

ORDER UNDER SECTION 11 READ WITH SECTION 11B AGAINST SHRI SANJAY CHAKROBORTY FOR DEALING IN SHARES OF M/s HITEK INDUSTRIES (BIHAR) LTD.

CO/40/IES/05/2003/IES

- 1.0 Shri Sanjay Chakraborty is a Chartered Accountant by profession and was a Promoter Director of Healol Finance Pvt. Ltd and was also the Proprietor of Mahalaxmi investments.
- 2.0 M/s. Hitek Industries (Bihar) Ltd. (hereinafter referred to as Hitek) was incorporated as a Private Limited company on March 15, 1983 under the Companies Act, 1956 and was converted into a Public Limited Company on August 12, 1983. The Company came out with a public issue in 1984 which was followed by a rights issue in 1986. Subsequently, the company came out with another public issue on March 21, 1994.
- 2.1 Hitek informed the Stock Exchange, Mumbai (BSE) vide its letter dated December 13, 1995 that it received letters from some of their shareholders that they lost around 20 lakh share certificates and requested BSE to prohibit trading in the said shares. BSE vide their notice No. 160/96 dated January 6, 1996 declared that these 20 lacs shares would be considered as bad deliveries in the market.
- 2.2 The scrip of Hitek suddenly showed a spurt in volume and price rise during December 1995 and January 1996. The scrip witnessed a price rise from Rs.11.50 to 29.28 from Settlement 10 to 28 in December, 1995 and January, 1996. The price tumbled to Rs.8.20 on January 11, 1996. The scrip was suspended indefinitely by BSE on January 12, 1996, after the company informed the BSE of its intention to issue duplicate shares in view of the letter of the share holders regarding loss of the share certificates.
- 3.0 Vide order dated May 21, 1996, an investigation into the affairs of the dealings in the shares of public issue of Hitek was initiated by SEBI. A show cause notice dated October 16, 2002 was issued to Shri Sanjay Chakraborty as to why suitable directions under Section 11 and 11B of SEBI Act, 1992 including a direction to prohibit him from entering the capital market for a particular duration should not be passed on the following grounds:
- 3.1 Shri Sanjay Chakraborty received from the financiers shares of Hitek to be off loaded in the market. As the consideration for the sale of shares did not reach the promoters of Hitek and associates, Shri Sanjay Chakraborty along with promoters of Hitek coined a story of shares being lost under the presumption that the same would be treated by the company as bad delivery and thereby aided and abetted in creation of false market in the scrip and hindered true price discovery.
- 4.0 Shri Sanjay Chakraborty did not reply to the above show cause notice. An opportunity of personal hearing was given to him on 18.1.2003. Shri Sanjay Chakraborty failed to attend the hearing. Subsequently another opportunity of hearing was given on 27.2.2003. Shri Sanjay Chakraborty attended the hearing on 27.2.03. He denied all the allegations contained in the showcause notice.
- 4.1 The company came out with a public issue on March 21, 1994 for 63,00,000 equity shares of Rs.10/- each for cash at par. The full amount of Rs.10/- per share was to be paid at the time of application. Out of this, 7,50,000 equity shares of Rs.10/- each at par was reserved for preferential allotment to NRI's/ persons of Indian origin residing abroad on a repatriation basis, 7,50,000 equity shares of Rs. 10/- each at par were reserved for preferential allotment to FIIs on repatriation basis and 12,60,000 equity shares of Rs.10/- each at par reserved for preferential allotment to Indian Mutual Funds on a competitive basis. Thus the net offer to the Indian public was 35,40,000 equity shares of Rs.10/- each at par. The paid up capital after the public issue was 99,30,648 equity shares of Rs.10/- each aggregating to Rs. 9,93,06,480. The public issue opened on March 21, 1994 and closed on the earliest closing date i.e. March 24, 1994.
- 4.2 In the issue, the top 25 applications were made by stock invests, among them, nine applicants applying for 56,30,000 shares amounted to 99.09% of the total subscription. M/s.Healol Finance Pvt. Ltd. was one of the largest shareholder of the company holding 16,50,300 shares. Shri Sanjay Chakraborty is the Director of M/s. Healol Finance Pvt. Ltd. The following are the nine applicants of the top 100 applicants :

Sr. No.	Name of the applicant	Shares Applied for
1.	Y. Srinivas	2,50,000
2.	Y. Venkatarammanna	2,50,000
3.	T.P. Dangi	16,00,000
4.	S.K. Doshi	2,50,000
5.	K.G. Doshi	2,50,000
6.	D.K. Doshi	2,30,000
7.	Dharmesh Jain	50,000
8.	Vinod R. Rana	2,50,000

9.	G.A. Jain	25,00,000
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4.3 The public issue was closed on earliest closing date on March 24, 1994 inspite of getting less than 0.5% subscription. Magadh Stock Exchange vide its letter dated June 6, 1994 approved compliance of listing formalities within 120 days from the closure of subscription, keeping in view the under subscription of the issue. None of the shares allotted to the nine applicants mentioned above were delivered to them by the Registrar to the issue. The shares allotted to these persons (56,30,000 shares) were collected by one Shri Ramprasad Sinha, an employee of Hitek. All the above nine applicants had given authority letter authorizing Shri Ramprasad Sinha to collect the share certificate from the Registrar. Further, all the above nine applicants had given irrevocable Power of Attorney in favour of Shri Ramprasad Sinha which were registered with the company.

4.4 Shri Ramprasad Sinha reported loss of 19,00,000 shares to the company. These shares were originally in the name of Shri G.A. Jain, Shri D.S.Jain and Shri T.P. Dangi and were from the lot of shares, whereby these applicants had given irrevocable Power of Attorney to Shri R.P. Sinha. The break up of the 19,00,000 shares in the name of original owners is as follows:

Name	Address	Folio	Quantity
G.A. Jain	M.G. Road, Opp. Rlwy Station, Santacruz(W), Bombay 400 054	G 0225	14,50,000
Dharmesh S. Jain	B 13/4, Mayur Pankh D. Road, Mulund, Bombay 400 080	031	50,000
T.P. Dangi	58/60, Mint Road, Fort, Bombay 400 023	T 0140	4,00,000

4.5 M/s. Mahalaxmi Investments also reported loss of 1 lac shares. Shri Sanjay Chakraborty was the authorized signatory and the partner of M/s. Mahalaxmi Investments at the relevant time.

4.6 It is noted that the address of both Shri R.P. Sinha and M/s. Mahalaxmi Investments is 10, Paramjyoti, Pestom Sagar, Plot No.9, Road No.4, Chembur, Bombay 400 089. The letters written, both by M/s. Mahalaxmi Investments and Shri R.P. Sinha were dated April 3, 1995. The Affidavit and Indemnity and Guarantee of both Shri R.P.Sinha and M/s. Mahalaxmi Investments were notarized by the same Notary, Shri S.B. Sonavane(Patil). I, therefore hold that there was a nexus between M/s. Mahalaxmi Investments and Shri R.P. Sinha.

5.0 Shri Sanjay Chakraborty in his statement dtd 14.8.96 and 27.1.97 while giving the details of his trades in Hitek, stated that he had dealt through various brokers of BSE from August 1995 to January 1996. Shri Chakraborty has admitted having signed documents reporting the loss of 1 lakh shares being reported to Hitek (on the indemnity and guarantee) as the partner of Mahalaxmi. Shri Chakraborty further stated that one Shri D. Chopra had approached him in normal course of business to liquidate his holdings in Hitek. At that time Shri Chakraborty had asked him to convert the jumbo lot shares to market lot and transfer in the name of Healol Finance. Subsequently, the shares were sent for transfer and in February 1995 share certificates duly transferred in the name of Healol Finance were received. Approximately 8 to 10 lakh shares were received from Shri D.Chopra and no payment was made because of some outstanding dues with Mr. Chopra. Sanjay Chakraborty did not give any details of D.Chopra in his statements.

5.1 It is further noted that Shri Sanjay Chakraborty stated that Shri Ramprasad Sinha reported loss of 19 lakh shares through its address at Chembur which is the same address as that of Mahalaxmi Investments and the shares were reported to be lost by Mahalaxmi on 3.4.95 which is the same day on which R.P.Sinha reported loss of shares through his Chembur address. Shri Sanjay Chakraborty stated that the affidavit which was filed by R.P.Sinha had a stamp of Notary Shri S.B.Sonawane Patil, the same Notary who by coincidence had attested the affidavit signed by him. I do not agree that this is merely a coincidence but in fact brings out clear nexus between the aforesaid persons.

5.2 Further, in reply to the investigating team's query as to how the shares were off-loaded in the market which were acquired by means of financing arrangements, Shri P.P. Verma has stated that he has sold the shares to various brokers like Swastik Investment, Healol Finance, Tyche Securities but there was hardly any success. The total off-loaded shares could be only 7 to 8 lacs. Shri R.P. Sinha who was an employee till January 1996 pledged 20 lacs shares allotted to G.A. Jain, T.P. Dangi and Shri Dharmesh Jain with some Bombay based party. The promised money from the Bombay based party could not be received and hence we had requested to return the shares. The

shares were neither returned nor the consideration was received. After a passage of approximately 6 months the shares which were off loaded in the market started coming out for transfer with forged signature on transfer deed, hence were treated as Bad Deliveries. In the meantime, Shri R.P. Sinha had lodged a police complaint alleging the loss of 20 lacs shares acquired by him under power of attorney till the book closure dated (December 24, 1996) only 7 to 8 lacs shares were received for transfer and the remaining shares are yet to be traced.

6.0 In view of the above, I am convinced that the complaint received by the company regarding lost shares, it was Shri Ramprasad Sinha, who reported loss of 19,00,000 shares. These shares were originally in the name of Shri G.A. Jain, Shri D.S.Jain and Shri T.P. Dangi and were from the lot of shares, whereby these applicants have given irrevocable Power of Attorney to Shri R.P. Sinha. Sanjay Chakraborty as authorized signatory of Mahalaxmi Investments has also reported loss of 1 lakh shares. The above stated facts reveal that the majority of the aforesaid shares were handed over to Shri Sanjay Chakraborty. The shares were offloaded in the market and on not receiving the consideration for the shares Shri Sanjay Chakraborty in concurrence with the promoters contrived, by reporting to Hitek, the aforesaid shares as lost so that the same would be treated by the company as bad delivery and avoid subsequent transfers. This is also supported by the fact that Shri R P Sinha reported loss of 19 lakh shares and the address of Chembur given in the police record is the same address as that of Mahalaxmi Investments owned by Shri Sanjay Chakraborty. The shares were reported to be lost by Mahalaxmi Investments on April 3, 1995, which is the same day on which Shri R P Sinha reported the loss of shares at his Chembur address; the affidavits which were filed by Shri R P Sinha and Shri Sanjay Chakraborty have been notarized by the same notary. Therefore, it is clear that Shri Chakraborty had aided and abetted in creating a false market in the scrip of Hitek and hindered its true price discovery.

7.0 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 I, hereby, direct Shri Sanjay Chakraborty to disassociate himself in every respect from the capital market related activities and not to access the capital market for a period of five years.

Date: May 30, 2003

Place: MUMBAI

G.N.BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA