

## SECURITIES AND EXCHANGE BOARD OF INDIA

**DIRECTION UNDER SECTION 11(4)(b) READ WITH SECTION 11B OF SECURITIES AND EXCHANGE BOARD OF INDIA, ACT, 1992 AGAINST M/S SRIVEN CORPORATE SERVICES PVT LTD IN THE MATTER OF PUBLIC ISSUE OF SAATAL KATTHA AND CHEMICALS LTD****Background**

1. M/s Saatal Kattha and Chemicals Ltd (hereinafter referred to as "SKCL") having office at 42, Jaora Compound, M.Y Hospital Road, Indore – 452 001, came out with a public issue of 21,50,000 equity shares of Rs. 20/- each aggregating to Rs. 4,30,00,000. The public issue opened for public subscription on 30.1.95 and closed on 2.2.95. Central bank of India acted as a pre-issue lead manager and M/s Rajashree Fiscal Services Ltd (hereinafter referred to as RFSL) acted as the post issue Lead Manager and M/s Sriven Corporate Services Pvt Ltd (hereinafter referred to as SCSPL) acted as the Registrar to the said public issue.
2. SEBI received anonymous complaints alleging that the company has fraudulently changed the NRI subscription from 'competitive basis' to 'firm basis' in its public issue without the requisite approval of SEBI with a malafide intention to harm the investors. SEBI vide its letter dated July 11, 1997 had forwarded a copy of the complaint to the Central Bank of India, Merchant Banking Division (pre-issue Lead Manager) seeking for comments. Central Bank of India vide letter dated July 29, 1997 had furnished comments. Vide the said letter, it contented that it was the pre-issue Lead Manager for the public issue of SKCL and the post issue activities were handled by Rajashree Fiscal Services Ltd. The draft prospectus was submitted to SEBI vide letter no. CO:MBD:MJ:94-95:1972 dated 1.9.94. An acknowledgement card was issued by SEBI vide letter dated November 02, 1994.
3. As per the draft prospectus submitted to SEBI under the heading capital structure, 4,00,000 equity shares were reserved for preferential allotment to NRI's / OCB's /FII's on competitive basis. RBI's approval letter no. CO:FID(II)4754, 10.02.40 (5136)/94-95 dated 24/10/1994 was also obtained by SKCL. The SKCL appeared to have changed the basis of reservation for NRI from "competitive" to "firm" basis in its final prospectus dated November 23, 1994. SKCL appeared to have printed separate application forms inviting subscription from NRI's on firm basis. The same was done without the knowledge or approval of the pre-issue lead manager. Further the application form does not contain reference about date of the prospectus, date of opening of issue, application number or the name of the designated bank branch where the applications were to be deposited etc.
4. SKCL opened a current a/c with Central Bank of India, Churchgate Branch and deposited NRI applications along with the remittances from certain NRIs. This a/c was opened on 31.01.1995 i.e one day after the public issue had already opened for subscription. Central Bank of India, Mumbai Main Branch which was also the controlling branch had issued consolidated final certificate on March 20, 1995 on behalf of 28 designated branches. The said certificate did not indicate any collection received from NRI's.
5. SKCL obtained a certificate for Rs. 80,00,000 dated 7.4.1995 from Central Bank of India, Churchgate Branch where NRI applications were deposited. This certificate was unauthorisedly used by SKCL to show receipt of subscription from NRIs on firm basis and accordingly the basis of allotment was approved by the Regional Stock Exchange at Indore on 8.4.1995, despite the fact that Churchgate Branch was not a banker to the issue. The central Bank of India, Merchant Banking Division confirmed that all the NRI applications were in the custody of Central bank of India, Churchgate Branch and the Registrar proceeded to finalise various formalities in the absence of these original share applications. Two cheques accompanied by the NRI applications were returned unpaid in clearing. The net amount received aggregated to Rs. 32.94 lacs only. The aforesaid acts have been confirmed by the pre-issue Lead Manager in its letter addressed to SEBI.
6. It was found that SCSPL, while acting as the registrar to the issue for the said public issue, had proceeded to finalise various formalities associated with the allotment process in the absence of the original applications of the NRIs which were admittedly found to be in the custody of the Central Bank of India, Churchgate Branch. It was also found that SCSPL had, inter alia, issued a certificate stating that the issue was subscribed by more than 90%, despite the fact that few of the cheques in the NRI account had bounced and the money was also not deposited with the designated branch of the banker to the issue.

**Show Cause Notice, Reply and Hearing**

7. Pursuant to the said investigation, a show cause notice dated 11.9.03 was issued calling upon SCSPL to show cause as to why appropriate directions, including directions debarring SCSPL from operating in the securities market for a suitable period of time, should not be passed against it for committing irregularities in the public issue of SKCL.
8. SCSPL submitted a reply vide its letter dated 11.10.03 inter alia, contending that they had no role in preparation of the draft prospectus and their role started once the opening date of the issue was finalized. It was further contended by SCSPL that SKCL had received 65 applications for 4,00,000 shares and the basis of allotment had been finalized accordingly. SCSPL also submitted that even if it was on competitive basis, it would not have changed the process as SKCL was said to have received the monies from NRIs as per banker's certificate. In case of any cheque bouncing, the banker should have informed the registrars immediately and before finalization of the basis of allotment. SCSPL submitted that they need to finalise the basis of allotment within 70 days from the date of closure of the public issue. SCSPL further submitted that in order to finalise the basis of allotment, they need to get all the applications from the bankers, who sometimes misplace the applications and give SCSPL the statement with details of the applicants and based on the same, basis of allotment would be done.

9. In the interest of natural justice, an opportunity of hearing was granted to SCSPL before me on 09.12.03. However, SCSPL failed to avail the same. I am convinced that ample opportunity has been given to SCSPL to make submissions and I proceed further based on the material available on record.

### **Findings**

10. I note that SCSPL, while acting as the registrar to the issue for the said public issue, had proceeded to finalise various formalities associated with the allotment process without having the original applications of the NRIs which were in the custody of the Central Bank of India, Churchgate Branch. I note that the conduct of SCSPL in finalizing the basis of allotment on the basis of the certificate issued by Central bank of India, Churchgate Branch is highly objectionable and speaks volumes for the lack of professionalism on the part of SCSPL since, Central Bank of India, Churchgate Branch was not a banker to the issue and as such any certificate issued by such branch was irrelevant for the purpose of finalizing the basis of allotment.
11. I also find that SCSPL had issued a certificate stating that the issue was subscribed by more than 90%, which is also not acceptable in view of the fact that few cheques in the NRI account had bounced and the money was also not deposited with the designated branch of the banker to the issue. Therefore, I do not find any merit in the contentions of SCSPL and I find that it is a fit case for issue of directions under Section 11(4)(b) read with Section 11B of SEBI Act. I find that SCSPL committed violations as observed above and that the conduct of SCSPL is detrimental to the interest of investors and the securities market.

### **Directions**

12. Therefore, in exercise of the powers conferred upon me by virtue of Section 19 read with Section 11(4)(b) and Section 11B of SEBI Act. I hereby direct that M/s Sriven Corporate Services Pvt Ltd be restrained from accessing the securities market and prohibited from buying, selling or dealing in securities for a period of three years from the date of this order which shall come into force with immediate effect.

**A.K BATRA**

**MEMBER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**

**DATE : 13<sup>th</sup> January, 2004**

**PLACE : Mumbai**