

SECURITIES AND EXCHANGE BOARD OF INDIA**ORDER****UNDER REGULATION 11 OF THE (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003 READ WITH SECTION 11B OF THE SEBI ACT, 1992.****AGAINST SHRI BHAVESH DHADIA AND SHRI RAMESH DHADIA, IN THE CASE OF SYNTHIKO FOILS LIMITED****BACKGROUND**

1. The shares of M/s. Synthiko Foils Ltd. (hereinafter referred to as 'Synthiko') were listed on Tthe Stock Exchange, Mumbai (hereinafter referred to as the 'BSE'). Shri Ramesh Dadhia is the Managing Director of the company and Shri Bhavesh Dadhia is a director on the company.
2. BSE informed the Securities and Exchange Board of India (hereinafter referred to as 'SEBI') as follows :
 - i. Trading in the said scrip had been suspended on the exchange for a period of three days from 02.09.96, on account of the abnormal price movement noticed in the scrip during the period 02.05.96 to 30.08.96.
 - ii. The price had showed an increase from Rs.13.50 to Rs.82.40 i.e. an increase of almost Rs.70 in just four months.
 - iii. In order to control this unjustified rise in price, BSE had imposed various surveillance measures like suspension, special margin and filter limits but the price rise could not be arrested.

Thereafter, with effect from 09.09.96, BSE suspended the trading in the scrip indefinitely from September 9, 1996.
3. SEBI initiated investigations into the affairs of and the dealings in the shares of Synthiko, including the role of the promoters of Synthiko in the contraventions, if any, of the provisions of inter alia, the SEBI (Prohibition of Fraudulent & Unfair Trade Practices relating to the Securities Market) Regulations 1995 (hereinafter referred to as the Regulations) vide Chairman's order dated 27th December, 2002.
4. During the course of investigations it was seen that :
 - a. The price of the scrip had apparently been rigged by directors of Synthiko viz. Shri Bhavesh Dadhia and Shri Ramesh Dadhia, who had transacted through various brokers.
 - b. The share certificates being delivered in the market during the investigation period belonged to Dadhia/associates.
 - c. It appeared that the directors were selling as well as buying in the market with a view to create artificial volume and to increase the share price.
 - d. However, imposition of indefinite suspension on the trading of Synthiko's scrip seemed to have thwarted their attempts, with the result that the directors defaulted on making payments to the brokers through whom they bought shares and did not take delivery of their shares. Also, when these brokers/sub-brokers lodged the shares for transfer, the same were returned citing various reasons.
5. It was seen that one of the major buyers in the scrip of Synthiko during the period May-August, 1996 was the combination of Shri Rahul R Shah (Rahul), a broker of the Pune Stock Exchange (PSE) and Rajesh Finance & Investment Pvt. Ltd. (Rajesh). These two shared the same address, with Rahul being the major shareholder in Rajesh and his wife, Richa Shah, being a director in Rajesh. The total gross position of the two entities in the investigation period was 1.33 lac shares.
6. It was also noted that both Bhavesh Dadhia and Ramesh Dadhia, had issued many cheques to Rahul, including a draft for Rs.4,95,000/- which was sent by them to Rahul for adjustment of dues on account of dealing in the shares of Synthiko. Dadhias had also arranged a deposit of Rs.10 lacs from Jay Tara Trust (an associate concern), to Rahul, for payments to be made on their behalf for the purchase of shares.

SHOW CAUSE NOTICE AND HEARING

7. In view of the findings of the investigation, SEBI issued a notice dated November 11, 2003 to Bhavesh Dadhia and Ramesh Dadhia, advising them to show cause as to why appropriate directions under Regulations 11 and 12 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Markets) Regulations, 2003, including restraining them

from accessing the securities market and prohibiting/suspending them from buying, selling or dealing in the securities market in any manner whatsoever, for a particular period, should not be issued against them, in violation of Regulation 4(a) to (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Markets) Regulations, 1995, as applicable at the time when the act was committed and they were directed to reply to the said notice within 21 days of the receipt thereof and it was also indicated that in case they failed to furnish their reply within the stipulated time, it would be presumed that they had nothing to say in the matter and SEBI would be free to take such action as deemed fit. They were also advised to indicate whether they preferred a personal hearing before me. Subsequently another notice dated November 14, 2003 was issued to them, conveying additional findings of investigation.

8. In reply to the same, Ramesh and Bhavesh vide their letters dated November 29, 2003 refuted the charges leveled against them and requested that the proceedings against them be dropped and that they be granted a personal hearing. Ramesh while denying having traded in the scrip of Synthiko during the period under investigation as well as before and after the period under investigation, also denied having made any payment to Rahul Shah. On his part, Bhavesh, while denying that any payment had been made from the Jay Tara Trust, stated that they had pledged the following shares with Rahul:-

Name of the holder	Share Certificate no.		Total shares
	From	To	
Urmila Ramesh Dadhia	8180	8229	5000
	8230	8329	10000
	8345	8359	1500
Kailash Dadhia	701	861	16000
Mahesh Dadhia	862	1004	14200
	Total		46700

9. In view of the request for a personal hearing, both Ramesh and Bhavesh were advised to appear before me for a hearing on April 05, 2004. On the said date, Ramesh did not appear for the hearing on the ground that he was out of station and hence requested for a date after 07.04.2004. Since Ramesh had not made any specific request for personal hearing in his reply to the show cause notice and also did not make any additional submissions apart from reiterating what he had stated before the investigating authority, no new date for personal hearing was granted. Bhavesh, who appeared before me only reiterated the fact that he was not guilty of any default and requested that no action should be taken against him.

FINDINGS

10. I have taken into consideration the facts and circumstances of the case and the material available on record which includes the facts leading to the investigation, submissions made on behalf of Ramesh and Bhavesh, the findings of the investigation, the show cause notices and the replies of Ramesh and Bhavesh to the same.
11. I have noted that the Dadhias had given several cheques to Rahul, including a demand draft of Rs. 4.90 lacs. At the time of recording his statement, Shri Ramesh Dadhia, father of Bhavesh Dadhia, denied remitting an amount of Rs.4.90 lacs to Rahul. However he was shown a copy of the demand draft application form made by him, requesting for issuance of the draft of Rs.4.90 lacs and a cheque for the amount signed by his son, Himesh Dadhia for issuance of the said demand draft which was sent to Rahul by Ramesh Dadhia. The signatures on the cheques were confirmed by Himesh to be his old signatures. Although Himesh stated that the cheques were given by him to Rahul as a surety for the loan to be raised by his brother, no transactional details as regards the amount or purpose of the alleged loan were provided to corroborate this theory. I have perused the correspondence exchanged between Ramesh and Rahul and the signatures on the letter which are admittedly his, although he had denied issuing such a letter.
12. I have noted Rahul's submission that he had traded in the shares of Synthiko on behalf of Bhavesh and had accepted the pledge of shares for raising money for making margin payments with respect to his transactions in the shares of Synthiko. However, Bhavesh had, during the investigation proceedings, stated that he had signed on a blank pledge agreement and a power of Attorney (POA) and handed over about 46,700 shares to Rahul (and Abhay) to raise a loan of around Rs.50 lacs, which was however neither arranged nor were the said shares returned. He had also stated that despite giving Rahul, post dated cheques signed by himself as well as his brother Himesh for around Rs.43 lacs, for repayment of the said loan and another seven post dated cheques signed by his brother Himesh as a surety, the shares of Synthiko, were not returned by either Rahul or Abhay. Yet Bhavesh or Ramesh did not initiate any legal action allegedly on the ground that they were assured that the shares would be returned. Having perused the concerned documents, I have noted that the entire contents of the pledge agreement were typewritten and were signed by Bhavesh on all the pages. In any case it appears implausible that directors of public listed companies would agree to sign blank pledge agreements and power of attorney documents. Hence, I find it difficult to accept the submissions made by Bhavesh regarding the reasons as to why they had issued several cheques to Rahul; more so as the amounts of the cheques matched with the pay-in obligations of Rahul vis-à-vis his trading in Synthiko shares (elaborated in following paragraphs).

13. I have noted that a number of share certificates lodged for transfer during and around the investigation period were returned without being transferred by the company, allegedly due to "signature difference". It was submitted that the signatures, including attestation stamps, were apparently forged and yet neither Bhavesh nor Ramesh lodged any police complaint.
14. As stated above, Ramesh denied having traded in the scrip of Synthiko during the period under investigation as well as before and after the period under investigation i.e from June to December 1996, and Bhavesh also denied paying the demand draft of Rs.4.90 lacs to Rahul Shah and stated that he and his brother had issued cheques in favour of Rahul, allegedly for the loan that they wanted to procure. However, I have noted that the following documents were provided by Rahul to the investigating authorities in support of his arguments regarding having traded for Bhavesh, viz;
- i) Copy of the cheque no. 251660 of Rs.43 lakhs signed by Sh Bhavesh Dadhia. Copies of cheque nos 053567 for Rs.1.25 lakhs, no 053568 for Rs.3.65 lakh, 053566 for Rs.9.15 lakhs, 053571 for Rs.6 lakhs, 053569 for Rs.8.45 lakhs, 053570 for Rs.8.40 lakhs, 053572 for Rs.5.99 lakhs signed by Shri Himesh Dadhia.
 - ii) Pledge agreement for 30,200 shares entered into between Bhavesh R Dedia & Rahul R Shah for pledge of shares of Synthiko. The shares were pledged with B K Investment, prop Mrs Bina Kochar situated at Pune.
 - iii) Power of Attorney entered into between the above parties.
 - iv) Copy of letter dated 18.9.96 written by Sh Bhavesh Dadhia to Rahul enclosing a DD of Rs 4.90 lacs in the name of Abhay Soman.
 - v) Copy of letter written by Rahul acknowledging receipt of Rs 10 lacs from Jay Tara Trust for purchase of shares on behalf of Bhavesh Dadhia. Copy of letter written by Bhavesh Dadhia to Rahul acknowledging that the said amount will be paid back by them.
15. I have noted that the cheques issued by the Dadhias (mentioned at para 14 above) match with the exact pay-in figure, plus brokerage and other charges, payable by Dadhias to Rahul and Rajesh together, in lieu of the transactions done by Rahul in the shares of Synthiko. Thus, it is clear that the cheques issued by the Dadhias were towards their pay-in obligations towards their transactions in the shares of synthiko and not for payment of loan taken from Rahul, as sought to be suggested by them.
16. While Rahul had initially stated that he had purchased some shares of Synthiko and recommended them to others at the behest of one of his clients, subsequently he confessed that the shares of Synthiko were bought on behalf of Bhavesh Dadhia purely on delivery basis; but that when Bhavesh defaulted on payment and refused to take delivery, he had arranged money for the pay in and showed the dealings as an investment in the names of his various clients and consequently all the cash was arranged by him alone. This was substantiated by Rahul even in his reply to the show cause notice wherein, while detailing the apparent involvement of the promoters of Synthiko on the buy side, Rahul stated the he had purchased shares of Synthiko for Bhavesh in his individual capacity & never for and on behalf of the company per se, in as much as the cheques were issued by Bhavesh in his personal capacity.
17. Thus, the stands taken by Rahul and Bhavesh are contradictory. Whereas Rahul says that he and Rajesh had dealt entirely for Bhavesh, Ramesh and Bhavesh have contended that they had not dealt in the shares of Synthiko.
18. However upon an analysis of the information available on record, the following is apparent or can be inferred:-
- Bhavesh came in contact with Rahul.
 - Bhavesh had pledged shares of Synthiko with Rahul He and his brother had also issued him cheques – for about Rs.29 lacs dated 10th September, 1996 and remaining cheques dated December 1997.
 - While Bhavesh/ Ramesh denied having made any payment to Rahul, bank records clearly show that they had made a payment of Rs.4.90 lacs by DD No.657405 dated 17.9.1996 for Rs.4.9 lacs drawn on Bank of Baroda, Pune; which was issued at the request Ramesh Dadhia and others against cheque no. 0720722 issued by Himesh Dadhia. The draft was forwarded to Rahul under cover of a hand written memo dated 18.9.1996, reportedly sent to Rahul by Bhavesh. The amount had been remitted around the time of pay-in.
 - Further, the pledge agreement was executed in July 1996 for the purpose of raising loan of Rs.50 lacs. As per Bhavesh, Rahul failed to raise the loan. That being so, there was no need for the Dadhias to have remitted any money to Rahul in September, 1996. Yet the fact remains that they had remitted money around the time which coincided with the pay-in time and had also issued cheques for Rs.29 lacs around that time. In view of the same, not much reliance can be placed upon their statements.
 - Another payment of Rs.10 lacs was acknowledged by Rahul from the family trust of Dadhias which Bhavesh had agreed to repay. Bhavesh had not disputed his signature on the letter but claims that he knows nothing about this payment and that he had given a blank signed letter. This is difficult to accept.
 - Bhavesh's claim that he had given a blank power of attorney, blank pledge agreement and blank signed paper to Rahul does not appear to be convincing. No prudent business man would do such a thing.

- Bhavesh stated that they returned the share certificates untransferred since the signatures were all forged but still did not consider it necessary to file any police complaint, which is rather surprising.
- Bhavesh did not take any steps to get back the shares pledged, though he claimed that the purpose for which the shares had been pledged never fructified according to him. This is rather strange.
- Share certificates in the name of late Urmila Ramesh Dadhia were floated in the market. When questioned, Ramesh stated that his second wife's name is also Urmila and consequently the shares were retained in the same name only. This is legally improper.
- Apart from Rahul and Rajesh, the Dadhias were also reportedly associated in their dealings with Vinod Dallani, uncle of Bhavesh Dadhia who had reportedly dealt through Vivek Boradia (Vivek) of Jain Securities & Finance Consultancy and was introduced to Vivek by Bhavesh Dadhia. Another sub-broker at BSE, Manish M. Shah, was stated to be a friend of Bhavesh. The trading of the above entities was as follows:

Name of the Entity	Buy	Sell	Gross	Net
Manish M Shah, Prop. Great Rise	173900	92100	266000	81800
Rahul R Shah & Rajesh Finance	104100	28800	132900	75300
Vivek Boradia, Jain Securities	130700	117500	248200	13200
TOTAL	408700	238400	647100	170300

- The share certificates delivered in the market and received by Rahul were mostly in the name of the Dadhias, indicating that they were the sellers on the other end. As per the records available, the gross volume contributed by the Dadhias was found to be 6.47 lac shares which are nearly 27% of gross trading volume at BSE.
19. In view of the above, it can be reasonably concluded that the Dadhias had dealt in the shares of Synthiko through Rahul, Rajesh and Vivek and possibly through other brokers also. The price of the scrip had been rigged by Bhavesh and Ramesh Dadhia, who in turn were aided and abetted by these entities, thereby enabling them to create an artificial market in the scrip. Bhavesh/ Ramesh Dadhia, directors of the company, were selling on one side and buying on the other side with a view to create artificial volume and increase the price of the scrip with the ulterior motive of benefiting therefrom. However, the indefinite suspension in the scrip thwarted their attempt, with the result that they did not either make the payments to the buying brokers or take delivery of their shares. When the sub-brokers who were left with the shares lodged them for transfer, the same were returned with various reasons, signature difference, forged etc.
19. By the aforesaid acts, the Dadhias have indulged in manipulative, fraudulent and deceptive transactions for their own personal gain, which led to the disruption of the smooth functioning of the market. The acts committed by Shri Ramesh Dadhia and Bhavesh Dadhia are violative of the provisions of Regulations 4(a) to (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 and not in accordance with sound market principles.
20. In this context it is relevant to note the provisions of Regulation 4 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 which reads as under :
- "Regulation 4 : 'No person shall -*
- 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;*
 - indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market;*
 - indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions;*
 - enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress, or cause fluctuations in the market price of securities;*
 -"*
21. It is to be noted that persons who operate in the market are required to maintain high standards of integrity, promptitude and fairness in the conduct of the business dealings. People, who indulge in manipulative, fraudulent and deceptive transactions, or abet the carrying out of such transactions which are fraudulent and deceptive, are not fit or proper persons to operate in the market.
22. It would be relevant to add here that during the hearing before me Bhavesh stated that their company had lately sustained heavy losses and also lost money in the share broking business, and that they had given up all share market activities and that in view of the same a sympathetic view may be taken.

23. However, in view of the facts and circumstances of the case and the violations by Ramesh Dadhia and Bhavesh Dadhia of the provisions formulated by SEBI for the protection of the investors, I find that a direction restraining them from dealings in the securities market for a specified period would be required. The passing of such an order would be necessary for the regulation of the persons operating in the capital market and the development thereof, as well as for the protection of the investors.

ORDER

24. In view of the above and in exercise of the powers conferred upon me under Sections 19, read with Section 11B of the Securities and Exchange Board of India Act, 1992 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, I hereby debar Ramesh Dadhia and Bhavesh Dadhia from buying, selling or dealing in securities, in any manner, directly or indirectly for a period of eighteen months
25. This order shall come into force with immediate effect.

PLACE : MUMBAI

DATE : SEPTEMBER 21st, 2004

A.K.BATRA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA