

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 BELLARY STEELS AND ALLOYS LTD.

WTM/GA/ 50 /SRO/ 2 /06

- 1.0 Securities and Exchange Board of India (hereinafter referred to as SEBI) received a complaint vide letter dated January 17th , 2006 from M/s Karnataka State Financial Corporation, Bangalore (hereinafter referred to as KSFC) against M/s Bellary Steels and Alloys Ltd., Bangalore (hereinafter referred to as BSAL). In its complaint, KSFC, inter alia, stated that they had subscribed to Rs. 150.00 lakhs redeemable non-convertible debentures of BSAL during May 1996 which were secured by the 21,50,000 shares of BSAL held by the following pledger entities/persons.

Sl. No.	Name of the pledger entities/persons	No. of shares pledged
i)	M/s S N Finance Ltd.,	15,00,000
ii)	M/s Kodiganti Investments Ltd.,	5,50,000
iii)	Mrs. K Meenakshi	1,00,000

- 1.1 The above stated 21,50,000 shares were pledged in favour of KSFC by way of an agreement entered into between KSFC and the above stated entities/persons namely M/s S N Finance Ltd., M/s Kodiganti Investments Ltd., and Mrs. K. Meenakshi. KSFC has further stated that BSAL has failed to redeem the non-convertible debentures (NCD) and pay interests and that KSFC is unable to recover the present dues of Rs. 5,64,38,971.00. It is stated by KSFC that they had approached M/s Karvy Computershare Private Ltd.,(Karvy) which is the share transfer agent for transfer of shares and dematerialization of the same in favour of KSFC . KARVY vide letter dated 13th December 2005 informed KSFC that the pledged shares have already been transferred during March and October 2005 in favour of M/s Panchaloha Hotel P Ltd., and the same were dematerialized during November 2005. KSFC has stated that the Karvy had transferred the shares when the original share certificates were in their possession and alleged that pledger entities/persons in connivance with BSAL

and Karvy have fraudulently transferred the shares with a malafide intention to cheat KSFC. .

- 1.2 Further to the above complaint of KSFC, SEBI sought certain clarifications from KARVY. In response, KARVY stated that they were not aware of the transaction including the alleged pledging of shares in favor of KSFC. As the transfer documents received by them were in order and the details printed on the share certificates matched with that of the details maintained as per Share Transfer Agents records, KARVY has transferred the shares in favor of M/s Panchaloha Hotel P Ltd., which were subsequently dematerialized.
 - 1.3 As the aforesaid reply given by KARVY raised doubts regarding the genuineness of the share certificates in question, SEBI advised KARVY to furnish certain additional information and the same were furnished by KARVY.
 - 1.4 Further to the above, SEBI also obtained additional information from Bangalore Stock Exchange, Bombay Stock Exchange (through website) and Registrar of Companies, Bangalore, about BSAL and the pledger entities.
 - 1.5 The facts of the matter are narrated in a chronological manner below:
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- 2.0 The Company M/s Bellary Steels & Alloys Ltd., (BSAL) is a listed Company having its registered Office at S-10/11, Anantapur Road, Bellary-583101, Karnataka. The shares of the Company are listed on Bombay Stock Exchange & Bangalore Stock Exchange. The Company is engaged in the business of Metals & Ferrous Steel industry.
 - 2.1 The Board of Directors of BSAL, as per its Annual Report dated 31/08/2005 for the year 2004-05 are as under (The addresses of the respective Directors as furnished by the Bangalore Stock Exchange).

Directors of M/s Bellary Steels & Alloys Ltd.,

Sl. No.	Name	Address
1.	Mr. S MADHAV	Shri Rameshwari, Parvati Nagar, Bellary – 583101.
2.	Mrs. S PARVATI	Shri Rameshwari, Parvati Nagar, Bellary – 583101.
3.	Mr. RAM NAIN PANDEY	Sundar Palace, Opp: MBSL High School, Gandhi Nagar, Bellary – 583101.

4	Mr. G J PRASAD (IFCI Nominee)	208, Nidhi Apartments, No. 40, Netaji Road, Fraser Town, Bangalore – 560005.
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2.2 The paid up capital of the Company as on 30/09/2005 consists of 7,31,45,200 shares of Rs. 10/- each. This includes 2 crores equity shares of Rs. 10/- each issued to the promoters of the Company on redemption of preference shares and 50 lakhs equity shares of Rs. 10/- each to M/s Karnataka State Industrial Investment and Development Corporation Ltd., on a preferential basis, which are yet to be listed by Bangalore Stock Exchange.

2.3 The shareholding pattern of the Company is as follows;

Category	No. of shares held	% of share holding
Promoters	26320290	35.98
Institutional investors	2801016	3.83
Indian Public	33664351	46.02
NRIs & Corporate Bodies	10359543	14.17
Total	7,31,45,200	100%

2.4 The shareholding in the physical form consists of 34.55% and in electronic mode it is 65.45% of the paid up capital of the Company.

2.5 The financial results of the Company for the period 01/07/05 to 30/09/05 and for the year 01/04/04 to 31/03/05 are as under.

Description	Un-audited 01/07/2005 to 30/09/2005 (Rs. In million)	Un-audited 01/04/2004 to 31/03/2005 (Rs. In million)
Net Sales	101.7	244.8
Total Income	101.8	245
Expenditure	-117.9	-210.5
Profit after tax	-229.9	-714.5
Net Profit	-229.9	-785.5
EPS	-3.14	-10.73

The Company had incurred a net loss of Rs. 785.5 million for the financial year 01/04/2004 to 31/03/2005 and Rs. 229.9 million for the quarter 01/07/2005 to 30/09/2005.

2.6 The company is registered with BIFR under Case No. 114/2004 dated February 2004.

- 2.7 The Company had split the shares to value of Rs. 1/- from the face value of Rs. 10/- as at the record date 02/12/2005. Post split, the Company's shares are being traded between 55 – 60 paise as on 25/01/2006 on BSE.
- 2.8 The details of trading in the scrip of BSAL on BSE during the period 01/07/2005 to 31/12/2005 are as under.

Period	Open (Rs.)	Low (Rs.)	Close (Rs.)	No. of shares	No. of trades	Net turn over (Rs.)
July 2005	6.57	6.45	8.68	39399329	39500	330,205,176.00
August 2005	8.75	8.10	9.44	14064235	19562	131,610,204.00
September 2005	9.55	7.18	7.18	9219322	13237	84,760,843.00
October 2005	6.85	5.00	5.90	2650115	3806	16,736,986.00
November 2005	6.19	5.46	5.72	1975950	2470	11,752,407.00
December 2005	5.90	0.52	0.63	12366346	3573	8,447,755.00

- 2.9 KSFC has subscribed Rs. 150.00 lakhs to redeemable non-convertible debentures of BSAL during May 1996. These redeemable NCDs were secured by 21,50,000 shares of BSAL held by M/s S N Finance Ltd., M/s Kodiganti Investments Ltd., and Mrs. K Meenakshi,, pledged by them with KSFC by way of an agreement for pledge of shares. The details of shares pledged are as under.

Sl. No.	Name of the shareholder/ Pledger	No. of shares pledged	Date of pledge with KSFC	Certificate Nos.	Distinctive Nos.,
1.	S N Finance Ltd.,	15,00,000	26/06/1996	96521 96519	014192201 – 014692200 012692201 – 013692200
2.	Kodiganti Investments Ltd.,	5,50,000	27/03/1997	96338	016642201 – 017192200
3.	K Meenakshi	1,00,000	27/03/1997	96340	017392201 – 017492200

- 2.10 The names and address of the Directors of M/s S N Finance Ltd., and M/s Kodiganti Investments Ltd., as provided by Bangalore Stock Exchange from the records of Registrar of Companies, Bangalore, are as under:

Directors of M/s S N Finance Ltd.,:

Sl. No.	Name	Address
1	Mr. G H PATIL	40, Mathru Krupa, Indira Colony, Keshavapur, Hubli
2	Mr. V R GUNDANNAVAR	3062, 11 th Main, 4 th Cross, HAL II Stage, Bangalore – 560 038.
3	Mr. P S MURALI	25, 14 th Main, Vyalikaval, Bangalore – 560 003.
4	Mr. S HARIKRISHNA	4000, Srilakshmi, 100 Ft., Road, HAL 2 nd Stage, Bangalore –560 008

Directors of M/s Kodiganti Investments Ltd.

Sl. No.	Name	Address
1	Mr. RANGANATHAN R	B-1, II Cross, Patel Nagar Extn. Bellary – 583 101.
2	Mr. K C KONDAIAH	No. 10(1), KHB Colony, S N Pet, Bellary – 583 101.

The address of Mrs. K Meenakshi is as under:

Mrs. K MEENAKSHI, W/o K C Kondaiah, No. 10(1), KHB Colony, S N Pet, Bellary – 583101.

- 2.11 It is seen from the above that the KSFC continues to hold the shares in physical form as on date.
- 2.12 As the Company failed to redeem the debentures & pay the interest, as per the terms of the agreement, KSFC had taken up the matter with KARVY for transfer of shares in favor of KSFC in order to recover their dues. KARVY confirmed vide its letter dated January 3, 2006 addressed to KSFC that it has transferred the shares that were pledged with KSFC in favor of M/s Panchaloha Hotel P Ltd.,
- 2.13 The details of shares transferred by KARVY are as under.

Sl. No	Name of the transferor	No. of shares	Name of the transferee	Certificate Nos.	Date of receipt for transfer	Date of transfer	Distinctive Nos.,
1.	S N Finance Ltd.,	15,00,000	Panchaloha Hotel P Ltd.,	96521 96519	24.10.05 24.03.05	26.10.05 24.03.05	014192201 to 014692200 012692201 to

2.	Kodiganti Investments Ltd.,	5,50,000	Panchaloha Hotel P Ltd.,	96338	24.10.05	26.10.05	013692200 016642201 to 017192200
3.	K Meenakshi	1,00,000	Panchaloha Hotel P Ltd.,	96340	24.10.05	26.10.05	017392201 to 017492200

2.14 Subsequently, M/s Panchaloha Hotel P Ltd., through its DP M/s Karvy Consultants Ltd., lodged the 21,50,00 shares for dematerialization and the same was effected by Karvy. The details are as under.

Sl. No.	Certificate No.	DRF No. & Date	DRF conformation date
1.	96519	163728 / 07.11.2005	09.11.2005
2.	96521	139609 / 24.03.2005	26.03.2005
3.	96338	163729 / 07.11.2005	09.11.2005
4.	96340	163729 / 07.11.2005	09.11.2005

2.15 The names and directors of M/s Panchaloha Hotel P Ltd., are as under.

Sl. No.	Name of the Director	Address
1	Mr. S Madhava	Sri Lakshmi, #4000, HAL 2 nd Stage, Indira Nagar, Bangalore.
2	Mrs. Parvathi S Madhava	W/o Mr. S Madhava, Sri Lakshmi, #4000, HAL 2 nd Stage, Indira Nagar, Bangalore.

3.0 From the above facts, SEBI has prima facie found as under:

3.1 M/s S N Finance Ltd., M/s Kodiganti Investments Ltd., and Mrs. K Meenakshi had pledged a total of 21,50,000 shares of BSAL issued in their name with KSFC as security for the 150.00 lakhs NCDs of BSAL to which KSFC subscribed. While the shares pledged with KSFC are in the custody of KSFC, M/s Panchaloha Hotel P Ltd., lodged with Karvy another set of physical certificates, pertaining to the same distinctive nos., as those pledged with KSFC, for transfer.

3.2 As the above share certificates were lodged for transfer with duly executed stamped transfer deed, KARVY has transferred the shares in the name of Panchaloha Hotel P Ltd., who subsequently got those shares dematerialized through its DP Karvy Consultants Ltd., in November 2005.

- 3.3 From the above it is clear that 2 sets of physical shares certificates with identical details existed at the same point of time, that is one set of certificate was pledged with KSFC and the other set was lodged for transfer in the name of M/s Panchaloha Hotel P Ltd.,
- 4.0 In view of existence of 2 sets of physical share certificates at the same time bearing the same distinctive numbers, it stands to reason that at least one of them is fake. It is observed that neither the share certificates lodged for transfer in favor of M/s Panchaloha Hotel P Ltd. nor the share certificates pledged with KSFC has any superscription to the effect that the certificates in question have been issued in lieu of the original certificates.
- 4.1 On scrutiny of the documents (transfer deeds) provided by KARVY, it is observed that the Authroised Signatory for M/s S N Finance Ltd., is Mr. Madhav, who is the Chairman & MD of BSAL and also a Director on the Board of Panchaloha Hotel P Ltd.,
- 4.2 Thus the Authroised Signatories for transferor and transferee are same in respect of the shares held in the name of M/s S N Finance Ltd., Hence, the connivance of Bellary Steels & Alloys Ltd., S N Finance Ltd., & Panchaloha Hotel P Ltd., in the issuance of fake share certificates and its subsequent transfer/ dematerlisation, with a malafide intention to cheat the KSFC, is prima facie, seen
- 4.3 The pledgers (transferors) viz., M/s S N Finance Ltd., M/s Kodiganti Investments Ltd., and Mrs. K Meenakshi had pledged one set of share certificates with KSFC. While the same are in custody with KSFC, the pledgers have used another set of certificates with identical numbers for transfer in the name of M/s Panchaloha Hotel P Ltd., (transferee).
- 4.4 The above act of M/s S N Finance Ltd., M/s Kodiganti Investments Ltd., and Mrs. K Meenakshi would tantamount to a fraud on the investors of securities market besides being a fraud on the KSFC. BSAL and its Directors prima facie appear to have actively assisted the above pledgers in the above fraud by simultaneously issuing shares bearing the same distinctive numbers without canceling the earlier issued shares.
- The transferee Company M/s Panchaloha Hotel P Ltd., is represented by S Madhav, who is the Managing Director of BSAL and also the Authroised

Signatory for the pledger entity/transferor company M/s. S N Finance Ltd., and therefore is fully aware of the pledge of shares with KSFC by the pledger entities, but still got another set of share certificates with identical details transferred in the name of M/s Panchaloha Hotel P Ltd., and dematerialized the same. It is clear that M/s Panchaloha Hotel P Ltd., is also involved in the act of fraud committed by BSAL and the pledgers as aforesaid.

4.5 *Prima facie*, the aforesaid facts, hold the Company M/s Bellary Steels & Alloys Ltd., its directors, the pledgers viz., M/s S N Finance Ltd., and its Directors, M/s Kodiganti Investments Ltd., and its Directors, Mrs. K Meenakshi and also the transferee M/s Panchaloha Hotel P Ltd., and its Directors in violation of Regulation 3 and Regulation 4(h) of SEBI (Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

4.6 With a view to ascertain the facts of the matter and determine whether the concerned entities have violated the provisions of the Securities Contracts (Regulation) Act, 1956 as well as the provisions of the Securities and Exchange Board of India Act, 1992 and the rules and regulations made there under, SEBI has initiated formal investigations into the matter.

5. Summary of the findings

5.0 In the light of the above, I find that, prima-facie, the conduct of the above entities is not in consonance with the high standards of integrity, fairness and professionalism expected from securities market participants. Such conduct by the said entities is detrimental to investor interests as well as the safety and integrity of the securities market.

5.1 Allowing BSAL, the pledgers/transferors viz. M/s S N Finance Ltd., M/s Kodiganti Investments Ltd., and Mrs. K Meenakshi and the transferee M/s Panchaloha Hotel P Ltd., and their respective directors to continue their dealings in the securities market without any restrictions would be prejudicial to the interests of the investors and the safety and integrity of the securities market.

5.2 Issuing fake shares is a major offence. Fake shares will lead to artificial increase in shares of a company available for trading thus seriously impairing the value of securities held by genuine investors. Also fake shares will lead to

artificial increase in trading volumes. Fake shares will also undermine the confidence of investors in securities market and seriously hinder the orderly development of securities market.

- 5.3 It is the responsibility of SEBI as market regulator to curb reprehensible practices such as issuing fake shares and trading in fake shares. Serious and deterrent penalties are called for to prevent recurrence of frauds such as issuing fake shares.

6 ORDER

- 6.1 As noted earlier, SEBI has initiated formal investigations into the matter. In the interim, in view of the grave emergency and to save the investors and the securities market from further fraudulent acts of the concerned entities, I, in exercise of the powers delegated to me by the SEBI Board in terms of Section 19 of the Securities and Exchange Board of India Act 1992 read with Section 11B and 11 (4) (b), pending investigations and passing final order, hereby issue the following directions, by way of ad interim, ex-parte order:

1. **Bellary Steels & Alloys Ltd., and its directors – BSAL** is directed not to issue any further shares or alter its share capital in any manner till further directions. The company and its directors, namely Mr. S MADHAV, MRS. S PARVATI, MR. RAM NAIN PANDEY AND MR. G J PRASAD are prohibited from accessing the capital market or dealing in securities, in any manner, directly or indirectly, till further orders in this regard by SEBI.
2. **M/s S N Finance Ltd., M/s Kodiganti Investments Ltd., and its directors and Mrs. K Meenakshi and M/s Panchaloha Hotel P Ltd., and its Directors** are prohibited from accessing capital market or dealing in securities, in any manner, directly or indirectly, till further orders in this regard by SEBI.
3. KSFC, Bangalore is directed to retain all the original documents pertaining to the transaction including the share certificates and the debenture certificates in its possession, in a sealed and secure place. KSFC is directed not to tamper with or part with any of the aforesaid documents until further specific directions in writing in this regard by SEBI.

- 4 KARVY is directed that it should keep in a safe and secure location all the documents pertaining to the transaction including the original defaced certificate received by it for dematerialization from M/s Panchaloha Hotel P Ltd., and all correspondence and documents received from the company regarding the allotment of shares to M/s S N Finance Ltd., M/s Kodiganti Investments Ltd., and Mrs. K Meenakshi. Karvy should not tamper with or part with any of the documents pertaining to the transaction until further specific directions in writing in this regard by SEBI.
- 5 NSDL/CDSL is directed not to effect any transfer of shares from/to the beneficial account of M/s Panchaloha Hotel P Ltd., until further orders.
- 6.2 The entities listed above 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 400021 on a date and at a time to be fixed on specific request, to be received in this behalf within above 15 days from the date of this order.

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

Place: Mumbai

Date: February 01, 2006