

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKETS) REGULATIONS, 2003 AND SECTION 11 AND 11B OF THE SEBI ACT, 1992.

AGAINST FAROOKH PAVRI, SANGEETA SHAH, DARSHNA SHAH, TEJAS SHAH, SANJAY BALKIWAL, NAZNEEN RAVJI, DELNAZ RAVJI AND SHIRIN PAVRI, IN THE MATTER OF INFOQUEST SOFTWARE EXPORTS LTD.

BACKGROUND

1. M/s Infoquest Software Exports Ltd. (hereinafter referred to as "ISEL") came out with a public issue of 43,18,800 equity shares of Rs. 10/- each for cash at par aggregating to Rs. 431.88 lacs. The public issue opened on April 15, 1996 and closed on April 18, 1996. The shares of the company are listed at the Bombay, Ahmedabad, Jaipur and Madhya Pradesh stock exchanges.
2. SEBI had received several complaints from investors, alleging inter alia that applications had been made after the closure of the issue, that the registrar had wrongly rejected the valid applications, that the share price of ISEL was being rigged, etc.
3. In view of the above, Chairman SEBI, vide order dated June 28, 1996, ordered investigations into the alleged irregularities in the public issue of ISEL. The alleged role of the company, its promoters, a group of financiers and brokers relating to manipulation of the market was examined. Information was gathered from various investors as well as the brokers, promoter / directors of the ISEL in the course of investigation.
4. Investigation revealed that Farookh Pavri, Sangeeta Shah, Darshna Shah, Tejas Shah, Sanjay Balkiwal, Nazneen Ravji, Delnaz Ravji and Shirin Ravji (hereinafter referred to as 'Farookh Pavri & Associates') had entered into an agreement with Arihant Finance Corporation (through Mani Investment) and in connivance with one M/s B K Finance, obtained predated stock invests from the Banks and applied in the public issue of ISEL after the closure of the issue. Farookh Pavri & Associates were also found to have financed the issue by applying for large quantity of shares through stock invests fraudulently obtained, with a view to create an appearance of huge oversubscription, received assured allotment and thereby cornered the shares. Shri Farookh Pavri & Associates were also found to have connived with some stock brokers to manipulate the market in detriment to the interest of investors and the capital market.

SHOW CAUSE NOTICE

5. Based on the findings thereon, a show cause notice was issued to Farookh Pavri & Associates, vide letter dated June 18, 2003 whereby violation of Regulation 3 and clause (a) and (e) of Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 were alleged against them. Vide the show cause notice, they were also asked to show cause as to why action should not be taken against them under Regulation 11 & 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 read with Section 11 and 11B of SEBI Act, 1992.
6. A reply dated July 01, 2003 was received from Shri Farookh Pavri on behalf of Mani Investments and the other applicants, wherein he had submitted as follows:
 - a) he had only financed for an amount of Rs.1,69,00,000 which was 5.485% of the total Subscription amount.
 - b) he was in the business of financing since the year 1992 and used to arrange bill discounting and ICD facilities for the corporate borrowers.
 - c) in the year 1994, Ms. Alka Shah alias Darshna Shah, sister of Shri Sunil Bhagwatlal Dalal and Shri Dilip Bhagwatlal Dalal had approached him and requested for funds, since he had contacts with several high network individuals and she knew people who required finance for applying in the public issue. The understanding between them was such that the borrowers whom she had introduced would be handled exclusively by her and that she would not contact his investors directly. It was also said that although Shri D.K. Shah of Arihant Finance Corporation had approached Mani Investments for public issue finance, Ms. Alka Shah would only be dealing with him.
 - d) he said that he did not know that Shri D.K. Shah/ Ms. Alka Shah was arranging for funds and approaching the investors arranged by him, through her brothers.
 - e) he stated that while obtaining predated stock invests, he did not know that he was committing fraud as the bank had issued the same on their request. He mentioned that he became aware of the wrong doing in obtaining predated stock invests, only during the investigation.

- f) he had no idea about the promoters' intention of getting the issue over subscribed and that his application was only worth Rs.80 lacs.
- g) as soon as the allotment amount was received with interest thereon, he had handed over the shares to Arihant Finance Corporation along with transfer deeds fully signed. Therefore, he said that there cannot be an allegation of cornering of the shares when he had never kept the shares with him.
- h) his books of accounts did not show any purchase or sale of the shares of ISEL through any stock broker and hence, the allegation of having connived with stock brokers in the manipulation of the shares of ISEL was incorrect.
- i) his business was arranging for finance and it was not possible for him to know the genuineness of the borrowers, when he had arranged for Rs.1.69 crores in an issue which was already over subscribed. As a financier, his concern was safety of the funds and he only financed issues which had strong public support.

In view of the above, he requested SEBI to withdraw the Show Cause Notice issued against him.

7. Shri Pavri also furnished an additional reply to the show cause notice vide letter dated July 21, 2003, wherein he had submitted the following clarifications/ explanations:

- a) With reference to the allegation of financing the issue by applying for large quantity, he said that he was in the business of finance since 1992 and had been conducting the business through his proprietary concern M/s Mani Investment. In the case of ISEL, he submitted that the persons had approached him for finance and in the normal course he had arranged the finance/loan for them to subscribe to the issue as any other person makes a loan to a person who is interested in subscribing to the public issue. He also submitted that ISEL's was not the only public issue during such time but there were many other public issues that were regularly being floated in the capital market. According to Shri Pavri, the scheme of stock invest was provided by the banks during the said period and applications for public issue were made using stock invests. He also reiterated that himself and the investors were not aware of the fact that the said stock invests which were pre-dated should not have been submitted with the application.
- b) Shri Pavri also submitted that it was the duty of the Banker (i.e. Bank of India) to have informed them about the invalidity of the stock invests and the irregularity in the said stock invests. He also said that the Banker should not have issued the pre-dated stock invest to them, if the issue had been closed. He also stated that it was the Banker who had misrepresented, which resulted in their making the application with pre dated stock invests. He submitted that for the illegal acts of the Banker in having violated the prescribed norms for Stock Invest, he and his investors cannot be made responsible. He also said that in the Investigation Report there was no whisper about the illegality and fraud committed by the Banker and no mention of the Banker being at fault or any action being taken against the Banker by the Investigating officer or SEBI.
- c) He also submitted that in the findings of Investigations annexed to the Show Cause Notice, it has been clearly mentioned that one Mr. Dilip Dalal had managed to get the stock invests pre dated from Bank of India, Cumballa Hill Branch and at para 4 of the Annexure, it was mentioned that "all payments were made by Mani Investment of which Farookh Pavri is the Partner". In respect of the same, Pavri clarified that he was the proprietor of Mani Investment and he was in the business of financing and lending money and in the present case also, he said that he had given loan to M/s Arihant Finance Corporation. He also said that giving loan to somebody is a practice being carried out by many persons who are in the business of finance and it is not an illegal act. He submitted that his role was limited to the extent of providing finance and nothing else.
- d) With reference to para 8, 9, 10 of the Annexure, he submitted that the stock invests were given by the Banker in the normal course and he was not aware of the same not being in order. He also said that neither he nor his investors had been aware of the prescribed norms for stock invest.
- e) As regards the syndication of loan to the Jatia family, he said that the same was as per the normal financial practices being followed by any financier and the same cannot be construed as irregularity. He also mentioned that it was Mr. Dilip Dalal and Sunil Dalal who were responsible for financing large quantity of shares and not him or any of his investors in the public issue. He denied the allegations at para 8, 9, and 10 of the Annexure.
- f) Regarding the allegation of his having connived with Stock Brokers to manipulate the market in detriment to the interest of investors and the capital market, the same was denied. He also said that the investigation do not reveal his or Mani Investment having been involved in the trading activity of the scrip through any of the Brokers.
- g) He also denied violation of regulation 3 and clause (a) of regulation 4 of SEBI (prohibition of fraudulent and unfair trade practices relating to the Securities Market) Regulations, 1995.
- h) He submitted that he had not done buying and selling of securities through any of the brokers or members whose names were appearing in the annexure. Therefore, he said that Regulation 3 cannot be applied to him or his

proprietary firm, Mani Investment or any of the investors against whom the show cause notice was issued. He also said that he had only financed and that financing was not a fraudulent activity and further he said that there was no misappropriation of funds to term it as fraudulent. He also stated that the funds were given as a loan and that he has earned interest for such lending or financing or syndication of loan and that there was no fraudulent activity on his part.

- i) He also cited Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 and stated that it was clear that in cases of market manipulation, there ought to be trading such as buying and selling of securities and manipulating the market with the intention of artificially raising or depressing the prices of securities. He repeatedly denied that either himself or Mani Investments had sold or bought shares of ISEL or carried out series of trading activity through the Brokers or trading members whose names were appearing in the annexure to the show cause notice sent to him. He also said that neither he nor Mani Investments had carried out any manipulative transactions affecting the market equilibrium in the scrip ISEL or any other scrip.

HEARING AND WRITTEN SUBMISSIONS

8. An opportunity of hearing was given before me on August 18, 2003, during which Shri Pavri appeared and sought adjournment saying that he desired to be represented by an advocate. Accordingly, the hearing was adjourned to September 02, 2003. On the said date, Shri Farookh Pavri appeared with his counsel, Shri Chirag S. Balsara and Shri Jose George, Advocate. Oral submissions were made on behalf of Shri Pavri & Associates. Written submissions were also forwarded by his counsel Shri Jose George vide letter dated September 10, 2003, wherein the following were submitted :

- i. In the written submissions, it was stated that Mani Investments was a proprietary concern of Shri Pavri and noticees Nazneen Ravji, Delnaz Ravji and Shirin Pavri, relatives of Pavri. Noticees Sangeeta Shah, Tejas Shah and Sanjay Balkiwal were stated to be connected in no way to Shri Pavri. It was stated that noticees: Sangeeta Shah, Tejas Shah and Sanjay Balkiwal were introduced by Darshana Shah (Ms Alka Shah).
- ii. It was also submitted that Mani Investments had participated as a financier in respect of the shares of ISEL. Further, they said that Pavri was approached by Alka Shah who is the sister of Dilip Dalal and Sunil Dalal. It was submitted that Ms. Alka Shah had induced Mani Investments to invest in the shares of ISEL for a fixed rate of return aggregating to 30% p.a. It was also said that Mani Investments was required to arrange for subscribing to the shares of ISEL and that the same would be repurchased at a later date for a fixed rate of returns. This, he submitted, was without any intention of violating SEBI Regulations.
- iii. It was submitted on behalf of Pavri that from the annexure to the show cause notice, the lead role in respect of the operations was played by two persons viz. Mr. Dilip Dalal and Mr. Sunil Dalal. It was also submitted that Pavri and his family members had no role to play in the market manipulation although the same has been alleged in the show cause notice.
- iv. With regard to para 9 of the annexure to the show cause notice, it was submitted on behalf of Pavri that Dalal brothers were stated therein to have approached Mani Investments, through their sister Ms. Alka Shah (Darshana Shah) for financing the issue of ISEL. Hence, they submitted that Shri Pavri had no role to play in the market manipulation or cornering of shares.
- v. It was submitted on behalf of Pavri that investments made and arranged by Mani Investments was Rs.1,69,00,000, which is 5.485% of the total subscription. It was also said that Mani Investments was a small time financier engaged in fund based and non-fund based activities which includes bills, discounting, ICD, loan against shares and financing and arranging finance for investors of public issue. Therefore, they submitted that Shri Farookh Pavri could not have played any role in cornering the shares of ISEL or manipulating the market as alleged in the show cause notice.
- vi. It was also submitted that the action proposed under Section 11B of SEBI Act was untenable since, SAT, in the case of Sterlite Industries Ltd. has held that the same cannot be penal in nature.
- vii. They also submitted that SEBI could not rely on the statement of Sunil Dalal in view of the absence of cross examination of Sunil Dalal, as the same would be violative of the principles of natural justice. The judgment of Supreme Court of AIR 1977 SC 1628 was cited in support of the argument. It was also submitted that the noticees, Tejas Shah, Nazneen Ravji, Delnaz Ravji and Shirin Pavri were entitled to be given the benefit of doubt since the investigation, they said, revealed that Dalal brothers had approached different persons. Therefore, they submitted that provisions of Section 24(1) should not be invoked in the case of Farookh Pavri, Nazneen Ravji, Delnaz Ravji and Shirin Pavri. They also produced the judgments, 1989 Suppl. 2 SCC 25 and 2003(3) SCC 641 were cited in that regard.

FINDINGS

9. I have carefully examined the investigation report, the Show Cause Notice issued to Shri Farookh Pavri and his associates, their reply and the submissions made during the hearing.
10. My findings with respect to the alleged irregularities in the public issue and more specifically, the alleged role of Shri Farookh Pavri and his associates are as under.
11. On an examination of the top allottees of the shares of ISEL, I find that the top 100 applicants have applied for 3,08,10,000 equity shares, amounting to Rs.15,40,50,000, which is nearly 50% of the total subscription collected. On scrutiny of the list of top 100 applicants, I have seen that 80 applications were made from 8 addresses, the details of which are given below:

Sr No	Address	No. of Applicants	Total no. of Shares Applied for
1	C/o Khadwala, 8/B Parisima Complex, C.G. Road, Navrangpura, Ahmedabad	7	72,00,000
2	C/o Rajesh N. Jhaveri, Jhaveri Building, Opp. Bank of India, Manek Chowk, Ahmedabad	17	45,00,000
3	C/o 5 B, Mitra Mandal Society, Opp. Darpan Usmanpura, Ahmedabad	11	21,40,000
4	C/o Suresh Kumar, 7 Sunrise Park, Row House, Opp. Drive In Cinema, Thaltej, Ahmedabad	10	37,00,000
5	C/o B/42, Mehta House, Off Link Road, Andheri (W), Bombay 400 053	9	29,00,000
6	C/o 91, M.Karve Road, 1 Pearl Mansion (N), Bombay 400 020	13	40,00,000
7	C/o Secretarial Dept. Empire House, S.B. Marg, Lower Parel, Bombay 400 009	11	22,00,000
8	C/o 260, Sant Tukaram Road, Carnac Bunder, Bombay 400 009.	2	12,00,000
	TOTAL	80	2,78,40,000

12. During the investigation, statements of various entities associated with the said issue viz ISEL's directors, brokers, financiers, registrar to the issue, merchant banker, as also of the persons who had arranged the finance, acting as intermediary between the allottees and financiers, etc, were recorded. On the basis of the statements recorded, I find that a significantly large number of allottees had applied in the public issue on the basis of a pre-meditated arrangement entered into, between the financiers and the persons acting on behalf of ISEL, which led to huge oversubscription in the issue. This in turn appears to have created a false and misleading impression on the investors, regarding the high level of interest in the issue/company, which may have induced further interest of investors in the shares of the company, thereby leading to price rise in the scrip, post listing.
13. The modus operandi adopted in the public issue of ISEL is as follows:-
 - 13.1 One Shri Devendra Kantilal Shah alias Munna of/acting on behalf of one M/s Arihant Finance Corporation, was involved in the business of financing public issues and in case of shortfall of funds, funds were borrowed from the market. He has confirmed that he was involved in the financing of the public issue of ISEL and that he was the negotiator between the financiers and the directors of ISEL. In his statement he has submitted that the practice in cases of such kind was that an agreement is entered into with clients who are approached for financing of the issue; the interest rate is agreed upon right at the beginning and the shares allotted are subject to buy-back, though the interest is received on full amount of application and the interest income is subject to income tax.
 - 13.2 In this particular case, Shri D.K. Shah had confirmed on oath before the investigating officials that he was involved in financing the public issue of ISEL. He had submitted that he had financed the subscription to the extent of Rs 9 Crores, at the behest of one M/s Divya Jyoti Securities Ltd. The applications for this amount were made by various groups of financiers, namely Pavri group, D.K.Dalal, Vinod Kumar Jatia, Thakkar Family, Vohra Family, Shah Family, Modi Family, Acharya family and were arranged after the closure of the issue. Shri Shah stated that the financiers who put in the applications had arranged for the stock invests for applying in the issue and they were paid interest at a flat rate from the date of the issue till allotment. Shri D K Shah was himself able to garner allotment worth Rs 57 lacs, for which he had received back the money invested as subscription and interest at the rate of 36% was charged and the remaining amount was refunded.
 - 13.3 The aforesaid applications, along with the respective stock invests, were admittedly handed over by Shri D K Shah to M/s Divya Jyoti Securities Ltd. It is also pertinent to note that either these "investors" never received the share certificates for the shares allotted to them or they had, on receipt of the share certificates, signed blank transfer deeds and handed them

over to the person/persons who had approached them for the financing of the issue, after receiving the principal and interest amounts owed to them.

- 13.4 The financiers, in their statements, confirmed that they were approached by Shri D.K. Shah alias Munna of Arihant Finance Corporation, a big time financier of public issues, or persons acting on his behalf, to finance the public issue of ISEL.
- 13.5 I also find that the stock invests accompanying the applications of most of these financiers were issued after the closure of the issue. In reply to the investigating team's query as to how is it possible that the stock invests issued on May 18, 1996 could be deposited before the closure of the issue on April 18, 1996, Shri D K Shah had submitted that he had given all the forms and stock invests to Divya Jyoti persons and was not aware how they were deposited after the closure of the issue. In reply to whether all the applicants have received the share certificates, Shri D.K Shah had stated that the allotment money, along with interest, have been paid to the applicants, and till date no one has enquired about the shares.
14. On perusal of the investigation report, I also find that a group of entities, such as Shri Deep Trivedi/ Divya Jyoti Securities Ltd. and Shri D.K. Shah etc, arranged for financing of the public issue of ISEL and in connivance with the promoters of the issuer company, manipulated the public issue allotment of ISEL. Various financiers, as mentioned in the above paragraphs, in the pretext of being genuine investors, had connived along with these entities.
15. I also find that the financing of the issue was done by M/s Divya Jyoti Securities Ltd., on behalf of the promoters/directors of ISEL. The basis of presumption by me, on the relationship between M/s Divya Jyoti Securities Ltd., which sought financing of the issue and ISEL/Sanjay Jhalani, Director, ISEL is as follows:-
- i. The bank account of M/s Top Cassettes in which Shri Sanjay Jalani, the director of ISEL is one of the Directors maintained at Dena Bank, Indore was introduced by M/s Divya Jyoti Industries Ltd. of which Divya Jyoti Securities is a group concern.
 - ii. Perusal of account opening form of Top Cassettes and Divya Jyoti Securities Ltd., maintained at Dena Bank, Navlakha Branch, reveals that the account number of Top Cassettes is 2120 and that of Divya Jyoti Securities is 2121. These bank accounts were opened on the same day and introduced by the same person. The account of Top Cassettes maintained at Dena Bank was introduced by Director of Divya Jyoti Industries and the account of Divya Jyoti Securities was also introduced by the director of Divya Jyoti Industries. The handwriting on the Bank account opening form, especially in the address and the telephone column, appears to be the same for both the accounts. Telephone number 434506 appears in both the account opening forms and both the accounts have been verified by the same officer of the Bank, which means that the accounts were opened at the same time. The office of Top Cassettes belongs to Deep Trivedi and the telephone number of Top Cassettes and Divya Jyoti Securities Ltd., is common.
 - iii. Shri Rajesh Jhaveri, another "financier" of the issue, had stated on oath that he had paid an amount of Rs.60 lacs to D.K. Shah, of/acting on behalf of Arihant Finance Corporation, for the services rendered by him towards financing the public issue of ISEL. This amount was paid by him on behalf of Deep Trivedi, director, Divya Jyoti Securities Ltd. The said amount was subsequently reimbursed to him by two drafts issued by Dena Bank, D.D. No. 805203, dated May 31, 1996 and D.D. No. 805238, dated June 5, 1996, amounting to Rs.30 lacs each, issued to the debit of Divya Jyoti Securities and Top Cassettes Ltd., respectively.
 - iv. The perusal of cash books/ bank books reveals cash withdrawal from the Bank accounts of ISEL even when the company had ample cash balances. In some situations the company has done cash withdrawal of few lacs, without any expenditure in the near future.
 - v. ISEL had made payments to Divya Jyoti Securities Ltd. on April 5, and April 9, 1996 just prior to the opening of the public issue of the company. The perusal of records of ISEL reveal that the company has given money to Divya Jyoti Industries Ltd. to the extent of Rs. 1,61,30,000, from May 22, 1996 to June 10, 1996. The money was in turn given to Divya Jyoti Securities Ltd., who in turn has utilized this money for purchases of ISEL shares during the aforesaid period, in Grey Market as well as in Secondary Market, as indicated by the bank account statements available with SEBI.
 - vi. A payment of Rs.30,00,000/- was made by Divya Jyoti Securities Ltd. towards the purchase of Infoquest shares from Top Cassettes Ltd.
 - vii. On perusal of account of Top Cassettes maintained at Dena Bank, Navlakha Chouraha, it appears that Top Cassettes have given financial assistance to Divya Jyoti Industries Ltd., who in turn has passed on the same to Divya Jyoti Securities Ltd. Shri Deep Trivedi of Divya Jyoti Securities Ltd. has used this money for buying the shares of ISEL and Top Cassettes Ltd.
16. I find that the investigation conducted by SEBI has established the role of financiers of the public issue viz. Shri Farookh Pavri, Shri D K Shah etc., who had together accounted for financing applications amounting to Rs. 9 crores in the issue of

ISEL.

17. Shri Farookh Pavri and others have applied in the said public issue on behalf of M/s Arihant Finance Corporation of Ahmedabad. I find that Shri Farookh Pavri also had stated that he was approached by Shri D.K. Shah, alias Munna of Arihant Finance Corporation, during first week of May 1996 for arranging a finance of Rs.100 lacs which was to be used for applying in the public issue of Infoquest. Shri Farookh Pavri and the persons associated to him put in 8 applications of Rs.10 lacs each. The names of these applicants, who are friends and relatives of Shri Pavri are as follows:

- a. Sangeeta Shah
- b. Darshana Shah
- c. Tejas Shah
- d. Sanjay Balkiwal
- e. Nazneen Ravji
- f. Delnaz Ravji
- g. Shirin Pavri
- h. Farookh Pavri

18. I find that the agreement was entered into between Mani Investments, of which Shri Farookh Pavri is a Partner, and Arihant Finance Corporation. These agreements were back dated at April 15, 1996. There were two agreements of Rs.20 lacs and Rs.60 lacs, amounting to Rs.80 lacs. As per the agreement, advance interest was to be paid to Mani Investments @ 30% p.a. for a period of 46 days. The interest earned on the stock invests was to be retained by the applicants.

19. Shri Farookh Pavri also syndicated a loan of Rs.19 lacs on behalf of Arihant Finance Corporation. There were 4 applications, the details of which are given below:

Sr. No.	Name of the Applicant	Application Amount (Rs.)
1	Radheshyam Chokhani	10,00,000
2	Kishore Chokhani	5,00,000
3	Mona Jhaveri	2,00,000
4	Sona Jhaveri	2,00,000

For the above mentioned loan of Rs.19 lacs, the agreement was entered into between Arihant Finance Corporation and the individual applicants.

20. In addition to this, I also find that Rs.20 lacs was financed to two persons, Shri Muthu Krishnan and Shri Franco Fernandes, for their application of Rs.10 lacs each in the public issue of ISEL. This particular financing of Rs.20 lacs was done through one broker, Shri Vivek Bagady. I find that the loan of Rs.10 lacs each given to the two applicants was @ 24% p.a. for 30 days.

20. I also find that the stock invests of all the above mentioned 14 applicants, except that of Shri Radheshyam Chokhani, were purchased from Bank of India, Cumballa Hill Branch, Bombay. Shri Farookh Pavri and his friends & relatives were already having accounts when they approached the bank in the 2nd week of May, 1996. Shri Farookh Pavri introduced the accounts of Kishore Chokhani, Mona Jhaveri, Sona Jhaveri, Muthu Krishnan and Franco Fernandes. The stock invest of Shri Radheshyam Chokhani was purchased from United Western Bank, Dadar Branch, Mumbai. Shri Farookh Pavri stated that the stock invests and duly filled application forms were handed over to Mr. D.K. Shah of Arihant Finance Corporation in the second week of May 1996.

21. Apart from the above, Shri Farookh Pavri, I find, had syndicated a loan of Rs.50 lacs from the members of Jatia family, who had also financed applications in the issue. I find that on May 14, 1996, Shri Pavri had approached Shri V.K. Jatia for financing of Rs.50 lacs on behalf of M/s Arihant Finance Corporation of Ahmedabad. This was admitted to, by Shri Jatia. The terms of financing were found to have been agreed on the condition that five joint applications of Rs.10 lacs would be put in by each and that the first applicant would be the persons related to Arihant Finance Corporation and the second applicant would be the family members of Shri V.K. Jatia. It was seen that in order to ensure the repayment of loan, the address of correspondence was given as the address of Shri V.K. Jatia. The details of these joint applications are as follows:

- a. Hemendra Shah
Nita Jhatia
- b. Jignesh Shah

Smita Jhatia

c. Vishvesh Shah

Shashi Jhatia

d. Sangeeta Shah

Vinod Kumar Jhatia

e. Bharat Shah

Archana Jhatia

22. These applications were also made through stock invests which were purchased from Bank of India, Cumballa Hill Branch. It was seen that in this case, the stock invests were issued from the bank accounts of the first applicants, which were opened in the last week of April 1996. It was seen that for these five applications, Jhatia and their family members had invested Rs.9,35,000/- per application. It was seen that the balance of Rs.65,000/- was put in by the Arihant Finance Corporation and the payments were found to have been made by Mani Investments, of which Farookh Pavri is the Partner, on behalf of Arihant Finance Corporation.
23. I find that the applicants in the issue had been aware of the allotment to be made in response to their applications, even before they made the applications in the public issue. Further, I also find that, on receipt of the principal and interest repayment from the financiers and on receipt of the shares allotted to the applicants from the Registrars, the applicants signed the blank transfer deeds and handed over the share certificates and the transfer deeds to Dilip Dalal and Farookh Pavri, respectively.
24. I also find that the loan repayment on the allotment of the applications worth Rs.149 lacs (Rs.80 lacs + Rs.19 lacs + Rs 50 lacs) arranged by Shri Pavri was paid by 3 cheques from the account of B.K. Finance from Madhavpura Mercantile Coop. Bank Ltd., Mandvi Branch, Bombay. The interest on this loan was paid separately on dates prior to the date of repayment of principal amount, by cheques of Rs.2,46,575/- and Rs.60,000/- and Rs.75,000/- , issued from the same account of B.K. Finance. I also find that this money was subsequently paid by Shri Pavri to the financiers.
25. From the above, it is established that Farookh Pavri & Associates had, in agreement with Arihant Finance Corporation and in connivance with M/s B K Finance, obtained predated stock invests from the Banks and made huge applications in the public issue of ISEL after the closure of the issue, with a view to create an appearance of huge oversubscription.
26. Regarding the submission of Pavri that while applying through pre-dated stock invests they were not aware that pre-dated stock invests were not to be enclosed with the applications, there is a well known maxim of law "Ignorantia juris non excusat" which means that ignorance of law is no excuse in law. Once the mischief is committed in breach of law, it is violation, whether you knew it to be right or wrong.
27. As regards the demand of Shri Pavri to cross examine Shri Sunil Dalal, it is a settled principle of law that if the adjudicating authority is of opinion that particular statements are not relied upon, an opportunity for cross-examination need not be given. It is true that in the procedure for exercising powers under section 11B, SEBI is required to observe the principles of natural justice. However, the decision to grant right of cross examination varies from case to case and in the present case the right of cross examination does not exist. Another important aspect to be seen is whether the denial of cross-examination would prejudice the person. In the present case, Shri Pavri has himself admitted that he had financed the public issue by the method of putting in applications backed by stock invests that were predated. Hence, no prejudice is caused by denial of rights of cross examination.
28. Regulation 2(c) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 reads as follows :
- "(c) 'fraud' includes any of the following acts committed by a party to a contract, or with his connivance, or by his agent, with intent to deceive another party thereto or his agent, or to induce him to enter into the contract :-*
- 1) the suggestion, as to a fact, of that which is not true, by one who does not believe it to be true;*
 - 2) the active concealment of a fact by one having knowledge or belief of the fact;*
 - 3) a promise made without any intention of performing it;*
 - 4) any other act fitted to deceive;*
 - 5) any such act or omission as the law specially declares to be fraudulent; and 'fraudulent' shall be construed accordingly.*

29. I note that Pavri had acted in a manner so as to create a false impression of over subscription in the public issue of ISEL in a fraudulent manner, in contravention of the aforesaid regulation, an act that is detrimental to the interest of investors in the securities market. This was clearly a fraud perpetrated on the investors and therefore in violation of Regulation 3 and 2(c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995. I note that the above activity of financing the company's public issue, at the behest of the company, with the intention to circumvent the provisions of law and giving an unreal impression of over-subscription to the public is in violation of the aforesaid Regulations.

ORDER

30. Therefore, in exercise of the powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition Of Fraudulent And Unfair Trade Practices Relating To Securities Markets) Regulations, 2003 and Section 11 And 11B of the SEBI Act, I hereby prohibit Shri Farookh Pavri, Sangeeta Shah, Darshana Shah, Tejas Shah, Sanjay Balkiwal, Nazneen Ravji, Delnaz Ravji and Shirin Ravji from buying, selling or dealing in securities for a period of eighteen months.
31. This order shall come into force with immediate effect.

PLACE : MUMBAI

DATE : SEPTEMBER 15, 2004

A.K.BATRA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA