

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: Dr. T C NAIR, WHOLE TIME MEMBER

ORDER

**UNDER SECTION 11B AGAINST SHRI S K CHADHA, MANAGING
DIRECTOR, M/s KMF LTD IN THE MATTER OF M/s ASHOKA
REFINERIES LTD.**

1. M/s Ashoka Refinery Ltd (hereinafter referred to as the “**ARL**”) had come out with a public issue in February 1995 with the stated objective of dealing in vegetable oils. The purpose of the public issue as stated in the prospectus was *inter alia* to finance the expansion of ARL’s activities and to provide margin money for working capital requirements.
2. The shares of ARL were listed on the Bombay Stock Exchange and Madhya Pradesh Stock Exchange.
3. SEBI had received complaints against ARL from several investors alleging:
 - a. ARL deliberately delayed the transfer of shares so as to reduce the floating stock of the company.
 - b. ARL’s refusal to transfer the said shares was done with an intention to place the complainants/investors in a short-seller

position thereby forcing recovery of shortage from them in auction.

- c. Price manipulation in the scrip of ARL.
4. SEBI accordingly initiated an investigation into the said allegations by the investors. Furthermore, information and documents etc were called from ARL and their directors and their statements were also recorded. The finding of investigations *inter alia* revealed prima facie price manipulation in the scrip of ARL, mal-practices in acceptance of applications in the public issue of ARL, mal-practices in allotment, delay in transfer of shares, etc. Accordingly, proceedings were initiated against ARL and its directors, M/s KMF Ltd etc.
5. It was observed that M/s KMF Ltd was under liquidation. It was noted that Shri S K Chadha was the managing director of M/s KMF Ltd at the time when M/s KMF Ltd was managing the pre-issue and post-issue in respect of the public issue by ARL. Therefore, SEBI issued Show Cause Notice (“SCN”) dated July 2, 2004 to Shri S K Chadha, managing director of M/s KMF Ltd. The SCN was sent to the Delhi address of the M/s KMF Ltd viz. C-112, New Moti Nagar, New Delhi - 110015 and also to the address of Shri S K Chadha at BU-222, Pitampura, Delhi - 110034.

Further, in view of the liquidation proceeding against M/s KMF Ltd, the said SCN was also forwarded on July 2, 2004 vide letter no. IVD/ID3/PKB/BKG/14304/04 to the Official Liquidator appointed in the liquidation proceedings of M/s KMF Ltd for delivery to Shri S

K Chadha, managing director of M/s KMF Ltd. The said letter to the Official Liquidator was acknowledged as received by the Official Liquidator, DHC, New Delhi dated July 2004.

6. The findings of investigation in brief, as contained in the SCN dated July 2, 2004 *inter alia* alleged that M/s KMF Ltd, while acting as both pre-issue and post-issue lead manager, had made allotment in the public issue of ARL against applications without complete addresses, without mentioning cheque nos., failed to reject incomplete applications, etc.
7. Shri S K Chadha had not made any written reply to the said SCN dated July 2, 2004.
8. On October 4, 2004 & October 28, 2004 respectively, SEBI issued hearing notices to Shri S K Chadha, managing director of M/s KMF Ltd whereby he was granted an opportunity of personal hearing on October 19, 2004 & December 9, 2004 respectively. However, these hearings were adjourned.
9. Subsequently, on May 25, 2007 SEBI issued hearing notice to Shri S K Chadha, managing director of M/s KMF Ltd whereby he was granted an opportunity of personal hearing on June 22, 2007. The said notice was also posted on the SEBI website in accordance with SEBI (Manner of Service of Notice and Summons Issued by the Board) (Amendment) Regulations, 2007.

10. Shri S K Chadha did not appear for personal hearing before the WTM, SEBI on the said date. Shri S K Chadha had also not made any written submission before WTM, SEBI.
11. In view of the above, the Order is now being passed based on the material available on record. Accordingly, I have considered the following in passing this order:
- (i) Findings of the Investigation Report in respect of noticee as contained in Show Cause Notice dated July 2, 2004;
 - (ii) Show Cause Notice dated July 2, 2004.
- 12.1 I find that ARL had come out with a public issue in February 1995. I also find that M/s KMF Ltd had acted as both pre-issue and post-issue lead manager in the said public issue.
- 12.2 From the list of applicants and allottees in the said public issue of ARL received from M/s R & D Consultants Ltd, who were the Registrar to Issue, I find that 63 applications for 184900 shares were accepted by State Bank of Indore, Raipur Branch on the strength of one single cheque amounting to Rs. 18.94 Lakhs. Details of these applications are as under:

Applicant	No. of Shares	Application Amount	Application No.
Sangeeeta Gupta	5000	50000	4292133
Viresh Kumar Gupta	5000	50000	4987799
M K Gupta	5000	50000	4602816
Sanjeev Agrawal	5000	50000	4602815

Ragwendra Shrivastava	5000	50000	4987800
Abdul Khaligue Khan	5000	50000	4602842
Sangeeta Nathani	1000	10000	4987930
Girdhari Lal Patel	1500	15000	4602293
Rajesh Kaushik	500	5000	4602274
Mohan Prasad Pandey	1500	15000	4602294
Sangeeta Agrawal	1900	19000	4695095
Sarika Agrawal	1200	12000	4695094
Sunil Kumar Agrawal	500	5000	4987975
Attar Chand Jain	1000	10000	4695077
Balkrishna Agrawal	500	5000	4422387
Mukesh Agrawal	1000	10000	4422781
Narayan Prasad Tekrin	1000	10000	4701251
Ajay Puranik	1000	10000	4422347
Arvind Pande	1000	10000	4422397
Anand Prakash Garg	1000	10000	4695033
Kailash Agrawal	1000	10000	4701252
Pramod Kumar Chopra	2000	20000	4701249
Raj Kumar Rajpal	500	5000	4602524
Hariram Pritwani	500	5000	4602501
Arun Tamrakar	500	5000	4292112
D K Pandey	500	5000	4984041
Alok Naidu	1900	19000	4572044
Deepak Kalra	500	5000	4422371
Prem Lata Baid	1000	10000	4984493
Ummed Kumar Baid	2000	20000	4984495
Vijay Kumar Karve	1000	10000	4572049
Pramod Bhatt	500	5000	4186534
Seema Chhabra	2500	25000	4571602
Ajay Chhabra	2000	20000	4571601
Yashwant Agrawal	1900	19000	4695093
Ramesh Jain	9000	90000	4571603
Meena Jain	500	5000	4422379
Brijendra Kumar Gupta	2000	20000	4695099
Vineet Agrawal	2500	25000	4422809
Sharad Mahule	500	5000	4422378
Mr. Paritosh Chowbey	2000	20000	4602276
Ajay Saxena	2000	20000	4186530

Mrs. Sushma Bhatt	500	5000	4984548
Sanjiv Bhardwaj	2500	25000	4422350
Sushil Bhardwaj	2500	25000	4422349
S K Bhardwaj	2500	25000	4422348
Meena Bhardwaj	2500	25000	4422358
Ranju Bhardwaj	2500	25000	4422356
Ranu Bhardwaj	2500	25000	4422355
Happy Bhardwaj	2500	25000	4422354
Sandhya Bhardwaj	2500	25000	4422353
Swapna Bhardwaj	2500	25000	4422351
Sandipka Rani	2500	25000	4422352
Savitri Agrawal	9000	90000	4602282
Mamta Agrawal	9000	90000	4602281
Bhagwat Agrawal	9000	90000	4602280
Mahendra Agrawal	9000	90000	4602279
Pramod Joshi	10000	100000	4695096
Santosh Kumar Tiwari	5000	50000	4292131
Vijay Kumar Agrawal	5000	50000	4292139
Manak Lal Joshi	2500	25000	4292140
Smt. Asha Tiwari	5000	50000	4292135
Balkrishna Bora	5000	50000	4290604
Ram Kali Bai Agrawal	10000	100000	4393008
Sunita Devi Agrawal	10000	100000	4393006
Jyotsana Agrawal	5000	50000	4393003
Anamd Kr Agrawal	5000	50000	4393005
Ramesh Kr. Agrawal	5000	50000	4393004
Godavari Bai Agrawal	10000	100000	4393010
Jamuna Lal Agrawal	1500	15000	4292122
Prem Singh	10000	100000	4571610
P. Ramesh Rao	10000	100000	44571608

12.3 I find that all these applications were accompanied by only one cheque numbered 948056. Findings of investigations as contained in the SCN revealed that this cheque was issued from the cheque book which itself was issued by the State Bank of Indore to one of its clients M/s. Sunil Traders on March 22, 1995. The public issue

closed for subscription on February 23, 1995. This clearly proves that the shares had been applied for much after the closure of the issue, as the cheque book itself was issued much after the public issue was closed. The shares that were allotted to these entities were wrongfully done at the cost of allotment to the genuine share applicants.

12.4 I also find from the findings of investigations as contained in the SCN that in most of the application forms, the acknowledgement slip was still intact and there were no Banker's Stamp on these applications. Details of some of these forms are given below:

Applicant	No. of shares	Application No.	Stock Invest Serial No.
Mamta Agarwal	9000	70287	4602281
Bhagwant Agarwal	9000	70288	4602280
Pramod Joshi	10000	70290	4695096
Santosh Kumar Tiwari	5000	70291	4292131
Vijay Kumar Agarwal	5000	70292	4292139
Manak Lal Joshi	2500	70293	4292140
Asha Tiwari	5000	70294	4292135
Balkishan Bora	5000	70295	429060
Ramkali Bai Agrawal	10000	70296	4393008
Sunita Devi Agrawal	10000	70297	4393006
Jyotshna Agrawal	5000	70298	4393003
Anand Kumar Agrawal	5000	70299	4393005
Ramesh Kumar Agrawal	5000	70300	4393004
Gyarsi Lal Agrawal	5000	70301	4393002
Godavari Bai Agrawal	10000	70302	4393010
Jamunalal Singhania	1500	70303	4292122
Prem Singh	10000	70304	4571610
Jayanti Mishra	12000	70212	4290626
Ganesh Ram Gajnd	12000	70214	4290628

Amitesh Shukla	12000	70215	4290614
Ajay Kumar Chatre	12000	70216	4290613
Ashvini Kumar Thakur	12000	70217	4290612
Gopi Ram Sharma	12000	70218	4290611
Topeshwar Prasad Soni	12000	70219	4290610
Shekh Gaffar	12000	70220	4290609
Gyas Singh	12000	70221	4290608
Amar Math Sahu	12000	70222	4290607
Aslam Khan	12000	70223	4290606
Dev Narayan Patel	13500	70224	4290605
Lata Talmale	5000	70229	4602839
Raman Talmale	5000	70230	4292132
Kamaljeet Singh Juneja	5000	70231	4290603
Sangeeta Gupta	5000	70232	4292133
V K Gupta	5000	70233	4987799
M K Gupta	5000	70234	4602816
Sanjeev Agarwal	5000	70235	4602815
Sangeeta Nathani	1000	70238	4987930

12.5 I find from the findings of investigations as contained in the SCN that in most of the application forms, only 'Raipur' was mentioned as the address of the applicants. Therefore, the above clearly suggests that these applications were not routed through normal banking channels and the applications appeared to have been either deposited directly with the promoters and/or the Registrar to the issue.

12.6 From the above findings of investigations as contained in the SCN, I find that many applications with their acknowledgement slips intact were noticed. No allotment should have been made against these applications as it was duty bound on the part of M/s KMF Ltd to have rejected these applications at the time of allotment, instead it

appeared that M/s KMF Ltd colluded with the Registrar to issue in processing these applications for allotment. I further find that Shri N B Shah, Director of R&D Consultants Ltd, had in his statement to SEBI on March 12, 2001 as referred to in the SCN, admitted that a mistake was made and that these applications should have been rejected and that applications with incomplete addresses, no mention of cheque nos. etc, have been considered for allotment. I find that the post issue lead manager is duty bound to reject applications with such inconsistencies.

13. In view of the above findings, I in exercise of powers conferred upon me under Section 11B of the SEBI Act, 1992 hereby direct as follows:

- a. Shri S K Chadha, Managing Director of M/s KMF Ltd, shall not operate in the capital market as an intermediary or as a whole-time director or partner in an intermediary for a period of six months from the date of passing of this order.
- b. The above order is without prejudice to any other proposed actions which the Board may consider initiating as may be deemed appropriate including initiation of prosecution proceedings under Section 24 of the SEBI Act.

PLACE: MUMBAI

T C NAIR

DATE: 12.01.2009

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA