

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTIONS 11B AND 11(4) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 IN THE MATTER OF MINAL ENGINEERING LTD.

1. Background

- 1.1 Trading and sharp rise in a short period in shares of companies with low market capitalization, commonly referred to as "small cap stocks" or "penny stocks" in the recent times have been engaging the attention of SEBI, the stock exchanges and the media. They have been under the surveillance of SEBI and the stock exchanges for some time. Minal Engineering Ltd., is one such "small cap" company, whose shares witnessed a sharp price variation during the period February 2005 to September 2005. The share price of the company went up from a below par level of Rs.4.33 on February 7, 2005 to Rs.452.35 on September 15, 2005 in 97 trading days representing a rise of 105 times or 10,446%. The shares were traded at or near the upper circuit limit on most of the days during the entire period, February 2005 to September 2005.
- 1.2 While the highest trading volume of 8,403 shares were observed only on one day on September 15, 2005, the average daily volume during the period under examination was only around 663 shares, against a total non-promoter holding of 12,90,00 shares (Table 1 at page 3). There were even a few starkly lean days when only one share was traded. Clearly, the quantum jump in price of 105 times from below par of Rs.4.33 to a high of Rs 452.35 in 97 trading days took place on very thin volumes, signifying only limited investor interest and participation in the share. What makes this sharp price rise and sudden increase in trading frequency only during the above mentioned period (February 2005 to September 2005), more astonishing is the trading record of the share during the past nine years or so.
- 1.3 The shares traded only on 4 days in 1996 at Rs.12. There was no trading in the share till 1999, when the shares were traded only on 3 days and that too sporadically at below par of Rs.7. The share was traded only once in 2000, again at below par of Rs. 5.4. Thereafter the share languished without any trading for nearly 5 years between July 20, 2000 and February 06, 2005. Thus the share remained infrequently traded at below par price for nearly nine years. As mentioned in the foregoing paragraph, the share resumed trading regularly from February 7, 2005, when 100 shares were traded at below par at Rs 4.33, after nearly 5 years since the last trading in 2000. By February 22, 2005, the price of the shares rose to Rs. 8.97 (more than 100%) and by March 11, 2005, the price of the share rose by 481.52% in 14 trading days to Rs.20.85. This unusual movement in price prompted the BSE on which the share is listed, to transfer the shares to Trade for Trade segment on February 22, 2005 and to reduce the circuit filter in the shares from 10 % to 5 % on March 11, 2005, as a part of BSE's normal surveillance measure.
- 1.4 The steep increase in price of the share combined with low trading volume in the share warranted an immediate examination of the dealings in the share, which was accordingly undertaken by SEBI. The major findings of the preliminary examination are given below:

2. Preliminary Findings

The company – business, board of directors, shareholding pattern

- 2.1 Minal Engineering Ltd. (the company) was incorporated in Vadodara, Gujarat with registered office at 214/A Paradise Complex, Sayajigunj, Vadodara - 390005, Gujarat. The company was listed on The Stock Exchange, Mumbai, currently BSE Ltd. (BSE), Ahmedabad Stock Exchange (ASE) and Vadodara Stock Exchange (VSE). The company is currently listed in 'T' group in BSE after the share was moved into Trade to Trade segment from February 25, 2005.
- 2.2 According to the Annual Report of the company for the year 2004-05, "the generic product" of the company was Braille typewriters. In the month of August 2005, the company informed the stock exchanges that it has included jewellery business in its Object clause.
- 2.3 The company's Annual Report for the year 2004-05, shows the Board of Directors of the company as follows:

J B Parikh	Chairman
Shrikant J Parikh	Managing Director
J V Joshi	Director
Amul J Patel	Director
Vikram J Parikh	Director
Malay Karbhari	Additional Director

2.4 The shareholding pattern of the company as on June 30, 2005 . is as follows:

Table 1: Shareholding pattern as on March 31, 2005 and June 30, 2005

	As on March 31, 2005		As on June 30, 2005	
	No of Shares	% Share Holding	No of Shares	% Share Holding
Total Promoters	1187600	89.49	1198100	90.28
Total Non Promoter Corporate Holding	272	0.02	2501	0.19
Total Public & Others	139228	10.49	126499	9.53
Total	1327100	100.00	1327100	100.00

Source: BSE

2.5 The company thus has a very small paid up capital of 13,27,100 shares of which the promoters' held 90.28% and the non-promoters' holding is less than 10% at 1,29,000 shares. Comparing the quarterly shareholding pattern filed at BSE for the quarter ended March 2005 and June 2005, it is noted that the public holding got further depleted from 10.51% as on March 31, 2005 to 9.72% as on June 30, 2005, and there was a corresponding increase in the promoter's holding from 89.49% to 90.28%. Besides, there is a discrepancy of 20,900 shares in the breakup of the promoters' shareholding and the aggregate promoters' shareholding in the report filed by the company at BSE for the quarter ended June 2005.

2.6 The beneficiary account of Shri. Shrikant J Parikh, Managing Director shows that 10,000 shares were transferred in off market deal to one Shri Ketan Shah, Vadodara on June 27, 2005. Interestingly, it was also found that Shri Ketan Shah on July 21, 2005, returned 8,000 shares to the Shri Shrikant J. Parikh.

On analyzing the trading data, it was observed that Shri Ketan Shah had sold 2,000 shares of the company at BSE on June 24, 2005. On that day, the total traded volume was only 2,200 shares suggesting that Shri Ketan Shah was a single major participant accounting for more than 90% of the total traded volume. This again points out that even when the trades are comparatively large, the number of investors involved are only a few. Since the company's shares are being traded in Trade for Trade segment, it appears that the transfer between the accounts of Shri Shrikant Parikh and Shri Ketan Shah is to tide over Shri Ketan Shah's pay-in obligation.

Share capital history

2.7 The share history of the company brings out a very important feature of the company which albeit somewhat bizarre, is of great relevance to this case. The company initially listed on BSE on July 6, 1994 with 35,85,100 shares; but the company forfeited nearly 63% of the issued capital or 22,58,000 shares, on May 05, 1998 for non-payment of allotment/call money.

2.8 Seven years after the forfeiture of the shares, at the annual general meeting of the company held on August 8, 2005 the reissue of 22,58,000 forfeited equity shares, (which is more than the number of outstanding paid up equity shares) at Rs 21/- per share against the prevailing market price of Rs 128, was approved by the shareholders. It is reasonable to conclude that since the promoters alone hold more than 90% of equity shares of the company, there would not have been any effective participation of any other shareholder in the decision to reissue the forfeited shares.

Financial Performance of the company

2.9 The sudden benevolence and bounty of fortunes in favour of the company is admirably demonstrated by the apparent "stellar" results of the company in FY 2004-05. A company which had a sales of Rs.35 lakh and Rs.21 lakh in the two previous years recorded sales of Rs 4.36 crore and the net profit which Rs.4 lakh and Rs.2 lakh in the two previous years soared to Rs 4.19 crore.

Table 2: Financial performance

(Rs. In crore)

Parameter	2002-03	2003-04	2004-05
Sales	0.35	0.21	4.47
Other Income	0.18	0.13	0.10
Net Profit	0.04	0.02	4.19

An analysis of the Company's Annual Report for the year 2004-05 revealed that the company's sudden spurt in the income was not on account of company's main line of business i.e., that of braille typewriters, but the golden touch as a result of inclusion of Rs. 4.18 crore from the income of its partnership with one M/s C. Mahendra Infojewels in jewellery business. It is seen from the said annual report that joining of the said partnership is shown as a 'material change and commitment.' This material development does not seem to have been disclosed to the BSE. The quarterly results of the company for the June 2005 declared on July 30, 2005 however showed a decline in profits by 87% to only Rs. 53 lakh.

2.10 A flurry of corporate announcement followed in the month of July and August 2005 as delineated below:

Date	Announcements
July 7, 2005	Recommendation of dividend of 20%
July 8, 2005	Fixing of book closure for the purpose of payment of dividend and 17th AGM of the company
August 1, 2005	Approval of bonus issue in the Board meeting held on July 30, 2005
August 13, 2005	Outcome of AGM held on August 8, 2005 containing inter alia declaration of dividend and authorisation for reissue of forfeited shares.
August 16, 2005	Intimation of Board meeting to be held on August 20, 2005 to consider the issue of adding a clause in the main object clause of Memorandum of Association (MoA), change of name of company to 'Minal Jewels Ltd.' and shifting of registered office of company
August 23, 2005	Outcome of Board meeting held on August 20, 2005 approving the addition of main object clause in MoA, change of name of the company to 'Minal Jewels Ltd.', shifting of registered office of the company from Vadodara to Mumbai, increase in the authorized share capital, increase in the ratio of bonus shares and intimation of EGM on September 20, 2005 to consider the above issues

Rise in share price

2.10 The price of the shares rose steeply during the period July – August 2005 following the corporate announcements. The share price on July 4, 2005 was Rs. 40 with only a token volume of 100 shares. After the corporate announcement on July 7, 2005 with the recommendation of dividend, the share price increased to Rs. 48.60 on July 8, 2005 with a trading volume of 6,070 shares. This was the highest trading volume ever recorded in the share since the sudden resumption of trading since February 2005. The share price rose to Rs.105.55 following the announcement of bonus shares on August 01, 2005 but only 205 shares were traded. Since then the shares were continuously trading at upper circuit till August 2005 with thin trading volume on most of the days.

It was observed from the BSE trade data that on several occasions only cross deals (wherein both the buying broker and the selling broker were same) were executed at upper circuit level to set the upward price trend.

The General Reserves of the company as on March 31, 2004 were Rs.38,22,170 to which the profit of Rs.3.8 crore was added in the year 2004-05. The said profit was not from the core business of the company but from the income of partnership firm. From this and from an analysis of the balance sheet it appears that the bonus was sought to be issued from the reserves built not out of profits from the core business, but from the income received from the partnership firm. It is a matter of record that the income for the quarter ended June 30, 2005 declined by 87%, after the conjuror's touch has worn thin.

Dematerialisation of shareholding of promoters

2.12 Comparison of the status of the dematerialization of shares of the company as on March 31, 2005 and September 23, 2005 brings very important results.

**Table 3A: Status of dematerialization of shares of the company
as on March 31,2005**

Depository/Physical	Number of Shares	% of Total Issued
CDSL	1,800	0.14%
NSDL	9,700	0.73%
Physical	13,14,600	99.13%
	13,27,100	100%

Source: Secretarial Audit Report of the company

**Table 3B: Status of dematerialization of shares of the company
as on September 23,2005**

Depository/Physical	Number of Shares	% of Total Issued
CDSL	7,091	0.53%
NSDL	10,79,999	81.38%
Physical	2,40,010	18.09%
Total	13,27,100	100%

Source: Data from NSDL and CDSL

2.13 Shares of the company held by the promoters were mostly in physical form and only 11500 shares representing 0.87% of the equity share capital of the company was dematerialized till March 2005. Thus the availability of floating stock in the market was very low. With a very low floating stock, the price of the shares has traded at upper circuit throughout the month of February and March 2005. The status of dematerialization changed in September when around 81% of the shares were dematerialized. Obviously the promoters have dematerialized their holdings. The promoter Shri Shrikant Parikh has dematerialized 10,22,165 shares which were in physical form till March 31, 2005. This is significant in the light of the prevailing directions of SEBI to the stock exchanges, according to which only dematerialized shares can be traded on the stock exchanges. This points to the possibility that the promoters had decided to off load the shares in the market at an inflated price and make windfall gain. The prevailing high price of the share built on deceptive performance was designed to lure gullible investors in to buying the shares. But as the company remains fundamentally weak as per the available results, the share price may not probably be sustained at the high level for long, especially if large floating stock becomes available in the market upon the promoters offloading their holdings or upon the offloading of forfeited shares or bonus shares that may be reissued or issued. In such case, the investors would be left in the lurch.

Trading history

2.14 The trading pattern of the share has been discussed in the foregoing paragraphs. The price volume data of the share of the company from February 7, 2005 till September 15, 2005 is tabulated below to give the complete picture.

Table 4:Trading history of the share

Date	Open	High	Low	Close	Volume	Trades
07/02/2005	4.33	4.34	4.33	4.34	100	2
08/02/2005	5.2	5.2	5.2	5.2	50	1
14/02/2005	6.24	6.24	6.24	6.24	600	2
18/02/2005	7.48	7.48	7.48	7.48	610	2
21/02/2005	8.97	8.97	8.97	8.97	10	1
25/02/2005	10.76	10.76	10.76	10.76	10	1
01/03/2005	11.83	11.83	11.83	11.83	500	1
02/03/2005	13.01	13.01	13.01	13.01	200	1
04/03/2005	14.31	14.31	14.31	14.31	400	1
07/03/2005	15.74	15.74	15.74	15.74	400	7
08/03/2005	17.31	17.31	17	17.31	1690	24
09/03/2005	19.04	19.04	19.04	19.04	588	3
10/03/2005	20.85	20.85	20.85	20.85	450	1
11/03/2005	20.8	20.85	20.8	20.8	1020	14
14/03/2005	20.8	20.9	20.8	20.9	268	3
05/04/2005	20.85	20.85	20.85	20.85	100	1
06/04/2005	20.7	20.8	20.7	20.75	738	3
07/04/2005	20.8	21.55	20.8	21.55	900	6
08/04/2005	22.6	22.6	22.6	22.6	300	2
13/04/2005	23.7	23.7	23.7	23.7	100	1
20/04/2005	24.8	24.8	24.8	24.8	200	1
21/04/2005	24.85	24.85	24.85	24.85	68	1
22/04/2005	25.2	26	25.2	25.6	700	6
11/05/2005	25.25	25.25	25	25	600	3
18/05/2005	24	24	24	24	1	1
19/05/2005	23	23	23	23	1	1
20/05/2005	23.15	23.15	23.15	23.15	50	1
23/05/2005	23	23	23	23	100	1
26/05/2005	21.95	21.95	21.95	21.95	100	1
01/06/2005	23	23	23	23	1049	3

Date	Open	High	Low	Close	Volume	Trades
02/06/2005	24.15	24.15	24.15	24.15	850	4
03/06/2005	25.35	25.35	25.35	25.35	122	2
07/06/2005	26	26	24.75	24.75	2400	3
08/06/2005	25.95	25.95	25.95	25.95	150	1
09/06/2005	25	26.75	25	26.5	900	5
10/06/2005	27.8	27.8	26.5	26.5	550	6
13/06/2005	27.8	27.8	27.8	27.8	100	1
14/06/2005	29.15	29.15	29	29.15	550	5
15/06/2005	30.6	30.6	29.5	30.6	301	3
17/06/2005	32.1	32.1	32.1	32.1	100	1
21/06/2005	33.7	33.7	33.7	33.7	300	3
23/06/2005	35.25	35.35	32.15	35.35	2188	4
24/06/2005	36	36.1	33.6	34.5	2200	10
27/06/2005	36	36	36	36	50	1
29/06/2005	37.8	37.8	37.8	37.8	100	1
30/06/2005	35.95	39.65	35.95	39.65	200	3
04/07/2005	40	40	40	40	100	1
05/07/2005	42	42	42	42	300	2
06/07/2005	44.1	44.1	44.1	44.1	400	1
07/07/2005	46.3	46.3	46.3	46.3	1	1
08/07/2005	48.6	48.6	48.6	48.6	6070	10
11/07/2005	51	51	51	51	118	1
12/07/2005	53.55	53.55	53.55	53.55	450	2
13/07/2005	56.2	56.2	56.2	56.2	5	1
14/07/2005	59	59	59	59	5	1
15/07/2005	61.95	61.95	61.95	61.95	600	5
18/07/2005	65	65	65	65	600	2
19/07/2005	68.25	68.25	68.25	68.25	1300	5
20/07/2005	71.65	71.65	71.65	71.65	100	1
21/07/2005	75.2	75.2	75.2	75.2	50	1
22/07/2005	78.95	78.95	78.95	78.95	700	2
25/07/2005	82.85	82.85	82.85	82.85	1	1
26/07/2005	86.95	86.95	86.95	86.95	300	2
27/07/2005	91.25	91.25	91.25	91.25	150	2
29/07/2005	95.8	95.8	95.8	95.8	455	3
01/08/2005	100.55	100.55	100.55	100.55	1430	13
02/08/2005	105.55	105.55	105.55	105.55	205	3
03/08/2005	110.8	110.8	110.8	110.8	5	1
04/08/2005	116.3	116.3	116.3	116.3	150	2
05/08/2005	122.1	122.1	122.1	122.1	550	2
08/08/2005	128.2	128.2	128.2	128.2	250	3
09/08/2005	134.6	134.6	134.6	134.6	450	2
10/08/2005	141.3	141.3	137	141.3	5770	81
11/08/2005	148	148.35	148	148.35	200	3
12/08/2005	155.75	155.75	148.5	155	240	3
16/08/2005	158	162.75	158	162.75	760	15
17/08/2005	170.85	170.85	170.85	170.85	590	12
18/08/2005	179.35	179.35	179.35	179.35	50	1
19/08/2005	188.3	188.3	188.3	188.3	51	3
22/08/2005	197.7	197.7	197.7	197.7	51	2
23/08/2005	207.55	207.55	207.55	207.55	148	2
24/08/2005	217.9	217.9	217.9	217.9	360	7
25/08/2005	228.75	228.75	228.75	228.75	400	3
26/08/2005	240.15	240.15	240.15	240.15	250	3
29/08/2005	252.15	252.15	252.15	252.15	350	4
30/08/2005	264.75	264.75	264.75	264.75	150	2

Date	Open	High	Low	Close	Volume	Trades
31/08/2005	277.95	277.95	277.95	277.95	350	3
01/09/2005	291.8	291.8	291.8	291.8	260	5
02/09/2005	306.35	306.35	306.35	306.35	200	2
05/09/2005	321.65	321.65	321.65	321.65	100	3
06/09/2005	335	337.7	335	337.7	385	9
08/09/2005	354.55	354.55	354.55	354.55	175	6
09/09/2005	372.25	372.25	372.25	372.25	50	1
12/09/2005	390.85	390.85	355	390.85	6101	93
13/09/2005	410.35	410.35	410.35	410.35	455	9
14/09/2005	430.85	430.85	430.85	430.85	743	22
15/09/2005	409.35	452.35	409.35	409.35	8403	129

It was observed from the BSE trade data that on several occasions only cross deals (wherein both the buying broker and the selling broker were same) were executed at upper circuit level to set the upward price trend.

Preliminary findings

2.15 From the above the following are indicated:

- There has been no investor interest in the shares since it was listed in 1994. If at all, the shares traded sporadically.
- The trading interest resumed since February 2005 and since then, there has been a continuous effervescence in the price of the share.
- The trading volume was very low on most occasions, and there were only 9 trading days when more than 10 trades took place and there were only 30 trading days out of 97, when more than 500 shares were traded, demonstrating scant investor interest.
- On many occasions the price was discovered through cross deals.
- BSE, as a surveillance measure shifted the shares to Trade for Trade segment. In addition to this reduced the circuit filter for the share from 10% to 5%, but the share price continued to rise touching the upper circuit on many trading days.
- The lack of shareholder interest in the company is demonstrated by the forfeiture of shares which were more than the number of paid up shares.
- The fundamentals of the company are weak and even the company's performance for the FY 2004-05 was shown by including an income of partnership firm. The performance of the company thus does not apparently justify the price rise. There was a sudden drop in profitability of the company in the Q1 of 2005, with the earlier source of income apparently withering away.
- Since February, the promoters who own more than 90% of the shares have carefully orchestrated a series of steps attempting to show the company in a better light and share trading was resumed and price rose on thin volumes apparently to attract the investors to trade in the shares. It was the creation of deliberate make believe.
- There is a discrepancy of 20,900 shares in the breakup of the promoters' shareholding and the aggregate promoters' shareholding in the report filed by the company at BSE for the quarter ended June 2005.
- Shri Shrikant Parikh, the Managing Director cum promoter of the company transferred shares to one Shri Ketan Shah presumably to tide over the latter's pay-in obligation.
- The approval of the shareholders of the company to reissue 22,58,000 forfeited shares (which were forfeited in the year 1998) at a price of Rs.21 per share when the current market price is around Rs. 400, coupled with the sudden dematerialisation of the promoters shareholding after March 2005, as already mentioned, is only a thin end of the wedge, indicating the gameplan of the promoters. Since, according to the prevailing directions of SEBI to the stock exchanges, only dematerialized shares can be traded on the stock exchanges, the step taken by the promoters to suddenly dematerialize the shareholding, points to a real possibility that the promoters had decided to off load the shares in the market at an inflated price and make windfall gain. The prevailing high price of the share seems to be totally jacked up, while being propped up on an equally specious performance as gathered from reported results.

3. Conclusion

3.1 To sum up, the forfeiture of such a large number of shares after 4 years bears testimony to a complete lack of interest and confidence of the shareholders who were initially allotted shares in the public issue of the company. The infrequent trading

in the share for nearly nine years strongly signifies the absence of general investor interest in the share, evidencing the continued poor performance of the company for a considerably long period of time. In this perspective, the sequencing, and timing of the sudden inclusion of jewellery business in the Object clause of the company and a dramatic turn-around in the fortunes of the company resulting in sharp increase in share price by 10,446% in 97 trading days on very thin trading volumes, accompanied during the same period by the decision to reissue of the large number of forfeited shares, and a flurry of corporate announcements, including issuance of bonus shares, and dividends, the jump in profitability of the company (by inclusion a profit from a partnership firm in jewellery business) completely out of sync with the nearly nine year history of the company, the sudden dematerialization of shareholdings of the promoters, are events which may not entirely be fortuitous, and could have been the result of careful planning and deliberateness in execution on the part of the promoters. The ulterior intentions of the promoters could have been to make undue gains at the cost of the investors taking advantage of artificial price rise and false market. The beneficiaries of this price rise and also the above orchestrated measures stand to be the promoters who are holding more than 90% of the existing paid up capital. These factors point to a necessity for detailed inquiry / investigation by SEBI. I note that SEBI is already inquiring into these aspects of the case. In the meantime, if the promoters are allowed to offload their existing holdings or to acquire and thereafter offload any shares that may be acquired in the proposed bonus issue or reissue of forfeited shares, either directly or indirectly, incalculable injury would be caused to the interests of small investors and the integrity of the securities market. It is apprehended that some shares held by the promoters have already been offloaded in the market. There is thus an imperative need to ensure that the remaining shares do not find their way out into the hands of innocent investors at inflated or artificially jacked up prices.

- 3.2 In view of the above, I am satisfied that pending inquiry by SEBI, it is necessary to issue an order, under Section 11(4)(b) read with Section 11(1) and 11B of SEBI Act in order to protect the interest of investors and also the integrity of the securities market.

ORDER

- 4.1 Therefore, in exercise of the powers conferred upon me by virtue of Section 19 read with Section 11(4)(b) and Section 11(1) and 11B of SEBI Act, it is hereby directed, pending inquiry, that -
- (a) the following promoters and directors of Minal Engineering Ltd. viz. J B Parikh, Shrikant J Parikh, J V Joshi, Amul J Patel, Vikram J Parikh, Malay Karbhari and Kamlesh Khandhor shall not buy, sell or deal in securities of Minal Engineering Ltd., directly or indirectly;
 - (b) the Depositories shall not give effect to any transfer of shares of Minal Engineering Ltd. lying in the beneficial owner accounts of said promoters and directors;
 - (c) Minal Engineering Ltd. shall not reissue its forfeited shares nor shall issue any bonus shares. If such reissue or issue is already made, the allottees shall not further transfer the shares and the company and the depositories shall not give effect to any such transfer, if attempted to be made.
- 4.2 All the above directions shall take effect immediately and shall be in force until further orders.
- 4.3 The promoters, directors or the company may file their objections, if any to this order within 15 days from the date of this order and, if they so desire, avail themselves of an opportunity of personal hearing at the Securities and Exchange Board of India, Head Office, First Floor, Mittal Court, B Wing, Nariman Point, Mumbai 400 021 on a date and at a time to be fixed on a specific request, to be received in this behalf from the entities within 15 days from the date of this order.

Place: Mumbai
Date: September 28, 2005

G ANANTHARAMAN
WHOLE-TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA