

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER UNDER SECTION 11 READ WITH SECTION 11B AGAINST M/s VATSA CORPORATION LTD., MERCHANT BANKER IN THE PUBLIC ISSUE OF HITEK INDUSTRIES (BIHAR) LTD.

CO/ 95/IES/08 /2003

1.0 M/s Vatsa Corporation Ltd. is a Merchant Banker registered with SEBI. M/s Vatsa Corporation Ltd. (hereinafter referred to as 'the merchant banker') was the Lead Manager to the public issue of Hitek Industries (Bihar) Limited.

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 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 pursuant to intimation by some share holders regarding loss of their 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 December 19, 2002 was issued to the merchant banker to showcause as to why suitable directions under Section 11 and 11B of SEBI Act, 1992 including a direction to disassociate itself from the capital market for a particular duration should not be passed on the following grounds:

3.1 Vatsa Corporation Limited acting as the Lead Manager to the Issue tried to procure subscription by arranging stock invests in order to bail out the issue, the same has been stated by Shri P. P. Verma, the promoter of Hitek in his statement dated 27.01.97.

3.2 As Lead Manager to the Issue, the merchant banker failed to ensure that the 'Basis of Allotment' is finalized in accordance with the guidelines prescribed by SEBI. The merchant banker failed to exercise due care as the 'Basis of Allotment' was finalized only on the basis of the photocopies of the stock invests.

3.3 The Merchant Banker failed to ensure that share certificates, refund orders and cancelled stock invests are properly dispatched as the Registrar to the issue had given hand delivery of share certificates to the aforesaid 25 applicants.

3.4 The merchant banker failed to ensure that the stock invests are not deposited in banks other than the Controlling Bank branches. The stock invests were deposited in Bank of America which is not a collecting/controlling Bankers to the issue.

3.5 The merchant banker should have eliminated late applications. However, the "basis of allotment" was approved by Magadh Stock Exchange on 21.7.94. Eight application forms were dated 22.7.1994. Allotment was done without getting the consideration for shares allotted. The stock invests were not realized by the time the basis of allotment was finalized. The listing of the scrip was done prior to realization of stock invests. Hence, the merchant banker failed to handle the mandate with due diligence and care.

3.6 The merchant banker closed the issue on the earliest closing date eventhough the issue did not receive minimum subscription. When a issue is closed on the earliest closing date, the underwriters cannot be called upon to subscribe the shortfall in the public issue. In the instant case, the issue was fully underwritten and the merchant banker closed it on the earliest closing date even when the issue was under subscribed. Hence the merchant banker failed to exercise due diligence.

3.7 The merchant banker acting as the lead manager violated SEBI Circular dated December 24, 1992 which states that, "Lead Manager responsible for post issue activities shall maintain close co-ordination with the Registrar to the issue and arrange to depute its officers from regular intervals after the closure of issue to monitor the flow of applications from collecting bank branches, processing the applications including those accompanied by stock invests and other matters till the basis of allotment is decided, dispatch is completed and listing done. Any act of omission or commission on the part of Registrars noticed during such inspections should be duly reported to SEBI".

3.8 The merchant banker further violated SEBI RMB(G1 series), Circular No.1 (92-93) dated March 1, 1993 which states that, "Lead manager responsible for post-issue activities shall maintain closed co-ordination with the Registrar to the issue and arrange to depute its officers from regular intervals after the closure of issue to monitor the flow of applications from collecting bank branches, processing the applications including those accompanied by stock invests and other matters till the basis of allotment is decided, dispatch is completed and listing done. Any act of omission or commission on the part of Registrars noticed during such inspections should be duly reported to SEBI. Further, the lead manager shall be responsible for ensuring dispatch of refund orders/allotment letters/certificate by Regd. Post only, in terms of Ministry of Finance, Stock Exchange Division, Guideline No.F/8/15/SE/86D dated 3.6.86 addressed to the stock exchanges."

3.9 The merchant banker violated Code of Conduct as prescribed by Regulation 13 of SEBI (Merchant Bankers) Rules & Regulations, 1992 by not overseeing that the allotment is done only after realization of stock invests and stock invests are deposited in banks in collecting branches only.

3.10 The merchant banker through financing arrangement aided and abetted in cornering shares which led to artificial scarcity of floating stock in the market. Shri Prem Prakash Verma, Managing Director of Hitek stated that the Registrar handed over share certificates allotted to various allottees to one Shri R.P. Sinha, who was an employee of the company during that time. This resulted in cornering of shares and led to artificial scarcity of floating stock in the market. As a result of which there was a spurt in the share price.

3.11 The merchant banker proceeded with the allotment of shares before the realization of stock invests which is not in conformity with the provisions of Section 69, Section 73 of the Companies Act, 1956 and guidelines for Disclosure and Investor Protection issued by SEBI on 11.6.92.

4.0 The merchant banker vide letter dated 17.1.03 replied to the above showcause notice and made the following submissions:

4.1 The merchant banker denied that they tried to bail out the issue of Hitek by arranging loan disguised as subscription to stock invests on the following grounds:

- a. The merchant banker never tried to bail out any issue including HIBL by arranging stock invest towards subscription.
- b. SEBI had never given any opportunity to cross-examine Mr. P.P. Verma, promoter of HIBL on the above subject matter.
- c. SEBI had not given any documentary proof / evidence as produced by Shri P.P. Verma, for us to examine and contest the same.
- d. SEBI had already accepted the statement of Shri P.P. Verma without examining the facts of the case.

The above act shows that SEBI has pre decided the issue that the merchant banker is responsible for the same without having given an opportunity to prove its case.

4.2 The merchant banker denied that it failed to ensure the basis of allotment in accordance with the guidelines prescribed by SEBI on the grounds that the merchant banker has taken due care in exercising its power in finalizing the basis of allotment. The merchant banker has gone by the certificates received by the registrars to the issue stating that the issue has been over subscribed and on the basis of the same, the basis of allotment was finalized. The same was produced to the Magadh Stock Exchange.

4.3 The merchant banker denied that it failed to ensure that there are no irregularities in the dispatch of share certificates on the ground that the registrars to the issue informed us that all the share certificates / refund orders and other stock invests have been properly dispatched.

4.4 Regarding the allegation that the merchant banker failed to ensure that the stock invests are not deposited in banks other than the controlling bank branches, it was replied that the fact of stock invests having being filed in Bank of America was not brought to the merchant bankers notice and the same must have been done by the company in

connivance with the bankers and the registrars to the issue. It was further replied that it was bankers i.e. Bank of America's duty to ensure that the same were not sent for encashment since they were not collecting Bankers to the issue.

4.5 The merchant banker further denied that it closed the issue on the earliest closing date even though the issue did not receive minimum subscription on the grounds that:

- a. The merchant banker decided to close the issue at the earliest closing date on the basis of the collection figures received from the Registrar to the issue and after consultations and approval from Hitek.
- b. Had the issue been under subscribed and the merchant banker had closed on the earliest closing date, Hitek would have complained about the negligence of the merchant banker with SEBI. The same had not been done which proves that the merchant banker, at no given period of time, acted in any negligible manner and had failed to exercise the due diligence.
- c. The merchant banker never violated the SEBI Circular dated 24.12.92 and SEBI RMB (G1 series) Circular No.1 (92-93) dated 1.3.93.

4.6 The merchant banker denied that it aided and abetted, through financing arrangements, in cornering shares which led to artificial scarcity of floating stock in the market on the following grounds:

- a. SEBI acted on the basis of the statement made by Shri P.P. Verma, Promoter of Hitek. SEBI had not relied on any documents produced by HIBL or its promoters. Such documents were not forwarded to them for their comments.
- b. The merchant banker never aided the promoters of HIBL in arranging finance towards subscription of the said issue and hence the question of cornering shares of HIBL which has led to artificial scarcity of floating stock in the market, does not arise.
- c. Mr. P.P. Verma alleged that Shri R.P. Sinha was a Power of Attorney holder of some POA which the company was never aware of. In fact, the matter, was never brought to the notice of the management of VCL at any given period of time. In case there was such a POA, Mr P.P. Verma should have taken due care and should have brought to the notice of the merchant banker and SEBI. Since he has failed to do so, there is a strong feeling that Mr. P.P. Verma was thickly involved in the above process of cornering the shares which led to artificial scarcity of floating stocks in the market as alleged by SEBI.

The merchant banker stated that, as lead manager to the issue of Hitek, they always acted earnestly and had abided by all the guidelines / rules / law applicable at that given period of time. The merchant banker acted in due diligence manner and never violated any rules and regulations at that given period of time and it never tried to finance or financed any public issues including Hitek with an object to subscribe to the issue and also never tried to corner shares of any other company in which it acted as a lead manager including that of Hitek.

5.0 An opportunity of personal hearing was given to the merchant banker on 05.3.2003. Shri N. Pandya, and Shri R.B. Deshmukh, Advisers, representing the merchant banker appeared for the personal hearing. They reiterated submissions made vide letter dated 17.1.2003 in reply to the SEBI's Showcause notice dated 19.12.2002 and sought 10 days time to furnish their further written submissions. SEBI did not receive any such further submissions from the merchant banker. I have carefully examined the facts and circumstances of the case. I have also carefully considered the SCN, the submissions made by the merchant banker before me during the personal hearing on 5.3.03 and also in its letter dated January 17, 2003. The findings are as under:

5.1 Whether the public issue of Hitek received minimum subscription of 90 %. Whether the merchant banker closed the issue at the earliest closing date whereby the underwriters refused to subscribe to the shortfall. Whether the Promoter of Hitek along with the merchant banker and RTI tried to bail out the issue. Whether the merchant banker failed to ensure that the stock invests are not deposited in banks other than the Controlling Bank branches

5.1.1 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.

5.1.2 While the Merchant Banker acted as Lead Managers to the issue, M/s. Sriven Corporate Services Pvt. Ltd. acted as the Registrars to the Issue.

5.1.3 As per the 7 days post monitoring report, the provisional collection figures given by the Registrars to Issue was Rs.4,22,000/- . As per the 30 days post monitoring report, a total of 14 application have been received and the collection amount given by the Registrar was Rs.70,000/-. As per the 45 days post monitoring report, a total of 60 applications had been received and the collection amount received by the registrar was Rs.3,27,000/-.

5.1.4 As per the basis of allotment report submitted by the merchant banker to the Magadh Stock Exchange Association Ltd. on July 22, 1994, the issue was subscribed to the extent of 90.25% of which 99.09% of the shares were through stock invest applications. A total of 123 applications were received applying for Rs.5,68,17,000/- worth of subscription. Of this, 25 applications were made through stock invests, amounting to Rs.5,63,00,000/- worth of subscription.

5.1.5 It was noted from the list of top 100 applicants that the top 25 applications were made by stock invests. These applications were from nine applicants applying for 56,30,000 shares, which amounted to 99.09% of the total subscription. The following are the nine applicants among the top 100 applicants:

<u>Sr. No.</u>	<u>Name of the applicant</u>	<u>Shares Applied for</u>
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

5.1.6 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 before 120 days from the closure of subscription, on account of undersubscription of the issue as per the procedure laid down to facilitate underwriters to subscribe. The shares allotted to the nine applicants mentioned above were not 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. It is noted that Shri Ram Prasad Sinha was an employee of Hitek. All the above nine applicants had given authority letter authorizing the said Ramprasad Sinha to collect the share certificate from the Registrar. Further, all the above nine applicants had given irrevocable Powers of Attorney in favour of the said Ramprasad Sinha which were registered with the company.

5.1.7 Hitek submitted a certificate from the Bank of America, Nariman Point Branch, confirming the credit of Rs.420 lacs to the company's account. The said amount was found to be credited between August 28, 1994 and October 21, 1994. I have further noted that this was much after July 22, 1994, the last date to comply with the formalities required for listing as permitted by the Magadh Stock Exchange Association. Hitek also submitted a certificate from the Bank of Rajasthan Ltd., Overseas Branch, Nariman Point, confirming the credit of Rs.120 lacs into the company's account on September 20, 1994. Hitek stated that this credit pertained to the application money of the public issue, which it received in its current account at the above two Banks. This payment was made through stock invests. Therefore, the stock invests were not apparently deposited in banks other than the Controlling Bank branches. This is a major violation on the part of the merchant banker. The stock invests were deposited in Bank of America which is not a collecting/controlling Bankers to the issue.

5.1.8 It was observed from the photocopies of the applications of the top 25 applicants that all the said applications were made through stock invests. Nine applicants, as described in para 5.1.5, applied for 56,30,000 shares. There were eight applications for 23,00,000 shares, the date on the application form being July 22, 1994. However, the approval for the basis of allotment was sent by the merchant banker to the Magadh Stock Exchange Association vide their letter dated July 21, 1994 itself. Therefore, I find that by the time the basis of allotment was completed, these nine applications for 56,30,000 shares were not available and allotment could not have been done to these applicants. I therefore hold that the issue was not subscribed upto statutory minimum level and the merchant banker, in this regard did not comply with the requirements of Regulations.

5.2 Whether the merchant banker failed to ensure that the "basis of allotment" is finalized in accordance with the guidelines prescribed by SEBI. Whether the merchant banker failed to exercise due care in handling the mandate as the 'basis of allotment' was finalized on the basis of the photocopies of the stock invests and whether the merchant banker closed the issue on the earliest closing date even though the issue did not receive minimum subscription.

5.2.1 As already stated applications of the top 25 applicants were made through stock invests. Nine applicants applied for 56,30,000 shares, the details of which are given above. There were eight applications for 23,00,000 shares dated July 22, 1994. However, the approval for the basis of allotment was sent by the merchant banker to the Magadh Stock Exchange Association on July 21, 1994. Therefore, by the time the basis of allotment was completed, these nine applications for 56,30,000 shares were not available and allotment could not have been done.

5.2.2 It was found that the stock invest no. 6732 accompanied with the shares application of G.A. Jain of Rs.80 lacs of State Bank of Patiala, Nariman Point Branch was purchased by Ispat Finance Ltd.

5.2.3 The stock invest no.31955 and 31956 accompanied with the share application of K.G. Doshi and S.K. Doshi respectively of Rs.25 lacs each of Bank of Baroda, Bombay Main Branch were found to have been purchased by Ms. Savitri Davyarami Panjwani on July 22, 1994 and were subsequently cancelled on August 20, 1994.

5.2.4 The stock invest nos. 169283, 169287, 165288 of Rs.25 lacs each and stock invest no.169288 of Rs.23 lacs of Indian Bank, Overseas Branch, were purchased by Shri N.J. Somaiya. Of these, stock invests no.169287 and 169288 were issued in favour of M/s. East West Travels and Trade Links Ltd. of which the issuer was allotted a subscription of Rs.7.12 lacs each. Stock invest no.169283 and 169285 were purchased on July 19, 1994 and were subsequently cancelled on July 26, 1994.

5.2.5 The stock invest nos. 158299 to 158303 of Rs.25 lacs each of Vysya Bank Ltd. C.R. Avenue Branch, of were purchased by Ispat Finance Ltd. Of this, stock invest no.158299 and 158302 were realized at the current account of the company, at Bank of America, Calcutta Branch, stock invest no.158303 was realized at Bank of Rajasthan Ltd., Overseas Branch, stock invest no.158300 and 158301 were realized in the current account of Bank of America, Nariman Point Branch.

5.2.6 The stock invest no.202549 to 202558 of Rs.20 lacs each, of Bank of Madura Ltd., Fort Branch were purchased by Shivalik Projects Ltd. (now Business India T.V. International Ltd.). Of this, stock invests no.202549 to 202553 were realized in the current account of Bank of Rajasthan Ltd., Overseas Branch on September 20, 1994, stock invests no.202554 to 202558 were realized at Bank of America, Nariman Point Branch, from September 26, 1994 to October 7, 1994. All the above mentioned stock invests were either third party stock invests or were cancelled or were issued to some other company. No shares could have been allotted on the stock invests that were subsequently cancelled.

5.2.7 Stock invests no.392954 to 392956 of Rs.5 lacs each of Union Bank of India, Mulund Branch were purchased by Shri Dharmesh Jain on July 22, 1994 and were subsequently cancelled on September 13, 1994. Shri Dharmesh Jain stated that he had cancelled his stock invests. But shares were allotted in his name and were collected by Shri R.P. Sinha. It has been noted that he had not authorized anybody to collect shares on his behalf. It is further noted that out of 1,50,000 shares originally applied for by him, 50,000 shares were allotted to him. The rest of 1,00,000 shares were allotted to Shri G.A. Jain.

5.2.8 M/s. Business India T.V. International (erstwhile Shivalik projects Ltd) stated they were approached by a broker to provide a loan of Rs.200 lacs to Shri T.P. Dangi of M/s.TPD Finance Ltd. They extended the loan by providing them ten stock invests of Rs.20 lacs each, in the name of Hitek. These stock invests were issued by Bank of Madura, Fort Branch where the company had a current account. The company handed over the said stock invests to M/s. TPD Finance Ltd. through the broker. The company received an interest amounting to Rs.11,20,000/- on the loan given. M/s. Ispat Finance stated that they had provided a loan of Rs.1,20,00,000/- to TPD Finance by means of 5 stock invests issued by Vysya Bank Ltd., Calcutta Branch. The repayment was made by means of demand draft payable at Canara Bank and Vijaya Bank, Calcutta. However, no interest was paid by TPD Finance on the aforesaid loan.

5.2.9 Shri Raghunath Venkatachari, Joint Managing Director, Sriven Corporate Services Pvt. Ltd., (RTI) in his statement on November 29, 1996 submitted that the issue was not subscribed on the date of closure of the issue and as per the SEBI guidelines the Registrar reported the figure of under-subscription both to the merchant banker and the company. He stated that since the issue was underwritten the lead manager closed the issue on the earliest closing day as there was no chance of devolvement While explaining the sequence of events after the closure of the issue he stated that the public issue of Hitek was closed on the earliest closing day despite the issue being subscribed to the extent of 5% the Lead Manager & Shri P. P. Verma had approached to submit a SIP report for the issue. He further stated that the Registrar has submitted USIP-I, USIP - II and USIP - III reports. Further, he stated that Shri P. P. Verma was trying to organize the subscription for the issue and on July 19, 1994, Hitek Industries furnished a Letter stating that they received 25 stock invests for 56,30,000 shares amounting to Rs. 5,63,00,000/- at the Registered office of the company and a certificate stating that they were retaining the original stock invests with them and had forwarded the original application forms, alongwith photocopies of stockinvests. As the issue was subscribed to the extent of 90.25% the allotment was made on firm basis without any rejection, the basis of allotment was sent Magadh Stock Exchange on July 21, 1994 and one of their representative was present in the Exchange at the time of finalization. Explaining, as to how the Lead Manager's stamp was missing on the Basis of Allotment, Shri chari submitted that M/s Vatsa Finance was informed about the Basis of Allotment to be finalized and Mg. SE approved the Basis of Allotment on July 25, 1994. After the 'Basis of Allotment', was finalized share certificates were printed and despatched. Out of the total 123 applications, share certificates to 98 applicants were dispatched on August 12, 1994 by Registered Post and the balance 25 shareholders could not be consigned by Registered Post as they as they were bulk in quantity. The delivery regarding the aforesaid 25 shareholders was made to one R P Sinha on production of Letter of Authority from the respective investors.

5.2.10 Shri Chari stated that he was unaware of the status of the stock invests as regards actual realization and Shri P. P. Verma, has stated, vide letter dated April 18, 1996 that he encashed all the stock invests at Bank of America, Nariman Point Branch. The said letter was furnished by Hitek Industries to the registrar. He admitted that the basis of allotment was finalized on the basis of photocopies of stock invests and not the original stock invests. The basis of allotment was drawn one

day prior to the last day as given by Mg. SE, as the certificate issued by Hitek was dated 19.7.94. This was on the presumption that according to Companies Act, 1956 any public issue which is underwritten has to get subscription report 120 days from the date of first issue of prospectus which in this case was March 21, 1994 and the subscription should have been received before July 18, 1994. As stated earlier the 'Basis of Allotment' was approved By Mg. SE on July 21, 1994. However, 8 application forms are dated July 22, 1994. The Registrar admitted that he has failed to check the date of application.

6.0 I am therefore convinced that the issuer company in connivance with the merchant banker and the RTI cornered stock at the time of initial public offer, through financing arrangement created an artificial scarcity of floating stock in the market which facilitated rigging the price of shares. The merchant banker failed to apply due diligence and the Disclosure and Investor Protection Guidelines prescribed by SEBI.

7.0 In view of the findings, I am convinced that the merchant banker tried to procure subscription by arranging stock invests in order to bail out the issue. The same has been stated by Shri P. P. Verma, the promoter of Hitek under oath and also bears out from the facts and circumstances of the case. Further, the merchant banker failed to ensure that the 'Basis of Allotment' is finalized in accordance with the SEBI Disclosure and Investor Protection guidelines. In the said issue the merchant banker has failed to exercise due care in handling the mandate as the 'Basis of Allotment' was finalized on the basis of the photocopies of the stock invests as is evident from the fact that Hitek stated in a letter that they had received 25 stock invests for 56,30,000 shares at the Registered office and the photocopies of the same are forwarded. This is in violation of SEBI Circular dated December 24, 1992 which states that, "Lead Manager responsible for post issue activities shall maintain close co-ordination with the Registrar to the issue and arrange to depute its officers from regular intervals after the closure of issue to monitor the flow of applications from collecting bank branches, processing the applications including those accompanied by stock invests and other matters till the basis of allotment is decided, dispatch is completed and listing done. Any act of omission or commission on the part of Registrars noticed during such inspections should be duly reported to SEBI".

8.0 Further, in light of the facts and circumstances of the case and the findings of the same as enumerated I find that the merchant banker has also violated SEBI RMB(G1 series), Circular No.1 (92-93) dated March 1, 1993 which states as under:

"Lead manager responsible for post-issue activities shall maintain closed co-ordination with the Registrar to the issue and arrange to depute its officers from regular intervals after the closure of issue to monitor the flow of applications from collecting bank branches, processing the applications including those accompanied by stock invests and other matters till the basis of allotment is decided, dispatch is completed and listing done. Any act of omission or commission on the part of Registrars noticed during such inspections should be duly reported to SEBI. Further, the lead manager shall be responsible for ensuring dispatch of refund orders/allotment letters/certificate by Regd. Post only, in terms of Ministry of Finance, Stock Exchange Division, Guideline No.F/8/15/SE/86D dated 3.6.86 addressed to the stock exchanges."

9.0 The merchant banker in their reply dated January 17, 2003, inter-alia, submitted that they were never aware of the fact that the issue was under subscribed or that the company had gone by the certificates received from the Registrars of the issue or that the stock invests filed in Bank of America were not brought to its notice. The submissions of the Merchant Banker are not at all convincing as the role of the merchant banker as a lead manager to the issue should be responsibly handled. The merchant banker should maintain close co-ordination with the Registrar to the issue and arrange to depute its officers from regular intervals after the closure of issue to monitor the flow of applications from collecting bank branches, processing the applications including those accompanied by stock invests and other matters till the basis of allotment is decided, dispatch is completed and listing done. Any act of omission or commission on the part of Registrars noticed during such inspections should be duly reported to SEBI. None of the norms have been followed by the merchant banker. Therefore, the facts and circumstances clearly make out that the merchant banker is not a mute spectator of the entire episode but is a part of it.

10.0 Vatsa's registration as merchant banker expired on 14.7.96 and they never renewed thereafter. Therefore, any action under section 12(3) of SEBI Act or under SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Regulations, 2002 will be infructuous. Merchant Banker is the focal point in public issue regulation by SEBI. Without Merchant Banker acting diligently and complying strictly with the letter and spirit of guidelines and regulations, the issue cannot be properly regulated and small investors are put to grave danger. In this case, a façade of over subscription was created by the merchant banker along with others thereby depriving the gullible investors their refund of subscription money.

11.0 It is pertinent here to mention that SEBI had already debarred Hitek Industries (Bihar) Ltd, Shri PP Verma, promoter Hitek and Shri Sanjay Chakraborty from accessing the capital market. Therefore, it is a fit case to take a remedial measure so that the entities like Vatsa Corporation will not repeat this kind of negligent delinquency. I, 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, hereby, direct M/s Vatsa Corporation Ltd. to disassociate itself in every respect from the capital market related activities for a period of five years.

G.N.BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA

Place: MUMBAI

Date: 12th August, 2003