

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13(4) SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.

AGAINST PUNJAB NATIONAL BANK, IN THE MATTER OF M/S. GROWMORE SOLVENTS LTD.

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BACKGROUND

1. SEBI conducted investigations into the public issue of M/s Growmore Solvents Limited (hereinafter referred to as "GSL").
2. GSL had come out with a public issue of 84,50,000 shares for Rs.10/- at par, aggregating to Rs. 845 lacs.. The issue opened for subscription on 7th March, 1994 and closed on 19th March 1994. As per the report submitted by the post issue lead manager, the issue was stated to have been subscribed to the extent of 78,91,000 shares, being 93% of the issue size.
3. During the course of investigations, it was observed that :
 - i. 27,01,500 shares, constituting 32% of the issue size, were subscribed through Stock invests.
 - ii. Of this, applications for 26,00,000 shares were accompanied by Stock Invests issued and accepted by a single branch i.e. Navrangpura branch of Punjab National Bank (PNB).
 - iii. These stock invests were not en-cashed by the company, but were cancelled in May /June 1994.
 - iv. After adjustment for these cancellations of stock invests, the net subscription to this public issue became only 62%, which was much less than the prescribed limit of 90%, being minimum subscription to be received in a public issue.
 - v. It was also observed that the aforesaid stock invests were issued by the Bank on 30th March 1994 and 9th April 1994, although the IPO of GSL closed on 19th March 1994. Hence, it is clear that the bank had accepted the applications accompanying these stock-invests after the closure of the issue.
1. Thus, it was observed that there were irregularities in issuance and acceptance of Stock Invests in the public issue. It was seen that PNB had acted in an inappropriate manner, thereby facilitating the listing of shares of GSL, even though its public issue did not receive the requisite statutory minimum subscription.
2. In view of the above, Chairman SEBI, vide order dated 4th July , 2003, appointed an Enquiry Officer to enquire into the matter, under the provisions of SEBI (Procedure for Holding Enquiry and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the " said Regulations").

ENQUIRY PROCEEDINGS

3. The enquiry officer, after conducting the enquiry as per the procedure laid down in the said Regulations, submitted a report dated February 27, 2004, wherein he held PNB guilty of having violated clauses 1, 2 and 7 of the Code of Conduct, as specified in Schedule III of the SEBI (Bankers to the Issue) Regulations, 1994, read with Regulation 16 of the same Regulations.
4. Accordingly, the enquiry officer recommended that the Navrangpura branch of PNB be debarred from carrying out the activities of "bankers to an issue", for a period of one month.

SHOW-CAUSE NOTICE AND HEARING

5. In view of the recommendation made by the Enquiry Officer, a Show Cause Notice dated March 12, 2004 was issued to PNB, advising PNB to show cause as to why action, as considered appropriate, should not be taken against them.
6. Shri S K Mohanty, Chief Manager, PNB, replied on behalf of the Bank, vide letter dated April 24, 2004. He submitted that the stock invests were issued by Navarangpura Branch of PNB, in violation of the Bank's guidelines and without complying with the prescribed procedures in this regard. He admitted that there was neglect on the part of the concerned officials of the Branch, for which the bank had severely punished the concerned officials, by dismissing the concerned Branch Manager and by demoting another officer. It was stated that PNB had already de-authorised the Navrangpura Branch from undertaking any Merchant Banking business. It was also submitted that the recommended penalty seems stringent, as 10 years had elapsed since these irregularities. Hence, PNB has pleaded for a lenient view and has sought condonement of the proposed penalty.

CONSIDERATION OF ISSUES AND FINDINGS

7. I have considered the facts of the case, the findings of the Investigation, contents of the Enquiry report, Show Cause Notice issued to PNB and its reply. My findings are as under.
8. GSL came out with a public issue of 84,50,000 shares. As per the "basis of allotment" report submitted by the post issue lead manager, the issue had received subscription for only 78,91,000 shares, constituting 93% of the issue size. Of the total subscription of 78,91,000 shares, 27,01500 shares, constituting 32% of the issue size, were subscribed through stock

invests. Of these, applications for 2,600,000 shares were accompanied by Stock Invest/s issued and accepted by a single branch of PNB (Navrangpura branch).

9. I find that these stock-invests were not encashed by the company, but were cancelled in May/June 1994. Hence, adjusted for these cancellations of stock invests, the net subscription to the public issue would have been only 62%, which is much less than the prescribed limit of 90%, to be compulsorily received in a public issue, before proceeding to allot shares. The details of category wise receipt of applications and allotment of shares thereto are as under :-

S.No.	Category	No. of applications Received	No. of shares applied for	No. of shares allotted	% of public issue
1	NRIs	35	39,700	39,70	0.47
2	Employees	25	5,000	5,000	0.06
3	Net Public Offer	1834	78,46,300	78,45,800	92.84
4	Total subscription received (1+2+3)	1894	78,91,000	78,90,500	93.37
5	Subscription through stock invest	201	27,01,500	27,01,500	32.00
6	Out of 5 above, collections through PNB	22	26,00,000	26,00,00	30.77

10. I have also observed that the 2,600,000 shares subscribed through stock invests issued by PNB included 1,300,000 shares, which were subscribed through 53 stock invests, aggregating to Rs.65 lakhs, issued on account of one Amrapali Spinning Mills Ltd., for use in the issue of Saket extrusion Ltd. I have also observed that these stock invests were issued only on 30.03.94 and 09.04.94 i.e. after the closure of issue on 19.03.94.
11. I find that the aforesaid acts of omission and commission by PNB, the Banker to the Issue of GSL, especially issuance and acceptance of stock invests after the closure of public issue, acceptance of stock invests issued in favour of another public issue etc., thereby enabling GSL to claim receipt of minimum subscription of 90% in its public issue, is a matter of concern, as it enabled an otherwise ineligible issue to get listed at the stock exchange.
12. I find that the conduct of the Navrangpura branch of PNB is unbecoming of a Banker to the issue and that the said branch did not exhibit high standards of integrity, fairness and professionalism, expected of a registered intermediary, while acting as Banker to the Public Issue of GSL. I have also noted that the Navrangpura branch has committed such lapses in other public issues as well.
13. Hence, I agree with the Enquiry Officer that these acts are in violation of Clauses 1, 2 & 7 of the Code of Conduct, as specified in Schedule III of the SEBI (Bankers to the Issue) Regulations, 1994 and as such, I am of the view that suitable penalty ought to be levied on PNB.
14. In this regard, I have also considered the Enquiry Officer's submissions that the irregularities in the issuance of stock invests were concentrated in a single branch i.e. Navrangpura branch and also that PNB has already initiated suo moto disciplinary action against the erring officials.

ORDER

15. In view of the above and in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992, read with Regulation 13 of the said Regulations, I hereby debar the Navrangpura Branch (Ahmedabad) of Punjab National Bank from carrying out the activities of Bankers to the Issue for a period of ONE month.
16. This order shall come into effect on expiry of 21 days from the date of the order.

A K BATRA

Place: Mumbai

Whole Time Member

Date : July 21 , 2004

Securities and Exchange Board of India