

SECURITIES AND EXCHANGE BOARD OF INDIA

DIRECTION UNDER SECTION 11B READ WITH SECTION 11(4) OF SECURITIES AND EXCHANGE BOARD OF INDIA, ACT, 1992 READ WITH REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULANT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003 AGAINST SHREE RAMA MULTI-TECH LIMITED AND ITS DIRECTORS.

BACKGROUND

1. Shree Rama Multi-Tech Limited (hereinafter referred to as SRMTL) was formed as a partnership firm in the name of Shree Rama Packaging in the year 1986 and was subsequently incorporated as a Public Limited Company on 17th December, 1993. SRMTL manufactures and deals in laminated web material, lamitubes, flexible tubes and all types of films, multi-layer films, sheets, containers, bags, pouches and articles made by using such web material, films or sheets. SRMTL is also an integrated packaging solutions provider to the fast moving consumer goods industry with focus on Plastic Laminated Tubes, labels/stickers and specialty packaging and plastic products.
2. The registered office of SRMTL is located at Ram Nivas -1, Khanpur, Ahmedabad – 380001 with administrative offices at Bangalore, Delhi and Bombay.
3. SRMTL was initially promoted by Mr. Vikram Patel, Mr. Sharad Patel, Vimpsan Investments Pvt. Ltd. and Sanket Estates and Finance Pvt. Ltd. Vimpsan Investments Pvt. Ltd. and Sanket Estates and Finance Pvt. Ltd. are investment arms of Vikram Patel and Sharad Patel. From 1994 onwards SRMTL raised its capital from time to time and allotted shares to FIIs like HSBC Pvt. Equity India Fund Ltd. (HPEIF), CDC Financial Services (Mauritius) Ltd. (CDCFSL), Nippon Investment and Finance Co. Ltd. (NIFCL) and South Asia Regional Fund, etc.
4. SRMTL came out with a public issue to the tune of 80,55,750 equity shares and an offer for sale to existing major shareholders to the tune of 55,92,000 equity shares on 15.01.2000 through book building process. The total issue of equity shares was for Rs. 1,36,47,750 crores of Rs.5 each at a premium of Rs.115

aggregating Rs.163.77 crores. Paid-up capital of SRMTL after the public issue stood at Rs.26.50 crores divided into 5.3 crore equity shares of Rs.5 each. Allotments were made to the associate entities of SRMTL in the aforesaid issue. Lead Managers to the above issue were Khandwala Securities Ltd. (hereinafter referred to as KSL), and IDBI.

5. The scrip of SRMTL is listed at NSE, BSE and ASE. At NSE, the newly issued shares were listed, with the opening price close to the issue price of Rs.120 in the month of March, 2000. After listing, price of the scrip came down to around Rs. 50 by May, 2000. The scrip, which was quoting around Rs. 55 on 1st June, 2000 with traded volume of 41,700 shares, gradually moved up to Rs.88.90 as on 8th September, 2000 with a volume of 1,51,000 shares. The highest volume recorded was 2,69,600 shares on 20.06.2000 with the closing price Rs. 69.40. The net traded value from Settlement Nb. 36 to 37 between 30.08.00 and 06.09.00 increased by 142.0% and the number of shares traded by 116.0%. Later, the scrip came down to the level of Rs. 52 with a volume of 16,000 shares as on 13th October, 2000. The price movement of the scrip at BSE and ASE was also in tandem with that at NSE.
6. Based on the above, an investigation was initiated into the dealings in the shares of SRMTL. The following were the main findings:
 - Major concentration of dealings in the scrip was observed with the brokers, Khandwala Finance Ltd., (hereinafter referred to as KFL) at NSE and Jayantilal Khandwala and Sons Ltd., (hereinafter referred to as JKSL) at BSE. Their contribution towards gross volume was 39.74% and towards net volume was 78.66%. Cross deals amounting to 4.26 lakh shares were observed in 148 trades by the above brokers. KFL was an associate entity of KSL, one of the lead managers to the issue.
 - Common clients to the brokers, East West Polyart Ltd., (hereinafter referred to as EWPL) Ideal Petro Products Ltd., (hereinafter referred to as IPPL) Satellite Management Services Ltd., (hereinafter referred to as SMSPL) Shree Rama Polysynth (P) Ltd., (hereinafter referred to as SRPL) and

Shree Developers Pvt. Ltd. (hereinafter referred to as SDPL) were associate entities of SRMTL.

- M/s. Global Finance (hereinafter referred to as GF), which had played the conduit for movement of funds for dealings in the shares of SRMTL appeared to be the investment arm of the main promoter of SRMTL.
- Movement of funds from the accounts of SRMTL to the accounts of its associates under the garb of payment for materials and other capital goods was evidenced during the investigation. Also, the funds paid by PGSL for the transactions executed by it on behalf of the associates of SRMTL were routed through GF to reach SRMTL.

SHOW CAUSE NOTICE AND HEARING

7. Pursuant to the investigation, a notice dated 14.10.03 was issued to SRMTL and its Directors Mr. Vikram Patel, Mr. Sharad Patel, Mr. Prakash Patel, Mr. Rambhai Patel, Mr. Hansraj Kanji, Dr. Prakash Trivedi, Mr. Nilesh Vaishnav, Mr. Ishwarlal Shah, Mr. Sudhakar Patel and Mr. Sourabh Soparkar asking them to show cause as to why suitable directions including directions debarring/prohibiting them from buying and selling in securities for a specified period under section 11B and 11(4) of the SEBI Act, 1992 read with Regulations 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, should not be issued. It was also mentioned that if they failed to submit any reply within the stipulated period of 15 days, then it would be presumed that they had no explanations to give in the matter and SEBI would be constrained to pass such orders specified in terms of the aforesaid Act and Regulations. The documents relied upon in support of the allegations contained in the show cause notice were also annexed with the notice.
8. As requested by SRMTL vide its letters dated 30.10.03 and 12.11.03 extension of time was granted till 30.11.03 for furnishing their reply to the show cause notice. An interim reply was submitted by SRMTL on 28.11.03 and the Directors Mr. Vikram Patel, Mr. Sharad Patel, Mr. Prakash Patel, Mr. Rambhai

Patel, Mr. Hansraj Kanji and Dr. Prakash Trivedi. The other Directors. Mr. Sourabh Soparkar, Mr. Nilesh Vaishnav, Mr. Sudhakar Patel and Mr. Ishwarlal Shah submitted their replies on different dates between 20.10.03 and 27.01.04. SRMTL had sought inspection of documents, which was availed of on 21 - 22.01.04. SRMTL and its Directors were given copies of the documents on 04.02.04. Subsequently, the final submissions were made by SRMTL and its Directors Mr. Vikram Patel, Mr. Sharad Patel, Mr. Prakash Patel on 01.03.04.

9. Thereafter, in the interest of natural justice, an opportunity was granted to SRMTL and its Directors for personal hearing before me on 22.03.04. However, at the request of SRMTL and its directors, the hearing was rescheduled for 10.04.04 and later to 17.04.04, when the representatives of SRMTL and its Directors appeared before me and reiterated the written submissions made by them earlier.

10. The primary contentions put forth by SRMTL and its Directors Mr. Vikram Patel, Chairman and Managing Director, Mr. Sharad Patel, Mr. Prakash Patel, Mr. Rambhai Patel, Non-Executive Director, Mr. Hansraj Kanji, Non-Executive Director and Dr. Prakash Trivedi are as follows:

- The allegation that SRMTL and its Directors have violated the provisions of Regulation 4 of SEBI (prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 2003 is not correct. The said regulation is in fact a substantive provision and does not contain the procedure to be adopted regarding the offences under the regulations.
- There has been no codified definition of the terms “associated” and “interrelationship” as has been used time and again in the show cause notice. Also, there has been no nexus established with the other entities mentioned to be associated with SRMTL. Mere existence of relationship in the nature of cousins, nephews or the sharing of the same address by the companies can in no way go to prove the fact that, the companies are indeed related and are associated among themselves.

- No motive has been established for the alleged manipulation of the price or for the creation of artificial markets of SRMTL by either the company or on the part of the Directors.
- The primary reasons for the increase in price of the shares of SRMTL has been the good performance of the company during the period March/June 2000 and the general uptrend that was prevailing in the markets during the period.
- All the subscribers to the memorandum of association of the company are not promoters of the company as inferred by SEBI.
- All the transactions that have been entered into with the associates (including Global Finance) are in the nature of business transactions and do not constitute any transaction with an intent to influence the price of the scrip of SRMTL.

11. The submissions by the remaining Directors Mr. Nilesh Vaishnav, Mr. Ishwarlal Shah, Mr. Sudhakar Patel and Mr. Sourabh Soparkar are that they had acted as Independent Directors/Associate Directors of SRMTL and they were not aware of the day-to-day affairs of the company. After having known about the alleged malpractices, they have resigned their positions of Directors in SRMTL.

CONSIDERATION OF ISSUES

12. I have considered the material on record, the show cause notice and the written and oral submissions made by SRMTL and its Directors.

13. The transactions carried out by KFL in the scrip of SRMTL on its own account and for the various clients during the period of investigation are as follows:

Main Client Name and Address	Purchases	Sales	Gross	Net
Khandwala Finance Ltd. (Own Account)	75,900	92,651	1,68,551	-16,751
East West Polyart Ltd., Nivruti	7,97,784	1,08,006	9,05,790	6,89,778

Niwas, Opp. Kalgi Florist, Old Sharda Mandir Road, Ellisbridge, Ahmedabad				
Asha Patel	6,41,720	4,28,094	10,69,814	2,13,626
Satellite Management, Ram Nivas-1, Khanpur, Ahmedabad	73,739	0	73,739	73,739
Nippon Investments,	0	2,81,418	2,81,418	-2,81,418
Anant Trading Co., Bajaj Bhawan, 2 nd Flr, 226 Nariman Point, Mumbai – 21	71,456	71,456	1,42,912	0
Kushagra Trading Co., Bajaj Bhawan, 2 nd Flr, 226 Nariman Point, Mumbai–21	71,456	71,456	1,42,912	0
Ideal Petro Products	26,305	0	26,305	26,305
Vasant J Mehta	30,000	10,000	40,000	20,000
Khandwala Securities Ltd.	1,04,196	60,553	1,64,749	43,643
Total on behalf of major clients	18,92,556	11,23,634	30,16,190	7,68,922
Grand Total	21,87,755	13,31,095	35,18,850	8,56,660

14. Majority of the transactions have been carried out by KFL, on its own account, for its group company KSL and for the associate entities of SRMTL. In most of the settlements KFL is found to have contributed more than 50% of the purchases at NSE. In Settlement No. 36, its contribution towards purchases was at 82%. KFL also contributed substantial volumes towards the sales at the exchange as evidenced by the 76% sales in Settlement No. 38.

15. JKSL has carried out the following transactions on behalf of its clients:

Sr. No.	Name of the client	Purchases	Sales	Gross	Net
	Total position	1247091	1718443	2965534	-471352
	Main clients				
1	M/s. East West Polyart	364027	662780	1026807	-298753
2	Ideal Sec. Ltd.	20690	0	20690	-20690
3	Asha Patel	618332	912696	1531028	-294364

4	Satellite Management Services P Ltd.	27725	0	27725	27725
5	Nirjay Sec.	94646	73491	168137	21155

16. JKSL contributed more than 70% of the purchases at BSE. In the Settlement No. 19, 23, 24 and 25, JKSL contributed more than half of the volumes at the exchange. For the period 05.06.2000 to 29.09.2000, it is observed that out of 57.93 lakh shares traded at the exchange, JKSL contributed 12.47 lakh towards purchases and 17.18 lakh towards sales. In percentage terms, this works out to 21.6% of the purchases and 29.65% of the sales.

17. It is observed that the companies transacting in the scrip of SRMTL are related/associated among themselves and with the management of SRMTL as follows:

- Mr. Mahesh Patel is the Director for the three entities mentioned in the table below and appeared on behalf of them before the investigating team. Further, Mr. Chandrakant C Patel is also a common Director for all of the said entities alongwith SDPL and SRPPL. Mr. Mahesh Patel has admitted that all of the above are associate concerns.
- As per the submissions made by these entities the following are the contact addresses :

Sr. No.	Name of the entity	Address
1.	East West Polyart	Plot No. 1491, Moti Bhoyan, Kalol Khatraj Road, Taluk Kalol, Gandhinagar, Gujarat – 382721.
2.	Ideal Petro Products	105, Anand Mangal – 1, Nr. Femina Town, Off C G Road, Ahmedabad – 380 009. Ph. No. 6566617
3.	Satellite Management Services Pvt. Ltd.	Nivruti Niwas, Opp. Kalgi Flower Shop, Old Sharda Mandir Road, Ellisbridge, Ahmedabad.

- However, from the information submitted by these entities, it is observed that all of them were operating from one address i.e. Ram Niwas -1, Khanpur, Ahmedabad – 380 001. Moreover, the records suggest that

SRMTL has its registered office at Ram Niwas -1, Khanpur, Ahmedabad – 380 001.

- The names of the entities with which the directors of SRMTL were associated as signatories to Memorandum of Association are given below:

Sr. No.	Name of the person	Father's / Husband's Name and Address	Name of the entity in which appearing as a subscriber to MOA
1.	Prakash R Patel	S/o. of Rambhai Patel Ram Niwas -1, Khanpur, Ahmedabad – 380 001	a) Ideal Petro Products Ltd. b) East West Polyart Ltd.
2.	Asit Natubhai Patel	S/o. Natubhai Patel Ram Niwas -1, Khanpur, Ahmedabad – 380 001	a) Ideal Petro Products Ltd. b) Shree Rama Polysynthetic Pvt. Ltd. c) Satellite Management Services Pvt. Ltd.
3.	Sharad C Patel	S/o. Chhotabhai Shankerbhai Patel Ram Niwas -1, Khanpur, Ahmedabad – 380 001	a) Ideal Petro Products Ltd. b) Shree Rama Multi-tech Ltd. c) Shree Developers P Ltd.
4.	Natubhai Umedbhai Patel	S/o. Umedbhai Patel Ram Niwas -1, Khanpur, Ahmedabad – 380 001	a) East West Polyart Ltd. b) Shree Developers Pvt. Ltd.

18. It has been observed that payments for the dealings in the scrip of SRMTL had been made from the account maintained by GF which is being controlled by Mr. Asit N Patel, a nephew of Shri Vikram Patel, CMD of SRMTL. As per the information gathered from Central Bank of India, Ballard Estate, GF operates from 152, Mittal Court, A Wing, 15th Floor, Nariman Point, Mumbai – 400021. SRMTL is found to have a branch office/administrative office at the above address at which the letter addressed to GF had been acknowledged.

19. GF seems to be the beneficiary for the transactions entered by the associate entities of SRMTL as may be deduced from the following findings:

- Shri Asit N Patel, a nephew of Shri Vikram Patel, CMD of SRMTL is the sole proprietor of GF financing the whole set of transactions. He was also associated with SRMTL as Vice-President (Marketing) during the

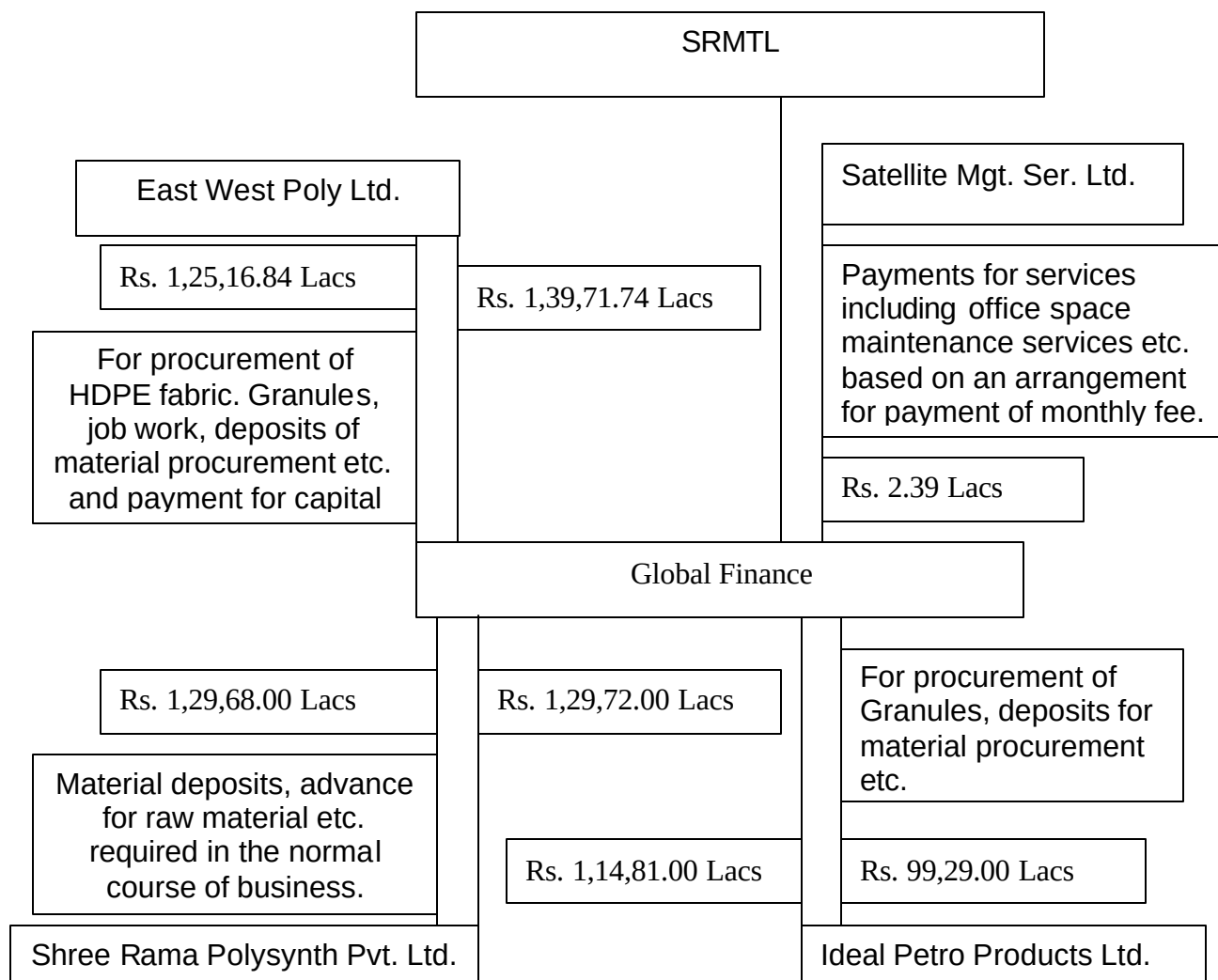
period of investigation. The networth of GF for the financial year 2000-01 was Rs.24.35 lakhs. The fund transfers from their account mostly runs in crores of rupees.

- The payouts received by the associate entities from the trading members were instantly passed on to GF either on the same day or immediately thereafter. On most of the occasions, the entire amounts were transferred to GF. GF, in turn transferred the amounts to the other entities against whom the debit balances were appearing in respect of their pay-in obligations towards the purchases of SRMTL shares. The following instance is cited to explain the modus operandi adopted by GF

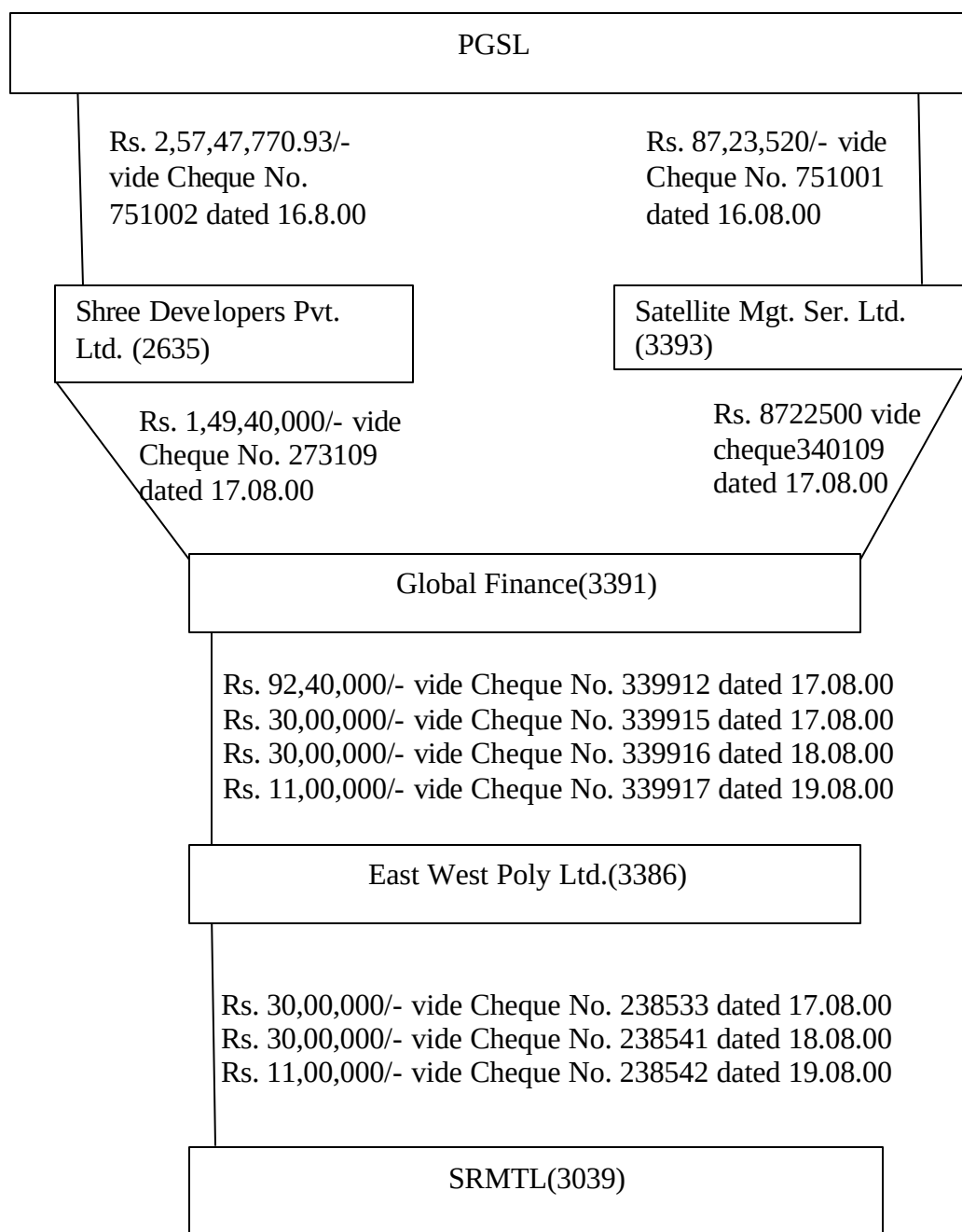
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On 16.08.00, SMSPL received a Cheque for Rs.87,23,520/- from PGSL towards their payout proceeds. On 17.08.00 a sum of Rs.87,22,500/- was transferred to GF by PGSL vide Cheque no. 340109. Similarly, on 16.08.00, SDPL received a Cheque from PGSL for Rs.2,57,47,770/-. Just after one day i.e. on 17.08.00 Rs.1,49,40,000/- was transferred to GF by SDPL vide Cheque no. 273109. Out of the above proceeds (Rs.87,22,500 + Rs.1,49,40,000), Rs.1,78,40,000 was transferred to EWPL before 18.08.00 through various cheques. Investigations revealed that out of these proceeds, EWPL transferred Rs.71,00,000 to SRMTL vide Cheque nos. 238533 (Rs.30 lakhs) dated 17.08.00; 238541 (Rs.30 lakhs) dated 18.08.00 and 238542 (Rs.11 lakhs) dated 19.08.00 and the rest of the proceeds were utilized to meet the pay-in obligation of EWPL with KFL.

20. It is clear that GF has been used by SRMTL as a central median to fund transactions involving its own shares. The Current Account (CA No. 3391) maintained by GF with CBI, Ballard Estate was found to have been used for market operations of SRMTL. The following flowchart indicates the amounts transferred by SRMTL to its associates through GF:



The flowchart as shown below, is a clear indicator of the movement of funds to SRMTL through GF:



21. It is observed that the associates of SRMTL have sold their shares at higher prices ranging between Rs. 69/- and Rs. 89/- during the period July to September 2000 in the market.

22. There have been reports of irregularities in the affairs of SRMTL as under:

- The promoters of SRMTL proposed the acquisition of EWPL in the month of November 2001 and wanted to invest Rs.300 crores in a non-woven project.

Since strong objections were raised by one Director, the former idea of acquisition was discontinued by the Board of SRMTL. However, SRMTL invested in the project as mentioned above and appears to have misappropriated large part of company funds which dragged the company into enormous financial difficulties.

- The following were among the findings of a special audit/inspection by M/s. Sharp and Tannan Associates:–
 - High value transactions with related/group concerns, having very insignificant network/turnover.
 - Financing transactions with entities operating the accounts through the branches of co-operative banks in which SRMTL is maintaining bank accounts. Inconsistencies in the BRS (Bank Reconciliation Statements) and Bank books of SRMTL.
 - The parties/entities to whom advances for materials etc., had been paid do not appear at the addresses indicated in the purchase orders of SRMTL.

23. SRMTL has stated that the allegations have been erroneously made under Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 2003, (hereinafter referred to as the New Regulations). This is not correct; the show cause notices have been issued by SEBI for violating Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 which was the applicable Regulation during the period of investigation. Regulation 13 of the New Regulations, save the power of SEBI to proceed under it in respect of violations committed under Regulations 3, 4, 5 & 6 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995.

24. SRMTL has stated that no motive has been established for the alleged manipulation in price or for the creation of artificial markets. The sequence of events and the manner in which the transactions have been done and funded point to the motive of SRMTL and its associates to manipulate the price of the

- scrip and then offload the shares at a higher price to the unsuspecting investors.
25. SRMTL has contended that the uptrend in the price of the scrip was led by company's good performance during March – June 2000. This contention was not supported by facts.
26. SRMTL has denied any relationship between parties who dealt in the scrip. The nexus between the parties and their complicity or concerted action have to be deducted from the circumstantial evidence and not necessarily from any defined relationship. The strict rule of Evidence Act and proof beyond reasonable doubt are not applicable to a proceeding of this nature. The Hon'ble Supreme Court's decision in Gulabchand Vs. Kudilal AIR, 1966, SC 1734 and the decision of the Special Court for trial of offences relating to transactions in securities in the matter of National Housing Bank Vs. ANZ Grindlays Bank, 1998 (2) LJ 153 are relied upon in this regard. The Hon'ble Securities Appellate Tribunal in BPL Vs. SEBI, Appeal No.14/2001 was also of the view that to proceed against a person under Regulations 4(a) and (d) of SEBI (FUTP) Regulations, 1995, the charges need not be proved beyond reasonable doubt.
27. In terms of the provision of Regulation 4 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995
- No person shall, inter-alia
- (a) *effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of securities and thereby inducing the sale or purchase of securities by any person;*
- (b) *indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market.*
- (c) *indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions;*

28. The facts and circumstances of the case as brought out, indicating, particularly, the manner in which trading transactions in the scrip of SRMTL entered into by the entities in which some of the Directors were involved and the fund flow between the entities, go to substantiate the allegation of SRMTL and its Directors, Mr. Vikram Patel, Mr. Sharad Patel, Mr. Prakash Patel having indulged in actions calculated to create volumes in dealings and artificially raising the price of SRMTL's scrip with a view to gaining through offloading of the scrip to any unsuspecting investor later and thus violating the aforesaid regulatory provisions. If such unfair trade practices are not checked and the entities found to have indulged in such activities are not subjected to appropriate regulatory action, they would prove to be detrimental to the integrity and safety of the securities market and jeopardize the interest of the interest of the market.

ORDER

29. Therefore, in exercise of the powers conferred upon me by virtue of Section 19 read with Sections 11 and 11B of the Securities and Exchange Board of India Act, 1992 read with Regulations 11 and 13 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, I hereby direct that Shree Rama Multi-tech Limited and its Directors Mr. Vikram Patel, Mr. Sharad Patel, Mr. Prakash Patel, Mr. Rambhai Patel, Mr. Hansraj Kanji and Dr. Prakash Trivedi be restrained from accessing the securities market and prohibited from buying, selling or dealing in securities, directly or indirectly, for a period of five years. This direction shall come into force with immediate effect.

Place : Mumbai
Date : 06.09.2004

T. M. NAGARAJAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA