

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: SHRI V.K. CHOPRA, WHOLE TIME MEMBER

IN THE MATTER OF SHRI DHAVAL JHAVERI, M/S BLUE INFORMATION TECHNOLOGY LTD., MRS. SEEMA D. JHAVERI, SHRI R.S. JHAVERI, SHRI V.K. GUPTA, SHRI K.C. GUPTA, SHRI MILAN TRIVEDI, SHRI DILIP KUMAR PURI, M/S BETA AGRO LTD., M/S OMEGA HOUSING LTD., M/S RANGER INVESTMENT & LEASING LTD., M/S KINGFISHER OVERSEAS PVT. LTD. AND M/S AADIT MEDICINES LTD.

IN THE SCRIP OF M/S BLUE INFORMATION TECHNOLOGY LTD.

DATE OF HEARING: 23.08.2007

Appearance:

For Noticees : Shri Urvish Vora

For SEBI : Mrs. Barnali Mukherjee, Deputy General Manager
Shri Naveen Sharma, Manager
Shri Mohamed Rahaz, Legal Officer

ORDER

**UNDER SECTIONS 11 AND 11B OF SECURITIES AND EXCHANGE BOARD
OF INDIA ACT, 1992**

1. On receiving information from the Delhi Stock Exchange Association Ltd. (hereinafter referred to as "DSE") regarding the discrepancy in the trading in the scrip of M/s Blue Information Technology Ltd. (hereinafter referred to as "BITL/company"), Securities and Exchange Board of India (hereinafter

referred to as “SEBI”) vide order dated February 11, 1999 ordered investigations into the dealings in the scrip of BITL.

2. The investigation conducted by SEBI revealed the following:

- a) That BITL, a public limited company incorporated on May 25, 1992, came out with a public issue of 30,00,000 equity shares at par in August 1996. Subsequent to the public issue the equity capital of BITL increased from 23,50,000 to 53,50,000 shares. The shares of the company were listed on the Ahmedabad Stock Exchange (hereinafter referred to as “ASE”) and DSE, ASE being the regional Stock Exchange.
- b) That BITL entered into a loan agreement with M/s Ashi Leasing & Finance Ltd. (hereinafter referred to as “ALFL”) (name since changed to M/s Sunstar Software Systems Limited) on December 23, 1996 whereby ALFL loaned Rs.5.5 crores to BITL at an interest of 18% per annum for a period of 9 months and the interest was stipulated to be paid in every three months. It was further stipulated in the loan agreement that in the event of default in payment of interest for any two consecutive quarters, the entire loan amount plus arrears in the interest shall be converted into equity shares of BITL.
- c) That as BITL could not pay the interest as stipulated in the loan agreement due to alleged non-receipt of call money of the public issue and bad performance of the company ALFL opted for conversion of the loan to equity. Accordingly, ALFL got 55,00,000 new equity shares allotted on September 23, 1997. BITL did not inform SEBI regarding the allotment of new equity shares which triggered the Takeover Code and infringed preferential allotment guidelines prescribed by SEBI.

- d) That BITL made some bogus declaration of dividend for the quarter ending June 30, 1997 which resulted in shooting up of the prices of BITL.
 - e) That BITL forged letters on the letterhead of ASE for the purpose of getting its shares listed on BSE.
 - f) BITL through entities close to the management off-loaded the shares into the market.
3. On the basis of above, the investigations concluded that BITL, its directors and the clients traded in the scrip during the relevant period led to the violation of the provisions of Regulations 3 and 6(a) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as “PFUTP Regulations”).
4. Based on the aforesaid findings of the investigation, a common show cause notice dated February 14, 2005 was issued to 15 entities namely 1) Shri. Dhaval Jhaveri, 2) M/s. Blue Information Technology, 3) Ms. Seema D. Jhaveri, 4) Shri R.S. Jhaveri, 5) Shri V.K. Gupta, 6) Shri K.C. Gupta, 7) Shri Milan Trivedi, 8) Shri Dilip Kumar Puri, 9) M/s. Beta Agro Ltd., 10) M/s. Omega Housing Ltd., 11) M/s. Ranger Investments and Leasing Ltd., 12) M/s. Kingfisher Overseas Ltd., 13) M/s. Aadit Medicine Ltd., 14) Shri Vipul R. Vora and 15) Shri Urvish R. Vora (hereinafter referred to as “noticees”) calling upon them to show cause as to why suitable directions including direction of restraining all of them from accessing the securities market and prohibiting them from buying, selling and dealing in securities for a specified period should not be issued under section 11 and 11B of SEBI Act, 1992 read with Regulation 11 and 13 of the SEBI (FUTP) Regulations, 2003.

5. Out of the 15 entities, only Shri Vipul R. Vora and Shri Urvish R. Vora replied to the show cause notice. They submitted their replies vide letter dated March 10, 2005, intimating that they have not entered into any transactions in the scrip with any intention whatsoever of artificially raising the price of the shares of the company or for creating false misleading appearance of trading. They, inter alia, requested for a personal hearing.
6. An opportunity of hearing was granted to all the 15 entities before me on August 23, 2007. On the same day, Shri Urvish R. Vora appeared for himself and for Shri Vipul R. Vora and made submissions. No body appeared for the other noticees.
7. I have carefully examined the investigation report, the show cause notice, the replies of Shri Vipul R. Vora and Shri Urvish R. Vora and other material available on record.
8. I note that Shri Vipul R. Vora and Shri Urvish R. Vora have filed consent applications in terms of SEBI Circular No- EFD/Cir-1/2007 dated April 20, 2007. In view of the same, I am not passing any direction against them at this stage. However, it would remain open to SEBI to pass appropriate direction/order against them in accordance with law as and when necessary/appropriate. With regard to the other noticees namely, Shri. Dhaval Jhaveri, M/s. Blue Information Technology, Ms. Seema D. Jhaveri, Shri R.S. Jhaveri, Shri V.K. Gupta, Shri K.C. Gupta, Shri Milan Trivedi, Shri Dilip Kumar Puri, M/s. Beta Agro Ltd., M/s. Omega Housing Ltd., M/s. Ranger Investments and Leasing Ltd., M/s. Kingfisher Overseas Ltd., M/s. Aadit Medicine Ltd., I note that they have neither replied to the SCNs nor appeared for personal hearing. Therefore, I am constrained to proceed ex-parte in the matter against them on the basis of available records.

9. At the outset, I find that the addresses of all other noticees except Shri Vipul R. Vora and Shri Urvish R. Vora, were not traceable and SEBI, after making repeated attempts to deliver the show cause notices and letters for personal hearing, finally got it affixed on the premises of last known addresses of the noticees as per law. I note that the notice for personal hearing was also posted on the SEBI website on July 31, 2007. I find that none of the noticees replied to the show cause notice nor any of them turned up for the personal hearing before me, except Shri Urvish R Vora, who appeared for himself as well as Shri Vipul R. Vora. Hence, I proceed ex-parte against the other noticees.
10. M/s Blue Information Technology Ltd. (hereinafter referred to as "BITL"), a public limited company incorporated in 1992, was in the field of computer software development. BITL was having a marketing agreement with M/s. Sun Micro Systems Ltd. and a tie up with National Industrial Development Corporation for marketing support for its product and development of software packages.
11. In August 1996 BITL came out with a public issue of 30,00,000 equity shares at par and the equity capital of the company increased from 23,50,000 shares to 53,50,000 equity shares. The shares of the company were listed on ASE and DSE with ASE being the regional stock exchange.
12. I find that at the time of public issue in 1996 Shri Radhe Mohan Sharma, Shri Ashok Thussu, Shri Viren Lall, Shri Neeraj Bhatnagar, Shri Vinay Jain and Shri Rajan Dhawan were the directors of the company. Interestingly, none of these persons were shown as promoters/directors of the company in its annual report for the year 1997-1998. As per the annual report, Shri Dhaval Jhaveri, Shri R.S. Jhaveri, Mrs. Seema D. Jhaveri, Shri V.K. Gupta, Shri K.C. Gupta and Shri Milan Trivedi were the directors of the company.

13. One of the charges levied against BITL and its directors was the alleged loan agreement BITL entered into with ALFL. This loan agreement, allegedly signed by Shri Ashok Thussu, the then Managing Director of BITL and Shri Dhaval Jhaveri the then Chairman of ALFL, was for an amount of Rs.5.5 crores at an interest of 18% per annum for a period of 9 months. One of the stipulation to the said loan agreement was that the interest has to be paid at the end of every 3 months from the date of disbursement of the loan and in the event of default in payment of interest for any two consecutive quarters, the entire principal amount of the loan along with the arrears of interest shall be converted into equity shares of BITL. BITL could not pay interest as stipulated due to non receipt of call money of the public issue and because of inadequate profit for accounting year 1996-97. Consequent upon the non payment of interest, ALFL exercised its option of converting the loan into equity and BITL allotted 55,00,000 new equity shares on 23.9.97. Thus, post conversion of loan into equity the total share capital of BITL rose to 1,08,50,000 equity shares.
14. Surprisingly, even though BITL could not repay the interest of the loan as stipulated, it declared 100% interim dividend on equity capital of Rs.5.35 crores for the first quarter ending June 30, 1997, a further 100% interim dividend for the second quarter ending September 1997 and a final dividend of 50% for the financial year ended March 31, 1998. I find it very interesting that BITL was not having liquidity worth Rs.24.75 lacs to pay interest on the loan taken from ALFL as stipulated in the loan agreement but at the same time it declared a dividend of Rs.5.35 crores for the quarter ending 30.6.97.
15. I further note that Shri Ashok Thussu, Shri Vinay Jain and Shri Rajan Dhavan who were directors of BITL since the public issue had stated in their sworn statement that they had not received any dividend for the year 1997-98. Shri Ashok Thussu denied the execution of any such loan agreement as aforesaid by him on behalf of BITL. In this regard, I find from the material on record that

Department of Company Affairs (now known as Ministry of Corporate Affairs) has informed SEBI that BITL has not declared any dividend for the period 1997-98. Furthermore, as per the records of the Registrar of Companies, Gujarat, BITL has not filed its Balance Sheet for the years 1996-97, 1997-98 and 1998-99. BITL failed to submit the bank details through which it distributed the dividend despite the repeated reminders from the investigating authority. From all this, it is very clear that the loan agreement and the conversion of the loan into equity were nothing but paper transactions to increase the capital of the company. The declaration of false dividend was a trick played by BITL for generating public interest and for misleading the market.

16. In his statement, Shri Ashok Thussu deposed that Shri Dhaval Jhaveri funded his equity participation in BITL. He further stated that Shri Dhaval Jhaveri was a real promoter of BITL and took over the management of the company after the resignation of Shri Thussu in September 1997. This statement of Shri Thussu makes it clear that both BITL and ALFL had been controlled by Shri Dhaval Jhaveri. Shri Dhaval Jhaveri neither replied to the show cause notice nor availed the personal hearing before me and therefore I draw adverse inference against him and treat the charge against him as established. As there is nothing on record to show the genuineness of the loan agreement and declaration of dividend on the part of the noticees, in the light of the findings of the investigation and the statement of Shri Ashok Thussu, I conclude that BITL and its directors fraudulently misled the investing public with regard to the performance of the company.

17. Another charge against BITL and its directors was the forgery committed by them with regard to the listing of additional shares of BITL on ASE, being the regional stock exchange. In September, 1997 BITL made an application to ASE for the further listing of 55,00,000 equity shares. ASE kept listing pending for want of further information. At the same time, the entire equity

amounting to Rs.10.85 crores was listed on BSE on January 2, 1998. The criteria followed by BSE for making additional shares eligible for listing is that the company should first get any additional equity listed on the regional stock exchange, in the instant case ASE. As a proof of listing of additional shares on ASE, BITL submitted a letter certified by Shri K.C. Gupta Director of BITL, on the letter head of ASE, to BSE informing the listing of additional equity of 55,00,000 equity shares on ASE. Another letter on the letter head of ASE addressed to the director BITL was also produced confirming the listing of the total equity worth Rs.1,08,50,000 (including additional equity) on ASE. This letter further stated that the shares of BITL are tradable in lots of 100 only. Shri K.C. Gupta director of BITL had once again authenticated this letter by certifying the letter as true copy.

18. Another charge against the noticees is with regard to the off-loading of the shares of BITL in the market. I find that there was no concerted effort by any person or cartel of person to rig the price up but the price of the scrip shot up mainly due to the apparently false results published in the newspapers and the bogus dividend announced by BITL. It was a period when the market was generally influenced by software companies. The entities namely M/s Kingfisher Overseas Pvt. Ltd. (hereinafter referred to as "Kingfisher"), M/s Ranger Investment and Leasing Ltd. (hereinafter referred to as "Ranger"), M/s Beta Agro Industries Ltd. (hereinafter referred to as "Beta Agro"), M/s Omega Housing Ltd. (hereinafter referred to as "Omega"), M/s Aadit Medicine Ltd. (hereinafter referred to "Aadit Medicine"), Shri Dilip Kumar Puri, Shri Urvish R Vora and Shri Vipul Vora sold the shares of BITL. But all these entities failed to respond to the summons / furnish information required by the Investigating team.
19. Shri Rajendra Banthia had received 3,00,000 equity shares of BITL from his client Omega towards the debit balance in its account. Shri Banthia then sold 2,85,000 (approx.) shares of BITL in the market. Summons were issued to

Omega but returned undelivered. Again summons was issued through Shri Banthia which was delivered. The client registration form of Omega submitted by Shri Banthia shows that Omega has a bank account with Ahmedabad Mercantile Co-operative Bank at Ahmedabad. When enquired, the bank replied that they do not have any bank account in the name of the said entity.

20. Kingfisher sold 75,800 shares of BITL through M/s Harvestdeal Securities Ltd. in April, 1998 and January 1999. Summons was issued to Kingfisher requiring information regarding its procurement of BITL shares. Kingfisher neither responded to the summons nor furnished the required information. Hence SEBI sought for the details from the broker. The broker submitted the client registration form from which it was found that Kingfisher had a bank account with Allahabad Bank, Kalbadevi Branch. In response to SEBI's enquiry with regard to the account of Kingfisher, the bank intimated that Kingfisher had a current account with it which was closed on 11.04.1996. It is worth noting here that the client registration form of Kingfisher with Harvestdeal Securities Ltd. is dated 13.4.1998.

21. Similarly, Ranger who was a client of M/s. Shrikant Mantri, broker, BSE dealt in the shares of BITL during December 1998 to January 1999 when it sold 29,300 shares. It had a debit balance of Rs.97,96,980/- with M/s. Shrikant Mantri. Ranger also did not respond to SEBI's summons. From the client registration form of Ranger with M/s. Shrikant Mantri it was seen Ranger was having a bank account with Allahabad Bank, Kalbadevi Branch. When enquired, the bank informed SEBI that Ranger had an account with its Kalbadevi Branch which was closed on 24.4.1996. From this it is very clear that Ranger has neither responded to SEBI's summons nor furnished authenticated/correct information in its client registration form.

22. Beta Agro was a client of M/s First Custodian Fund Ltd., broker NSE. When asked as to how it acquired the shares of BITL, First Custodian submitted that

its client Beta Agro kept the shares of BITL with it as a security deposit on 23.3.1998. It was further submitted that Beta Agro had a credit balance of Rs.95,53,002/- and requested First Custodian to adjust the shares in lieu of its dues to First Custodian. On examining the details submitted by First Custodian with regard to Beta Agro, I find that the debit balance in Beta Agro's account was due to speculative transactions i.e. by squaring up the transactions within the same settlement. There was neither delivery taken or given by Beta Agro nor any payment made or received. I further find that the address of Beta Agro i.e. 62, Luv Khush Towers, Drive-in-Road, Ahmedabad – 54 is the registered address of ALFL, a company allegedly under the same management of BITL. In the client registration form, Beta Agro disclosed that it had an account with Ahmedabad District Cooperative Bank, M.G. Road, Ahmedabad. When enquired about the account of Beta Agro, Ahmedabad District Cooperative Bank informed that the bank has no such accounts of Beta in any of its branches.

23. Aadit Medicine, a client of M/s. Shrikant G. Mantri, sold approximately 1,67,000 shares of BITL. When asked about the transaction M/s. Shrikant G. Mantri, submitted that it acquired 4,50,000 shares from Aadit Medicine as Aadit Medicine had a debit balance with it and was requested to adjust the shares of BITL for the balance in his debit account. Moreover on analyzing the contract notes, I find that all the transactions of Aadit Medicine were speculative in nature i.e. it has squared up the transactions within the same settlement without taking or giving delivery of shares. Further, the Mumbai address of Aadit Medicine i.e. Kalbadevi Chambers, Dadiseth Agiary Lane is also the address of Shri Dhaval Jhaveri.

24. I find that the shares given as deposit by these clients were not in their names as the shares of BITL could not have been purchased from market as prior to April 1998 the shares of BITL were hardly traded. Further, the shares given by these clients to the respective brokers as security deposit were

easily transferred to the brokers when there were numerous complaints from investors regarding non-transfer of shares by BITL. Thus in my view these shares must have come from the management of the company.

25. Shri Dilip Kumar Puri was a client of M/s. K. A. Gunderia, sub-broker of M/s. Gaglani Investment. M/s. K.A. Gunderia sold 10,700 shares of BITL. Shri Rakesh Gaglani of M/s. Gaglani Investment appeared before the Investigating Authority and deposed that all those transactions were on behalf of its client Shri Dilip Kumar Puri. However, it is interesting that the shares delivered did not belong to Shri Dilip Kumar Puri but were in the name of S.R. Patel (the maiden name of Seema D. Jhaveri the wife of Shri Dhaval Jhaveri) D.N. Shah & S.S. Tibrewala. Shri Gaglani further deposed that he accepted shares because of the assurance given by Shri Dhaval Jhaveri with regard to the genuineness of those shares. When Shri Gaglani was asked about Shri Dilip Kumar Puri, he deposed that Shri Puri was introduced by one Shri Bimal Parekh whom he knows for last few years and Shri Puri used to work in Shri Dhaval Jhaveri's office at Kalbadevi Chambers, Dadiseth Agiary Lane, Kalbadevi.

26. Shri Jatin Shah, proprietor of Gautam Fiscal Consultancy, a sub-broker of M/s. Hemchand J. Narayan in his sworn statement dated 2.9.99 stated that he had sold shares of BITL on behalf of Shri Vipul R. Vora, Shri Urvish R Vora and Shri Dilip Kumar Puri. He further stated that one Shri Ketan Shah whom he knows for over 7 – 8 years introduced him to Shri Urvish Vora. Shri Urvish Vora further introduced Shri Vipul R Vora and Shri Dilip Kumar Puri to him. SEBI had collected information from the account of Mrs. Seema D. Jhaveri at Jain Sahakari Bank which showed the receipt of funds from the accounts of Shri Urvish R. Vora and Shri Vipul R. Vora. Interestingly all the receipts in this account coincide with the payment made by Gautam Fiscal Consultancy to its clients. Thus it is clear that the money pertaining to the sale of shares has finally gone into the account of Mrs. Seema Jhaveri.

27. From the foregoing discussion it is very clear that there was a concerted effort by BITL and its directors, in collusion with some selected brokers and clients, to defraud investors by their bogus dividend declaration. The loan agreement between BITL and AIFL and subsequent conversion of loan to equity was nothing but mere paper transactions between these two connected entities. BITL wanted to increase the share capital of the company to over Rs.10 crores so as to make it eligible for listing on BSE. BITL also wanted to show an increase in turnover and profits for generating public interest in its scrip. As a step to show an increase in turnover and profits it made a bogus announcement of dividend. For the financial year 1997-98 the turnover of the company was 52.3 crores compared to its last year's figure of 27.8 lakhs i.e. an increase of 18715%. The profits increased from mere Rs.1.3 lakhs to Rs.25.7 crores i.e. an increase of 197630%. Then BITL offloaded the increased shares into the market through entities close to the management. Aadit Medicine, Beta Agro, Kingfisher, Ranger, Omega, Shri Dilip Kumar Puri, Shri Urvish Vora and Shri Vipul Vora were the entities who assisted BITL to off-load the shares in the market.

28. Thus, entering into the loan agreement, conversion of loan into equity, bogus dividend declaration, forging of documents, non compliance with SEBI summons and all other attendant facts lead me to the conclusion that BITL, its directors and the clients who traded in the scrip of BITL during the relevant period created a false impression to the general public with regard to the performance of the company. Such false declaration of dividend and profit of the company adversely influences the investors while making investment decisions. This was in violation of regulations 3 and 6(a) of PFUTP Regulations.

29. Therefore, in exercise of powers conferred upon me under section 19 of the SEBI Act, 1992 read with Section 11 and 11B and 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 prohibit 1) Shri. Dhaval Jhaveri, 2) M/s. Blue Information Technology, 3) Ms. Seema D. Jhaveri, 4) Shri R.S. Jhaveri, 5) Shri V.K. Gupta, 6) Shri K.C. Gupta, 7) Shri Milan Trivedi, 8) Shri Dilip Kumar Puri, 9) M/s. Beta Agro Ltd., 10) M/s. Omega Housing Ltd., 11) M/s. Ranger Investments and Leasing Ltd., 12) M/s. Kingfisher Overseas Ltd. and 13) M/s. Aadit Medicine Ltd. 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 2 years.

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

Date: 3.3.2008

Place: Mumbai

V.K. CHOPRA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA