

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER UNDER SECTION 11(4) OF SEBI ACT, 1992 AGAINST M/S SHRIKANT G. MANTRI IN THE MATTER OF NEDUNGADI BANK LTD.

CO/ /2003/IES/FUTP

1.0 SEBI had conducted investigations into the alleged violations of the provisions of SEBI Act, Rules and Regulations made there under, Securities Contract (Regulation) Act, 1956 as well as the Rules, Regulations and Byelaws of the Exchanges by Shrikant G. Mantri (herein after referred to as 'SGM') along with its associate brokers namely First Custodian Fund India Ltd. (herein after referred to as 'FCFL') and Harvest Deal Securities Ltd. (herein after referred to as 'HDSL') in its dealings with Nedungadi Bank Ltd. during the period September, 1999 to March, 2000.

2.0 Subsequent to the investigation, a show cause notice dated March 11, 2003 was issued by SEBI to SGM asking them to show cause 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 Markets) Regulations, 1995 should not be issued pending enquiries. SGM was alleged to have indulged in the acts mentioned below :

- ? issued bogus contract notes;
- ? did not account for the contract notes which have been issued;
- ? delayed payments to the bank;
- ? entered into one sided transactions;
- ? made late delivery of securities; and
- ? did not obtain written agreement from the client,

which were in violation of regulation 6 (a), (c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995 and clauses A (1), (2) and (5) and clause B (1) of Schedule II of the Code of Conduct for Stock Brokers read with regulation 7 of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.

3.0 A letter dated March 17, 2003 from SGM was received by SEBI whereby they had asked for change in the date for inspection of documents, which was duly granted for March 27 and March 28, 2003 vide our letter dated March 26, 2003 and received by them on the same day. The opportunity for inspection was availed by SGM on March 27, 2003. Accordingly, the documents were inspected by their representative, Mr. Prakash Shah, their Chartered Accountant. During inspection, the representative of SGM had requested for copies of certain documents available with SEBI. The same were furnished to them vide letter no. IES/ID5/RM/7134/2003 dated April 09, 2003. On April 10, 2003, SEBI received a further communication from SGM in which it had been mentioned that they may be granted further time to file a detailed reply to the show cause notice. In such letter, they had also denied all the charges / contentions/ allegations made out against them in the show cause notice.

4.0 An opportunity of hearing was granted to SGM on April 10, 2003 vide our letter dated April 09, 2003. Shri Shrikant G. Mantri, proprietor of the broking firm along with Shri Prakash Shah, their Chartered Accountant appeared during the hearing.

4.1 The reply dated April 25, 2003 was sent by SGM. In its reply, SGM denied all the allegations / contentions made in the Show Cause Notice. That SGM had engaged in arbitrage transactions on behalf of NBL was also denied. According to him, arbitrage transactions can only be entered into by an entity who is a member of more than one exchange. SGM was only a member broker of Mumbai Stock Exchange and hence, it submitted, that it could not have carried out arbitrage transactions. It also stated that the allegation w.r.t. arbitrage transactions was based on the statements by officials of NBL, which it was sent had been made to cover up the acts of omission / commission of theirs. It was also submitted that all the transactions done by SGM on behalf of NBL was under their instructions. It also denied of ever being informed that NBL had proposed to do arbitrage as per the scheme approved by their Board, nor had it been given copy of the approved scheme.

4.2 The fact that NBL had approached SGM in September 1999 asking whether it was interested in acting as their broker at BSE was admitted by SGM in their reply, which was agreed and acted upon. However, it was specifically stated that the purchase and sale of securities at BSE on behalf of NBL was done under instructions from the investment department of NBL although no reasons were given for having selected it as a broker to NBL.

4.3 According to SGM, the procedure adopted for the share transactions for NBL was as follows :

- (i) Telephonic instructions to buy / sell given by NBL.
- (ii) Transaction for buy/sell put through BOLT.
- (iii) Contract note for executed transaction issued, and delivered to the NBL.
- (iv) Invoice for the transactions in a Settlement Period issued.
- (v) Payment made or payment received to / from the NBL at the end of the Settlement i.e. after pay out date.
- (vi) Delivery of shares is mostly by debit/credit to respective demat a/c or by physical deliveries in respect of such shares not dematerialized. The delivery of shares was to be made before the pay in / payout date.

4.4 SGM submitted that when it was appointed as a broker to NBL, it was not aware that NBL had been doing transactions through HDSL and FCFL or any other broker. The allegation that SGM was an associate of HDSL and FCFL was denied on the basis of the following:

- a) SGM was a sole proprietary concern active since 1991 and the sole decision maker for the same had been Shri. Shrikant G. Mantri, who had signed the reply on behalf of SGM. It was also submitted that his firm shares office facility such as fax, EPBX, etc. due to reasons of economy. However, it was said that they did not share the common office space. The tenant for the office premises occupied by SGM was Shri Mantri himself and the rent for telephone bills and electricity had been paid by him. According to SGM it was a common practice in Mumbai, and also between brokers who had their office in the BSE building to share the facilities as in the instant case since space is the major constraint, and hence it cannot be said that they were associates.
- b) Shri Shrikant G. Mantri also admitted that Sushil Mantri, was his brother and also one of the directors of FCFL. Further, it was said that Sushil Mantri was the director in his own right and carried out his business activity independently whereas Shri Shrikant G.

Mantri had no financial / beneficial interest in FCFL.

c) Shri Shrikant G. Mantri was not a shareholder of HDSL, neither was he related to any of its directors and hence, HDSL was not an associate concern of SGM.

d) FCFL and /or HDSL had no connection with the business of SGM.

e) SGM had a distinct SEBI Registration, Service Tax Registration, Professional Tax and Shop and Establishment Registration, having own BOLT terminal, the access to which has been restricted to its authorized employees.

f) SGM was separately assessed for Income Tax.

4.5 SGM submitted that it was not aware of the total volume of shares transacted by NBL as also that dealt through HDSL, FCFL and SGM altogether etc. According to SGM, the reasons for having dealt through the above brokers compared with others, could only be explained by NBL.

4.6 SGM had stated that during the period September 1999 to March 2000, the total volume of transactions done by it on behalf of NBL was Rs.624.70 crores, which was under their specific instructions and there had been no default in payment and so far as the delay in payment is concerned, there was only one instance. It was said that the said delay had taken place in settlement no 51 of 1999 for Rs.7.07 crores, which it explained due to pressing commitments of SGM where it had requested NBL authorities whether it was possible to make the payment in May. According to SGM, verbal sanction had been obtained from the higher authorities and it was said that the payment should be made latest by May 31, 2000. The payment had been made on May 16, 2000 and May 17, 2000. It was also said that the payment had been accepted by NBL without any objection and it had not even asked for any interest at the time of payment.

4.7 Further, SGM submitted that during the period April 01, 2000 to March 31, 2001, it had carried out transactions for NBL for Rs.38.93 crores and the payments were made also. It was stated that SGM had no knowledge of the dues of Rs.94.61 crores of NBL as on March 31, 2000 and subsequent payment of Rs. 73.42 crores made in 2000 to 2001 etc.

4.8 The fact that R.K. Banthia, Managing director of HDSL was one of the directors of NBL during the period December 26, 2000 to May 07, 2001 was admitted by SGM. However, the extent of Banthia's shareholding etc. was not within its knowledge, SGM said. The holding of SGM in NBL was admitted to be 10.51%. However, it reiterated that SGM cannot be an associate of Banthia, it being an independent entity carrying out business with the sole proprietor, Shri Shrikant G. Mantri. Shri Mantri also said that he had never been a director of NBL and was only an investor / shareholder and also that he had never been in a position to be privy to the corporate details and business decisions of NBL.

4.9 SGM stated that it was not aware whether Mr. M.G. Damani and Mr. Suresh Vaidya had represented Banthia group on the Board of NBL, nor had he the knowledge whether Mr. M.G. Damani and Mr. A.R. Moorthy had suggested to the Board for engaging the services of SGM, HDSL and FCFL. SGM had bank accounts at NBL since 1997 and had been enjoying OD facility and bank guarantee limit of Rs.5 crores each. SGM submitted that Shri Ganesh, the Senior Manager, Investment, NBL, Mumbai had approached him in September 1999 and stated that NBL has decided to transact in shares and whether SGM would be interested to act as a broker. Thereafter, approval was obtained from their Head Office and orders were placed for purchase in sale of securities.

4.10 SGM also submitted in their reply that all the decisions regarding purchase and sale of shares including scrip, quantities, etc. had been given to him by the Senior Manager, Investment. At the end of each trading day, contract notes in respect of the orders executed for NBL had been prepared and sent to the same person, who after verifying the correctness of the transactions acknowledged the contract note.

4.11 Regarding the allegation of having not obtained the client registration form, it was submitted that the spirit behind the same was to ensure the bonafides before commencing business. It was said that, since NBL was a schedule I bank and SGM had been its constituent for more than 5 years, the bonafides of NBL was well established and SGM felt embarrassing to ask for the bonafides of NBL and therefore the same was not obtained. Further, it was also said that it was a general practice in the market not to obtain such forms in the case of institutional clients. This, SGM submitted was a technical lapse and that the same be pardoned.

4.12 SGM, vide their reply, also denied having any free hand in the buying and selling of scrips on behalf of NBL and also that the details of the deals such as name of the scrip, purchase order, sale order, quantity, rate, etc. had been decided by it. It also denied the allegation of Shri Banthia having any role in the buying and selling of shares of SGM on behalf of NBL. Further, SGM submitted that although regular reporting of the details of the share transactions by NBL was done to the Board at an interval of about 15 days, there had been no report imputing any wrong doing by SGM. Neither had it been reported that the transactions by SGM on behalf of NBL were unauthorized. etc. Also, in the Agenda for the trading transactions carried out in the equity shares at Mumbai during the month of December 1999 an amount of profit (Net of brokerage) of Rs.20341120.00 was noted and it was also said that the said purchase was approved in December 1999 and the same could not be sold earlier since the price of the shares moved adversely. According to SGM, this would clearly prove the investment activity of NBL and also taking of position in the shares by NBL and that there was no arbitrage activity.

4.13 Shri Mantri also stated that he had not been privy to the purported discussions of Shri Banthia which the Chairman / Board of NBL and also it was said that he was not present during any of those meetings and hence, cannot reply to the allegation that Shri Banthia had exercised pressure on the Chairman / Board of NBL for the purchase and sale of shares. Also, he denied any knowledge about the investment of Rs.30 crores in shares by NBL during the tenure of Shri Banthia as its director.

4.14 Regarding the purchase of 6,500 shares of Lupin on November 26, 1999, sale of 1,500 shares on November 26, 1999 by NBL, SGM submitted that the same can only be explained by the officials of the investment department of NBL. It was also said that his role as a broker was strictly confined to executing the transactions as per the instructions from NBL.

4.15 It was also submitted by SGM in their reply that the factors for NBL taking position can only be explained by its official since all the transactions through SGM of delivery or receipt of shares were done through the demat account for which payments were also made. Moreover the transactions were executed for BOLT and delivery based. It was also stated that there had been no off market/negotiated deals done by SGM. With respect to the sale transactions done in the last week of March 2000, SGM submitted that proforma note were issued at the specific request of NBL and SGM were forced to accept the same, since it knew that had it not accepted the request, NBL would be recalling the credit facilities extended to SGM and also stop their further business with SGM. It was said by SGM that as the value of the securities pledged by SGM with NBL had fallen due to the crashing stock market prices, it

would not be in a position to liquidate his overdraft amount by selling the pledged securities and hence, it had acceded to the request of NBL. It was also said that SGM had made it clear that the proforma notes were not to be acted upon and also originals of such notes were retained with SGM, photocopies of which had been given to NBL. It was submitted by SGM that they had destroyed the originals since the same was not to be acted upon. The fact that the originals were never handed over to NBL, according to SGM, could easily be established by asking them to produce the originals.

4.16 According to SGM, NBL continued to possess the actual unsold shares out of those mentioned in the Proforma Notes. As and when actual transactions were entered into, contracts dated August 23, 2000, August 24, 2000, August 25, 2000, August 29, 2000 and August 31, 2000 and December 12, 2000, January 22, 2001, February 08, 2001 and February 09, 2001 were issued. In fact, the shares had already been sold in terms of the subsequent sale, deliveries received from NBL and payments tendered to NBL. SGM also submitted that this arrangement was known to all levels of the management of NBL and no claim, demand or protest was ever raised against SGM which was inconsistent with the arrangement till May 2001 i.e. 14 months after the alleged transactions. It was also stated that this would be evidenced by the BSE trade file that the proforma note had not been entered into on the trading platform of the exchange. It was also submitted that SGM was forced to file a suit in Bombay High Court for inter alia declaring the said contract notes, a nullity, being pressurized by NBL to make the payments as per the note. NBL had not filed their written statement also in the said suit. Instead initiated arbitration proceedings before BSE on the same subject matter. It was reiterated by SGM that as and when the sale of the scrips covered by the said proforma notes had taken place, contract and sales notes were issued by SGM and shares had been delivered by NBL. Therefore, according to SGM, NBL did not account the sales as and when it had actually taken place and in contravention of all the accounting norms and standard, accounted transactions on the basis of the proforma.

4.17 It was also submitted by SGM that in the first week of March 2001, his overdraft account with NBL had become irregular pursuant to the decline in the value of securities pledged. NBL was told to have pressurized SGM to regularize the overdrawn. Subsequently, SGM stated, that it offered certain shares as additional securities to cover the shortfall in drawing power. It was also said that there had been no occasion to discuss about the bank account of SGM with Mr. Banthia as he had not been concerned/associated with the business of SGM.

4.18 SGM also denied any nexus with NBL for hiding the factual position. It was also said that while giving the photocopy of the proforma contract note, they had no knowledge that the same could later be used by NBL against SGM and had they known, they would not have given such copies.

4.19 SGM also denied the allegation of delayed payments to NBL. He also repeated that during the entire period of his acting as a broker to NBL, there was only one instance of delay in payment, that to for a sale of shares on March 06, 2000 amounting to Rs.7.07 crores, which was repaid by May 16 and May 17, 2000 as per the time schedule sanctioned. Regarding the claim of Rs.60 crores, SGM submitted that the same was fictitious since the same was due to the accounting of the proforma note by NBL which was not intended to be acted upon. Therefore, SGM has stated that the claim of NBL for an amount of Rs. 21.19 crores due from him was false.

4.20 SGM also admitted certain delays that had come forth in the delivery of shares to NBL which was due to factors beyond his control. He also submitted that it was NBL who actually owed money to SGM, for which repeated reminders were sent and subsequently, a suit had to be filed before the High Court of Bombay. It was also said that NBL had not submitted their reply, again having filed arbitration proceedings at BSE.

4.21 It was SGM's view that NBL and its official were making a lame attempt to pass their acts of omission and commission in respect of the share transaction to SGM, which SGM said was apparent from the following records:

- i) Minutes of the Board meeting of NBL from September 1999 to March 2000, during which period NBL admitted that apart from arbitrage they used to take position in various scrips. It has not been mentioned in the minutes that the same had been done at the instance of the brokers.
- ii) The Board minutes for the meeting held on March 23, 2000 specifically states that NBL had sold their entire quantity of shares on March 18, 2000 and deliveries for all these had been made except for Ranbaxy. NBL had admitted, therefore, that they did not have the stock as per the sale in the proforma note dated March 27, 2000 issued by SGM.
- iii) NBL had deliberately refrained from providing their Board the details in respect of the share transactions after the meeting held on March 18, 2000. Thus the officials of NBL had decided upon the strategy to hide their wrong doings from the Board members.
- iv) NBL had tried to camouflage the acts of omission and commission which is evidenced from the ledger account of NBL recording the share transactions, having innumerable overwriting, erasures, corrections, etc. The entries also were not recorded chronologically, there had been no narration in support of the same.
- v) NBL had been claiming an amount of Rs.21 crores from SGM although they do not have any account in their ledger showing such dues, which establishes that the claim is false.
- vi) In February 2001, NBL had used the services of SGM as brokers and had purchased shares worth Rs.3 crores.
- vii) The audited and approved balance sheet for March 31, 2000 (approved by RBI) do not show any amount due from SGM to NBL.

4.22 Therefore, according to SGM, the wrong doings by NBL had come to light during the course of inspection by Reserve Bank of India, subsequent to which they had tried to hide their wrong doings. It was also said by SGM that the complaint to SEBI by NBL was an after thought, which is corroborated by the fact that the Annual Report for the year 1999-2000 does not show dues from SGM. SGM emphatically denied any wrong doing on his part which warrants action under SEBI Act or Regulations.

5.0 I have carefully considered the investigation report, findings and charges in the Notice, statements and other evidences available. As per the minutes of the NBL Board meeting, SGM, a member of BSE was found to have entered into arbitrage transactions on behalf of NBL during the period September, 1999 to March, 2000 with the approval of the NBL along with the following brokers:

- | | |
|--|--------------|
| 1. The Harvest Deal Securities Ltd. (HDSL) | Member - BSE |
| 2. The First Custodian Fund (India) Ltd (FCFL) | Member - NSE |

5.1 At the end of March, 2000, the trading in arbitrage deals was found to have been stopped by the Bank. It was observed that the trading transactions, which were part of the bank's investment portfolio were carried out by SGM along with its associates, FCFL and HDSL. NBL's total turnover of trading with the above three brokers reportedly stood at Rs.1352.54 crores while transactions with the other approved brokers was insignificant at Rs. 0.26 crore which was mainly due to sale of shares from its investment portfolio. It was also found that there had been a default as well as delay in payment of the sale proceeds by the above brokers to the Bank. As a result, the dues from the brokers to NBL were found to have stood at Rs.94.61crores as on 31st March, 2000. Though, out of this, an amount of Rs.73.42 crores was found to have been paid to the bank over a period of one year, a sum of Rs.21.10 crores was found outstanding from SGM as on 31st March, 2001. The above firms were found to be owing an amount of Rs. 8.72 crores towards interest charged for the delayed payment of sale proceeds.

5.2 Shri. R. K. Banthia is found to have been the Managing Director of HDSL. He is also found to have been one of the directors of the bank, having substantial shareholding, either directly or through his family members/associated firms / companies. Out of the total shareholding in NBL, SGM, member BSE and also an associate of Rajendra Banthia held 10.51%, the Rajendra Banthia Group held 8.41%, and FCFL a Member of NSE and also an associate of Rajendra Banthia held 3.28% of the equity of the bank.

5.3 It was also found that over the period when the bank decided to engage in arbitrage dealings i.e. vide the Board Meeting held on 26.06.99, Mr. M. G. Damani and Mr. Suresh G. Vaidya had represented Banthia Group on the board of Directors of the Bank. In fact Shri M. G. Damani and Shri A. R. Murthy had suggested to the Board for engaging the services of FCFL, HDSL and SGM. Subsequently, Mr. Rajendra Banthia was found to have been co-opted on the Board of the bank on December 26, 2000.

5.4 Investigations had revealed that the three broking firms, FCFL, HDSL and SGM were closely connected to each other. Mr. Rajendra Banthia was found to be the Managing Director of the HDSL in which Smt. Saroj Banthia, Mr. Rajendra Banthia's wife and Shri. Manish Banthia, Mr. Rajendra Banthia's son were also Directors. In FCFL, Shri. Surendra Kumar Banthia, Mr. Rajendra Banthia's brother was the Chairman and Shri. Manish Banthia, Mr. Rajendra's son was the Director. Shri Sushil Mantri, Executive Director of this broking firm, was the brother of SGM. Thus all the three firms were closely associated with Shri. R. K. Banthia. All the three broking companies had functioned from the same premises and had common phone and fax connections which clearly indicated that these companies were closely connected. The purchases and sales were found to have been effected in different exchanges through these brokers' which further proves the common linkages of these brokers. The exact linkages are represented through a diagram given below:

Harvest Deal Securities

R.K. Banthia

(Managing Director)

Saroj Banthia (wife)

(Director)

Manish Banthia (son)

(Director)

First Custodian Fund (India)

Ltd.

Surendra Kumar Banthia

(brother of R.K. Banthia)

(Chairman)

Manish Banthia (son)

(Director)

Sushil Mantri

(brother of Shrikant Mantri)

Executive Director M/s Shrikant G. Mantri

Shrikant Mantri

(Proprietor)

5.5 The arbitrage transactions on behalf of NBL seem to have been done to capitalize the price differences existing in the NSE and BSE due to the different settlement cycles followed by them. Purchase and sale had to be executed simultaneously and put through with accuracy and great speed and so the Chairman and General Manager were to be permitted to delegate their powers to purchase/sales to the above three brokers. The purchase and sale were to be executed simultaneously in view of the risks associated with the unfavourable movement of prices of shares. To take care of other risks, trade had to be done as far as possible in shares of reputed companies and deals were to be carried out in the demat form.

5.6 However, before entering into the dealings with NBL, SGM was found to have not obtained a client registration form and agreement duly filled in by NBL while taking them as their clients. This is in violation of SEBI circular No. SMD/POLICY/CIRCULARS/5-97 dated April 11, 1997 and thus the brokers including FCFL appears to have violated Clause A(5) of Schedule II of the Code of Conduct for Stock Brokers read with Regulation 7 of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992. The plea taken by SGM that NBL being a Scheduled Bank and it had no doubt about the bonafides of NBL is not a sufficient excuse to have not obtained client registration form which has been laid down by SEBI for strict compliance. That the same is the practice in the market with respect to institutional clients also do not hold good and SEBI has strictly considered the same to be a serious violation and have passed directions in several cases for such violations.

5.7 The investigations had revealed SGM and its associate brokers had a free hand in the buying and selling of scrips on behalf of NBL and had carried out transactions according to the discretion of SGM. The details of the deals such as name of the scrip, purchase order, sale order, quantity, rate etc. was found to have been decided by SGM and its associate brokers. Shri R. K. Banthia who was a major shareholder of the NBL was also a Director of NBL during December, 2000 to April, 2001 and Managing Director of HDSL. He played a key role in buying and selling of the shares through his associate brokers. It was found that Mr. Banthia had exercised undue pressure on the Chairman/Board of NBL for the purpose of purchase and sale of shares. During R. K. Banthia's tenure as a Director, the Board of the bank was found to have decided in January, 2001 to make investment of Rs.30.00 crores in shares, convertible debentures etc. which further indicates his influence on the decisions of the bank.

5.8 SGM was found to be having overdraft limit of Rs.500 lakh and bank guarantee limit of Rs. 600 lakh each from NBL. FCFL, another associate broker of SGM also had an overdraft limit and a bank guarantee limit of Rs. 500 lakh from NBL. NBL was found to have entered into frequent and large purchase / sale transactions through SGM and its associate brokers in various scrips. Most of the transactions were seen not executed as arbitrage transactions i.e. purchases / sales of equal quantity of the particular shares were not executed simultaneously through different exchanges. For example, NBL was found to have purchased 6500 shares of Lupin Laboratories on 26.11.99 through SGM whereas the sale of 1500 shares was on 26.11.99 and the remaining 5000 shares were done on 29.11.99. Similarly it bought 2450 NIIT shares on 01.11.99 through FCFL and sold only 950 shares on 01.11.99 through SGM and the balance quantity was found to have been sold on the subsequent days i.e. on 2nd and 3rd November, 1999. NBL had bought 22400 shares of Silverline on 09.11.99 which were sold to the extent 12400 shares on 09.11.99 and the balance 10000 shares were sold on 10.11.99. There had been several transactions of the above nature. Therefore, these transactions were not of arbitrage dealings and had been open positions/investments of short term nature.

5.9 From the details of transactions in the demat accounts, frequent inflow and outflow of shares with SGM and its associate brokers were observed. Similarly frequent inflow and outflow of funds with the brokers were also observed towards the purchases and sales of shares. This indicates that the bank was taking positions in various scrips through SGM and its associate brokers instead of pure arbitrage transactions.

5.10 Investigations had revealed that during the last week of March, 2000 the sale transactions of NBL through SGM was to the extent of Rs. 58.7 crores. There had been dealings mainly in the scrips of infotech companies like Pentafor Software, Global Telesystems, Himachal Futuristic, Moser Baer and DSQ Software. Other scrips included ACC and Zee. These transactions were of the nature of off market deals and were not done through the exchanges. The above deals were all one sided transactions in the sense that there was no purchaser for the above scrips which were reportedly sold by the bank through SGM. All the prices at which the above scrips were shown to have been sold were significantly above the then market prices prevailing at that point of time. For example, Pentafor Software share price on 27.03.2000 was Rs.1311.50 on BSE and Rs.1356.53 whereas the sale price of the bank on the date was reported to be Rs.1807.65. Similarly, HFCL's sale price was Rs.2140.10 on the BSE and Rs.2147.20 on NSE whereas the reported sale price was Rs.2200. There were other scrips too which were sold in huge quantities and had similar discrepancies in the prices. The major discrepancies in the above sales transactions are as follows:-

? No deliveries were obtained from the bank for the above sales by the brokers.

? There were no payments from the brokers to the bank for the above deals.

? The brokers had issued contract notes for the above transactions but had not accounted for the transactions in their books of accounts.

? However the bank had accounted for the above deals in their books of accounts for the year ending March, 2000 based on the above bogus contract notes.

5.11 Investigations had revealed that the above referred transactions were bogus transactions. The contract notes did not have the time of transaction and also the same had not been entered through the exchange. The reason for issuing such contract notes seems to be accommodating NBL to hide its losses. NBL had huge outstanding investment in the share market and the market had started falling after the purchases. The prices of the scrips in which the bank had open position had fallen to a great extent. The bank had to close its book of accounts for the year and it was showing huge losses because of the above reasons. SGM along with its associate brokers was found to have entered into a clandestine arrangement with NBL whereby the broker would issue bogus contract notes only for the purpose of accommodation and not for the purpose of acting upon it. In this regard, it was observed that, Rajendra Banthia, Managing Director of HDSL had acted as the main persons in coordinating the deals.

5.12 On the basis of the Contract notes furnished by SGM during investigations, it was found that he had sold 25,000 Himachal Futuristic shares on behalf of NBL on 23/08/2000, 70,000 shares on 24/08/2000 and 86,159 shares on 25/08/2000 with an aggregate sale price of Rs. 27.29 crores and an entry was made in the books of accounts of SGM. Again 3000 shares of the same scrip were found to have been sold on 29/08/2000 and 18439 shares on 31/08/2000 the entries for which were made in the books of accounts of SGM on 07/09/2000. But corresponding entries are not found in the books of accounts of the bank. However, as stated earlier during March 2000, NBL was found to have transferred the shares to the brokers towards sale transactions. The entries made in the books of accounts of the broker for the month of September with respect to the same is bogus which proves nexus between the brokers and the NBL for their mutual accommodation by way of fictitious deals.

5.13 During the investigations it was observed that during March, 2001 SGM had purchased 50,000 shares of Jindal Steel, 400000 shares of Saw Pipes aggregating to a value of Rs.5.50 crore on 14.03.2001 for NBL. On the same day, FCFL was found to have contracted for the purchase of 176500 shares of Monnet Ispah and 29500 shares of Ranbaxy Labs aggregating to Rs.5.04 crore on behalf of NBL. However, the investigations had revealed that NBL had not agreed to these transactions as they had not placed any orders with SGM and SGM had thrust the transactions on them. It was found out that Mr. Banthia had insisted on NBL to make payment for these purchases although NBL had not accepted on these contracts. This clearly indicates that Shri Rajendra Banthia was instrumental in influencing NBL for entering into these bogus transactions. Further these deals were not effected through the exchange and were off market deals. It appears that the said transactions were for the purpose of accommodation and not for the purpose of acting upon. On examination of the statements of the associate brokers of SGM, it was observed that these brokers had these stocks in their portfolio which they had offloaded to NBL in order to mobilize funds. All these reiterates the nexus between NBL and the brokers for the purpose of hiding the factual positions.

5.14 The investigations also revealed that SGM and its associates had delayed payments to NBL the details of which are given below:-

SGM was found to have owed a sum of Rs.67,79,00,480 towards sale of shares by NBL during 06.03.2002 to 27.03.2000 which he had failed to pay in time to NBL. Out of this Rs.7.07 crores was paid on 16th and 17th May 2000 and Rs.40.00 crores was paid only in September, 2000 i.e. after a delay of about six months. As on 31.03.2001 an amount of Rs.21.19 crores was found due by SGM to NBL. After considering the interest on this amount (as submitted by NBL) a sum of Rs.35.51 crores was due from SGM to NBL.

FCFL was also found to have resorted to making delayed payments to NBL. For example, in Settlement No. 2000001, FCFL was found to have paid Rs.1.58 crores after a delay of 23 days and in Settlement no. 2000007, it was found to have paid Rs.1.56 crores

after a delay of 16 days etc.

HDSL was found to have owed a sum of Rs.16,24,00,996 towards sale of shares on 06.03.2000, and Rs.3,58,44,527 towards sale on 07.03.2000 which was not paid in time to NBL. This amount was found to have been paid in instalments from 13.06.2000 to 22.06.2000 i.e. after a delay of three months. NBL is reported to have claimed interest for the late payment which has not yet been settled by the broker.

5.15 Thus SGM and its associates was found to have withheld the payments due to NBL for considerable period of time and thereby delayed the payments to the clients. SGM was found to have owed an amount of Rs.21.19 crores to NBL as on 31.03.2001 besides the claim of interest for the late payment. These dues have basically arisen due to the disputed contracts (NBL recognizes the contracts whereas the broker claims that these are bogus) for sale transactions in March, 2000, for which contract notes had been issued by Shrikant G. Mantri during August 2000 whereas the entries for the same are not made in the books of accounts of NBL(the contract notes issued were bogus in order to accommodate NBL).

5.16 These delays in payment by SGM and its associate brokers to their clients seem to be in violation of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993. The brokers appear to have violated clause A (1), (2) and (5) and clause B (1) of Schedule II of the Code of Conduct for Stock Brokers read with regulation 7 of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.

5.17 During investigations it was observed that there were some instances of delay in delivery of securities by SGM and its associates to NBL towards their purchases. For example in case of ACC, the date of purchase of the above scrip was 16.02.2000 and 17.02.2000 but the delivery was made on 20.05.2000 i.e. after a gap of almost three months. Similarly for the scrip of HFCL was purchased on 06.03.2000 but the delivery was made in installments by SGM on 31.05.2000, 02.06.2000 and 13.06.2000 while a part of it was found to have not been delivered at all. In the case of Videocon International the scrip was sold on 04.02.2000 and the delivery by SGM was made on 20.05.2000 and 31.05.2000. Similar delays were observed in other scrips like Jayant Agro, Kale Consultants and Hindustan Sanitary. During investigations, differences in the statement of accounts of the transactions of the bank and the brokers' accounts were also observed.

5.18 In this process, SGM along with its associated brokers namely HDSL and FCFL appears to have indulged in the following acts.

- ? issued bogus contract notes;
- ? did not account for the contract notes which have been issued;
- ? delayed payments to the bank;
- ? entered into one sided transactions;
- ? made late delivery of securities; and
- ? did not obtain written agreement from the client,

SGM seems to have thus violated clause A (1), (2) and (5) and clause B (1) of Schedule II of the Code of Conduct for Stock Brokers read with regulation 7 of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992. These acts appear to be in violation of Regulation 6 (a), (c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Related to Securities Markets) Regulations, 1995.

5.19 An enquiry officer has been appointed against SGM to enquire into the above alleged violations and the enquiry is in progress. Meanwhile, keeping in view the gravity of the violations and prima facie preventive action is warranted in order to refrain / restrain SGM from dealing in securities so that no further harm or detriment is caused to the securities market and that investors are not adversely affected.

5.20 In view of the above, M/s Shrikant G Mantri and its proprietor, Shri Shrikant G Mantri, are directed in the interest of investors and Securities Market under Section 11(4) of SEBI Act, 1992 not to deal in securities market in any manner till further orders.

This order shall come into force with immediate effect.

Date : July 14, 2003
Place: Mumbai

G. N. BAJPAI
CHAIRMAN
SECURITIES AND EXCHANGE BOARD OF INDIA