

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 IDEAL PETRO PRODUCTS LIMITED AND ITS DIRECTORS IN THE MATTER OF SHREE RAMA MULTI-TECH LIMITED.

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 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 No. 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 21.10.03 was issued to IPPL and one of its Directors Mr. Mahesh Patel and another notice dated 22.10.03 was issued to the other Directors Mr. Chandrakant C. Patel and Mr. Praful Shah 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.
8. As requested by IPPL vide its letter dated 24.11.03, extension of time was granted till 12.12.03 for furnishing their reply to the show cause notice. An interim reply was submitted by IPPL and its Directors on 10.12.03.
9. Thereafter, in the interest of natural justice, an opportunity was granted to IPPL and its Directors for personal hearing before me on 22.03.04. However, at the request of IPPL and its Directors the hearing was rescheduled for 10.04.04,

when the representatives of IPPL and its Directors appeared before me and reiterated the written submissions made by them earlier.

10. The primary contentions put forth by IPPL and its Directors Mr. Mahesh Patel, Mr. Chandrakant Patel and Mr. Praful Shah in reply to the above are as follows:

- The basis on which they have been termed associate of SRMTL could be only business relations existing between them. The contention that the promoters of these companies were friends or related at some point of time does not in any way go to prove the fact that there has been any association between IPPL and SRMTL
- The information provided regarding GF was not known to them and they had taken loans from GF which they were repaying based on availability of funds and other business considerations. This can in no way be construed for the purpose of establishing a relationship between EWPL and GF
- The contention that the statements of PGSL and IPPL are contradicting is totally untrue as show cause notice makes it clear that IPPL approached PGSL for sale of SRMTL shares and later PGSL approached institutions.

CONSIDERATION OF ISSUES

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

12. The transactions carried out by KFL in the scrip of SRMTL for the various clients are as follows:

Name of the Trading Member	Main Client Name and Address	Purchases	Sales	Gross	Net
M/s. Khandwala Finance		21,87,755	13,31,095	35,18,850	8,56,660

	East West Polyart Ltd., Nivruti Niwas, Opp. Kalgi Florist, Old Sharda Mandir Road, Ellisbridge, Ahmedabad	7,97,784	1,08,006	9,05,790	6,89,778
	Khandwala Finance Ltd.	75,900	92,651	1,68,551	-16,751
	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 clients	18,92,556	11,23,634	30,16,190	7,68,922

13. 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. Also, KFL had traded on behalf of the associate entities of SRMTL even before they had entered into a client-member agreement as detailed below:

S.No.	Name of the entity/client	Date on which Client-member agreement was entered	Date on which first transaction in SRMTL took place on behalf of the client
1	East West Polyart	29.08.2000	17.07.2000

2	Satellite Management Ser.	28.08.2000	27.06.2000
3	Anant Trading Co.	08.06.2000	02.08.2000*
4	Kushagra Trading Co.	08.06.2000	02.08.2000*

14. As regards JKSL is concerned, the following transactions were entered into 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 Petro Products. 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

15. 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.

16. 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
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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.

17. 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.

18. GF is the beneficiary for the transactions entered by the associate entities of SRMTL as may be deducted from the following findings:

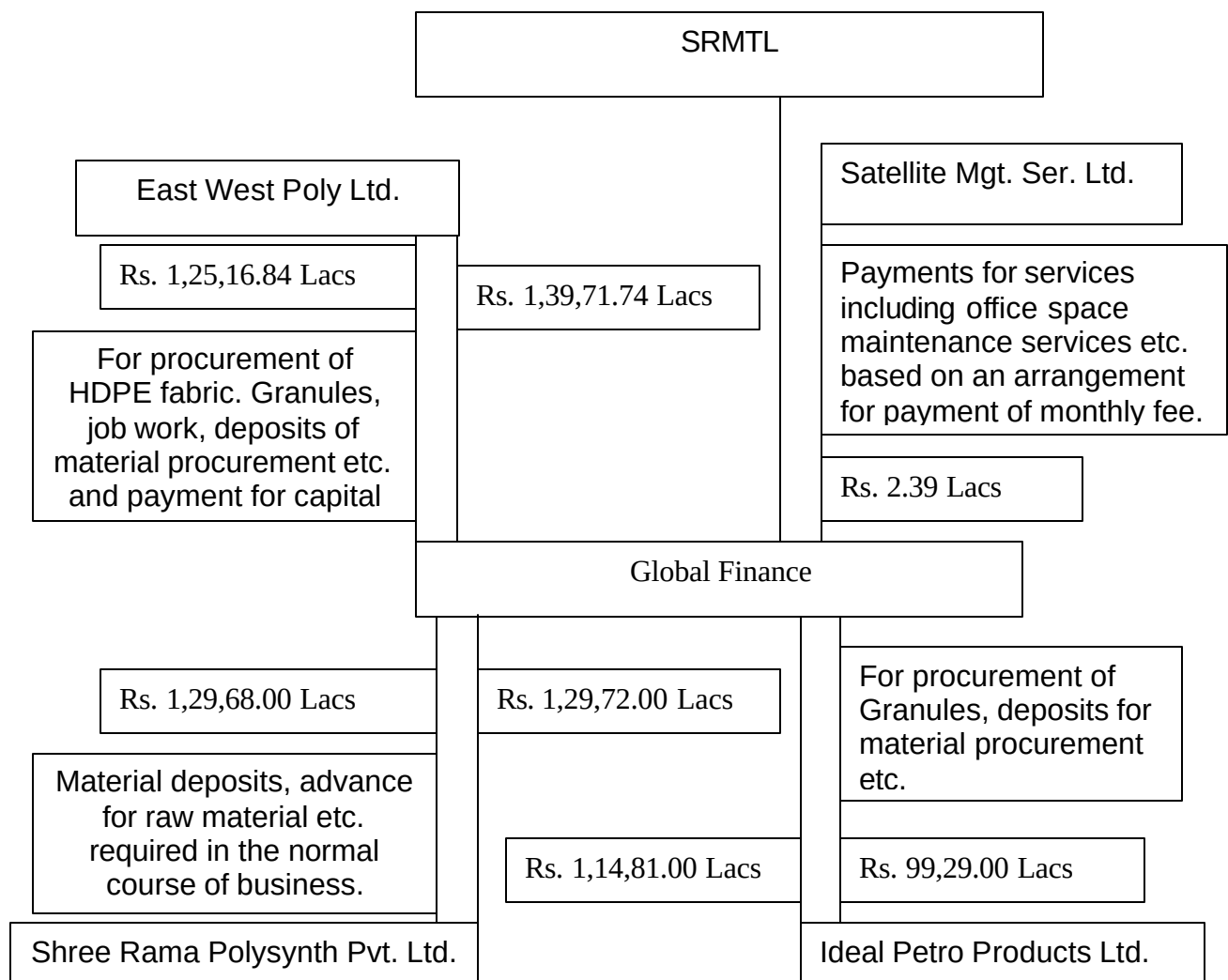
- Shri Asit N Patel, a nephew of Shri Vikram Patel, CMD of SRMTL is the sole proprietor of GF financing the whole set of transactions. He was also associated with SRMTL as Vice-President (Marketing) during the period of investigation. The networth of GF for the financial year 2000-01 was Rs.24.35 lakhs. 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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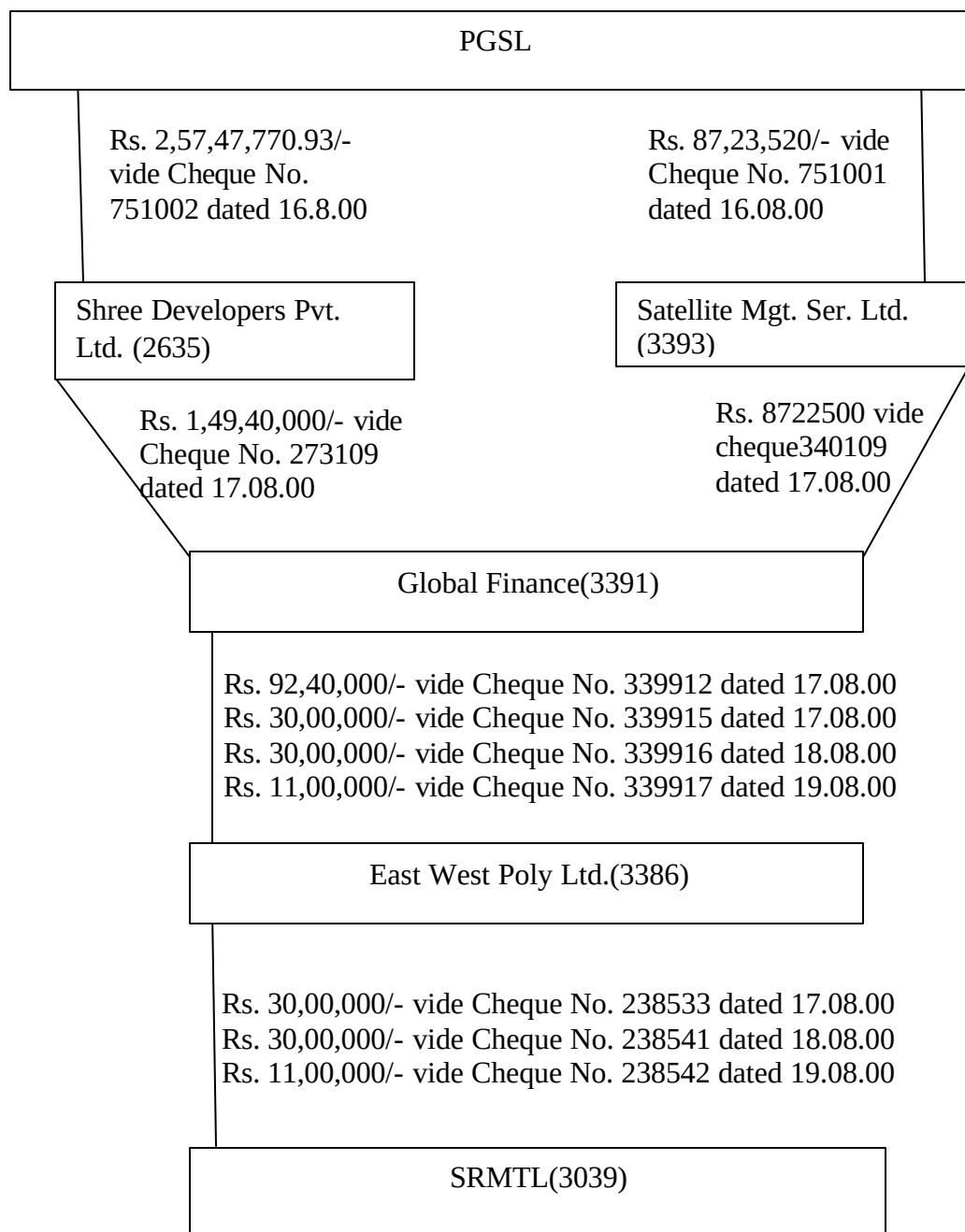
On 16.08.00, SMSPL received a Cheque for Rs.87,23,520/- from PGSL towards their payout proceeds. On 17.08.00 a sum of Rs.87,22,500/- was transferred to GF by PGSL vide Cheque no. 340109. Similarly, on 16.08.00, SDPL received a Cheque from PGSL for Rs.2,57,47,770/-. Just after one day i.e. on 17.08.00 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.

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:



19. The details of transactions carried out by IPPL in the scrip of SRMTL through the various trading members at BSE and NSE are as follows:

Sr. No.	Name of the Trading Member	Purchases	Sales	Gross	Net
	Total position	20690	26305	46995	

	Jayantilal Khandwala Sons	20690	0	20690	20690
	Khandwala Finance Ltd.	0	26305	26305	-26305

On a scrutiny of the deals of IPPL ,taking into account their association with the other entities in the group, the following specific observations were made:

- Subscribers of Memorandum of Association of IPPL are the Directors of SRMTL
- As on November, 2002, IPPL was holding around 14 lakh shares of SRMTL. Keeping their huge holdings into consideration, the transactions made by them during the period under consideration may not be significant enough
- IPPL is having business relations with SRMTL for supply of material etc

20.It is observed that IPPL and other companies associated with SRMTL had approached PGSL for the sale of their holding in SRMTL and wanted PGSL to find a suitable buyer for the shares with them. PGSL had in turn interacted with few institutions for placing the shares of SRMTL. According to PGSL this information had been made known to the associates even before the execution of trades on their behalf. Thus there is no merit in the contention put forth by IPPL that they had no knowledge of the purchasing parties in the matter and therefore they had infact sold these shares in a synchronized manner through the stock exchanges based on an arrangement previously entered into outside the exchange.

21.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;

22. There is preponderance of evidence to show that IPPL and its Directors are guilty of violating the aforesaid regulatory provisions.

ORDER

23. 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 M/s. Ideal Petro Products Limited and its Directors Mr. Mahesh Patel, Mr. Chandrakant Patel and Mr. Praful Shah be restrained from accessing the securities market and prohibited from buying, selling or dealing in securities, directly or indirectly, for a period of three 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