

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

DIRECTIONS UNDER SECTION 11 B OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT 1992 READ WITH REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003 IN THE MATTER OF COMPUQUICK DATAMATION (INDIA) LIMITED AND ITS DIRECTORS VIZ. MR. NALIN P. PATEL AND MR. PARAGI PATEL.

1. Securities and Exchange Board of India (hereinafter referred to as SEBI) had received various complaints alleging several malpractices, in the public issue of Dhanlaxmi Lease Finance Limited (hereinafter referred to as the company) made in the year 1995, such as making of multiple fictitious and benami applications, acceptance of applications after the closure of the issue, price rigging in the shares of the company etc. In view of the above, SEBI conducted an investigation to find out the possibility of the violation of the provisions of Securities and Exchange Board of India Act, 1992, Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992, Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 and Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. The investigation conducted by SEBI observed that the public issue (for 31,00,000 shares at Rs.10/- per share) of the company opened for subscription on November 21, 1995 and closed on November 24, 1995.

Compuquick Datamation (India) Limited (hereinafter referred to as Compuquick) acted as the Registrar to the Issue to the aforesaid public issue of the company.

2. The investigation conducted by SEBI *inter alia* observed that 3,300 cheques, drawn on United Bank of India by the entity namely M/s Laxmi Movers were deposited along with 3,300 multiple applications in various names and addresses, in the public issue of the company. It was revealed that the above mentioned 3,300 cheques (blank cheques) were issued by United Bank of India to M/s Laxmi Movers (the account holder) only on December 02, 1995 i.e after the closure of the issue. It was alleged that, by accepting the above mentioned 3,300 multiple/fictitious benami applications, Compuquick violated Regulation 13 read with clause 1, 2 and 6(b) of the Code of Conduct prescribed under Schedule III of the Securities and Exchange Board of India (Registrar to an Issue and Share Transfer Agents) Regulations, 1993 (hereinafter referred to as the RTI Regulations) and the provisions of the PFUTP Regulations.

3. Thereafter, a show cause notice dated December 11, 2002 was issued to Compuquick. Besides, show cause notices dated October 15, 2003 were issued to Mr. Nalin P. Patel and Mr. Paragi Patel (Directors of Compuquick). The aforesaid show cause notices alleged that Compuquick and its aforesaid directors violated the provisions of RTI Regulations and PFUTP Regulations. Subsequently, combined show cause notices dated August 03, 2005 were issued to Compuquick and its aforesaid directors. The said show cause notices alleged that Compuquick and its directors had contravened Regulation 13 read with Clause 1, 2 and 6(b) of the Code of Conduct prescribed under Schedule III of the RTI Regulations and Regulation 6(a) of the PFUTP Regulations. Compuquick, its directors namely, Mr. Nalin P Patel and Mr. Paragi Patel are hereinafter collectively referred to as noticees and individually by their

respective names, for the sake of reference. The show cause notices advised the noticees to file their reply within fifteen days. Though, the show cause notices were sent to the last known address of the noticees, the same were returned undelivered. Thereafter, the said show cause notices (dated August 03, 2005) were also posted on the website of SEBI on October 08, 2008. An opportunity of personal hearing was then granted to the noticees on July 17, 2009 and the notices for the said hearing were also posted on the website of SEBI on June 29, 2009. The said notices were also sent through courier on July 06, 2009. However, no response was received from the noticees in respect of the hearing and none of them appeared on the said date. Considering the totality of the facts and circumstances of the case, I do not consider it necessary to keep the present proceedings pending and therefore the same is being considered on the basis of the material available on record.

4. I have considered the show cause notices and the other material available on record. It has been alleged that 3,300 cheques of M/s. Laxmi Movers, drawn on United Bank of India were deposited along with 3,300 applications in the public issue of the company in various names and addresses. The details of those cheques are as follows:

Cheque No.	No. of cheques
919500 & 919502 to 920000	500
100401 to 100600	200
100701 to 101000	300
294201 to 294500	300
257701 to 258700	1000
232001 to 233000	1000
Total	3300

5. A perusal of the bank account of M/s. Laxmi Movers maintained with the United Bank of India indicates that a sum of Rs.1,60,00,000/- was debited on

December 08, 1995, against 1,600 instruments/applications and Rs.1,70,00,000/- was debited against 1,700 instruments/applications on December 09, 1995. Therefore, in all, a total of Rs.3,30,00,000/- was debited against 3,300 cheques (submitted towards 3,300 applications). It is pertinent to note that the said 3,300 applications (made in the public issue of the company) were not made in the name of M/s. Laxmi Movers but in various names and addresses. Thus, it is clear that multiple applications were made in benami names. Another important factor is that the United Bank of India (where M/s. Laxmi Movers maintained the aforesaid bank account) informed that, 3,300 blank cheque leafs were issued to M/s. Laxmi Movers only on December 02, 1995. Hence, the cheques could have been issued and accepted only on or after December 02, 1995. However, the public issue of the company closed on November 24, 1995. However, it was noted that the cheques which were issued to M/s Laxmi Movers by United Bank of India on December 02, 1995 were accepted in respect of the public issue of the company, by the Bankers to the Issue (Punjab National Bank). In this regard, I note that SEBI vide order dated October 18,2002 had debarred the Relief Road, Ahmedabad branch of Punjab National Bank, from carrying out the activities as a Banker to an Issue for a period of six months, as the said bank had accepted share applications after the closure of the issue on November 24, 1995. Compuquick, as a Registrar to the public issue of the company could have rejected the applications received after the last date of the closure of the issue. I note that the investigation conducted by SEBI observed from the copy of the letter dated December 11, 1995 sent by Compuquick to the company, that it had informed the company about the multiple/fictitious applications received in its public issue. From the copy of the said letter, it was also observed that, while pointing out the deficiencies in the said application forms, such as cheques drawn from the same account of a bank and branch etc., Compquick had advised the company to depute some responsible officer to check, verify all such applications and submit a list of

applications which are multiple, incomplete and defective as per SEBI guidelines and the terms and conditions of the prospectus. Thus, Compuquick was aware that it had received multiple, incomplete and defective applications in the public issue of the company. It did not take any effort to reject the said applications. On the otherhand, it had sent a letter to the company as stated above. The investigation conducted by SEBI further observed a copy of the letter dated December 12, 1995 sent by the company to Compuquick which *inter alia* mentioned that the company had deputed its Managing Director to carry out necessary checking and verification of share applications received by it, bank statements etc. and all material prepared and produced by Compuquick. It further mentioned that the managing director, after necessary checking had prepared a report and the same was placed before the Board of Directors for approval. As per the said letter, the Board of Directors in its meeting held on December 12, 1995 approved the managing director's report and passed a resolution approving the complete list of share application and allotment register, list of multiple application which are liable to be rejected as per SEBI Guidelines and approved a final list of share application and allotment register on the basis of which Compuquick had prepared a scheme for basis of allotment for approval of the stock exchanges. The said letter had also enclosed a complete list of share application and allotment register, list of multiple applications, incomplete applications etc. for the necessary action of Compuquick. The said letter of the company requested Compuquick to make the final list of share application and the allotment register for the basis of allotment for approval of stock exchange. I further note that SEBI, vide order dated March 04, 2008 restrained the company and its directors namely Mr. Rajendra Sharma, Mr. Dinesh R Dubey, Mr. V L Patel and Mr. Avinash Gupta from accessing the securities market and also prohibited them from buying, selling or otherwise dealing or associating with the securities market in any

manner whatsoever for a period of two months. In the said order it was observed as follows:

“10.2 During the course of the investigation, it was also noted that M/s Compuquick Datamation (India) Ltd., the registrar to the said issue, (for brevity's sake referred to as the Registrar) vide their letter dated December 11, 1995, informed the company about the making of multiple/fictitious applications. Further while pointing out the deficiencies in the said application forms, such as cheques drawn from the same account of one bank and branch etc, the Registrar also allegedly advised the company to depute some responsible officer to check/verify all such applications and submit a list of applications which are multiple, incomplete, defective as per SEBI guidelines and the terms and conditions of the prospectus. It appears that in reply to the same, vide letter dated December 12, 1995, the company stated that the Managing Director, Shri Avinash Gupta had been deputed to carry out necessary checking and verification of the Bank Statements, Final Certificates, Share Applications and Allotment Register, as well as all the share applications received and other material prepared and produced by the registrar. Furthermore, the company informed that the Managing Director of the company had thoroughly carried out the necessary inspection, checking and verification of all the records, share applications and allotment register and thereupon sent a list containing the names of applicants to be rejected. It is noted that the list contained the names of only 5 applicants. To this allegation Dhanlaxmi stated that the letter from the Registrar M/s Compuquick Datamation (India) Ltd. dated December 11, 1995 shown to Shri Khatri alleging that the large number of fictitious applications being made in the public issue and asking Dhanlaxmi to examine those applications and submit the list of rejections of the said applications was never received by Dhanlaxmi nor was the letter dated December 12, 1995 purportedly written in reply to the said letter ever written by Dhanlaxmi. Considering the above, I am of the view that the contention of Dhanlaxmi cannot be accepted. The letters dated December 11, 1995 and December 12, 1995 were issued under the letter heads of the respective organisations. The same were also

*shown to Shri Arun Khatri and I find that he has also signed on the same on the date of his deposition before the investigating authority, being June 7, 1996. From the statements made by Shri Khatri and the correspondence entered into with the Registrar, it appears that there were multiple/benami/incomplete applications and yet the company sent a list rejecting only 5 applications. **Thus, by failing to reject other multiple/benami/incomplete applications, which could have been easily identified, the Registrar was allowed to accept 3460 multiple/benami applications.***" [Emphasis Supplied]

6. Compuquick as a Registrar to the said public issue of the company, instead of complying with its duties and functions in accordance with the provisions of Rules and Regulations, facilitated in accepting multiple/benami/incomplete applications. The said activities of Compuquick were detrimental to the securities market and the interest of the investors and not expected of an intermediary registered with SEBI and who has immense responsibilities cast on it while dealing with the public issue of the companies. Considering the involvement of Compuquick in the entire episode, which has been explained in the preceding paragraphs of this order, I am of the considered view that Compuquick had not only flouted the relevant rules and regulations as applicable to a Registrar to the Issue (during the time of irregularities) but also played an active role in facilitating the process of defrauding the genuine investors. The violations committed by Compuquick are not insignificant to be ignored but merits severe punishment. As far as the role of Compuquick is concerned, in view of the charges and supporting material as referred to in the show cause notice, it is established that ;

- a. it had entertained multiple/late applications (after the closure of issue)
- b. it had facilitated the irregular allotment against the said multiple/late applications.

7. Compuquick had a primary duty to handle the applications received in respect of the public issue in accordance with law taking into account the interests of the investors in securities market. However, it failed to do so and thus acted without skill, diligence and care to ensure proper allotment of securities as is required from a Registrar to Issue and Share Transfer Agent. Compuquick, being a Registrar to the Issue and the Share Transfer Agent (at the relevant point of time) was required to abide by the Code of Conduct specified in Schedule III of the RTI Regulations. A Registrar is required to maintain high standards of integrity and fairness in their dealings and act with due skill, diligence and care. I find that Compuquick had failed to ensure that adequate steps were taken for proper allotment of securities and refund of application monies without delay and in accordance of law. By allowing 3,300 multiple/benami applications, Compuquick had clearly violated Regulation 13 read with Clause 1, 2 and 6 of the Code of Conduct prescribed under Schedule III of the RTI Regulations and also Regulation 3 of the PFUTP Regulations. The directors of Compuquick who were managing its day to day affairs were also responsible for the impugned activities of Compuquick. Since, the certificate of registration of Compuquick (as a registrar to an issue) had expired on May 15, 2001, the present proceeding has been initiated against Compuquick and its directors in respect of the violations committed by Compuquick while handling the public issue of the company. The present proceeding has been initiated against the noticees in respect of the violations committed by Compuquick as a Registrar to the Issue of the public issue of the company which came out in the year 1995. Considering the totality of the facts and circumstances of the case, I dispose of the present proceeding initiated against the noticees as ordered herein below.

8. In view of the foregoing, I, in exercise of the powers conferred upon me in terms of Section 19 read with Section 11B of the Securities and Exchange

Board of India Act, 1992 read with Regulation 11 of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, hereby direct Compuquick Datamation (India) Limited and its directors namely, Mr. Nalin P Patel and Mr. Paragi Patel to be cautious and careful in future while dealing in the securities market. Any further violations committed by them in the securities market would be viewed seriously by the Securities and Exchange Board of India.

**DR. K. M. ABRAHAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**

**Place: Mumbai
Date: July 31, 2009**