

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

DIRECTIONS UNDER SECTION 11(4) (b) AND 11B OF SEBI ACT, 1992 READ WITH REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003 AGAINST M/S VISION ORGANICS LIMITED, ITS PROMOTERS/DIRECTORS, SHRI J.H. SHAH AND SMT. NAYANA J. SHAH.

1.0 BACKGROUND

- 1.1** Pursuant to the receipt of an investor complaint, Securities & Exchange Board of India (hereinafter referred to as SEBI) conducted investigation into the initial public offer and the buying, selling and dealing in the scrip of Vision Organics Ltd (hereinafter referred to as VOL). Shri J H Shah and Smt. Nayana J. Shah were the promoters/directors of VOL.
- 1.2** VOL had come out with an Initial Public Offer (IPO) of 43.50 lakh shares of Rs.10/- each at a premium of Rs.30/- per share which opened for subscription on October 19, 2000. The investigation revealed that as the company was not able to get the issue fully subscribed, it, through Shri Dilip Thakkar, the then director of VOL, approached one Shri Ketan Shah and family to subscribe to the issue with an understanding that the shares allotted will be repurchased with a commission by VOL.
- 1.3** Investigation further revealed that Shri Ketan Shah and family had applied for 23,25,000 partly paid shares and the same were allotted to them which constituted 64.15% of the total shares (i.e. 36,25,000 shares) allotted to public in the IPO. The allotment of the issue was completed on November 03, 2000. On November 24, 2000, Shri Ketan Shah and family sold 21,61,770 shares out of 23,25,000 shares allotted to them in off-market transactions to Ms. Jyoti Relwani, Ms. Shilpa Dave and Ms. Varsha Trivedi who were related to the employees of VOL.
- 1.4** The investigation further revealed that Shri Ketan Shah and family received the sale proceeds of the aforesaid 21,61,770 shares from the account of Ms. Jyoti Relwani, Ms. Shilpa Dave, Ms. Varsha Trivedi and Philoden Agrochem Pvt. Ltd.(hereinafter referred to as Philoden). Investigation further revealed that Philoden received the money in its account from the bank accounts of Ms. Jyoti Relwani, Ms. Shilpa Dave and Ms. Varsha Trivedi. The sale proceeds paid to Shri Ketan Shah and family was traced back to account of VOL.
- 1.5** From the aforesaid findings, it was observed that the above shares sold by Shri Ketan Shah and Family and bought by Ms. Jyoti Relwani, Ms. Shilpa Dave and Ms. Varsha Trivedi were in fact a buy back of shares by VOL itself. Investigation further revealed that Shri Dilip Thakkar the director of Philoden acted as a mediator between the promoters and Shri Ketan Shah and family to subscribe to the public issue with an understanding that the shares allotted will be purchased back at a finance charge of 0.10 paise per share.
- 1.6** From the aforesaid, the investigation observed that VOL and its promoters/directors have violated Regulation 3, 4 (a) (b) (c) (d) and 6 (a) of (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as FUTP Regulations).

2.0 SHOW CAUSE NOTICE, REPLY AND THE OPPORTUNITY OF PERSONAL HEARING.

- 2.1** Accordingly, a show cause notice dated September 29, 2004 was issued to VOL and its promoters/directors, Shri J.H. Shah and Smt. Nayana J. Shah advising them to show cause as to why suitable directions under regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 read with Section 11(4) (b) and 11B of the SEBI Act, 1992 including a direction to prohibit them from dealings in securities for a particular duration should not be passed against them.
- 2.2** Vide letter dated October 12, 2004 VOL, its promoters/directors Shri J.H. Shah and Smt. Nayana J. Shah forwarded their reply to the Show Cause Notice, submitting inter alia the following.
- a) That the public issue which opened on 19.10.2000 was aggregating Rs.1450.00 lacs (Rs.10 + Rs.30) including call money, but major shareholders did not pay call money timely, hence company could not get even a fraction of 1450 lacs. VOL had already invested approximately 1300 lacs in their project in the interest of investors.
- b) That none of the noticees had given any loans to anybody to buy any partly paid up shares of VOL either before the public issue or after the public issue and submitted their relevant bank statements in support of their claim.
- c) That after getting the proceeds of the public issue as per the objectives in the prospectus, VOL decided to buy raw material for its ready Silvassa project. For this, it made payments to M/s. Sahil Impex (P) Ltd (hereinafter referred to as Sahil Impex) through one Ms. Smt. Leena Dave. The payment was made to Smt. Leena Dave as advised by Sahil Impex. It was submitted that contrary to the allegation in show cause notice Smt. Leena Dave was neither an employee nor wife of any employee, nor relative of any promoter.

d) That logically no company or broker will make an arrangement for partly paid shares considering the risks involved in it. It is beyond the imagination and unviable in the market that somebody would take risk of crores of rupees, that too in partly paid shares in the absence of any agreement just to earn 10 paise per share which would be inclusive of cost of funds, brokerage, transfer charges etc.

e) That from the past record of Shri Ketan Shah it can be seen that he was regularly subscribing to the new issues and subsequently selling the shares.

f) That none of the persons mentioned in show cause notice namely Smt. Leena Dave, Sahil Impex, VOL, Shri J.H. Shah and Smt. Nayana J. Shah had bought the shares in question in their demat account and therefore it is incorrect to allege that VOL had done any buyback arrangement for the partly paid shares.

2.3 An opportunity of personal hearing was afforded to VOL, J H Shah and Smt. Nayana J. Shah on June 17, 2005 and on that day JH Shah appeared on behalf of himself and VOL. During personal hearing in the context of the amount paid by VOL to Sahil Impex by issuing a cheque favouring a third party i.e., Smt. Leena Dave, Shri J.H Shah had been asked to submit documentary evidence to prove that Sahil Impex is a regular supplier of raw materials to VOL and VOL have been making payment in similar manner at the instructions of the supplier. He was also asked to submit the details of the payments made by them to Sahil Impex for the aforesaid supply of raw materials along with all supporting documents such as copy of the order made by VOL invoices sent by Sahil Impex, railway or transport receipt, letter from Sahil Impex to make payment to third party etc. certified by the chartered accountant of VOL by July 31, 2005.

2.4 Accordingly VOL submitted its written submissions vide letter dated July 25, 2005 forwarding therewith page no.34 of the prospectus mentioning list of creditors as on 30.04.2000 in which the name of Sahil Impex was also included. VOL also forwarded a copy of the purchase order, copies of bank statements copies of sale invoices of Sahil Impex and the related audited balance sheet. However VOL failed to provide any documentary evidence in support of its contention that the amount paid to Sahil Impex by issuing a cheque favouring a third party i.e Smt. Leena Dave, was made at the instance of Sahil Impex and also for the contention that VOL made payment in similar manner on earlier occasions at the instructions of the supplier. Further the invoices forwarded by VOL did not match with the amount paid by VOL to Smt. Leena Dave and no Railway or Transport receipt for the above transactions was submitted by VOL. Furthermore none of the documents forwarded by VOL were certified by the Chartered Accountant of VOL as directed by SEBI, instead VOL merely submitted that its auditor was out of India for more than 2 years.

4.0 CONSIDERATION OF ISSUES AND FINDINGS

4.1 I have carefully considered the findings of investigation, show cause notice, reply of VOL, Shri J.H. Shah and Smt. Nayana J. Shah, the submissions made before me during personal hearing and also the post hearing written submissions submitted by VOL, Shri J.H. Shah vide letter dated July 25, 2004 .

4.2 I find that the issue of VOL opened on October 19, 2000 and closed on October 21, 2000 and the shares were allotted on November 4, 2000. The shares of the scrip were listed at the Stock Exchange, Mumbai, National Stock Exchange of India Limited, and Vadodara Stock Exchange (hereinafter referred to as BSE, NSE and VSE respectively)

The details of the top allottees in the public issue are as follows:

Name	Shares Allotted	% offered to Public
Bhailal Bhai Shah	4,94,800	13.65
Binal Shah	4,94,800	13.65
Ketan Shah	4,94,800	13.65
Ketan Shah (HUF)	2,47,400	6.82
Malti Dilip Thakkar	1,97,900	5.46
Falguni Shah	1,48,400	4.09
Neerav Shah	1,48,400	4.09
Rahul Shah	1,48,400	4.09
Chandra Shah	1,48,400	4.09
Pramila Shah	1,48,400	4.09
Subhash Shah	1,48,400	4.09
TOTAL	28,20,100#	77.80

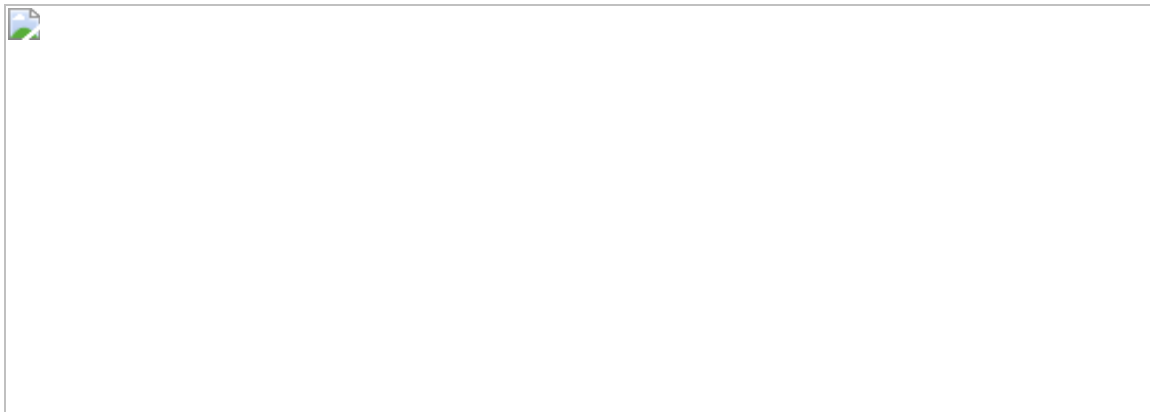
77.80 % of the shares allotted to the public category i.e. 36,25,000 shares.

4.3 I further find from the findings of the investigation that as the company was not able to get the issue fully subscribed, the company through, Shri Dilip Thakkar, the then director of VOL approached one Shri Ketan Shah and family to subscribe to the

issue with an understanding that the shares allotted will be repurchased by VOL with a commission of Rs 0.10 per share.

- 4.4** I also find from the findings of the investigation that Shri Ketan Shah and family had applied for 23,25,000 partly paid up shares and the same were allotted to them which constituted 64.15% of the shares (i.e. 36,25,000 shares) allotted to the public in the IPO. The allotment of the issue was completed on November 03, 2000. On November 24, 2000, Shri Ketan Shah and family sold 21,61,770 shares out of 23,25,000 shares allotted to them in off-market transactions to Ms. Jyoti Relwani, Ms. Shilpa Dave and Ms. Varsha Trivedi who were related to the employees of VOL. I further find that Shri Ketan Shah and family received the sale proceeds of the aforesaid 21,61,770 shares from the account of Ms. Jyoti Relwani, Ms. Shilpa Dave and Ms. Varsha Trivedi and Philoden. I further find that Philoden received the money in its account from the Bank accounts of Ms. Jyoti Relwani, Ms. Shilpa Dave, Ms. Varsha Trivedi. Thus the funds paid to Shri Ketan Shah and family was traced back to the account of VOL. I further find that the above shares sold by Shri Ketan Shah and family were actually bought by Ms. Jyoti Relwani, Ms. Shilpa Dave and Ms. Varsha Trivedi and thus were in fact a buy back of shares by VOL itself.
- 4.5** I further find that Shri Dilip Thakkar the director of Philoden acted as a mediator between the promoters of VOL and Shri Ketan Shah and family to subscribe to the public issue with an understanding that the shares allotted will be purchased back at a finance charge of 0.10 paise per share. I further find that the same has been revealed by Shri Ketan Shah in his statement given to the Investigating Authority. Thus, I find that the above shares sold by Shri Ketan Shah and family were actually a buyback by the company through the above entities.
- 4.6** I find that the payment made by Ms. Jyoti Relwani, Ms. Shilpa Dave and Ms. Varsha Trivedi to Shri Ketan Shah and family for the off-market transactions was from their Bank account with HDFC Bank (Baroda Branch). The funds were received by them from one Smt. Leena Dave who was also having an account with HDFC Bank. Smt. Leena Dave received funds in her account from a bank account of VOL with Bank of Punjab Ltd. (Fort Branch, Mumbai). The funds were received in VOL account from Vision Equity Issue account with Bank of Punjab Ltd. (Fort Branch Mumbai).

The flow of funds from the account of VOL to Shri Ketan Shah and family is graphically depicted below:



- 4.7** I also find it very interesting that all these accounts were opened in the month of October 2000 and except for the aforesaid transactions there were no other transactions in the account. All the accounts became dormant in December 2000.
- 4.8** I find that the modus operandi of transferring the funds was as under:
- a) Vision Equity Issue Account of VOL with Bank of Punjab Ltd, Bankers to the issue had received subscription amount of Rs. 14, 76,000 in the account. HDFC Bank Ltd., another Banker to the issue, transferred an amount of Rs. 1,43,39,214 which was the subscription amount it had received, to Vision Equity Issue Account of VOL with Bank of Punjab. So in total Vision Equity Issue Account with Bank of Punjab was having subscription amount of Rs 1,58,15,214. Out of this, an amount of Rs. 1, 55, 15,214 was transferred to the account of VOL with Bank of Punjab. (Account no. CA4002825).
 - b) Thereafter a pay order of Rs.2,63,51,500/- dated 22/11/2000 was issued by Bank of Punjab Ltd. from the account of VOL and the said pay order was deposited in the account of Smt. Leena Dave (Account No. 0331300060794) with HDFC Bank Ltd., Baroda. Smt. Leena Dave issued cheques in favour of Ms. Jyoti Relwani, Ms. Shilpa Dave and Ms. Varsha Trivedi for Rs.87,79,460, Rs.1,75,54,460 and Rs.87,85,000 respectively. They in turn transferred the funds to Shri Ketan Shah and family by issuing cheques to them directly and also indirectly through Philoden.
- 4.9** I further find that VOL called for the call money of Rs 30 per share on allotment. However, the response to the call was poor, thereafter, on October 27, 2001 VOL passed a Board Resolution forfeiting 24,93,780 partly paid up shares, which constituted 69% of the share allotted to the public. This also include 16,41,100 shares allotted to Ketan Shah and family in the IPO. Whereas, Ketan Shah and family had already sold 21,61,770 partly paid shares in November 2000 in the off-market transactions to Ms Jyoti Relwani, Ms Shilpa Dave and Ms Varsha Trivedi.the partly paid up shares in November 2000.

4.10 I further find that VOL reissued the forfeited shares to the following entities on various dates as shown in the table below:

Name of the Shareholder	No. of shares	Date of Reissue
Sonia S. Relwani	40800	28/12/2001
N. G. Trivedi	267500	28/03/2002
S. P. Relwani	300000	28/03/2002
N. G. Trivedi	375500	26/04/2002
S. P. Relwani	413000	26/04/2002
N. G. Trivedi	365000	31/05/2002
S. P. Relwani	312000	31/05/2002
N. G. Trivedi	234980	07/06/2002
S. P. Relwani	185000	07/06/2002

4.11 Thus it is vivid clear that VOL was not able to get the issue fully subscribed and thus approached Shri Ketan Shah and family to subscribe to the public issue with an understanding that the shares allotted will be repurchased with a commission. It is also clear that VOL returned the funds to Shri Ketan Shah and family with the finance charge (commission) through Ms Shlipa Dave, Ms Jyoti Relwani and Ms Varsha Trivedi.

4.12 Therefore I find Vision Organics Limited and its promoters/ directors, Shri J.H. Shah and Smt Nayana J Shah, have been guilty of violating the provisions of Regulation 3, 4 6 (a) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 which reads as under.

"3. Prohibition of certain dealings in securities.- No person shall buy, sell, or otherwise deal in securities in a fraudulent manner.

4. Prohibition against market manipulation.- No person shall –

(a) effect, take part in, or enter into , either directly or indirectly , transactions in securities, with intention of artificially raising or depressing the prices of securities in the market 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;

(d) enter in to a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended only to operate only as a device to inflate, depress, or cause fluctuations in the market price of the securities;

6 Prohibition on unfair trade practices relating to securities: - No person shall :-

(a) in the course of his business, knowingly engage in any act, or practice which would operate as fraud upon any person in connection with the purchase or the sale of, any other dealing in, any securities."

4.13 It is pertinent to note here that even though an opportunity of personal hearing was afforded to Smt Nayana J Shah one of the promoters/Directors of VOL, along with the other Promoters/Directors, in accordance of the principles of Natural Justice, she did not turn up on the day of hearing , and I find it inevitable to pass an Ex-Parte order against her.

5.0 ORDER

5.1 Now therefore, having considered the nature and charges established, the facts and circumstances of the case, the mitigating factors as explained above, and the submissions made by VOL and Shri JH Shah thereto, in exercise of powers conferred upon me under section 19 of the SEBI Act, 1992 read with Section 11B and 11 (4) of the SEBI Act, 1992 and Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 read with relevant provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, I hereby debar Vision Organics Private Limited, its promoters/Directors Shri J H Shah and Smt Nayana J Shah from accessing the securities market for a period of three years.

5.2 This order shall come into force with immediate effect.

DATE: 24/1/2006

PLACE: MUMBAI

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA