

SECURITIES AND EXCHANGE BOARD OF INDIA**ORDER**

UNDER SECTIONS 11 AND 11B OF THE SEBI ACT, 1992. AGAINST SHRI DINESHCHANDRA B. PATEL, SHRI MAGANBHAI M. PATEL, SHRI ABDULMONIM A. ANDANI, SHRI POPATRAO S. GAWALI, SHRI LAGI SHETTY RAMAIIYAH, SHRI REHMETULLA A. JAMAL AND SHRI SHOBHAG R. SHAH, IN THE MATTER OF M/S GROWMORE SOLVENTS LTD.

BACKGROUND

1. SEBI conducted an investigation into the public issue of M/s. Growmore Solvents Ltd. (hereinafter referred to as "GSL"). GSL had come out with a public issue of 84,50,000 equity shares of Rs.10/- each for cash at par, aggregating Rs.845 lacs, in March, 1994. The issue opened on March 07, 1994 and closed on March 11, 1994.

2. As per the report submitted by the post issue lead manager to the issue, the issue was subscribed to the extent of 93.37%. However, Investigations revealed that the subscription figures submitted by the post issue lead manager were incorrect and it was found that the issue had not received mandatory minimum subscription of 90%, as required in terms of SEBI (Disclosure and Investor Protection) Guidelines and also in terms of the prospectus. Thus, even though the issue had failed, it had been shown to have succeeded, by manipulation, on the part of several entities.

SHOW CAUSE NOTICE AND REPLIES

3. In view of the above findings, a show cause notice dated July 31, 2003 was issued to the following persons, being directors of the company :

- i. Shri Dineshchandra B. Patel
- ii. Shri Maganbhai M. Patel
- iii. Shri Abdulmonim A. Andani
- iv. Shri Popatrao S. Gawali
- v. Shri Lagi Shetty Ramaiyah
- vi. Shri Rehmetulla A. Jamal
- vii. Shri Shobhag R. Shah

3. They were asked to show cause as to why appropriate action under Section 11 and Section 11B of the Securities and Exchange Board of India Act, 1992, should not be taken against them, restraining them from buying, selling or dealing in the securities market, in any manner whatsoever, for a particular period.

4. Reply to the show cause notice was received from only one of the directors, Shri L V Ramaiah. Shri Ramaiah, vide his letter dated November 14, 2003, submitted that his association with GSL as a director, was at the request of Mr. Maganbhai Patel, the promoter of GSL. He also stated that he was a broker / trader in edible / non – edible oil trade for 50 years. He claimed ignorance about the violations in the public issue of GSL. He further submitted that the public issue of GSL was totally managed by Mr. Maganbhai and his associates and that he had no role in the same.

5. Since none of the other parties replied, a reminder was sent to them vide letter dated October 06, 2003. In response to the same, a letter dated October 18, 2003 was received from Shri Dineshchandra Patel. In his reply, Shri Dineshchandra Patel submitted that he was not involved in the public issue of GSL and that he was not involved in the process of proposing, handling, managing, subscribing, allotment of the shares issued. He further submitted that he had not subscribed to any share in either his name or that of his family members, in the public issue of GSL. He also stated that at the time of process of allotment of shares under the public issue of GSL, he was not on the Board of Directors of the company and hence, cannot be penalized under Section 11 and 11B of SEBI Act, 1992. He also submitted that he cannot be penalized / restricted from accessing the securities market without giving a further opportunity for the presentation of his case before the higher authority.

HEARING AND WRITTEN SUBMISSIONS

6. Opportunities of hearing were granted by me to the aforesaid parties, in adherence to the principles of natural justice. The hearing was scheduled on January 02, 2004, which was communicated to them vide letter dated, December 22, 2003. None of the parties appeared for the hearing.

FINDINGS

7. I have carefully examined the findings of the investigation, all the documents/statements, show cause notices sent and the replies received. My findings are as under.

8. As per the 'Basis of Allotment Report' dated 20.05.1994 submitted by BOI Finance Ltd, the post issue Lead Manager to the issue, the public issue was subscribed in the following manner :

Category	No. of Applications Received.	No. of shares applied for	No. of shares allotted	Amount Payable on Application	% of Public Issue

1. NRIs	35	39,700	39,700	3,97,000	0.47
2. Employees	25	5,000	5,000	50,000	0.06
3. Net Public Offer	1834	78,46,300	78,45,800	3,92,29,000	92.84
4. Total subscription Received (1+2+3)	1894	78,91,000	78,90,500	3,96,76,000	93.37
5. Subscription through stock invest	201	27,01,500	27,01,500	1,35,07,500	32.00
6. Out of 5 above collections thru PNB.	22	26,00,000	26,00,000	1,30,00,000	30.77

9. It is seen from the above that :

I. Applications for 27,01,500 shares i.e 33% of the shares allotted in the issue, were accompanied with stock invests.

II. Of these, applications for 96% shares were collected by Punjab National Bank, Navrangpura Branch (hereinafter referred to as PNB), one of the Bankers to the Issue.

10. The collection schedule of PNB showed that the 22 'stock invest applications' collected by the said bank branch were accompanied by 16 stock invests (No. 577402 to 577417) for Rs.5 lac each and 50 stock invests (No. 577330 to 577379) for Rs.1 lac each, totaling Rs.1,30,00,000/-. Scrutiny of the bank schedule, stock invest register etc revealed that stock invest books bearing serial numbers 577301-577400 and 577401-450, from which the above 66 stock invests were issued, were issued out from the valuable securities register only on 22.03.94 and 26.03.94 i.e. after the closure of the issue.

11. It was also seen that of the above mentioned 66 stock invests, 53 Stock Invests [Nos. 577408 to 577410 for Rs. 5 lac each and Nos. 577330 to 577379 for Rs.1 lac each] aggregating Rs.65 lakhs, were issued on account of Amrapali Spinning Mills Ltd., on 30.03.1994 and 09.04.1994.

12. A scrutiny of the bank schedule/ reply given by PNB/ photocopy of the stockinvests/ stockinvest register revealed that

- The stock invests were issued to the account of Amrapali Spinning Mills Ltd. whose directors are stated to be
- Mr.Yashwant A Thakkar and Mr. Rashmikant A Thakkar.
- Most of these stock invests were signed by persons other than the authorized signatories of Amrapali Spinning Mills Ltd. on whose account the stock invests were issued.
- They were signed by Patels and Andanis, promoter directors of GSL.
- The stock invests bear at least 3 to 4 different dates imprinted by rubber stamps over the bank's handwritten date of issue.
- Some of the stock invests also show visible alteration in the name of the payee.
- Some of the names of applicants, as appearing in the bank schedule, are repetitive and indicate multiple applications.
- The stock invests were not encashed but cancelled in May/ June, 1994.

13. Since the bank records showed that the stock invests in question were cancelled, it is apparent that the stock invests used for subscribing to the issue of GSL were not encashed. I also find that the cancelled stock invests are in the possession of PNB. Hence, it is clear that the subscription against the applications accompanied by these stock invests were never received by GSL.

14. Thus, I find that 30% of the subscription to the public issue had come through stock invests, which were not encashed subsequently. If one deducts the 30% subscription received through these stock invests, from the total subscription received (Rs.3,96,76,000/-, being 93.37 % of the public issue), I find that the public issue has been subscribed to the extent of approximately 62% only, which is much below the mandatory minimum requirement of 90%. Thus, I find that the issue of GSL did not receive mandatory minimum subscription of 90% as required in terms of SEBI (Disclosure and Investor Protection) Guidelines and terms of prospectus.

15. In view of the shortfall in subscription, the issue should have failed. However, the issue was shown as subscribed to the extent of 93.37% and was subsequently listed on the stock exchanges.

16. In this regard, the roles of the directors of the company, especially that of Shri Maganbhai Meghajibhai Patel, Shri Abdulmonim Amir Andani, both promoter directors and also that of Shri Dineshchandra Bachubhai Patel have been examined. I note that these 3 directors were also directors in Kengold India Ltd. with which GSL has merged subsequently.

17. I note that Shri D B Patel was looking after only the technical aspects of GSL and had resigned from the directorship of GSL on 10th May, 1994, on health grounds. He had submitted that he had never held a position which controlled the affairs of the company nor was he connected with the public issue or allotment of shares during his tenure as director. He had also stated that to the best of his memory neither he nor any of his family members applied in the public issue of GSL.

18. Shri Abdulmonim Andani, I note, had admitted that the issue of GSL was not subscribed to the extent of 90% and in order not to devolve the issue, they had applied for the shares of GSL in the name of family members, borrowing stock invests issued by PNB, from a middleman to whom interest of around 24% was paid. I also see that he had admitted that after the applications for shares were received by the company, along with the stock invests, the person from whom they borrowed the stock invests got them cancelled. I find that Shri Andani along with his wife had applied for 2 lac shares. I also note that he stated that the entire matter was handled by the Managing Director of the company, Mr. Maganbhai Patel.

19. Shri Andani, I find, was holding the post of Managing Director in Kengold India Ltd. till March 2002, into which GSL had been merged. He had also stated that due to growing differences between him and Mr. Maganbhai Patel, he had resigned on 31st March, 2002. He had also stated that Mr. Maganbhai Patel was known to him as they were in the same business of edible oil trading. I find that Shri Andani had stated Mr. Maganbhai Patel to be at Uganda during the investigation.

20. I find that Shri Maganbhai Patel had not appeared during the investigation. The following are the details of the summons issued to him :-

Summons dated	To appear on	Sent at	Status
31.05.2002	12.06.2002	B-83, Matrushakti Society, India Colony, Bapu Nagar, Ahmedabad.	Delivered on 01.06.2002
13.06.2002	21.06.2002	Same as above	-----
27.06.2002	11.07.2002	c/o Kengold India Ltd., 2 nd floor, Atmaram Chambers, Narangpura Rly Crossing, Ahmedabad 380 013. (Address same as that of GSL).	Letter re-directed to new address of Kengold namely, 7-A, Phase III, GIDC, Naroda, Ahmedabad 382 325 and returned undelivered.
10.07.2002*	22.07.2002	Same as above	Delivered
13.08.2002	26.08.2002	B-83, Matrushakti Society, India Colony, Bapu Nagar, Ahmedabad	Delivered on 14.08.2002
17.09.2002	26.09.2002	Same as above	Returned undelivered with remarks "left India"
13.12.2002	23.12.2002	501, Sarthak Towers, Satellite Road, Ramdev Nagar, Ahmedabad. (address given by Shri Andani)	Returned undelivered with remarks "refused"

* Also sent through Ahmedabad Stock Exchange for delivery to Mr. Patel.

21. I find that the Ahmedabad stock exchange, in response to the summons sought to be served through it, to Shri. Maganbhai Patel, had informed SEBI as under:

"The stock exchange deputed its representative to deliver a copy of summon in person to Mr. Patel at Kengold India Ltd., 7-A, Phase-III, GIDC, Naroda, Ahmedabad, however he was not available. Our representative also made visit of registered office of Kengold India Ltd., situated at 2nd floor, Atmaram Chambers, Near Naranpura railway crossing, Naranpura, Ahmedabad – 13 as well as their personal address at B-83, Matrushakti Society, India Colony, Bapunagar, Ahmedabad-24 (As per information submitted to ASE at the time of further enlistment of Kengold India Ltd.), however he was not available and available persons did not share information about his whereabouts."

22. I find that inspite of getting the summons three times, Shri Maganbhai Patel had not appeared for the investigation and that thereafter he left India. However, his name continues to be shown as a Director in Kengold India Ltd., another listed company, with which GSL had merged. A scrutiny of bank schedule of stock invests applications show that his family had applied for 9 lac shares using stock invests. I also note that, apart from these applications, there were many applications in names, without indicating surnames, apparently fictitious.

22. I also find that an application for 5 lac shares has been made by "S Shah", which seems to be Mr. Shobhag Shah, an NRI Director of GSL, based in Nairobi. I note that Mr. Maganbhai Patel and Mr. Shobhag Shah are both directors on Kengold India Ltd. and therefore appear to have some connection with each other.

23. As discussed in the preceding paragraphs, the public issue of GSL did not receive minimum mandatory subscription of 90% and an illusion of subscription was created by Mr. Maganbhai Patel and Mr. Abdulmonim Andani and their family members, along with Shri. S. Shah, by putting in applications using stock invests which were borrowed and which were cancelled subsequently. The issue had failed to receive minimum subscription of 90% as required in terms of SEBI (Disclosure and Investor Protection) Guidelines and the terms of prospectus. As such the directors of GSL, Mr. Maganbhai Patel, Mr. Abdulmonim Andani, and Shri Shobhag R. Shah have violated SEBI (Disclosure and Investor Protection) Guidelines and the terms of prospectus.

24. As regards the other directors, namely Shri Dineshchandra B. Patel, Shri Popatrao S. Gawli, Shri Lagi Shetty Ramaiyah and Shri Rehmetulla A. Jamal, I find that no case has been made out regarding their complicity in the violations observed in the public issue of GSL. I have also considered the submissions made by two of these directors, stating that they had no role to play in the public issue of the company and that the entire public issue was managed by Shri Maganbhai Patel. I have also observed that none of these directors have been alleged to have made applications in the public issue of GSL using borrowed stock invests, as was the case with the other three directors. Therefore, in view of the absence of any material on record to associate these 4 directors with the wrongdoings in the public issue of GSL, as also their submissions regarding non-association with the said issue, I am convinced that the benefit of doubt should be extended to these four directors.

ORDER

25. In view of the above, in exercise of powers conferred upon me in terms of Section 19 of SEBI Act, 1992, read with Section 11 And 11B of the SEBI Act, I hereby prohibit Shri Maganbhai M. Patel, Shri Abdulmonim A. Andani, and Shri Shobhag R. Shah, from buying, selling or dealing in securities, in any manner whatsoever, for a period of three years.

26. This order shall come into force with immediate effect.

PLACE : MUMBAI
DATE : July 22nd , 2004

A.K.BATRA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA