

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: V. K. CHOPRA, WHOLE TIME MEMBER**

**In the matter of Bharat Kumar Babulal Jain and Prakash Kumar Vachraj
Jain in the scrip of Mazda Fabrics & Processors Ltd.**

DATE OF HEARING: 31.10.2007

APPEARANCES:

FOR THE NOTICEES:

- 1. Shri Bharat Kumar Jain, promoter of Mazda Fabrics & Processors Ltd**

FOR SEBI:

- 1. Mrs Barnali Mukherjee, DGM.**
- 2. Shri Deepesh M.U, Manager.**
- 3. Shri Mohamed Rahaz P. M., Legal Officer.**

ORDER

Under Section 11B of the Securities and Exchange Board of India Act, 1992 and Regulation 11 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995

- 1. Mazda Fabrics & Processors Ltd. (hereinafter referred to as “MFPL”) was incorporated as a Private Limited Company on September 1, 1994 and was converted into a Public Company, by passing a resolution on July 7,1995. MFPL was engaged in the business of processing of man made fabrics. The company was**

promoted by Shri Bharat Kumar Jain and Shri Prakash Kumar Jain (hereinafter referred to as “Noticees”).

2. The company came out with a public issue in 1996. The pre-issue capital was 9,40,300 shares. The public issue was for 51,54,000 shares of Rs. 10 each. Out of this, 15,15,700 shares were reserved for firm allotment to the promoters, friends, relatives and associates. The offer through the prospectus was for 36,38,300 shares out of which 20,38,300 were reserved for Lead Manager, NRIs, mutual funds, Financial Institutions. The net offer to the public was 16,00,000 shares. Post issue paid up capital was 60,845,300 shares. The lead manager to the issue was Libord Finance and Registrar was PCS Industries.

3. The equity shares of the company, MFPL were listed on the Stock Exchange Mumbai (BSE) w.e.f. May 29, 1996. The price of the scrip of MFPL at the time of listing was quoting around Rs 15 to Rs 16, and touched a high of Rs 112.50 on August 30, 1996 from a low of Rs 8.50 on June 06, 1996. The total volume in the scrip at BSE during the relevant period was 41,43,500 shares. The circuit filters in this scrip were revised from 25% to 10% on July 02, 1996 and again revised from 10% to 5% on July 22, 1996. BSE had suspended trading in the scrip of MFPL for one day on August 14, 1996 and then for 3 days from September 02, 1996 to September 04, 1996. Later, the said suspension was made absolute from September 09, 1996. BSE conducted a preliminary investigation and forwarded the report to SEBI.

4. Since it was alleged that the Noticees arranged financiers and front entities to bail out the issue and manipulated the scrip, SEBI conducted investigation to look into the possible violation of the provisions of Regulation 4(a), 4(b), 4(c), 4(d) and 4(e) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 (hereinafter referred to as “PFUTP Regulations”) for creating artificial volumes and price manipulation and SEBI (Substantial acquisition of shares and Takeovers) Regulations 1997 (hereinafter referred to as Takeover Regulations).

5. The investigation revealed that the said public issue was undersubscribed and the Noticees allegedly got the public issue bailed out with the help of external financiers. These financiers were connected to / arranged by the co-lead manager to the issue, Clio Finance Ltd. In order to repay the financiers, the Noticees opened bank accounts in the name of front entities who were related to the Noticees like their nephews and workers and channelled the issue proceeds through the said bank accounts to the financiers. The introducers for opening these bank accounts were the financiers themselves under the stamp of the co-lead manager to the issue, Clio Finance Ltd. After the issue was closed, they opened trading accounts with various brokers in the name of these front entities who were also introduced to the brokers by the financiers themselves. These connected entities traded in the scrip in a circular manner and jacked up the share price from Rs 10/- to Rs 112/- with in a period of few months with an intention to offload the entire shares at inflated prices in the market.

6. Accordingly, Show Cause Notices dated June 02, 2004 were issued to the Noticees to show cause as to why suitable directions under Section 11B read with Section 11 of SEBI Act 1992, read with Regulation 44 of SEBI (Substantial acquisition of shares and Takeovers) Regulations 1997 and Regulation 11 of PFUTP Regulations, should not be passed against them. The Noticees however did not respond to the show cause notices.

7. Personal hearing was granted to the Noticees before me on October 31, 2007. Shri Bharat Kumar Jain, the Managing director of MFPL attended the hearing and requested seven days time to file his written submission, which was not filed till date.

8. The charge against the Noticees is that they have utilized the proceeds of the public issue of MFPL to manipulate the scrip by first bailing out the issue with the help of financiers and then offloading the shares in the market after jacking up the price to a high level and thereby creating artificial market and generating public interest in the scrip.

9. Since the issues in the matter started with the public issue of MFPL, I have examined the prospectus of the issue wherein it was stated that any unsubscribed portion out the reservations to Lead Manager, NRIs, mutual funds, Financial Institutions shall be added to the net public offer to the resident Indian public. The said reserved categories had not subscribed to the public issue and the reservations made for them (18,56,400 shares) had been added to the net public offer to the resident Indian public. Thus, the total public offer to the resident Indian public was for 34,56,400 shares. Out of this, it was shown that subscription was received for 30,92,100 shares (about 0.90 times). It is pertinent to mention here that in terms of Cl.6.3.8.1 of SEBI (Disclosure and Investments Protection) Guidelines, the minimum subscription requirement was 90% of the shares offered to the public, whereas in the present case, it was less than 90%.

10. Shri Prakash Kumar Vachraj Jain, Joint Managing Director of MFPL in his statement given under oath to SEBI on May 29 2002 had submitted that since the issue was not getting subscribed, they had requested Shri Suresh Bafna, Director of Clio Finance Ltd. to arrange for applications to bail out the issue. This was also confirmed by Shri Bharat Jain before the Investigating Officer so as to avoid refund of the collected money as the issue was not underwritten.

11. Shri Suresh Bafna had arranged for subscription from select investors/financiers. The details of the applications arranged by Clio Finance Ltd/Shri Suresh Bafna are given hereunder:

Sl No	Name of the applicant	No.of shares applied and allotted
1	Shri Shyam Sunder Biyani	3,00,000
2	Shri Krishnagopal Biyani	60,000
3	Shri Rajendra Biyani	1,60,000
4	Shri Ashok Biyani	50,000
5	Smt Mamta Biyani	50,000
6	Smt Premlata Biyani	1,00,000
7	Smt Sunita Harkut	1,00,000
8	Madhu Consultants (Shri Vijay Kishan Daulal)	2,00,000
9	Liquid Capital Services Pvt Ltd.	6,00,000

Sl No	Name of the applicant	No.of shares applied and allotted
10	Wallfort Shares & Stock Brokers Ltd.	5,40,000
Total		21,60,000

12. As per the details furnished by MFPL to SEBI, 31,93,100 shares had been allotted to public. As explained above subscription for 21,60,000 shares (67.65%) had been arranged by Shri Suresh Bafna/Clio Finance Ltd. in order to bail out the issue.

13. Investigation revealed that 65 applications were received together with stock invests for a total of 11,82,500 shares. Out of this, the first 8 persons shown in the table under paragraph no 9 above (Sl No 1 to 8) submitted applications for 10,20,000 shares (which was 86.26% of the total applications accompanied by stock invests). The shares so obtained were immediately sold by them to Clio Finance Ltd and Rajesh Financial Services.

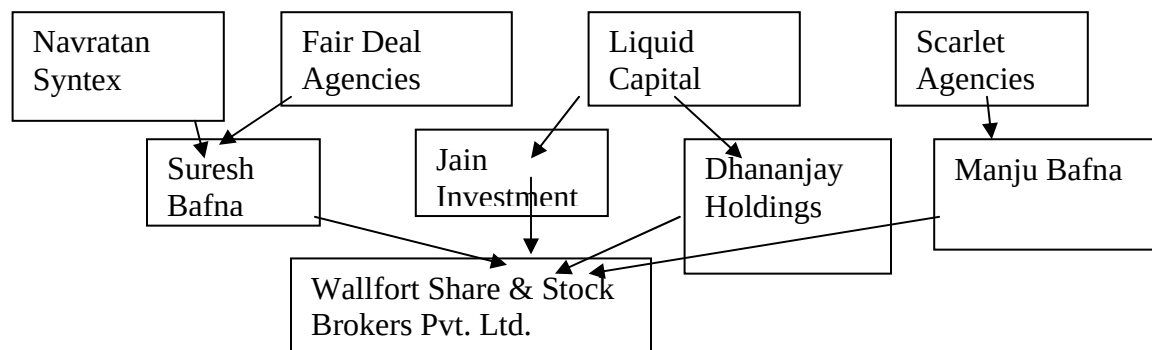
14. Applications for MFPL shares accompanied by cheques, were received for a total of 11,97,600 shares. Out of this two major applications were received from Wallfort Shares & Stock Brokers Pvt. Ltd (5,40,000 shares for Rs.27,00,000) and Liquid Capital Services P Ltd. (6,00,000 shares totaling Rs. 30,00,000). The total of both these entities comes around 11,40,000 shares which constituted 95.19% of the applications received by cheques and 32.98% of the total applications received in the public issue. The details of flow of funds among the various aforesaid entities and their relations are analyzed in the following paragraphs:

15. **Wallfort Shares & Stock Brokers Pvt. Ltd.** One of the directors of Wallfort Shares & Stock Brokers Pvt. Ltd. was Shri Suresh Bafna, who was also a director of Clio Finance Ltd., the Co-Lead Manager to the public issue. Wallfort paid Rs 27,00,000 by cheque no.794003 drawn on Federal Bank Ltd , Fort branch from their current account no. 3648 to obtain MFPL shares. The cheque was paid at the Bank on March 15, 1996. Analysis of bank statements from where the funds

have been transferred to the account of Wallfort Shares & Stock Brokers brought out the following:

- ❖ An amount of Rs.7,50,000 was transferred by cheque (no.638824) from A/c. No. CD 3047 with Federal Bank, Fort of Suresh B Bafna who was having account with the same bank (A./c. No.CD 3047). The bank statement of Suresh B Bafna's account revealed that prior to the transfer of Rs.7.5 lakhs to Wallfort Share & Stock Broker, he received Rs.5.0 lakhs from Navratan Syntex and Rs.4.5 lakhs from Fairdeal Agencies (Proprietary concerns of Shri Suresh Bafna).
- ❖ An amount of Rs.4,50,000 was transferred by cheque (No. 73225) from S/B A/c 70061 with Federal Bank, Fort of Ms Manju S Bafna whose bank account statement with the same bank (A./c. No. SB 70006) revealed that prior to the transfer of Rs.4.5 lakhs to Wallfort Share & Stock Brokers, they had received Rs.4.5 lakhs from Scarlet Agencies (Proprietary concern of Shri Suresh Bafna)
- ❖ An amount of Rs.7,50,000 was transferred by Cheque (no. 634212) from CD 10213 with Bank of India, Stock Exchange Branch of M/s Jain Investments who received the said amount from Liquid Capital Services P Ltd.
- ❖ An amount of Rs.7,50,000 was transferred by Cheque (no.672519) from CD 4192 with Bank of India, Stock Exchange Branch of Dhanjay Holdings (DH) who received the said amount from Liquid Capital Services P Ltd.

16. Diagrammatic representation of the fund flow into the account of Wallfort Share & Stock Brokers is given below:



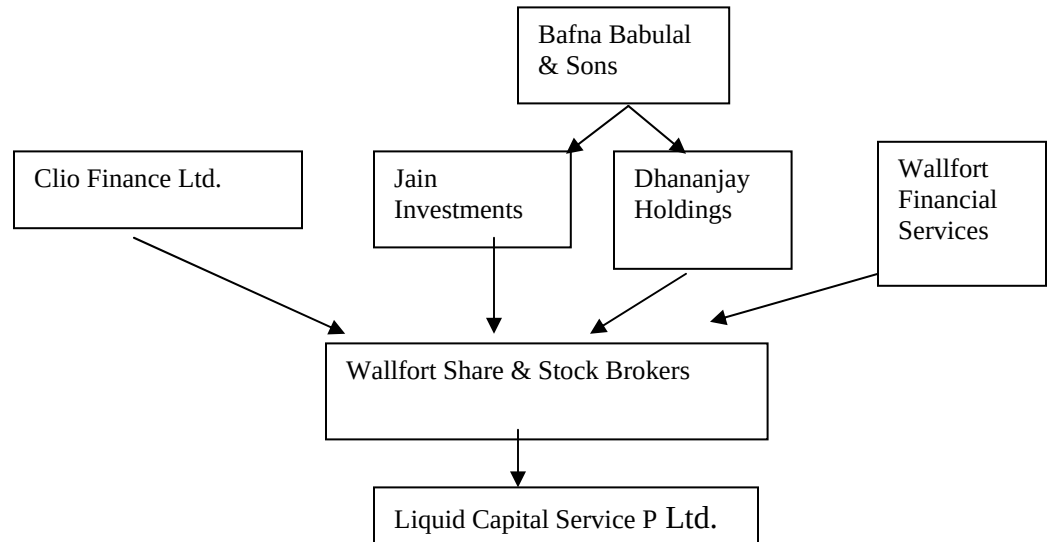
17. Liquid Capital Services P Ltd paid Rs 30,00,000 by cheque no.491817 drawn on Federal Bank Ltd , Fort from their current account 3596 for 6,00,000 shares of MFPL. The cheque was paid at the Bank on March 18, 1996. The bank statement of Liquid Capital Services P Ltd revealed that it had balance of Rs 1,44,080 in its account and an amount of Rs 29,00,000/- was transferred to its account by Wallfort shares & Stock Brokers (A/c No.3648 with the same bank). It is pertinent to note that Liquid Capital Services Pvt. Ltd. was occupying the premises of Shri Suresh Bafna at Berman Chambers and used to pay rent to Shri Suresh Bafna.

18. The source of Rs.29,00,000 given by Wallfort Shares & Stock Brokers to Liquid Capital Services P Ltd was examined and it was found that Wallfort Shares & Stock Brokers received the funds from the following accounts:

- ❖ Cheque No.68562 issued from A/c No. CD 3090 with Federal Bank, Fort Branch of Clio Infotech Ltd for Rs. 8,00,000.
- ❖ Funds transferred from A/c No. 3570 with Federal Bank, Fort Branch of Wallfort Financial Services to the extent of Rs. 6,00,000/-
- ❖ Cheque No.634213 issued from A/c.No.CD 10213 with Bank of India, Stock Exchange Branch of M/s Jain Investments for Rs.7,50,000. This cheque for Rs 7.50 lacs was issued by Jain Investments against receipt of funds from the account of Bafna Babulal & Sons (CD 3043 with Federal Bank Ltd., Fort Branch) vide cheque no 512277.
- ❖ Cheque No.672520 issued from A/c.No. Cd 4192 with BOI, Stock Exchange Br of Dhananjay Holdings for Rs.7,50,000. This cheque for Rs 7.50 lacs was issued by Dhananjay Holdings against receipt of funds from A/c No. CD 3043 of Bafna Babulal & Sons vide Ch.No.512278

19. From the above, it is observed that Wallfort Share & Stock Brokers received Rs 8 lakhs from Clio Finance Ltd whose bank account statements (A/c.No. CD 3090) with Federal bank Ltd was analysed and it was found that prior to transfer of Rs.8 lakhs to Wallfort Share & Stock Brokers, Clio Finance Ltd. had

received funds from three accounts maintained with Federal Bank Ltd. viz. Rs.1.0 lakh from Rajesh Financial Services (A/c.No.CD 3644), Rs.3 lakhs from Subhash Trading Company (A/c.No.3645) and Rs.3 lakhs from Sneha Investments (CD 3646). Diagrammatic representation of the above funds flow is given below:



20. The facts stated above establish that the Noticees with the help of financiers had arranged applications to bail out the public issue of MFPL. Shri Bharat Kumar Jain, Shri Prakash Kumar Jain and Shri Suresh Bafna informed the Investigation Officer that after listing of the shares, the application amount along with interest were paid back by MFPL to all the applicants viz. Shri Shyam Sunder Biyani, Sh.Krishnagopal Biyani, Sh.Rajendra Biyani, Sh.Ashok Biyani, Smt.Mamta Biyani, Smt.Premalata Harkut, M/s.Madhu Consultants, Liquid Capital Services and Wallfort Share & Stock Brokers.

21. In order to find out the details regarding how the amount was paid back to the financiers and utilization of the public issue proceeds, the bank accounts of MFPL maintained with Oriental Bank of Commerce, Fort Branch and Bank of India, Stock Exchange Branch were examined and the following was found / observed:

22. From bank account statement of MFPL (A/c.No.3150) maintained with Oriental Bank of Commerce Fort Branch, it was observed that nearly the entire

amount of Rs 1,68,50,000 collected in the public issue were given/returned to the entities namely Dilip Trading Co.Ltd. (Rs. 84,50,000), Himmat Textiles (Rs. 70,00,000), Clio Finance Ltd. (Rs. 4,00,000) and Bhagwandas Bogilal & Co.(Rs. 10,00,000). The details of these payments are given hereunder:

Sl No	Amount (Rs)	Cheque No & date	The entity received the amount
1	15,00,000	548915 - 17/5/96	Himmat Textiles Ltd.
2	15,00,000	548916 - 21/5/96	Himmat Textiles Ltd.
3	15,00,000	548917 - 22/5/96	Himmat Textiles Ltd
4	13,00,000	548919 - 23/5/96	Himmat Textiles Ltd
5	50,00,000	548920 - 27/5/96	Dilip Trading Co. Ltd.
6	30,00,000	548921 - 28/5/96	Dilip Trading Co. Ltd
7	10,00,000	548922 - 30/5/96	Bhagwandas Bhogilal & Co
8	10,00,000	548923 - 4/6/96	Himmat Textiles Ltd
9	2,00,000	548925 - 17/6/96	Himmat Textiles Ltd
10	1,00,000	614801 - 2/7/96	Dilip Trading Co.Ltd
11	4,00,000	614803 - 12/7/96	Clio Finance Ltd
12	3,50,000	614802 - 16/7/96	Dilip Trading Co. Ltd

Dilip Trading Co. Ltd

23. From the banks statement (A/c.No.3150) of MFPL maintained with Bank of India, Stock Exchange Branch, it was observed that an amount of Rs.84,50,000 (out of the proceeds collected in the public issue) was given to Dilip Trading Company during the period May 27, 1996 to July 16, 1996 in the following manner:

Sl No	Amount (Rs)	Cheque No & date	The entity received the amount
1	50,00,000	548920 - 27/5/96	Dilip Trading Company
2	30,00,000	548921 - 28/5/96	Dilip Trading Company
3	1,00,000	614801 - 2/7/96	Dilip Trading Company
4	3,50,000	614802 - 16/7/96	Dilip Trading Company

24. The address of Dilip Trading Company as per the bank statement (A/c.No.3702) maintained with Federal Bank Ltd., Fort Branch was 83-84/19, Tilak Nagar Road No.5, MG Road, Goregaon West, Mumbai-62. This account was opened on May 23, 1996 with a cash deposit of Rs.10,000/- in the name of one Shri Dilip Acharya. Shri Dilip Acharya submitted during the investigation that he was not aware of any company called Dilip Trading Company nor any such company was operating from this address. He further submitted that he used to interact with an employee of MFPL namely Shri Himmat in order to make fabric samples from

them. Shri Himmat had asked for his photograph which he had given. Later, Shri Himmat told him that an account has been opened in his name. Shri Dilip Acharya clarified that he was not aware of any of the fund movements in this bank account. He further submitted that he had not signed any cheque book on behalf of Dilip Trading and never visited Federal bank for opening this account.

25. It was further observed that from the bank statement of Dilip Trading Company that immediately on receipt of money from MFPL, the following payments have been made by Dilip Trading Company:

Sl No	Amount (Rs)	Cheque No & date	The entity received the amount
1	13,25,000	874421 – 28/5/96	Rajesh Financial Services
2	57,00,000	874424 – 30/5/96	Rajesh Financial Services
3	4,00,000	874422 – 30/5/96	Bhagwandas
4	5,00,000	874425 - 1/6/96	Sneha Investments
5	80,000	874426 - 5/6/96	Sneha Investments
6	1,00,000	874427 - 3/7/96	Rajesh Financial Services
7	2,75,000	874428 – 17/7/96	Sneha Investments
8	60,000	874429 – 17/7/96	Rajesh Financial Services

Himmat Textiles

26. From the banks statement (A/c.No.3150) of MFPL maintained with Bank of India, Stock Exchange Branch, it was observed that an amount of Rs.70,00,000 (out of the proceeds collected in the public issue) was given to Himmat Textiles during the period 17th May 1996 to 17th June 1996 in the following manner:

Sl No	Amount (Rs)	Cheque No & date	The entity received the amount
1	15,00,000	548915 - 17/5/96	Himmat Textiles Agency
2	15,00,000	548916 - 21/5/96	Himmat Textiles Agency
3	15,00,000	548917 - 22/5/96	Himmat Textiles Agency
4	13,00,000	548919 - 23/5/96	Himmat Textiles Agency
5	10,00,000	548923 - 4/6/96	Himmat Textiles Agency
6	2,00,000	548925 - 17/6/96	Himmat Textiles Agency

27. Himmat Textiles was a shell company of MFPL. Shri. Bharat Kumar Jain, in his statement under oath to SEBI submitted that he had opened the account of Himmat Textiles and made Shri Himmat Ram Sujaji Tak as its Proprietor (who was known to him). I observe that Shri Dilip Acharya had submitted that one of the employee of MFPL, Shri Himmat approached him and had opened a bank account in his name. I note that the Noticees themselves floated Dilip Trading Company and Himmat Textiles to enable them to open the bank account to route the funds for bailing out the public issue and manipulation of the scrip.

28. From bank statement (A/c.No.3696) of Himmat Textiles maintained with Federal Bank Ltd., Fort Branch, it was observed that the address of Himmat Textiles was C/4, Lalumal Sidhi Society, Sasmira Marg, Worli, Mumbai-25. This account was opened on May 16, 1996 with a cash deposit of Rs.10,000/-. From the account opening form submitted to the bank, it was seen that the Proprietor of Himmat Textiles was Shri Himmat Ram Sujaji Tak and the telephone number given was 4924559. This number belongs to Mazda Exports Ltd. which was confirmed by Shri. Prakash Jain in his statement to SEBI on May 29, 2002. This account of Himmat Textiles was introduced by Shri Anil Jain of Clio Finance Ltd. At the time of introduction, Shri Anil Jain/Clio Finance Ltd. Certified as under: "I hereby confirm the identity, occupation and address of the applicant(s)". From the bank statement of this account, it was observed that immediately on receipt of money from MFPL, the following payments have been made by Himmat Textiles:

Sl No	Amount (Rs)	Cheque No & date	The entity received the amount
1	15,00,000	874341 - 17/5/96	Sneha Investments
2	15,00,000	874343 - 21/5/96	Sneha Investments
3	15,00,000	874345 - 22/5/96	Sneha Investments
4	12,95,000	874347 - 23/5/96	Rajesh Financial Services
5	10,00,000	874349 - 4/6/96	Rajesh Financial Services
6	2,00,000	874350 - 18/6/96	Rajesh Financial Services

Clio Finance Ltd.

29. The Director of Clio Finance Ltd. (now called as Clio Infotech Ltd.) was Shri Suresh Bafna who in his statement under oath to SEBI on June 4, 2002,

submitted that he received Rs.4,00,000 from MFPL which was a part of the original arrangement with the promoters to repay back the financiers who had bailed out the public issue.

Rajesh Financial Services

30. Rajesh Financial Services received an amount of Rs.24,95,000 from Himmat Textiles and Rs.71,85,000 from Dilip Trading totalling to Rs. 96,80,000. Analysis of the bank statement of Rajesh Financial Services (A/c.No.3644 with Federal Bank Ltd., Fort Branch) revealed that this account was opened on March 4, 1996 with a cash deposit of Rs.1,000/-and the address given was A-2, Trishla Apartments, Devchand Nagar, Bhayander-West. From the account opening form, it was observed that the proprietor of Rajesh Financial Services was Shri Rajesh Kumar Parasmal Jain and no telephone number was given. The account was introduced by Shri Suresh Bafna, Director, Clio Finance Ltd. who certified that “I hereby confirm the identity, occupation and address of the applicant(s)”. During investigation Shri Suresh Bafna submitted before SEBI that he knew them through Shri Bharat Kumar Jain. Shri Rajeshkumar P Jain submitted that Shri Bharat Kumar Jain was his maternal uncle (mother’s brother) who opened an account in the name of Rajesh Financial Services and asked him (Shri Rajesh Kumar) to sign the account opening form and a cheque book and also took his photograph. Shri Rajesh Kumar submitted that he had signed the account opening form and cheque books at the office of MFPL and he never visited the bank. He also submitted that this account was maintained by Shri Bharat Jain and he had no idea about any inflow and outflow of money from this account and the money that had flown in and out of this account were not his funds. He went on to state that he was not aware of any primary/secondary market transactions done in the name of Rajesh Financial Services and only Shri Bharat Jain used to operate the said account.

31. It was observed from the bank statement of Rajesh Financial Services that Smt. Sunita Harkut, Shri Ashok Biyani and Shri Krishnagopal Biyani who had

applied in the public issue of MFPL through stock invests, received money from Rajesh Financial Services, the details of which are given hereunder:

Sl No	Amount (Rs)	Cheque No & date	The entity received the amount
1	12,95,000	873004 dated 23/5/96	Clio Finance Ltd.
2	5,35,550	873006 dated 28/5/96	Sunita Harkut
3	5,33,375	873007 dated 30/5/96	Wallfort
4	2,50,000	873005 dated 30/5/96	Ashok Biyani
5	30,00,000	873009 dated 30/5/96	Liquid Capital Services Pvt Ltd
6	27,00,000	873008 dated 30/5/96	Wallfort Sh & Stock Brokers
7	10,00,000	873010 dated 4/6/96	Clio Finance Ltd
8	2,00,000	873012 dated 19/6/96	Krishnagopal Biyani

Sneha Investments

32. Sneha Investments received an amount of Rs.8,55,000 from Dilip Trading Company and Rs.45,00,000 from Himmat Textiles Agency. Thus a total amount of Rs.53,55,000 was received by Sneha Investments from these two companies. Analysis of the bank statement of Sneha Investments (A/c.No.3646 with Federal Bank Ltd., Fort Branch) revealed that this account was opened on March 4, 1996 with a cash deposit of Rs.1,000/-and the address given was 107-B, Ratnashree Apartments, Devchand Nagar, Bhayander-West. From the account opening form, it was observed that the proprietor of Sneha Investments was Shri Hasmukh Parasmalji Porwal and no telephone number was given. The account was introduced by Shri Suresh Bafna, Director, Clio Finance Ltd. who certified that “I hereby confirm the identity, occupation and address of the applicant(s)”.

33. Shri Hasmukh Porwal submitted that Shri Bharat Kumar Jain was his maternal uncle (mother’s brother). Shri Bharat Jain had opened an account in the name of Sneha Investments with Federal Bank, Fort Branch and asked him (Shri Hasmukh) to sign the account opening form and a cheque book and also took his photograph. Shri Hasmukh submitted that he had signed these account opening form and cheque books at the office of MFPL and he never visited the bank. He also submitted that this account was maintained by Shri Bharat Jain and he has no idea about any inflow and outflow of money from this account. He further submitted that the money that has flown in and out of this account were not his

funds. He also submitted that he was not aware of any primary/secondary market transactions done in the name of Sneha Investments and only Shri Bharat Jain used to operate it. From the bank statement of Sneha Investments (A/c.No.3646 with Federal Bank, Fort Branch), it was observed that the following payments were made by them :

Sl No	Amount (Rs)	Cheque No & date	The entity received the amount
1	15,00,000	873042 dated 17/5/96	Clio finance Ltd
2	15,00,000	873044 dated 21/5/96	Clio finance Ltd
3	15,00,000	873045 dated 22/5/96	Clio Finance Ltd.
4	5,00,000	873046 dated 1/6/96	Clio Finacne Ltd.
5	80,000	873047 dated 5/6/96	Clio Finance Ltd
6	3,00,000	873049 dated 17/7/96	Bhagwandas Bhogilal & Co

34. I note that trading accounts were opened in the name of Rajesh Financial Services, Subhash Trading, Sneha Investments etc. with various brokers on the introduction of entities relating to Wallfort Group. After listing of the scrip, the trades conducted among these entities increased the price of the scrip from Rs 8.50 on June 6, 1996 to Rs 112.50 on August 30, 1996 in a bid to benefit the promoter related entities that had acquired most of the shares from the financiers.

35. From the aforesaid, it is clear that the issue of MFPL was not getting subscribed. Hence, the promoters of MFPL approached Shri Suresh Bafna and Shri Anil Jain of Clio Finance Ltd. (the co-lead manager to the issue) to arrange for applications to bail out the issue. Accordingly, Shri Suresh Bafna had arranged applications from Shri Shyam Sundar Biyani, Smt. Premlata Harkut, M/s. Madhu Consultants, Shri Rajendra Biyani and Smt. Mamta Biyani. Additionally, two major applications (by way of Cheques) were made by Liquid Capital Services Pvt Ltd. and Wallfort Share & Stock Brokers Ltd. The funds for these two entities to apply to the public issue were provided by Shri Suresh Bafna, his family members, Clio Finance Ltd. and related entities. Thus, Shri Suresh Bafna had arranged for subscription of 21,60,000 shares from the above mentioned financiers who were allotted the shares applied for. This allotment works out to 67.65% of the shares allotted (the total shares allotted to public was 31,93,100 shares). If these

applications had not been arranged, then the issue would have been subscribed only to the extent of 32.35% and the money so received towards the subscription would had to be refunded to the investors. Thus, as these applications were arranged only with a view to bail out the issue with a tacit understanding that the company will buy back these shares from those applicants immediately after the allotment, these cannot be considered as genuine subscription received.

36. In terms of Clause.6.3.8.1 of SEBI (Disclosure and Investments Protection) Guidelines, the minimum subscription requirement was 90% of the shares offered to the public and if the company does not receive the minimum subscription of 90% of the issued amount on the date of closure of the issue, the company shall forthwith refund the entire subscription amount received. Further, in terms of Section 69 of Companies Act, 1956, no allotment should be made of any share capital of a company offered to the public for subscription unless the amount stated in the prospectus as minimum subscription had been received. Hence, it is clear that the Noticees violated the Cl.6.3.8.1 of the SEBI (Disclosure and Investments Protection) Guidelines and provisions of Section 69 of Companies Act, 1956.

37. As per the original understanding between the Noticees and Clio Finance Ltd/Shri Suresh Bafna, MFPL was to buy back these shares from the financiers immediately on allotment and pay interest for the amount invested by the financiers. For this purpose, the Noticees opened firms in the name of Dilip Trading Company, Himmat Textiles, Sneha Investments and Rajesh Financial Services and used them as their front entities. They routed the money (collected in the public issue) through these accounts to pay back the financiers.

38. It was also observed that the Noticees had misutilised the public issue proceeds and did not use it for the purpose for which it was raised. As per the prospectus, the main objects of the issue were to part finance the project cost of setting up a man made fabric processing unit at MIDC, Taloja, with an installed capacity of 2,00,00,000 mtrs per year and to raise the margin required for the working capital requirements of the proposed expansion project. Instead of

utilizing the issue proceeds for the purpose stated above, the entire funds collected in the public issue were utilised to buy back the shares from the financiers who had bailed out the issue. As a result, no money was left with MFPL to be utilised for the purpose for which they had come out with the public issue. MFPL received an amount of Rs.1,54,68,000 in the public issue and spent an amount of Rs.1,68,50,000 (principal + interest) to buy back the shares from the financiers who had bailed out the public issue by routing the funds through the bank accounts of their front entities viz. Dilip Trading Co., Himmat Textiles, Rajesh Financial Services and Sneha Investments. Thus, the entire funds collected in the public issue were utilised for this purpose and not even a single rupee was available for the purpose for which the public issue was brought. Thus, the Noticees had made mis-statement in the prospectus, about utilisation of the public issue proceeds, which is in violation of Section 63 of Companies Act, 1956.

39. Immediately after the public issue, the total paid up capital of the company was 60,94,300 shares. Out of this, the promoters (including friends and relatives) were holding 24,56,300 shares constituting 40.29% of the post issue capital. Thereafter, the promoters acting in concert with the financiers who had bailed out the public issue viz Shri Anil Jain, Shri Suresh Bafna (in the name of Rajesh Financial Services and Sneha Investments, Liquid Capital and Wallfort Shares) acquired another 21,60,000 shares of the company (35.44% of the post issue capital) by utilising the proceeds collected in the public issue. This acquisition of shares was done in March / May / June 1996 without making a public offer as required under regulations 10 of SEBI (Substantial acquisition of shares and Takeovers) Regulations, 1995 read with 11(1) of SEBI (Substantial acquisition of shares and Takeovers) Regulations, 1997. It was also found out during investigations that the applications from the Jain family, Raipur for 1,10,000 shares was arranged by Sh. Anil Jain. Thus, the Noticees cornered 48,26,300 shares constituting about 80% of the post issue paid up capital. That means the floating stock was only to the extent of about 20%. Once the floating stock was cornered, it facilitated easy manipulation of the price of the scrip.

40. I have also noted that the Noticees had used the front entities such as Rajesh Financial Services, Sneha Investments, Sikha Investments and Chirag Investments to execute manipulative trades in MFPL shares listed at BSE w.e.f. May 29, 1996. The linkages of these front entities with the Noticees shown in earlier paragraphs are summarized hereunder:

- ❖ The proprietors of Rajesh Financial Services (Shri Rajeshkumar Parasmal Jain), Sneha Investments (Shri Hasmukh Parasmal Porwal) and Subhash Trading (Shri Subhash Parasmal Porwal) are brothers and Shri Bharat Kumar Jain is their maternal uncle.
- ❖ The Proprietor of Sikha Investments is Parasmal Babulal Jain who is the elder brother of Shri Bharat Kumar Jain.
- ❖ All the above persons submitted to SEBI, in their statements under oath, that they had signed bank account opening form and cheque books at the insistence of Shri Bharat Kumar Jain and they were not aware of any fund movements in the respective bank accounts nor about any secondary market transactions in the name of the respective companies. They had submitted that Shri Bharat Kumar Jain managed the affairs of these entities. The investigation team after visiting the residences of Shri Rajesh Kumar Jain, Shri Hasmukh Porwal, Shri Subhash Porwal and Shri Parasmal Babulal Jain noticed that these people did not have the financial status to deal with such huge amount of funds nor they had earnings out of which they could save and invest in stocks. It was also noticed that they do not have the expertise to deal in such huge quantity of shares and manipulate the prices.
- ❖ All these accounts were introduced by Shri Suresh Bafna to the bank. Shri Suresh Bafna submitted that these accounts were brought by Shri Bharat Kumar Jain who asked him (Shri Bafna) to introduce these accounts.
- ❖ Shri Dilip Acharya, Proprietor of another entity M/s.Dilip Trading Co. submitted that he was not aware of any account opened in his name as he had not signed any bank account opening form or cheque books. He

clarified that he was not aware of any funds received from MFPL nor about the utilisation of these funds. He stated that his signature had been forged.

- ❖ Rajesh Financial Services/Sneha Investments received money from Mazda Fabrics (through the account of Dilip Trading Company and Himmat Textiles Ltd.). Shri Bharat Kumar Jain purchased back the shares, from the financiers who had bailed out the issue, in the name of Rajesh Financial Services and Sneha Investments. The funds collected in the public issue were used for this purpose. In respect to the fund transferred to the account of Dilip Trading Co. and Himmat Textiles from the account of MFPL, Shri Bharat Kumar Jain submitted that this was done to repay the financiers who had bailed out the issue since Mazda Fabrics could not make the payment directly.
- ❖ The account of Chirag Investments was introduced by Shri Anil Jain, Director of Clio Finance Ltd. and the phone number given was that of Shri Prakash Jain.

41. The above stated entities executed circular trades in the scrip as per the instructions of the Noticees. Rajesh Financial Services traded in huge volume in the scrip of MFPL and whenever, Rajesh Financial was buying, the counter parties were Sneha Investments, Subhash Trading and Chirag Investments and vice versa. They had created huge volumes among themselves and these entities had a net buy position at the end of most of the settlements. By trading among themselves and generating huge volumes, they had created a false illusion of genuine liquidity in this scrip.

42. I note that the price of the scrip of MFPL at the time of listing was quoting around Rs 15 to Rs 16, and touched a high of Rs 112.50 on August 30, 1996 from a low of Rs 8.50 on June 06, 1996. The total volume in the scrip at BSE during the relevant period was 41,43,500 shares. The circuit filters in this scrip were revised from 25% to 10% on July 02, 1996 and again revised from 10% to 5% on July 22, 1996. BSE had suspended trading in the scrip of MFPL for one day on August 14, 1996 and then for 3 days from September 02, 1996 to September 04, 1996. Later,

the said suspension was made absolute from September 09, 1996. Due to the suspension of trading, the Noticees could not manipulate the price to higher levels than Rs 112.50/-

43. The reason for such a hike in price and volume of the scrip can reasonably be attributed to the circular trading of the front entities of the Noticees. These purchases/sales by these entities at the instances of the Noticees led to an artificial rise in the price from a level of Rs.8.50 on June 6 1996 to a level of Rs.112.50 on August 30 1996. Their trading also led to creation of artificial volume in this scrip which induced genuine unsuspecting investors also to trade in MFPL scrip. Thus, the Noticees first fraudently bailed out the public issue and then made attempts to artificially raise the price of this scrip to unrealistic levels in order to off load their holdings at those higher levels. Their conduct is detrimental to the integrity and orderly development of securities market and the interest of investors. It is thus established that the Noticees violated Regulation 4(a) to (e) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 which read as under

4. No person shall -

(a) 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;

(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 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;

(e) pay, offer or agree to pay or offer, directly or indirectly, to any person any money or money's worth for inducing another person to purchase or sell

any security with the sole object of inflating, depressing, or causing fluctuations in the market price of securities.

44. Therefore, taking into consideration facts and circumstances of the case and in exercise of the powers conferred upon me under Sections 19 of the SEBI Act read with Sections 11B of 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, 1995, I hereby restrain the Noticees viz Bharat Kumar Jain and Prakash Kumar Vachraj Jain from accessing the securities market and also prohibit them from buying, selling or otherwise dealing or associating with the securities market in any manner whatsoever for a period of two years.

45. This order shall come into force with immediate effect.

Place: Mumbai

Date: 5.2.2008

V. K. CHOPRA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA