern employed by the DSQ group/entities i. e buying the shares in the normal market and simultaneously offering the shares in the auctions at higher price also establishes the motive of price manipulation in the scrip to attain higher profits.

4.11 Both SDHL and PPTL claimed that they have only acquired the shares during the period of investigations ie June 94 to March 96 and have not sold any shares till March 1996. Investigations established that the consistent buying pattern employed by the DSQ Group companies in the scrip of DSQB resulted in the creation of a false / artificial market for the scrip.

4.12 During the investigation, the Managing Director of DSQB had confirmed that both the companies of DSQ viz. DSQ Holdings Ltd. (Square D Holdings Ltd. or SDHL) and Pilliyar Pattiyar Textiles Ltd. (PPTL) have only acquired the shares during the period June 1994 to December 1994 and from June 1995 to March 1996 and have not sold any shares in the market. Investigations brought out that almost the entire shares acquired from the market by SDHL and PPTL during the above stated periods were pledged as collateral security with various banks / financial Institutions to avail of loan facility / line of credit from them. Most of the shares that were acquired from the market by PPTL and SDHL during the above mentioned periods were seen pledged as either primary collateral security or secondary collateral with the banks/institutions. A close scrutiny of the distinctive number of the shares taken as delivery by the aforementioned DSQ group companies from the brokers indicated that these shares were pledged in entirety with the banks/institutions for availing loan facility/line of credit etc. The shares allotted in the Rights issue to the DSQ Group companies were also seen pledged as collateral security with the banks/financial institutions. For eg: in respect of the facility sanctioned to DSQ Industries Ltd.(formerly known as Lexus Exports Ltd.), the shares of DSQB registered in the name of DSQ Holdings Ltd (Square D Holdings Ltd) were pledged as collateral security. The records revealed that the borrower on most occasions was Lexus Exports Ltd. (DSQ Industries Ltd) and the shares of DSQB held in the names of entities such as SDHL and PPTL were pledged as collateral security. DSQ Industries Ltd. is also a listed company of the DSQ group. However, shares of DSQ Industries Ltd were not actively traded at the exchanges.

The details of shares acquired by PPTL and SDHL and pledged as collateral security with banks/institutions can be seen as under:

Name Of The Bank/ Institution	Total No. Of Shares Of DSQB Pledged AS SECURITY	Loan Availed	Nature Of Security
IFCI, Calcutta	5,25,000 Shares held in the name of DSQ Holdings Ltd. pledged as collateral security towards facility sanctioned to Lexus Exports Limited. DSQ Industries Ltd The BORROWER. DSQ Industries Ltd incidentally is also a listed company. However, the shares of this company are infrequently traded.	Rs. 11 Crore	Shares of DSQB pledged as Primary Collateral Security. The average market value during last 6 months taken for margin purposes.
IIBI, Calcutta	10,75,000 shares (Holder-DSQ Holdings Ltd.). The borrower in this case is once again DSQ Industries Ltd or Lexus Exports Ltd	Rs. 3 Crore	Securities accepted as primary collateral and the bank/financial institution confirmed that emphasis on the market value/liquidity of the shares considered before arriving at the loan amount to be sanctioned. IIBI initially decided to take the minimum price of the shares during the last six months (from the date of sanction) as the basis of Pledge. At the request of the borrower/DSQ group, the basis of pledge was changed from minimum price during the six months to average price over the last six months with 40% margin. The average price calculated on the basis of price movement in the scrip

			during the last 6 months considered for this purpose.
UTI Bank, Chennai	20,66,672 shares (Holders- PPTL, Bimex Exports, Gateway Financial Etc.). Bank guarantee facility sanctioned to Lexus Exports (DSQ Industries Ltd)	Bank Guarantee of Rs. 10 Crore	Market value of shares pledged was taken as an important criterion before release of bank Guarantee limit.
Lloyds Finance Ltd.	7,50,000 shares (Holder – DSQ Holdings Ltd SDHL.)	Bill Discounting facility sanctioned to DSQ Industries Ltd.(Lexus Exports	
HDFC Bank, Chennai	13,71,449 shares (Holders – DSQ Holdings Ltd., PPTL, Powerflow Holdings, Swagatham Leafin etc.)	Export Credit and Line of Credit facility of Rs. 10 crore sanctioned to DSQ Industries Ltd.	Taken as additional collateral security.
Indian Bank, Indl. Finance Br., Chennai	7,03,161 shares as additional security	Facility sanctioned to DSQB and DSQ Ind. Ltd.	

4.13 As can be seen from the above table, the borrower on most occasions was DSQ Industries Ltd (Lexus Exports Ltd) and shares of DSQB registered in the names of other group companies such as PPTL, SDHL etc were pledged as security. Shares of DSQB held in the name of Powerflow Holdings, Gateway Financials, Bimex Exports, etc. were also seen pledged as collateral security against loan facility availed by DSQ Industries Ltd implying that these entities are also connected to the DSQ Group. The DSQ group of companies (SDHL and PPTL) after cornering substantial quantities of shares of DSQB from the secondary market pledged these shares with the Financial Institutions/Banks to avail the loan/credit facility. From the above table, it appeared that almost 65 lakh shares held in the names of DSQ group companies (mostly DSQ Holdings Ltd) were pledged as collateral with different banks/institutions etc. towards facility sanctioned to Lexus Exports Ltd. (DSQ Industries Ltd.), the borrower.

4.14 IIBI, while sanctioning the loan facility of Rs. 3 crore had accepted the shares of DSQB as primary collateral with 40% margin calculated on the basis of the minimum price of the shares during the last six months. However, at the request of the borrower i.e. DSQ Industries Ltd. the formula for calculation was found to have changed from Minimum price to the average price of the scrip during the last 6 months and the average price worked out to be approx. Rs. 47/- per share (i.e much higher than the minimum price). It is also noteworthy that prior to IIBI's sanctioning of the facility to DSQ Industries Ltd on 23.10.94 there was price movement in the scrip of DSQB (i.e during the period June 1994 to December 1994) and the role played by SDHL in this regard is also significant.

4.15 The shares pledged with the Institutions/ Banks were either in the form of primary collateral or secondary collateral. In most cases, the shares of DSQB pledged were treated as primary collateral with emphasis on the average market price over the last six months and the basis of pledge was found to have changed at the behest of DSQ Group of companies. The average market price over the last 6 months were taken as important factor especially by IIBI, IFCI and UTI Bank Ltd. The pledgees concerned placed considerable importance on the borrower maintaining a 'minimum margin requirement' in respect of the securities pledged as collateral with them. They also stressed that in case the securities value falls below the stipulated margin requirement, the borrowers concerned should make good the loss by topping it with additional shares (i.e in case the share price falls more than 5% from the current price so that the security margin is always kept 40% of the current price). Investigations revealed that in the case of loan facility availed by Lexus Exports from IIBI, the basis of pledge was changed from minimum price of shares to average price of the shares during the six months period prior to sanction. Accordingly, 10,75,000 shares of DSQ Biotech Ltd. held by DSQ Holdings Ltd., were pledged as primary security at an average price of Rs. 47/- per share. It appeared that the artificial price movement in the scrip of DSQB prior to the sanction of loan by the financial institutions was to influence the terms and conditions of the pledge.

4.16 During the investigation, Shri Gopalkrishnan, Managing Director, DSQB was asked to confirm whether the Institutions/Banks had considered the market value of share as important criterion before sanctioning the loan facility. Shri Gopalakrishnan had stated that the securities offered to a bank/institution to secure the finance is a matter of commercial negotiations between the institutions and clients. However, he stated that in some cases request for change in formula was accepted by the Institutions. It is found that the real purpose for availing these loans were totally different and they had scrupulously complied with the sanction terms to the satisfaction of banks/institutions. He added by stating that the banks were insisting on pledge of promoters shares only to see that the promoters are continuously involved and committed to the projects financed by them.

4.17 Investigations brought out that the finance/loan facility availed by the DSQ group entities (Lexus Exports Ltd./DSQ Industries Ltd.) were again deployed to purchase shares of DSQB from the secondary market. A close scrutiny of the bank account of PPTL (who had purchased substantial quantities of DSQB during 1995-96) maintained with M/s Centurion Bank, Nandanam, Chennai 35 revealed that the payments towards their purchases were made from their account maintained with the above bank (**CA006-150505-001**). A perusal of this account indicated that immediately prior to PPTL issuing cheques from this account to the brokers, equivalent credits had come from an account operated by SDHL with M/s Canara Bank, Anna Salai, Chennai 2 (**CA 1736**). A perusal of CA 1736 of SDHL indicated that funds were actually transferred into this account from an account operated by Lexus Exports Ltd./DSQ Industries Ltd. with the same bank i.e Canara Bank (**CA 1928**). Funds were transferred by way of transfer entries into account CA 1736 from CA 1928 on a consistent basis. This clearly indicates that the payments towards the purchases of PPTL have actually come from the account of DSQ Industries Ltd. by way of transfers explained above. The following examples/illustrations clearly goes to prove that payments were made by PPTL to the brokers after equivalent funds were transferred/received from the account of DSQ Industries Ltd. (or Lexus Exports Ltd.).

- o On 3.11.95, an amount of Rs.20 lacs was transferred from CA no. 1928 [a/c of Lexus Exports with Canara Bank, Anna Salai, Chennai 2] to CA no. 1736 of SDHL with the same bank. On 4.11.95, equivalent amount transferred from CA 1736 to CA 150505 maintained by PPTL with Centurion Bank, Chennai 35. On 4.11.95, PPTL made payments from their account (CA 150505) to M/s Anush and Company and M/s Sabari Stocks towards purchase of shares of DSQB.
- o On 6.11.95, an amount of Rs 1,79,25,000 transferred from CA 1928 of Lexus Exports to CA 1736 of SDHL. On 7.11.95, an amount of Rs 33 lacs transferred from CA 1736 to the account of PPTL [CA 150505]. PPTL made payments to Riddhi Investments , Cacutta , B M Gandhi & Sons, Bombay and Sabari Stocks , MSE after 7.11.95.
- o On 17.6.95, an amount of Rs 4.50 crores transferred from CA 1928 [A/c of Lexus Exports] to the A/c of SDHL [CA 1736]. On 19.6.95, SDHL made payments from this account to M/s Anush and Company towards purchase of DSQB shares.

4.18 In addition to their account maintained with M/s Canara Bank, SDHL also had maintained an account with M/s Centurion Bank, Madras 35 [A/c 150229]. A perusal of the account of PPTL maintained with the above mentioned bank [CA 150505] confirmed that several internal transfers had taken place from A/c 150229 to A/c 150505 before PPTL made payments to the brokers. A close scrutiny of A/c 150229 of SDHL confirmed that funds were consistently transferred into this account from the account(s) of DSQ Industries Ltd. /Lexus Exports Ltd. As indicated in the above table showing the details of loan facility availed by DSQ entities, it can be seen that it was Lexus Exports / DSQ Industries Ltd who had borrowed the loan on most occasions and the shares of DSQB held in the names of other DSQ entities (mostly DSQ holdings or SDHL) were pledged as collateral security against the loan taken. Further, the representative of SDHL, Shri K Gopalakrishnan also the Managing Director of DSQB in his sworn statement confirmed that the funds towards the purchases of the shares were by means of ICD taken from M/s Lexus Exports Ltd (DSQ Industries Ltd), which according to the representative was cash rich at that point of time.

5.1 From the foregoing discussions, it is clear that :-

1. The loan facility/line of credit obtained by the borrowers i.e Lexus Exports Ltd/DSQ Industries Ltd were unscrupulously utilised by the promoters of DSQ group to purchase shares of DSQB from the secondary market and thereby manipulate the market.
2. During the period June 94 to December 94 and also during the period June 1995 to March 1996, price movement in the scrip of DSQB was witnessed essentially due to heavy buying in the scrip by entities close to the management of DSQ/group companies of DSQ. The consistent buying in the scrip by the entities close to DSQ management created an artificial / false market in the scrip of DSQB, which also led to creation of artificial scarcity of floating stock in the scrip. The auctions that had taken place in the scrip at MSE during the first quarter of 1996 amply suggests that the real beneficiaries in auctions were the DSQ Group companies / entities promoted by Shri. Dinesh Dalmia.
3. The price movement in the scrip of DSQB during the above referred periods was artificial and not backed by strong fundamentals and there was no genuine investor interest in the scrip. It appeared that this exercise was employed by the promoter of DSQ so as to satisfy the banks/financial institutions in terms of the liquidity of the scrip and also to satisfy the pledgees concerned in terms of maintaining the "stipulated margin requirements" (which was a pre condition set by the banks to the borrower before sanctioning the facility).

From the analysis of floating stock position in the scrip of DSQB, it is observed that the promoter group companies of DSQB were having large chunk of shares with them and whatever little floating stock was there in the scrip, the same was also cornered by the group companies of DSQB and also the Calcutta based entities acting as front to Shri Dinesh Dalmia . The shares were cornered by them through continuous purchases settlement after settlement through their front companies. This cornering enabled the promoters of DSQB to rig the share price of the company prior to the rights issue and also after the closure of the said issue. I also find that substantial purchases in the scrip of DSQB and the auctions had taken place after the notification of the provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Act relating to securities market) Regulations, 1995. I find from the investigation that artificial market was created in the scrip of DSQB both prior to the opening of its rights issue and also after the closure of the said issue. There was hardly any trading in the scrip after the first quarter of 1996 and a perusal of the trading records in the scrip after March 1996 and until 1998 indicated that the scrip of DSQB was very illegal. Shri.Dinesh Dalmia, the main promoter of DSQB was very much vitally interested in the promotion of the scrip of his company. Moreover, the rights issue of DSQB was brought out at a premium of Rs.35/- and this pricing has to be justified. As already brought out in the investigations, the scrip did not attract genuine investor interests. Further, I do not agree with the version put forth by Shri Dinesh Dalmia that the shares of DSQB were acquired by his group companies as part of their management philosophy. Acquisition of shares through a mandatory open offer process is a regulatory requirement which has been laid down as per the Provisions of law and the same cannot be linked to the market Purchases made by PPTL and SDHL.

5.2 In view of the above, I find that DSQ Biotech Ltd and its promoter Shri Dinesh Dalmia is guilty of violating Regulation 4(a), (b) and (d) and Regulation 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995. The conduct of DSQ Biotech is detrimental to the interest of the investors and the safety and integrity of the securities market. Therefore, in exercise of the powers under Section 4(3) read with Section 11 B of SEBI Act and Regulations 11 and 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995, I hereby direct Shri.Dinesh Dalmia and M/s DSQ Biotech Ltd not to access the capital markets or deal in securities for a period of five years, with immediate effect.

G N Bajpai

Chairman

Securities and Exchange Board of India

Place : Mumbai

Date : 10.04.03