

UNIVERSITY OF MUMBAI

PROJECT TOPIC

STOCK MARKET SCAMS

SUBMITTED BY

KARISHMA LODHA

T.Y.B. COM (FINANCIAL MARKETS)

SEMESTER V

ACADEMIC YEAR 2011-2012

PROJECT GUIDE

RANJEET KAUR PATEL

MALINI KISHOR SANGHVI COLLEGE OF

COMMERCE AND ECONOMICS

VILE PARLE (WEST), MUMBAI - 400 049

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DECLARATION

I, Ms. **KARISHMA LODHA**, student of Bachelor of Commerce (Financial Markets) Semester V, **MALINI KISHOR SANGHVI COLLEGE OF COMMERCE AND ECONOMICS**, hereby declare that I have completed the project on **STOCK MARKET SCAMS** in the academic year 2011-2012.

The information submitted is true and original to best of my knowledge.

Signature of Student

Date of Submission

9th September 2011

CERTIFICATE

This is to certify that **Ms KARISHMA LODHA** of Third Year Bachelor of Commerce (Financial Markets), **MALINI KISHOR SANGHVI COLLEGE OF COMMERCE AND ECONOMICS**, has completed the project on STOCK MARKET SCAMS in Semester V of the academic year 2011-2012.

PROF. RANJEET KAUR PATEL

Internal Examiner

External Examiner

PROF. RANJEET KAUR PATEL

Coordinator

DR. MRS. KRUSHNA GANDHI

Principal

College seal

WHAT ARE THE BASICS OF INVESTMENT?

The money you earn is partly spent and the rest saved, for meeting the future expenses. If you keep your savings idle its nominal value remains the same but real value decreases by prevailing inflation. Instead of keeping the savings idle, you park it somewhere to get a return on this capital in the future. This is called an investment.

There are various avenues for investment. You may invest in the bank deposits, postal deposits, real estate, jewelry, paintings, life insurance, tax savings schemes like PPF/NSC or stock market related instruments called securities like shares, debentures, bonds, etc. However, the return from each investment option depends on the associated risk. The riskier the investment, the higher will be the return. For instance, stock market related investments are risky, but makes you earn more returns than other modes of investment.

WHAT ARE THE BENEFITS OF INVESTMENT IN STOCK MARKET?

Stock Market investments offer you benefits like easy liquidity, flexibility of amounts invested/disinvested, reasonable returns and a regulatory framework to safeguard your rights. Shares are the most popular form of stock market investments due to their higher potential for capital growth.

The stock market is bullish these days!!

Yes, they really are.



What is a stock market daddy?



Stock market is like any other market.



Its just a place where buyers and sellers meet.
Only the nature of goods dealt with is different from here.



FERDI!

MEANING OF STOCK MARKET

A **stock market** or **equity market** is a public entity for the trading of company stock (shares) and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately.

The stocks are listed and traded on stock exchanges which are entities of a corporation or mutual organization specialized in the business of bringing buyers and sellers of the organizations to a listing of stocks and securities together.

Participants in the stock market range from small individual stock investors to large hedge fund traders, who can be based anywhere. Their orders usually end up with a professional at a stock exchange, who executes the order of buying or selling.

The stock market is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional financial capital for expansion by selling shares of ownership of the company in a public market. The liquidity that an exchange provides affords investors the ability to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments such as real estate



WHAT IS STOCK EXCHANGE

Some exchanges are physical locations where transactions are carried out on a trading floor, by a method known as open outcry. Stock exchange is that place where trading of shares is done in terms of sale and purchase. There are 23 stock exchanges in the India. Bombay Stock Exchange is the largest, with over 6,000 stocks listed. The BSE accounts for over two thirds of the total trading volume in the country. Established in 1875, this exchange is also the oldest in Asia. Among the twenty-two Stock Exchanges recognised by the Government of India under the Securities Contracts (Regulation) Act, 1956, it was the first one to be recognised and it is the only one that had the privilege of getting permanent recognition.

LET'S COME OPEN THE SCAMS IN INDIA

It is said that India is a poor country, yet every year being scams here. After the independence we make a record of scams and scandals, you can say that we are the champion in scams. If to get money of these scams all the poverty can be solve. This all is about after, come on! Let's look at history of scams.

1959 [Ramakrishna Dalmia, Bharat Insurance Company](#) Rs 2.2 crore

1960 [Dharma Teja](#) Rs. 22 Crore

1970 [Nagarwala Scandle](#) Rs. 60 Lakh

1974 [Maruti Scandle, Indira Gandhi](#) Illegal favour her son for the license

1976 [Indira Gandhi, Sanjay Gandhi, kuo oil com. Hong Kong](#) Rs 13 Crore

1980 [H N Bahuguna, N N Kapadia, agent of many foreign Companies, P C Sethi and K P Unnikrishnan](#) Scandal where a consultancy contract for the Thal Vaishet project was awarded to a subsidiary of Italian Snamprogetti in violation of laid down-norms.

1981 [Maharashtra cement scandal, A R Antulay](#) Malpractices favouritism in giving cement meant for public consumption to private builders.

1986 [Bofors, Rajeev Gandhi](#) Rs. 64 Crore

1991 [Jain Hawala Case V C Shukla, C K Jaffer Sharief, Arif Mohammed Khan, Kalpnath Rai, N D Tiwari](#) Rs. 64 Crore

1992 [Harshad Mehta, Secutirty scam](#) Rs 5000 Crore

1994 [Sugar Import Scam](#) Rs 650 Crore

1995 [Prefrential Allotment Scam](#) Rs. 5000 Crore

[Yugoslav Dinner Scam](#) Rs. 400 Crore

[Meghalaya Forest Scam](#) Rs. 300 Crore

1996 [Fertilizer Import Scam](#) Rs 1300 Crore

[Urea Scam](#) Rs 133 Crore

[Bihar Fodder Scam](#) Rs. 950 Crore

1997 [Sukhram Telecom Scam](#) Rs. 1500 Crore

[SNC Lavlin Power Project](#) Rs. 374 Crore

[Bihar Land Scandal](#) Rs. 400 Crore

C R Bhansali Stock Scam Rs. 1200 Crore
1998 Teek Plantation Scandal Rs. 8000 Crore
2001 UTI Scam Rs. 4800 Crore
Dinesh Dalmia Stock Scam Rs. 595 Crore
Ketan Parekh Securities Stock Scam Rs. 1250 Crore
2002 Sanjay Agarwal Home Trade Scame Rs. 600 Crore
2003 Telgi Stamp paper Scam Rs. 172 Crore
2005 IPO Dmat Scam Rs. 146 Crore

Bihar Flood Relief Scam Rs. 17 Crore

Scorpene submarine scam Rs. 18978 Crore

2006 Punjab city Centre Project Scam Rs. 1500 Crore
Taj Corridor Scam Rs. 175 Crore
2008 Pune billionaire Hassan Ali Khan Tax Default Rs 50000 Crore
Satyam Scam Rs 10000 Crore
Army Ration Pilferage Scam Rs. 5000 Crore
2-g Spectrum Swindle Rs. 60000 Crore
State Bank of Saurashtra Scam Rs. 95 Crore
Jharkhand Medical equipment Scam Rs. 130 Crore
Rice Export Scam Rs. 2500 Crore
Orissa mine scam Rs. 7000 Crore
Madhu Koda Mining Scam Rs. 4000 Crore
illegal money in swiss bank according
2008 reportRs. 7100000 Crore

This is the season of scams and the biggest ever corruption cases in India have been unearthed more recently. So, we decided to dig deep to see which scams were the biggest and most damaging to the country and its citizens alike. In our daily life, most of us must have been a witness to or a victim of the corruption thriving in some or the other part of the country. It could be in the form of a taxi-driver manipulating the meter to jack-up the reading or a government officer taking bribery to promptly transfer your file to the next department or even yourself offering bribe to a traffic police on breaking a signal.



THE BIGGEST IT “SCAMSTER”.



Satyam a leading global business and information technology company, delivering consulting, systems integration, and outsourcing solutions to clients in over 20 industries. Satyam Computer Services Ltd was founded in 1987 by B.Ramalinga Raju. The company offers information technology (IT) services spanning various sectors, and is listed on the New York Stock Exchange and Euro next. Satyam's network covers 67 countries across six continents. The company employs 40,000 IT professionals across development centers in India, the United States, the United Kingdom, the United Arab Emirates, Canada, Hungary, Singapore, Malaysia, China, Japan, Egypt and Australia. It serves over 654 global companies, 185 of which are Fortune 500 corporations. Satyam has strategic technology and marketing alliances with over 50 companies.

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Raju had appointed a task force to address the Maytas situation in the last few days before revealing the news of the accounting fraud. After the scandal broke, the then-board members elected Ram Mynampati to be Satyam's interim CEO. Mynampati's statement on Satyam's website said:

"We are obviously shocked by the contents of the letter. The senior leaders of Satyam stand united in their commitment to customers, associates, suppliers and all shareholders. We have gathered together at Hyderabad to strategize the way forward in light of this startling revelation."

On 10 January 2009, the Company Law Board decided to bar the current board of Satyam from functioning and appoint 10 nominal directors. "The current board has failed to do what they are supposed to do. The credibility of the IT industry should not be allowed to suffer." said Corporate Affairs Minister Prem Chand Gupta. Chartered accountants regulator ICAI issued show-cause notice to Satyam's auditor PricewaterhouseCoopers (PwC) on the accounts fudging. "We have asked PwC to reply within 21 days," ICAI President Ved Jain said.

On the same day, the Crime Investigation Department (CID) team picked up Vadlamani Srinivas, Satyam's then-CFO, for questioning. He was arrested later and kept in judicial custody.

On 11 January 2009, the government nominated noted banker Deepak Parekh, former NASSCOM chief Kiran Karnik and former SEBI member C Achuthan to Satyam's board. Analysts in India have termed the Satyam scandal India's own Enron scandal. Some social commentators see it more as a part of a broader problem relating to India's caste-based, family-owned corporate environment.

Immediately following the news, Merrill Lynch (now a part of Bank of America) and State Farm Insurance terminated its engagement with the company. Also, Credit Suisse suspended its coverage of Satyam. It was also reported that Satyam's auditing firm PricewaterhouseCoopers will be scrutinized for complicity in this scandal. SEBI, the stock market regulator, also said that, if found guilty, its license to work in India may be revoked. Satyam was the 2008 winner of the coveted Golden Peacock Award for Corporate Governance under Risk Management and Compliance Issues, which was stripped from them in the aftermath of the scandal. The New York Stock Exchange has halted trading in Satyam stock as of 7 January 2009. India's National Stock Exchange has announced that it will remove Satyam from its S&P CNX Nifty 50-share index on 12 January. The founder of Satyam was arrested two days after he admitted to falsifying the firm's accounts. Ramalinga Raju is charged with several offences, including criminal conspiracy, breach of trust, and forgery.

Satyam's shares fell to 11.50 rupees on 10 January 2009, their lowest level since March 1998, compared to a high of 544 rupees in 2008. In New York Stock Exchange Satyam shares peaked in 2008 at US\$ 29.10; by March 2009 they were trading around US \$1.80.

The Indian Government has stated that it may provide temporary direct or indirect liquidity support to the company. However, whether employment will continue at pre-crisis levels, particularly for new recruits, is questionable ^[14].

On 14 January 2009, Price Waterhouse, the Indian division of Price water house Coopers, announced that its reliance on potentially false information provided by the management of Satyam may have rendered its audit reports "inaccurate and unreliable".

On 22 January 2009, CID told in court that the actual number of employees is only 40,000 and not 53,000 as reported earlier and that Mr. Raju had been allegedly withdrawing INR 20 crore rupees every month for paying these 13,000 non-existent employees.

The Satyam Computer Services fraud is neither the first nor will it be the last corporate scam to have hit India, so investors must be on guard and ask for more information before making any investment decision, says former Sebi chairman M Damodaran.

India has seen some of the most high-profile scandals where investors have lost billions of rupees just because a few people in high places could not control their greed. Sound advice. But with corporate, brokers, banks, politicians, regulators colluding at times, many a multi-crore scam has hit India. And the saga is likely to go on.

The biggest corporate scam in India has come from one of the most respected businessmen. Satyam founder Byrraju Ramalinga Raju resigned as its chairman after admitting to cooking up the account books. His efforts to fill the "fictitious assets with real ones" through Maytas acquisition failed, after which he decided to confess the crime. With a fraud involving about Rs 8,000 crore (Rs 80 billion), Satyam is heading for more trouble in the days ahead. On Wednesday, India's fourth largest IT company lost a staggering Rs 10,000 crore (Rs 100 billion) in market capitalisation as investors reacted sharply and dumped shares, pushing down the scrip by 78 per cent to Rs 39.95 on the Bombay Stock Exchange. The NYSE-listed firm could also face regulator action in the US.

"I am now prepared to subject myself to the laws of the land and face consequences thereof," Raju said in a letter to SEBI and the Board of Directors, while giving details of how the profits were inflated over the years and his failed attempts to "fill the fictitious assets with real ones." Raju said the company's balance sheet as of September 30 carries "inflated (non-existent) cash and bank balances of Rs 5,040 crore (Rs 50.40 billion) as against Rs 5,361 crore (Rs 53.61 billion) reflected in the books."

Satyam Systems, a global IT company based in India, has just been added to a notorious list of companies involved in fraudulent financial activities. Satyam's CEO, Ramalingam Raju, took responsibility for broad accounting improprieties that overstated the

company's revenues and profits and reported a cash holding of approximately \$1.04 billion that simply did not exist of Indian investors and shareholder community beyond repair.

Founder of Satyam Computer, B Ramalinga Raju, who lived like a 'king' before admitting fudging of company accounts to the tune of Rs 7,800 crore (Rs 78 billion), slept on the floor of the Chanchalguda jail here like other ordinary prisoners. According to sources, the Raju brothers have been given the status of 'C' class prisoners or undertrials. The Raju brothers had to sleep on a mat on the ground like all other prisoners. They were offered the usual prison dinner of rice and rasam, which the elder Raju refused, sources said.

The scam at Satyam Computer Services is something that will shatter the peace and tranquillity of Indian investors and shareholder community beyond repair.

Satyam is the biggest fraud in the corporate history to the tune of Rs. 14000 crore. The company's disgraced former chairman Ramalinga Raju kept everyone in the dark for a decade by fudging the books of accounts for several years and inflating revenues and profit figures of Satyam.

Finally, the company was taken over by the Tech Mahindra which has done wonderfully well to revive the brand Satyam. Tech Mahindra is paying Rs1757 crore for a 31% stake in the company, or Rs58 per share. Satyam computer services has now zoomed 15% to Rs 54.20 ahead of the announcement of the highest bidder of the company on April 13, 2009. In India this moment was full of praise for the manner and the speed with which the reconstituted board of Satyam computer services found a strategic investor.

INTRODUCTION TO THE “BIG BULL OF THE TRADING FLOOR”.



THE PIED PIPER OF STOCK MARKET.

HARSHAD MEHTA : THE SCAMSTER.

Harshad Shantilal Mehta was born on 29 July in a Gujarati Jain family of modest means. His early childhood was spent in Mumbai (Kandivali) where his father was a small-time businessman. Later, the family moved to Raipur in Chhattisgarh after doctors advised his father to move to a drier place on account of his indifferent health. He studied in Holy Cross Higher Secondary School, Byron Bazaar, Raipur, but Raipur could not hold back Mehta for long and he was back in the city after completing his schooling. While doing odd jobs he joined Lala Lajpat Rai College for a Bachelors degree in Commerce.

After completing his graduation, Harshad Mehta started his working life as an employee of the New India Assurance Company. During this period his family relocated to Bombay and his brother Ashwin Mehta started to pursue graduation course in law at Lala Lajpat Rai College. His youngest brother Hitesh is a practising surgeon at the B.Y.L.Nair Hospital in Bombay. After his graduation Ashwin joined (ICICI) Industrial Credit and Investment Corporation of India. They had rented a small flat in Ghatkopar for living.

In the late seventies every evening Harshad and Ashwin started to analyze tips generated from respective offices and from cyclostyled investment letters, which had made their appearance during that time.

In the early eighties he quit his job and sought a job with stock broker P. Ambalal affiliated to Bombay Stock Exchange (BSE) before becoming a jobber on BSE for stock broker P.D. Shukla. In 1981 he became a sub-broker for stock brokers J.L. Shah and Nandalal Sheth. After a while he was unable to sustain his overbought positions and decided to pay his dues by selling his house with consent of his mother Rasilaben and brother Ashwin. The next day Harshad went to his brokers and offered the papers of the house as guarantee. The brokers Shah and Sheth were moved by his gesture and gave him sufficient time to overcome his position.

After he came out of this big struggle for survival he became stronger and his brother quit his job to team with Harshad to start their venture Grow More Research and Asset

Management Company Limited. While a brokers card at BSE was being auctioned, the company made a bid for the same with financial assistance from Shah and Sheth, who were Harshad's previous broker mentors.

Mehta gradually rose to become a stock broker on the Bombay Stock Exchange and had an expensive lifestyle. By 1990 Harshad Mehta had risen to prominence in the stock market. He had been buying shares heavily. The shares which attracted attention were those of Associated Cement Company (ACC). The price of ACC was bid up to Rs 10,000. For those who asked, Mehta had the replacement cost theory as an explanation. Through the second half of 1991 Mehta had earned the name of the 'Big Bull', who was said to have started the bull run.

“The year was 1990. Years had gone by and the driving ambitions of a young man in the faceless crowd had been realised. Harshad Mehta was making waves in the stock market. The theory basically argues that old companies should be valued on the basis of the amount of money which would be required to create another such company. Through the second half of 1991, Mehta was the darling of the business media and earned the sobriquet of the 'Big Bull', who was said to have started the bull run. But, where was Mehta getting his endless supply of money from? Nobody had a clue.

On April 23, 1992, journalist Sucheta Dalal in a column in “The Times of India”, exposed the dubious ways of Harshad Mehta. The broker was dipping illegally into the banking system to finance his buying. In April 1992, the first press report appeared indicating that there was a shortfall of Government securities held by State Bank of India. In a little over a month, investigation revealed that this was a just a tip of iceberg which came to be called “The Securities Scam”, involving misappropriation of funds to be tuned of over Rs. 3500 Crores. In an ever expanding ambit, the scam has engulfed top executives of large national banks, foreign banks and financial institution, brokers, bureaucrats and politicians. The function of money market and stock market has been thrown in disarray. A large number of agencies, namely, the Reserve bank of India (RBI), the Central Bureau of Investigation(CBI), the Income Tax Department, the Directorate of Enforcement and the Joint Parliamentary Committee(JPC) are currently investigating various aspect of the scam.

He was known as the 'Big Bull'. However, his bull run did not last too long. He triggered a rise in the Bombay Stock Exchange in the year 1992 by trading in shares at a premium across many segments. Taking advantages of the loopholes in the banking system, Harshad and his associates triggered a securities scam diverting funds to the tune of Rs 4000 crore (Rs 40 billion) from the banks to stockbrokers between April 1991 to May 1992. Harshad Mehta worked with the New India Assurance Company before he moved ahead to try his luck in the stock markets. Mehta soon mastered the tricks of the trade and set out on dangerous game plan.

Mehta has siphoned off huge sums of money from several banks and millions of investors were conned in the process. His scam was exposed, the markets crashed and he was arrested and banned for life from trading in the stock markets. The extent of the Harshad Mehta induced security scam, as the media sometimes termed it, adversely affected at least 10 major commercial banks of India, a number of foreign banks operating in India, and the National Housing Bank, a subsidiary of the Reserve Bank of India, which is the central bank of India.

As an aftermath of the shockwaves which engulfed the Indian financial sector, a number of people holding key positions in the India's financial sector were adversely affected, which included arrest and sacking of K. M. Margabandhu, then CMD of the UCO Bank; removal from office of V. Mahadevan, one of the Managing Directors of India's largest bank, the State Bank of India. The Central Bureau of Investigation which is India's premier investigative agency, was entrusted with the task of deciphering the modus operandi and the ramifications of the scam. Harshad Mehta was arrested and investigations continued for a decade.

During his judicial custody, while he was in Thane Prison, Mumbai, he complained of chest pain, and was moved to a hospital, where he died on 31st December 2001. His death remains a mystery. Some believe that he was murdered ruthlessly by an underworld nexus (spanning several South Asian countries including Pakistan). Rumour has it that they suspected that part of the huge wealth that Harshad Mehta commanded at the height of the 1992 scam was still in safe hiding and thought that the only way to extract their share of the 'loot' was to

pressurise Harshad's family by threatening his very existence. In this context, it might be noteworthy that a certain criminal allegedly connected with this nexus had inexplicably surrendered just days after Harshad was moved to Thane Jail and landed up in imprisonment in the same jail, in the cell next to Harshad Mehta's.

Here are the names of some stocks :

ACC

Apollo Tyres

Reliance

Tata Iron and Steel Co. (TISCO)

BPL

Sterlite

Videocon.

A Special Court also sentenced Sudhir Mehta, Harshad Mehta's brother, and six others, including four bank officials, to rigorous imprisonment (RI) ranging from 1 year to 10 years on the charge of duping State Bank of India to the tune of Rs 600 crore (Rs 6 billion) in connection with the securities scam that rocked the financial markets in 1992. He died in 2002 with many litigations still pending against him.

THE FOLLOWER OF THE “BIG BULL”



“All my lifetime’s savings are gone. I don’t know how to feed my family.”

-A small investor hit by the Ketan Parekh scam in April, 2001.

Ketan Parekh followed Harshad Mehta's footsteps to swindle crores of rupees from banks. A chartered accountant he used to run a family business, NH Securities. Ketan however had bigger plans in mind. He targetted smaller exchanges like the Allahabad Stock Exchange and the Calcutta Stock Exchange, and bought shares in fictitious names.

His dealings revolved around shares of ten companies like Himachal Futuristic, Global Tele-Systems, SSI Ltd, DSQ Software, Zee Telefilms, Silverline, Pentamedia Graphics and SatyamComputer (K-10scrips).

Ketan borrowed Rs 250 crore from Global Trust Bank to fuel his ambitions. Ketan along with his associates also managed to get Rs 1,000 crore from the Madhavpura Mercantile Co-operative Bank.

According to RBI regulations, a broker is allowed a loan of only Rs 15 crore (Rs 150 million). There was evidence of price rigging in the scrips of Global Trust Bank, Zee Telefilms, HFCL, Lupin Laboratories, Aftak Infosys and Padmini Polymer.

The case gives a detailed insight into the 2000-01 Indian stock market scam.

The case traces the events that led to the scam and also tries to study the role of the regulatory authorities in the scam.

THE CASE ALSO ANALYSES THE STEPS TAKEN BY SEBI AFTER THE SCAM.

The 176-point¹ Sensex² crash on March 1, 2001 came as a major shock for the Government of India, the stock markets and the investors alike. More so, as the Union budget tabled a day earlier had been acclaimed for its growth initiatives and had prompted a 177-point increase in the Sensex. This sudden crash in the stock markets prompted the Securities Exchange Board of India (SEBI) to launch immediate investigations into the volatility of stock markets. SEBI also decided to inspect the books of several brokers who were suspected of triggering the crash. Meanwhile, the Reserve Bank of India (RBI) ordered some banks to furnish data related to their capital market exposure. This was after media reports appeared regarding a private sector bank³ having exceeded its prudential norms of capital exposure, thereby contributing to the stock market volatility.

The panic run on the bourses continued and the Bombay Stock Exchange (BSE) President Anand Rathi's (Rathi) resignation added to the downfall. Rathi had to resign following allegations that he had used some privileged information, which contributed to the crash. The scam shook the investor's confidence in the overall functioning of the stock markets. By the end of March 2001, at least eight people were reported to have committed suicide and hundreds of investors were driven to the brink of bankruptcy. The scam opened up the debate over banks funding capital market operations and lending funds against collateral security. It also raised questions about the validity of dual control of cooperative banks⁴...

KP was a chartered accountant by profession and used to manage a family business, NH Securities started by his father. Known for maintaining a low profile, KP's only dubious claim to fame was in 1992, when he was accused in the stock exchange scam.⁵ He was known as the 'Bombay Bull' and had connections with movie stars, politicians and even leading international entrepreneurs like Australian media tycoon Kerry Packer, who partnered KP in KPV Ventures, a \$250 million venture capital fund that invested mainly in new economy companies.

Over the years, KP built a network of companies, mainly in Mumbai, involved in stock market operations. The rise of ICE (Information, Communications, and Entertainment) stocks all over the world in early 1999 led to a rise of the Indian stock markets as well. The dotcom boom⁶ contributed to the Bull Run⁷ led by an upward trend in the NASDAQ.⁸ The companies in which KP held stakes included Amitabh Bachchan Corporation Limited (ABCL), Mukta Arts, Tips and Pritish Nandy Communications. He also had stakes in HFCL, Global Tele systems (Global), Zee Telefilms, Crest Communications, and PentaMedia Graphics. KP selected these companies for investment with help from his research team, which listed high growth companies with a small capital base. According to media reports, KP took advantage of low liquidity in these stocks, which eventually came to be known as the 'K-10' stocks...

According to market sources, though KP was a successful broker, he did not have the money to buy large stakes. According to a report, 12 lakh shares of Global in July 1999 would have cost KP around Rs 200 million. The stake in Aftek Infosys would have cost him Rs 50 million, while the Zee and HFCL stakes would have cost Rs 250 million each. Analysts claimed that KP borrowed from various companies and banks for this purpose. His financing methods were fairly simple. He bought shares when they were trading at low prices and saw the prices go up in the bull market while continuously trading. When the price was high enough, he pledged the shares with banks as collateral for funds. He also borrowed from companies like HFCL...

THE SYSTEM THAT BRED THESE FACTORS

The small investors who lost their life's savings felt that all parties in the functioning of the market were responsible for the scams. They opined that the broker-banker-promoter nexus, which was deemed to have the acceptance of the SEBI itself, was the main reason for the scams in the Indian stock markets. SEBI's measures were widely criticized as being reactive rather than proactive. The market regulator was blamed for being lax in handling the issue of unusual price movement and tremendous volatility in certain shares over an 18-month period prior to February 2001.

Analysts also opined that SEBI's market intelligence was very poor... KP was released on bail in May 2001. The duped investors could do nothing knowing that the legal proceedings would drag on, perhaps for years. Observers opined that in spite of the corrective measures that were implemented, the KP scam had set back the Indian economy by at least a year. Reacting to the scam, all KP had to say was, "I made mistakes."

It was widely believed that more than a fraud, KP was an example of the rot that was within the Indian financial and regulatory systems. Analysts commented that if the regulatory authorities had been alert, the huge erosion in values could have been avoided or at least controlled...

**ONE MORE STOCK MARKET SCAM
“C.R.BHANSALI”.**



MAY 18, 1997 - Hundreds of angry, frustrated and scared people stood outside the Reserve Bank of India's (RBI) Mumbai headquarters under the scorching sun. They were waiting for Chai Rop Bhansali (Bhansali), the head of the CRB Group of companies to arrive. Three days earlier the RBI had given Bhansali 72 hours to come up with a plan to repay his liabilities following over 400 complaints from depositors in his company's financial schemes. Most top officials of CRB were untraceable from the second week of May itself.

The Central Bureau of Investigation (CBI) locked and sealed the offices of the CRB Group and arrested six persons, including four directors (two from Bikaner and two from Mumbai) of the satellite companies of the group, a financial controller in Mumbai and a relative and close associate of Bhansali in Delhi. The CBI also conducted simultaneous searches at 16 places in Mumbai, three in New Delhi, one each in Chennai and Ahmadabad and two places each in Calcutta, Jhunjunu, Sujangarh and Bikaner.

The CBI froze the bank accounts of the group companies and seized incriminating files and other documents from the residence of the vice-president of the CRB group in Mumbai. Following rumors that Bhansali had fled India and was hiding in Hong Kong or Canada, the CBI sought Interpol's assistance to trace his whereabouts. RBI filed a winding-up petition claiming that the continuance of the CRB Group was not in the interest of the public and depositors.

The order prohibited CRB from selling, transferring, mortgaging or dealing in any manner with its assets and from accepting public deposits. In response, Bhansali sent a letter to the RBI. Though it was not signed by him, the letter said that the RBI order had led to the deterioration of the company's financial position. It added that the company was facing tremendous problems with payments to fixed depositors. The letter further said that 'we have, also expressed that in view of the precarious situation which is fast going out of our control, before it becomes unmanageable, our case should be considered sympathetically.' This letter led the investors to believe that Bhansali would come out of hiding and work out a way to get out of the mess. However, Bhansali did not show up. With the expiry of the RBI deadline, the CRB Group collapsed, shattering the dreams of thousands of investors across the country.

Born in a jute trader's house in Calcutta, Bhansali was a studious person. After obtaining a degree in commerce, Bhansali completed Chartered Accountancy in 1980. In the same year, he started a financial consultancy firm, CRB Consultancy.

Through Bhansali's personal contacts, CRB Consultancy soon managed to secure the business of providing issue management services to a few well-known companies in Calcutta. Over the years, Bhansali acquired other degrees as well including ACS, Ph.D., MIIA (US) and a diploma in Journalism. Though he made a lot of money, Bhansali found it difficult to find recognition in Calcutta.

He then moved to New Delhi to join one of the country's leading registrars of companies. However when Bhansali was caught short-charging the registrar's clients, he had to leave.

Bhansali then established 'CRB Consultants,' a private limited company in New Delhi in 1985. In 1992, the name of the company was changed to CRB Capital Markets (CRB Caps) and it was converted into a public limited company. The company offered various services including merchant banking, leasing and hire purchase, bill discounting and corporate funds management, fixed deposit and resources mobilization, mutual funds and asset management, international finance and forex operations. CRB Caps was also very active in stock-broking having a card both on the BSE and the NSE. The company raised over Rs 176 crore from the public by January 1995. The A+ rating given by CARE and upfront cash incentives of 7-10% attracted investors in hordes to Bhansali's schemes...

Bhansali was reported to have specialized in setting up dummy investment companies. He used to sell these dummy companies to buyers. He capitalized on the 1985 boom in leasing companies to become cash rich.

He had established good contacts in the Registrar of Companies and the Controller of Capital Issues offices. He registered companies with practically no equity and then stage-managed the dummy company's maiden public issue with a few hundred investors, largely from Calcutta's close knit Marwari Jain community. Having had a company listed on the stock exchange, Bhansali then sold it for a profit to businessmen who needed dummy public limited

companies in a hurry. Bhansali used his own money to rig share prices in order to raise more money from the markets in two ways. Firstly, he bought his own stock through private finance companies owned by him. Secondly, he used his other public companies to buy into each other as cross-holdings...

In May 1996, CRB Caps opened a current account in SBI's main Mumbai branch, for payment of interest, dividend and redemption cheques. The payment warrants could be presented at any of the 4,000 SBI branches for payment.

However, Bhansali was granted only a current account facility and did not enjoy any overdraft facility. He was expected to deposit cash upfront into the current account, along with a list of payments that had to be honored. Claiming that the logistics of payment were very complex and that it was not possible for every branch to check with the head office before honoring a dividend warrant, the branches gradually began treating these instruments just like a demand draft. For about nine months, the setup worked very well.

However, in March 1997, SBI realized that the account had been overdrawn to the extent of a few crores. Bhansali was called to the SBI office and asked to remit the difference immediately, which he promptly did...

The CRB scam took the whole nation by storm. At one point, the Union finance ministry held a meeting everyday to get to the brasstacks of the CRB fiasco. In a meeting with SEBI, the finance minister criticized the regulator severely.

The government asked the RBI to prepare a panel of auditors asking to explore the possibility of making auditing of NBFCs a prerequisite to registration. In October 1998, the SEBI appointed an administrator for CRB's Arihant scheme finalized a scheme for payment to the unitholders.

Under the scheme, the investors were prematurely paid Rs 4.95 per unit, which was its NAV as of 31 March 1998. When the administrator had taken over, the assets of the scheme comprised the fund's frozen bank accounts worth Rs 81 lakh, plus some dividends from investments. Besides, there were a large number of listed (but thinly traded) and unlisted shares amounting to Rs 17.5 crore...

The Bhansali scam resulted in a loss of over Rs 1,200 crore (Rs 12 billion). He first launched the finance company CRB Capital Markets, followed by CRB Mutual Fund and CRB Share Custodial Services. He ruled like a financial wizard 1992 to 1996 collecting money from the public through fixed deposits, bonds and debentures. The money was transferred to companies that never existed.

CRB Capital Markets raised a whopping Rs 176 crore in three years. In 1994 CRB Mutual Funds raised Rs 230 crore and Rs 180 crore came via fixed deposits. Bhansali also succeeded to raise about Rs 900 crore from the markets.

However, his good days did not last long, after 1995 he received several jolts. Bhansali tried borrowing more money from the market. This led to a financial crisis. It became difficult for Bhansali to sustain himself. The Reserve Bank of India (RBI) refused banking status to CRB and he was in the dock. SBI was one of the banks to be hit by his huge defaults.

C R Bhansali's web of deceit was elaborate. He had floated 133 companies to pull in funds and suck them out. Money came easy; he was inspiring with his grandiose plans, high interest rates and entry into mutual fund and banking. CRB's meteoric rise in the early 90s coincided with the boom in the Non-Banking Finance Company (NBFC) sector. His fall in 1996 was equally fast.

Forget investors, even credit-rating agencies didn't see it coming. CARE, a leading agency, gave 'AAA' rating at a time when the company was going down.

How To Become Chairman Of Top 3 Finance Companies

Born in Rajasthan, raised in Kolkata, Bhansali became a dada in the financial capital — Mumbai — before he turned 40.

First came the finance company (CRB Capital Markets), after which the mutual fund (CRB MutualFund) and CRB Share Custodial Services followed. Then he planned to get into banking, and he almost made it.

He had a dream run from 1992 to 1996 collecting money from the public through fixed deposits, bonds and debentures. He floated around 133 subsidiaries and unlisted companies. Most of the money was transferred to these dummy companies.

The flagship company, CRB Capital Markets, went public in 1992 and raised a record Rs 176 crore in three years. In 1994 CRB Mutual Funds, through its Arihant Mangal Growth Scheme, raised Rs 230 crore. Another Rs 180 crore came through fixed deposits. CRB Corporation Ltd raised Rs 84 core through three public issues between May 1993 and December 1995. CRB Share Custodial Services raised a further Rs 100 crore in January 1995 to set up operations.

Between 1992 and 1995, when the market was in the post-Harshad Mehta bear phase, Bhansali managed to raise close to Rs 900 crore.

Post-1995, he got a beating on the stock markets. His investments in the property market did not pay off because of the slump.

Caught in a financial trap, Bhansali tried borrowing more money from the market. “To repay the interest rate on amounts he borrowed later, Bhansali was forced to borrow once again. This went on and on, and he got stuck in a financial quicksand,” says a former employee, refusing to be named.

Going Down, He Even Tried To Invest In Bollywood

Bhansali made a determined effort to get out of the trap by investing in some high-risk ventures. He is believed to have even made a hindi commercial film. Again, the gamble Failed. In the end, bhansali was borrowing funds from banks through questionable means. All was well till december 1996. Then the reserve bank of india (rbi) refused banking status to crb and contemplated action for various irregularities. Pradip bhavnani, president of national association of small investors, says: “there was a lot of confusion about how to act against crb, considering its nbfc status. When he started defaulting, public sector banks like the state bank of india were the first to be hit. Had the sebi and rbi acted fast, investors wouldn’t have lost money.” bhansali spent three months in jail in 1997. He is out now but nobody knows where he lives and if they do, they are not snitching.

THE COBBLER'S SCAM
SOHIN DAYA.



A lot of scams are being discovered in India. It looks like the corruptions in India can never come to an end. If one corruption is exposed another one start somewhere. It reminds me one of the biggest multi million dollars scam in Indian History which was nicknamed The Great Cobbler Scam.

Sohin Daya, son of a former Sheriff of Mumbai, was the main accused in the multi-crore shoes scam. Daya of Dawood Shoes, Rafique Tejani of Metro Shoes, and Kishore Signapurkar of Milano Shoes were arrested for creating several leather co-operative societies which did not exist. They availed loans of crores of rupees on behalf of these fictitious societies.

The accused created a fictitious cooperative society of cobblers to take advantage of government loans through various schemes. Officials of the Maharashtra State Finance Corporation, Citibank, Bank of Oman, Dena Development Credit Bank, Saraswat Co-operative Bank, and Bank of Bahrain and Kuwait were also charge sheeted.

Actually what really happened in this Great Cobbler Scam was that various businessman & politicians had siphoned around \$600 million US dollars from a scheme that was floated by the Government of India meant to benefit the poor cobblers of Mumbai. Instead it went into the pockets of wealthy elite peoples who used this money to built luxury homes for themselves and also brought luxury cars, boats, arts...etc.

The money of the scheme was meant to provide low interest loans and tax concessions to the Mumbai's poorest - cobblers who work 16-hours a day for less than \$2. Not a single penny reached these cobblers.

The modus operandi of the mastermind was to float a cooperative society of cobblers to avail of soft government loans through various schemes. Several bogus societies of cobblers were formed only for the purpose of availing these soft government loans.

The people involved in this racket were Saddrudin Daya, former sheriff of Mumbai and owner of Dawood Shoes, Rafique Tejani, owner of Metro Shoes, Kishore Signapurkar, proprietor of Milano Shoes, and Abu Asim Azmi, president of Samajwadi Party's Mumbai unit and partner

In Citywalk Shoes, Beside them various officials of banks and financial institutions were also involved in this multi million dollars Cobbler Scam.

The Banks whose officials were involved in this scam are : Maharashtra State Finance Corporation, Citibank, Bank of Oman, Dena Bank, Development Credit Bank, Saraswat Co-operative Bank, and Bank of Bahrain and Kuwait. This scam cost the Government of India around \$600 million US dollars.

Sohin had been declared absconding by the Economic Offences Wing since the shoe scam came to light, and was reported to be in London. He had been accused in 7 cases.

Advocate S L Deshpande, appearing for Sohin Daya, told the court his client had been out of India for a long time and wasn't aware of his prosecution in the case. Once he came to know he was wanted, he decided to surrender. Deshpande also contended that his client should be given bail since all chargesheets in the case had been filed and investigations completed. Sohin had come back to India to face trial in the case and clear his name, he said. According to information available with police, the shop Big Deal owned by Sadruddin Daya is in the name of Sohin, who's alleged to have signed on some guarantee papers. Counsel for Mumbai police P R Namjoshi, opposing the bail plea, argued that Sohin was a wanted accused and needed to be in police custody, so that his role in the scam could be determined.

Sohin was released on the grounds that he would not leave the city without the court's permission and would report to the police for enquiry as and when required. Daya of Dawood Shoes, Rafique Tejani of Metro Shoes, and Kishore Signapurkar of Milano Shoes had been arrested and been in police custody for 78 days. The accused, along with their associates, had fraudulently formed several leather co-operative societies and used the same for availing loans worth crores and other benefits.

This was one of the worst scam in India that cheated the poorest people of the society and benefited a lot of rich and elite people. This is one of the cause that proverty in India is difficult to eliminate. The scam was exposed in 1995.

**What treatment was given at the End.....Who all were affected by
the scam.**

Based on their complaints, of BMC the police started investigations. The Banks whose officials were involved in this scam are :

Maharashtra State Finance Corporation, Citibank, Bank of Oman, Dena Bank, Development Credit Bank, Saraswat Co-operative Bank, and Bank of Bahrain and Kuwait were charge sheeted.

Officials of Bank of Baroda, Saraswati Co-operative Bank and the Bombay Mercantile Co-operative Bank are also facing charges for fraudulent manipulation of government funds. After the inquiry, Dawood, Metro, Milano, City walk and a host of other shoe shops were sealed. They opened only after a long battle. At present, the shoe scam is in a queue of cases waiting to be taken up by the court of the 19th additional chief metropolitan magistrate. All the accused are out on bail. Files on the multiple cases of the shoe scam, are gathering dust on court shelves. The case is still waiting for a trial. The Economic Offences Wing (EOW) of Mumbai police filed seven charge-sheets against 28 accused in the Rs 1,600- crore cobbler scam at the 37th metropolitan court.

Apart from Sadruddin Daya, the prime accused in the scam and former sheriff of Mumbai, his wife Shauheen, two international banks and five co-operative banks have also been charge-sheeted under various sections of the Indian Penal Code (IPC). The charge-sheets were filed before the additional chief metropolitan magistrate, Sharad N Chimade. Surprisingly, Rafique Tejani of Metro Shoes, Kishore Signapurkar of Milano Shoes and Abu Asim Azmi of City walk Shoes have not been charge-sheeted. EOW officials said the role of the three companies in the scam was still being investigated. Others who have been charge-sheeted are: Anwar Merchant, Salim Merchant, Abdul Memon, Bashir Inamdar, M Z Kerawala, V V Chandy, Arshad Wahedna, B B Trivedi, R Krishnan, D K Sabawala, S Yogeshwaran and R V Bhatt, M G Ramakrishnan, V P Khurana, S N Gokhale, T A Khan, Manohar Surve, Siddique, P K Sukhtankar, D J Raikar, N J Ghotage, D N Kamath, P P Deshmukh, V N Dalal, J P Shah and Siddharth Shirali.

Special public prosecutor P R Namjoshi told the court that the EOW is preparing 26 sets of the charge-sheets to be given to the accused. He requested the magistrate to grant prosecution six weeks' time to furnish the same. His request was granted. The sections of IPC included in the charge-sheets cover criminal conspiracy, forgery, preparing and using duplicate documents for financial benefits, criminal breach of trust, cheating, jumping bail limits, fraudulently setting up fake cooperative societies and making money.

People who are affected by the scam The poor Cobblers of Mumbai are the one who are majorly affected by the Scam as they were not benefited by a single rupee of the Scheme which was meant only for them.

Government of India was also affected by the Scam as the scam cost the Government around 1200 crores Indian rupees. The Banks whose officials were involved in the scam like Maharashtra State Finance Corporation, Citibank, Bank of Oman, Dena Bank, Development Credit Bank, Saraswat Co-operative Bank, and Bank of Bahrain and Kuwait, Spoiled their reputation. Politicians, bureaucrats and top shoe manufacturers in Maharashtra were also affected as the Shoes manufacturers have to shut their shoe outlets and their business was lost.

“DINESH DALMIA’S” STOCK SCAM.



Dinesh Dalmia was the managing director of DSQ Software Limited when the Central Bureau of Investigation arrested him for his involvement in a stocks scam of Rs 595 crore (Rs 5.95 billion). Dalmia's group included DSQ Holdings Ltd, Hulda Properties and Trades Ltd, and Powerflow Holding and Trading Pvt Ltd.

Dalmia resorted to illegal ways to make money through the partly paid shares of DSQ Software Ltd, in the name of New Vision Investment Ltd, UK, and unallotted shares in the name of Dinesh Dalmia Technology Trust.

Investigation showed that 1.30 crore (13 million) shares of DSQ Software Ltd had not been listed on any stock exchange. The Central Bureau of Investigation (CBI) finally arrested 2001 scam-accused Dinesh Dalmia in Delhi early this morning. Senior CBI sources confirmed that Dalmia — who once headed listed companies DSQ Software and DSQ Biotech — has been under interrogation and that the agency had been “after him for a while now.” The CBI had an Interpol alert against Dalmia, who has been absconding for several years now and had set up base in the US.

The Dinesh Dalmia episode has been haunting the Indian capital market for nearly six years. It's a classic case of forgery, cheating, fund diversion, price rigging and brazen violation of laws of the land. Dalmia's Rs 945 crore preferential allotment at the height of 2000-01 stock boom turned out to be a massive fraud.

Dalmia owes money to dozens of entities (many of them have court orders against him). Despite having a host of regulatory orders against him, Dalmia has been hiring and paying top lawyers in India to fight long legal battles without so much as setting foot in the country. Two months ago, the Securities Appellate Tribunal (SAT) ordered Dinesh Dalmia to buy back unlisted shares introduced by him in the open market at the prevalent rates when these were allotted. The shares were issued at the height of the Bull run, when DSQ Software traded at a high Rs 2,800.

Dalmia took advantage of the euphoria in 2000-01 to increase DSQ's capital by 50 per cent without informing the stock exchanges. He introduced these 1.3 crore shares in the market (originally allotted to three Mauritius-based shell companies) without getting these listed. The ultimate beneficiary of this allotment was Dalmia himself.

The SAT asked Dalmia to buy back shares from original allottees who continue to hold these today and had bought them between May 20, 2000 and January 12, 2001. Dalmia has been asked to deposit a first installment of Rs 30 crore into an escrow account to finance the buyback, while the Securities and Exchange Board of India (Sebi) has been directed to set up an authority to conduct this transaction.

The SAT order is a modified ratification of Sebi's earlier order, barring Dalmia from the capital market for 10 years and ordering him to buy back 1.3 crore unlisted shares, place these in a separate demat account and extinguish them. Sebi had calculated the unjust benefit that had accrued to Dalmia through the dubious issue of shares as Rs 630 crore; the value of shares issued then was Rs 945 crore. Even after the scam came to light and Dalmia was absconding, he moved on to the BPO business and was known to be running major call centres at Gurgaon, Bangalore and Chennai.

He was making news in the US also. With US investigators and lenders far more determined at hunting down Dalmia's global operations, the default of his company Allserve in New Jersey and his claims to the bankruptcy court made headlines there.

Companies allegedly owned by Dalmia have filed for bankruptcy in the US after failing to repay \$83 million raised abroad through BPO companies. The actions against Dalmia and the DSQ group so far include the hefty Rs 630 crore penalty levied by Sebi along with a ban on Dalmia and certain persons connected with DSQ Software and DSQ Holdings from accessing the capital markets for 10 years.

In addition, Sebi has imposed a series of lesser penalties on a dozen investment companies associated with Dalmia. The Enforcement Directorate (ED) too has imposed a penalty of Rs 64 crore on DSQ Software and another Rs 65 crore on its officials. ED has similarly imposed stiff penalties on Dalmia and his associates in an associate listed company called DSQ Biotech, which is similarly in the doldrums after several name changes.

The timing is uncanny. India's notorious financial swindler, Dinesh Dalmia, got bail in a third case at the end of September and, barring a couple of cases in Chennai that will come up for bail hearings in the coming weeks, he seems set to roam free (but on bail) for the next couple of decades. After all, that is how long it takes for court cases in India to wind their way through the excruciatingly slow process of litigation and appeals.

Meanwhile in the US, he has already been indicted in absentia for a \$19 million equipment leasing and wire-financing fraud; he and a couple of his associates were indicted on 10 separate counts of money laundering. The slickness of Dalmia's sales pitch to financiers is evident from the list of companies that he has defrauded. These included GE Capital Finance of Danbury, CitiCapital Technology Finance of Mahwah, New Jersey, and Fifth Third Leasing Company of Cincinnati, Ohio.

Dalmia had acquired a new persona in the US and went by the name of Nick Mittal. He is also rumoured to have traded through Kolkata brokers under that name. The leasing fraud itself was perpetrated through three companies — Allserve, Vanguard Info Systems and B2B. One of Dalmia's tricks has been to register what he calls "mirror companies" in different countries to confound and trick people. For instance, he registered Allserve and Vanguard in India, US and UK. The US companies fraudulently leased equipment, but stopped paying creditors and filed for bankruptcy within months of signing the lease deals with financiers. In January 2006, the British and Indian operations also folded up. It is pertinent that Indian investigation agencies made little attempt to track down their operations or link them to Dalmia despite repeated reports, certainly by this newspaper, on their multi-location operating centres.

Dalmia seems to have fooled US companies regarding his high net worth through a fancy lifestyle. This included a \$1.9 million home in New Jersey and a red Ferrari, which was also financed. The court is now trying to recover \$19 million and has had his luxury mansion forfeited. This is apparently just the tip of Dinesh Dalmia's laundering activities in the US. He is, in fact, believed to have defrauded financiers to the tune of \$130 million or more, of which over \$30 million is owed to British financiers. Some of these frauds are already the subject of a trial in a federal court following a criminal complaint against him in March. The elaborate scheme to defraud lenders involved assembling worthless equipment obtained from used computer dealers to represent hi-tech offices and creating fraudulent documents, contracts and invoices for large business orders.

Dalmia, it may be recalled, came into the limelight at the turn of the century for his brazen manipulation of the shares of DSQ Software and DSQ Biotech, initially in cahoots with

scamster Ketan Parekh. He was then involved in a series of shenanigans on his own, which included an illegal 50% increase in the capital of DSQ Software, without informing shareholders or stock exchanges; dubious placement of shares, repeated restructuring of the companies, clandestine alienation of their overseas operations, frequent name changes and, finally, selling off the most lucrative contracts of DSQ Software to Ramesh Vangal's Scandent Technologies, again without informing his board of shareholders. After that, Dalmia fled to the US and the Central Bureau of Investigation (CBI) issued a 'red corner' notice against him. However, he seems to have taken enough money out of India to start a fresh series of scams, this time to defraud several US companies.

The US indictment is a major embarrassment for Indian investigators. Especially for the Enforcement Directorate (ED), CBI and the Serious Fraud Investigation Office (SFIO), which have done precious little to track Dalmia or investigate his activities, despite repeated reports by this columnist. After Dalmia's indictment in the US, the agencies have set up a multi-disciplinary committee to investigate his dealings. Since Dalmia has already been indicted following a detailed investigation, this only seems like a cover-up exercise and may include some foreign trips for the investigation officials. So far, Sebi has slapped crippling penalties on Dalmia. The ED has also slapped penalties on DSQ Software and DSQ Biotech, but did precious little to take its action forward in obvious directions. Only the Kolkata police have been doggedly and persistently following up the illegitimate preferential allotment of 1.3 crore DSQ Software shares to his own companies.

While Dalmia and his associates face a prison term of up to 30 years in the very first indictment, his troubles in the US may be just beginning. The elaborate fraud that he conceived and executed was recently reported to a House Sub-committee on Oversight and Investigation of the US Congress. While the hearings at an open forum on September 29 were mainly on outsourcing and pretexting, US journalist Christopher Byron, who exposed several of Dalmia's swindles in that country, drew the committee's attention to his astonishingly brazen scams. If the Congressional sub-committee takes this seriously, it would not only mean more problems for Dalmia, but serious embarrassment for India's outsourcing operations in general.

It is one good reason why the government must ensure a proper investigation into Dinesh Dalmia's doings, as well as a clean-up of the BPO industry, whose reputation has taken a repeated bashing in recent times.

THE FAKE STAMP RACKET.



The **Telgi Stamp Scam** can be dubbed as the *mother of all scams* and many cannot resist saying it happens only in India. Its ramifications run deep and cover over 12 states with Maharashtra leading the way. It has left its stamp of shame on the top police brass, politicians and bureaucrats. Today a number of them, including the ex-police commissioner of police, Mumbai are languishing in jails along with the kingpin, and state's strong man resigned as cries to boot him out reached a crescendo.

Abdul Karim Lad Saab Telgi's story is that of the rags to the riches. He started by selling articles on the Belgaum platform and trains to make out a living and educated himself and by doing a petty job. He struck gold when he plunged into printing and selling fake stamps. His operations lasted for nearly a decade and during this period he was able to keep the law at bay by bribing the powers that pulled the strings.

He started be doing what has been even impossible to think of. He penetrated the confines of Indian Government's Nashik Security Press where millions of crores worth court stamp papers and printed in connivance with the top officials. He bought scrap stamp printing presses in working conditions, installed them in his Mumbai Press and began printing and selling stamp papers.

What helped and boosted his sales was that by pulling his political strings he succeeded in getting a stamp vendors license. This enabled him to sell in bulk to top companies and banks. Soon his growing money power gained him so much clout at Mumbai Stamp Office that for long periods they feigned shortage of stamps, allowing Telgi's men to sell stamps at a premium outside the stamp office.

Today, many are paying the price of their falling prey to Telgi's bribes and Telgi to who has amassed a fortune is down with aids and in jail but this time without the luxuries of a cell phone or hotel stay. Today's watch worth is "*No Telgi Ghee only butter*" Though the racket had come to light in 1995 those whose duty was to expose and bring the guilty to booth engaged them in cover-up and apparently allowed him to run the racket from his cell by providing him the cell phone.

Finally, it was the patience and perseverance of one man, the indefatigable Anna Hazare who filled a public interest petition in the high court. This brought things into the open and exposed the role of police and politicians and under the court's order the state government was forced to set up S.I.T who's findings have sealed the fate by many top brass and even made the central government to sit up and take action.

In his early forties, is keeping the police force of at least 19 states on tenterhooks. The main suspect in the fake stamp paper racket is a native of Belgaum district in Karnataka. He began as a vendor in a small railway station before coming to Mumbai.

A meeting with a forger eventually led him to the stamp and stamp papers business where demand forever exceeded supply. He capitalized on this by printing duplicates.

No one has determined the extent of his business or the loss to the exchequer, but it is believed to run into thousands of crores.

Arrested in 2001, Telgi is now behind bars in Karnataka. Among those who reportedly helped Telgi were several politicians, policemen and bureaucrats. Two MLAs - *Anil Gote* (Dhule, Maharashtra) and *Krishna Yadav* (Himayat Nagar, Andhra Pradesh) - have been arrested and charged under the Maharashtra Control of Organized Crime Act.

Apparently, Gote helped Telgi get a stamp vendor's license using a recommendation from former Maharashtra chief minister *Vilasrao Deshmukh*.

Yadav, it is believed demanded Rs 2 crore to protect his illegal business. Though Telgi's business empire was controlled from Mumbai, the Maharashtra government never showed much enthusiasm to expose or end the racket.

He paid for his own education at Sarvodaya Vidyalaya by selling fruits and vegetables on trains. He is today famous (or infamous) for being he man behind one of The Telgi case is another big scam that rocked India. The fake stamp racket involving Abdul Karim Telgi was exposed in 2000. The loss is estimated to be Rs 171.33 crore (Rs 1.71 billion), it was initially pegged to be Rs 30,000 crore (Rs 300 billion), which was later clarified by the CBI as an exaggerated figure.

In 1994, Abdul Karim Telgi acquired a stamp paper license from the Indian government and began printing fake stamp papers. Telgi bribed to get into the government

security press in Nashik and bought special machines to print fake stamp papers. Telgi's networked spread across 13 states involving 176 offices, 1,000 employees and 123 bank accounts in 18 cities.

THE Telgi stamp scandal is big. The Telgi stamp scandal is national. The Telgi stamp scandal is all-encompassing. But, above all, the Telgi stamp scandal is Indian.

Consider its many elements. First, the rags to riches story of Abdul Karim Telgi, born 47 years ago in Khananpur near Belgaum to a minor functionary in the railways. His father died when Abdul Karim, the second of three sons, was still a child. He was determined to study and supported his own education at a local English medium missionary school by selling vegetables and fruit on trains. One of his ambitions, apparently, was to go to the Gulf, which suggests an early desire to make money.

Nothing wrong with that, of course. Except that our system, since the 1970s at least, encourages you to take short-cuts in the pursuit of money. And the late 1970s is when Telgi came to Mumbai from the Gulf, the legitimate ways of making money was too slow for his liking, and he discovered the joys of forgery. From forging passport documents (which is a cottage industry in India) to forging stamp paper and revenue stamps is a small leap in imagination but requires a large leap in entrepreneurship. Telgi was equal to that, and the rest is (recent and dark) history, showing once again that entrepreneurship which flouts the law, thrives the most in our country.

We are well aware how our system of checks and balances to prevent corruption, in fact encourages it, and the larger the scope of a scam, the more likely it is to succeed spectacularly. Telgi's fake stamp scam is the biggest ever in the country, and it was possible because of this simple, yet unshakeable Indian truth: everyone, or at least almost everyone is corruptible. From the constable to the cabinet minister, everyone, or at least almost everyone is on the take. Telgi's corruption network must be far, far larger than what it prima-facie appeared to be. The Telgi tapes, over 1,200 hours of his phone conversations secretly taped by the Karnataka police while he was in jail, proved to be a key piece of evidence.

In the meantime, let's just look at the policemen so far in the net. Telgi gave very, very large bribes, got very, very large favours. The biggest of course, was to carry on unhindered, the business of forging government Stamp Paper. The fact that this translates into defrauding the government of very large revenues, isn't something that bothered our keepers of the law, as long as their own demands were met. By the time Telgi came to need Company and grow his network, he had already learnt that the right sum of money into the right pocket at the right time, ensures that an official head will look the wrong way when wanted. That, in fact, was how his stamp paper career started: he was able to bribe insiders to give him the production programmes of the heavily guarded Government Security Press in Nashik, so that he knew what denomination and category of papers were being printed at any given time, so his own press could do the same.

Even more importantly, Telgi was able to buy special printing machines from the Nashik press which had supposedly gone beyond their shelf life, and were meant to be destroyed and sold as scrap. Telgi did buy them as scrap (at an auction which was fixed in his favour), but he was able to ensure that the presses were not destroyed as they were meant to be¹.

Another reason why the Telgi scam is so very Indian is that it involves so much of official incompetence. Whether the incompetence was just that or was motivated, is for the SIT to find out.

Two more elements make the Telgi scam thoroughly Indian. The first is the very scope of the scam. Initial figures said that the fraud totalled Rs. 2,000 crores. That already massive figure has steadily been increased so that in some circles the estimate goes up to Rs. 26,000 crores and in some even to Rs. 32,000 crores. Where do these staggering figures come from? And why are these being bandied about so loosely? This suggests the usual rumour mill in action, kept in check neither by the authorities nor the media. Surely it would be possible to get a better approximation by looking at annual figures of stamp papers officially sold over the last few years, looking at the annual rate of growth and checking if there was a large fall in the sales figures in the last few years. That reduction would give a reasonably accurate estimate of the market cornered by Telgi.

THE UTI SCAM.



The line between **'legitimate' business and the mafia** is getting increasingly diffused. The greater the liberalisation/globalisation of the economy, the more rampant is the loot. Phoolan Devi as a dacoit in the ravines of Madhya Pradesh could not even dream of the type of wealth made as a Member of Parliament. Her wealth at the time of her death was estimated at a minimum of Rs. 10 crores. But this is small fry compared to the Harshad Mehtas, Bharat Shaha, Ketan Parekhs, Subramanyams etc and the top politicians/bureaucrats/corporate houses with whom they are linked. Phoolan Devi appears as a petty thief compared to these gangsters. The amount robbed through the UTI scam intails thousands of crores — the bulk of which belongs to small investors who have put their life-savings into this scheme.

WHAT IS THE UTI ?

The Unit Trust of India is the largest mutual fund in the country created in 1964 through an act of parliament. Mutual Funds are financial institutions that invest people's money in various schemes, giving a 'gauranteed' return to the investor. The UTI (of which the US-64 scheme is the largest) was set-up specifically to channel small savings of citizens into investments giving relatively large returns/interest. The US-64 scheme has 2 crore investors, the bulk of whom are small savers, retired people, widows and pensioners. Besides the US-64 the UTI runs 87other schemes giving inverstors various options. But the US-64 has been most popular, giving returns as high as 18% in 1993 and 94.

Liberalisation of the economy immediately led to the liberalisation of the UTI, throwing it to the mercy of the stock market. In 1992, itself the US-64 scheme was changed from a debt-based fund to one linked to equity. In 1992 only 28% of its funds was in equity; today it is over 70%. Further liberalisation was pushed by Chidambaram, as the finance minister of the U F government, who, in 1997, removed all government nominees from the board of the UTI. Besides, the US-64 does not come under SEBI regulations, its investment details are kept secret (ever depositors cannot know where their funds are being parked) and the chairman has arbitrary powers to personally decide an investment upto a huge Rs 40 crores. Such 'liberalisation' is tailor-made for frauds. Not surprisingly, within one year of Chidambaram's

liberalisation, in 1998, the UTI crashed, and the new BJP-led government organised a large Rs.3,500 crore bailout to prevent default.

It was during this crisis that the new chairman, P.S. Subramanyam, was appointed. Subramanyam was a direct appointee of thug Jayalalitha, who had made his selection a condition for her continuing the support of the then NDA government. Later, though Jayalalitha withdrew from the government, Subramanyam developed close links with the Prime Minister's Office, and corporative big-wigs. Small investor's funds were used to promote big business houses, shower favours to politicians, and invest huge amounts in junk bonds....all for a fat commission. Subramanyam functioned like a fascist, arbitrarily transferring hundreds of senior staff, in order to cover his tracks. He was a key player in the Ketan Parekh scam. Huge amount of UTI funds were channelled into the infamous K-10 list of Ketan Parekh stock, such as Himachal Futuristic, Zee Telefilms, Global Tele, DSQ, etc.

The UTI continued to buy these shares even when their market value began to crash in mid-2000, in order to prop up the share values of these stocks. The Trust saw its Rs. 30,000 portfolio (value of stocks) lose half its value within a year since Feb. 2000. To take just one example on how the UTI operated : In August 2000, much after the software stocks had begun to crash, the UTI bought Rs. 34 crores worth of shares in Cyberspace Infosys Ltd at the huge price of Rs 930 per share. Today the shares have no value and its Lacknow based promoters, the Johari Group, are in jail. But, what is astounding is that it was none other than India's prime minister, Vajpayee, who, as late as Jan. 31, 2001, laid the foundation stone for the Software Tectnology Park (STP) in Luknow, promoted by this group. (Incidentally the UP government had a 26% share in this STP). Coincidentally, in the four days when the UTI reversed its earlier decision and subscribed to 3.45 lakh shares of Cyberspace, Subramanyam had rung up N.K. Singh (then secretary in the PMO) at least 4 times. It does not take much imagination to link UTI purchases in Cyberspace with Vajpayee. Similar were the investments in DSQ Software, HFCL, Sriram Multitech. and others.

Besides, the UTI also invested in junk bonds like Pritish Nandy communications (Rs. 1.5 crores), Jain Studios(Rs.5 crores), Sanjay Khan's Numero Uno International

(Rs. 7.5 crores), Malavika Spindles(Rs. 188 crores) etc. This amounted to nothing but handing over people's money (investments) to the rich and powerful. Thereby thousands of crores were siphoned off to big business and prominent individuals, with the UTI chairman, bureaucrats and politicians taking their cuts. But this was not all. The fraud continues even further.

With knowledge that the UTI was in a state of collapse, the Chairman organised a high profile propaganda campaign promoting UTI (spending crores of rupees on the top advertising company, Rediffusion), while at the same time leaking information to the big corporates to withdraw their funds. The Chairman thereby duped the lakhs of small investors through false propaganda, while allowing windfall profits to the handful of big corporates who had invested in UTI. So, in the two month prior to the freezing of dealings in UTI shares, a gigantic sum of Rs. 4,141 crores was redeemed. Of this Rs.4,000 crores (97%) were corporate investments. What is more,they were re-purchased at the price of Rs. 14.20 per share (face value Rs.10) when in fact its actual value (NAV — net asset value) was not more than Rs. 8. As a result UTI's small investors lost a further Rs. 1,300 crores to the big corporates.

In fact these huge withdrawals further precipitated the crisis. On July 4, 2001 the board of UTI took the unprecedented step of freezing the purchase and sale of all US- 64 UTI shares for six months. Simultaneously it declared a pathetic dividend of 7% (10% on face-value), which is even lower than the interests of the banks and post office saving schemes. Such freezing of legally held shares is unheard of — and is like overnight declaring Rs. 100 notes as invalid for some time. In other words the 2 crore shareholders could not re-invest their money elsewhere — and would have to passively see their share price erode from Rs. 14 (at which they would have purchased it) to Rs 8 — and get interest at a mere 7% on their initial investments. Fearing a backlash, the government/UTI later announced the ability to repurchase UTI shares at Rs.10 — i.e. at 30 % below the purchase price.

Imagine the plight of a retired person who would have put a large part of his/her PF, gratuity etc. in the US-64 scheme, considering it the safest possible investment. Not only has the person's income (interest/dividend) halved overnight, he/she also stands to lose a large part of the investment. So, a person who invested Rs. 1 lakh would now only get back Rs 70,000.

Today, the entire middle class is being robbed of their savings — first it was by the private mutual funds (NBFCs), now by the govt. sponsored mutual fund. Those who gain are the robber barons who run the country's economics, finance, politics.

The middle-classes, affected by these scam, will soon realise the facts and come out of the euphoria of consumerism that has numbed their senses. They will see through the hoax of globalisation/liberalisation, and will turn their wrath on these so-called pillars of society. It is important that this impending explosion be channeled in a revolutionary direction, or else it will be diverted by the ruling elite into fratricidal clashes. The middle-classes are most prone to fall prey to ruling-class propaganda. But life itself is the best educator. Faced with unemployment, loot of their savings, price rise of all essentials, etc. they will no doubt, join the working class and their peasant brethren in revolt.

The Joint Parliamentary Committee (JPC) investigating the UTI scam has concluded that the scam took place due to the selfishness of a few individuals and the negligence of the management. The JPC probe has also found SEBI guilty of failing in its role as the market watchdog. In such a situation, whom will an investor approach for grievance redressal, especially when the regulator has itself been negligent? Whatever the reasons may be, one thing is clear: a middle-class investor will think twice before investing in the UTI, as it has repeatedly failed to deliver in the recent past. The middle-class does not have much money to spare, and will not surely invest in any fund whose returns are uncertain, even if it promises a higher rate of interest.

Further, mere probes will not do much to restore the confidence of investors in the UTI. What is required is action against those responsible for the scam. There is also the feeling that some individuals have been allowed to go scot-free because of their political connections. This must stop, and the 'scamsters' should be punished. The UTI needs management restructuring along with new and effective schemes. The old and unreliable schemes should be discarded.

Former UTI Chairman P S Subramanyam and two executive directors -- M M Kapur and S K Basu -- and a stockbroker Rakesh G Mehta, were arrested in connection with the 'UTI scam'. UTI had purchased 40,000 shares of Cyberspace On September 25, 2000, for about Rs 3.33 crore (Rs 33.3 million) from Rakesh Mehta when there were no buyers for the scrip. The market price was around Rs 830. The CBI said it was the conspiracy of these four people which resulted in the loss of Rs 32 crore (Rs 320 million).

Subramanyam, Kapur and Basu had changed their stance on an investment advice of the equities research cell of UTI. The promoter of Cyberspace Infosys, Arvind Johari was arrested in connection with the case. The officials were paid Rs 50 lakh (Rs 5 million) by Cyberspace to promote its shares. He also received Rs 1.18 crore (Rs 11.8 million) from the company through a circuitous route for possible rigging the Cyberspace counter.