

In Re: Investigation Into Initial

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Court : SEBI Securities and Exchange Board of India or Securities Appellate Tribunal SAT

Decided On : Apr-27-2006

Judge : G Anantharaman

Appellant : In Re: Investigation Into Initial

Judgement :

G. Anantharaman, Member 1.1. As a part of ongoing surveillance activity by SEBI into the various aspects of working of securities market, SEBI had initiated probe and advised BSE and NSE to look into the dealings in the shares issued through Initial Public Offerings (IPOs) before the shares are listed on the stock exchanges. For the purpose of the examination, the off-market transactions data as obtained from the depositories were provided by SEBI to the stock exchanges. In October 2005, the stock exchanges submitted their preliminary observations on the IPO of Yes Bank Ltd. (YBL) which hinted at the possibility of large scale off-market transactions immediately following the date of allotment and prior to the listing on the stock exchanges. SEBI therefore carried out a preliminary scrutiny by calling for data from the depositories and the Registrar to the Issue (RTI). It was found that large number of multiple dematerialized accounts with common addresses were opened by a few entities. On noticing the irregularities and widespread abuse, SEBI acted against the entities who were responsible for the irregularities by passing interim order restraining them from participating in all future IPOs and also directing the depositories to effectively freeze their dematerialized accounts. Close on the heels of the order in the case of Yes Bank IPO, SEBI examined the

dealings in another major IPO of IDFC wherein the very same players were suspected to have played a major role in cornering the shares. SEBI issued interim orders in the case of IDFC also along the similar lines as done in the case of Yes Bank.

1.2. In the course of investigations pursuant to interim orders in the cases of Yes Bank and IDFC, SEBI has noticed that some of these multiple accounts were opened in June 2003. The involvement of these accounts in Initial Public Offerings prior to that of Yes Bank and IDFC were looked into.

2.1. Consequent to the preliminary scrutiny, SEBI found that certain entities had cornered IPO shares reserved for retail applicants by making applications in the retail category through the medium of thousands of fictitious / benami IPO applicants with each of the application being for small value so as to be eligible for allotment under the retail category. Subsequent to the receipt of IPO allotment these fictitious / benami allottees had transferred shares to their principals who in turn transferred the shares to the financiers that had originally made available the funds for executing the game-plan.

The financiers in turn sold most of these shares on the first day of listing thereby realising the windfall gain of the price difference between IPO price and the listing price.

2.2. It was found that almost all the dematerialized accounts that were in the names of fictitious / benami entities were held through the depository participant Karvy Stock Broking Ltd. (Karvy-DP). Inspection of Karvy - DP by NSDL and CDSL has revealed that the DP has obtained letters from the concerned banks towards proof of identity (POI) and proof of address (POA) for the purpose of opening dematerialized accounts. In terms of SEBI circular ref: MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004, an identity card / document issued by Scheduled Commercial Banks containing the applicant's photo / address may be accepted as POI and POA. The circular further clarified that "the aforesaid documents are the minimum requirement for opening a BO Account. The Depository Participants (DPs) must verify the copy of the document with the original before accepting the same as valid. While opening a BO Account, the DPs are required to exercise due

diligence while establishing the identity of the person to ensure the safety and integrity of the depository system." Thus it appears that first the bank accounts were opened in the names of fictitious / benami entities and this facilitated the fictitious / benami bank account holders to open dematerialized accounts.

2.3. The entire modus operandi as detailed above, led to the suspicion that the thousands of entities in each of whose names separate dematerialized accounts and bank accounts had been opened and IPO applications made were merely name-lenders or non-existent. SEBI had earlier made reference to Reserve Bank of India (RBI) in this regard.

2.4. The findings of RBI also confirm the preliminary findings of SEBI that these thousands of name-lenders are fictitious. Even the key persons (master account holders) who had executed the game plan were merely intermediaries acting on behalf of financiers. These key persons and their financiers are not investors but mere rank opportunists who seek to make a killing by disposing the IPO shares cornered by them on the date of listing. The banks have also played their part by opening bank accounts and providing loan to these fictitious entities with the objective of earning interest and other charges.

3. Further Actions taken by SEBI consequent to the Orders Passed 3.1. As already mentioned, SEBI has issued suitable directions against the above mentioned key operators prohibiting them from dealings in securities. The financiers and other related entities have been directed not buy, sell or deal in IDFC / YBL shares and in other ensuing IPOs. As regards, opening of dematerialized accounts in the names of fictitious / benami entities, SEBI has directed the major DPs involved, namely, Karvy-DP and Pratik-DP not to open new dematerialized accounts till further directions. References have been made to RBI and Income Tax department communicating the findings of SEBI.3.2. In addition, the following actions have been taken: a. Karvy Stockbroking Ltd. and Pratik Stock Vision P Ltd., the Depository Participants involved in the said two IPOs have been inspected by SEBI. The inspection has revealed numerous violations by these DPs. Besides the detailed verification relating to the dematerialized accounts opened by Karvy-DP has revealed that Karvy-DP has

violated the various norms prescribed by SEBI with regard to the operations of a DP including failure to follow the 'know your client' norms laid down by SEBI. b. Karvy Computershare Ltd., the Registrar to the Issue in the two IPOs has been inspected.

c. References have been made to RBI, Income Tax department and CBI communicating the findings of SEBI in this matter. SEBI has also filed complaints with CBI. d. SEBI is initiating prosecution proceedings against the concerned entities.

e. As directed by SEBI, the depositories i.e. NSDL and CDSL have advised their respective DPs to verify the genuineness of the dematerialized account-holders where 20 or more dematerialized account-holders have a common address and to close those dematerialized accounts where the DPs are unable to do the above verification.

f. During the course of the above verification it was noticed that certain DPs had large number of dematerialized account-holders sharing a few common addresses. Some of these DPs have been inspected by the depositories as well as an independent Chartered Account Firm engaged by SEBI. The above inspections of the DPs disclosed various irregularities and appropriate actions will be taken against the concerned DPs.

g. The depositories have been directed to form a co-ordination committee to co-ordinate with the surveillance department of SEBI for monitoring abnormal transactions in dematerialized accounts.

h. As an interim measure to check misuse through off-market transfer prior to listing, SEBI, vide circular dated January 19, 2006, has advised the depositories that in case of IPOs they should activate the ISINs only on the date of commencement of trading on the stock exchanges.

i. Since some of the demat accounts that were used in the IPOs of Yes Bank and IDFC were opened during the year 2003, the depositories were advised to identify all the other IPOs during 2003, 2004 and 2005 wherein the same modus operandi

has been adopted by the identified entities and to identify other entities besides those already identified by SEBI who were suspected to be indulging in the same modus operandi.

3.3. Further, SEBI conducted detailed investigations in the matter. In the course of the investigations, SEBI has obtained the bank account statements of the concerned entities held with Bharat Overseas Bank ('Bh OB'), Vijaya Bank, ICICI Bank and HDFC Bank and has also recorded the statements of the officials of Bh OB, Ahmedabad, Chennai, Goregaon and Worli branches and Vijaya Bank, Ambavadi, Ahmedabad.

3.4. SEBI has also obtained information from Karvy Stock Broking Ltd. ('Karvy-DP') and Karvy Computershare Ltd. ('Karvy-RTI'). Further, SEBI has received references from various Government Agencies including Reserve Bank of India ('RBI'), Serious Fraud Investigation Office ('SFIO') and Intelligence Bureau ('IB'). Various investor complaints have also been received alleging irregularities in various IPOs.

3.5. The trends and patterns as gleaned from detailed investigations conducted by SEBI are given below: For the purpose of this order the following terms would mean: (a) "Financier" is a person who either on his own or alongwith others provided the finance for IPO subscription and are the ultimate beneficiaries in the scheme of cornering retail allotment and forking out a big gain on sale immediately after listing.

(b) "Master Account Holders / Key Operators " are the 24 entities identified in the sweep of this order who allowed their demat accounts for temporarily parking credits received from a multitude of afferent accounts before transfer to financiers.

(c) "Afferent Accounts" (benami / fictitious accounts) would refer to countless demat accounts in benami and fictitious names, the credits from where found its confluence in the master accounts.

The modus operandi adopted for cornering of retail portion of IPO shares is pictorially represented below: Afferent A/c Market(IPO applicant) Financier

Sale Afferent A/c Key Operator Financier Market (IPO applicant) Sale Afferent A/c Financier Market (IPO applicant) Sale 5. Examination of IPOs during 2003-2005

Table 5. 1 - IPOs during 2003 - 2005

Sr. No.	Issue size (no. of shares)	Issue open date
1	Radaan Mediaworks India Limited	IPO
2	Divi's Laboratories Ltd.	IPO
3	Vardhman Acrylics Limited	IPO (Offer for Sale)
4	Jai Balaji Sponge Limited	IPO
5	T. V. Today Network Ltd.	IPO
6	Surya Pharmaceuticals Ltd.	IPO
7	Patni Computer Systems Ltd.	IPO
8	Dishman Pharma. & Chemicals Ltd.	IPO
9	Ramkrishna Forgings Ltd.	IPO
10	Datamatics Technologies Ltd.	IPO
11	New Delhi Television Ltd.	IPO
12	Vishal Exports Overseas Limited	IPO (Offer for Sale)
13	Tata Consultancy Services Ltd.	IPO
14	Indiabulls Financial Services Ltd.	IPO
15	Crew B. O. S. Products Ltd.	IPO
16	MSK Projects (India) Ltd.	IPO
17	National Thermal Power Corporation Ltd.	IPO
18	Deccan Chronicle Holdings Ltd.	IPO
19	Dwarikesh Sugar Industries Ltd.	IPO
20	Jet Airways (India) Ltd.	IPO
21	UTV Software Communications Ltd.	IPO
22	Gateway Distriparks Ltd.	IPO
23	Jaiprakash Hydro-Power Ltd.	IPO
24	Allsec Technologies Ltd.	IPO
25	Mangalam Drugs & Organics Ltd.	IPO
26	Cyber Media (India) Ltd.	IPO
27	Shree Ganesh Forgings Ltd.	IPO
28	Nectar Lifesciences Ltd.	IPO
29	Shri Ramrupai Balaji Steels Ltd.	IPO
30	Infrastructue Development Finance Co. Ltd.	IPO
31	Sasken Communication Technologies Ltd.	IPO
32	FCS Software Solutions Ltd.	IPO
33	Aurionpro Solutions Ltd.	IPO
34	Shree Renuka Sugars Ltd.	IPO
35	Bannari Amman Spinning Mills Ltd.	IPO
36	Prithvi Information Solutions Ltd.	IPO
37	PBA Infrastructure Ltd.	IPO
38	Bombay Rayon Fashions Ltd.	IPO
39	Everest Kanto Cylinder Ltd.	IPO
40	Kernex Microsystems (India) Ltd.	IPO

5.1. SEBI advised the depositories to examine all the IPOs during the period from January 2003 to December 2005 in respect of those dematerialized accounts that had received 20 or more credits reckoning the period from the date of close of respective IPO to the first day of trading on listing (both days including). Since the pay-in / pay-out for shares listed on the stock exchanges commences two days after the date of listing on the stock exchanges, it stands to reason that trades done till one day after listing would necessarily involve dealing in IPO shares. For the purpose of the above examination, SEBI obtained the details of all IPOs during the above period from the stock exchanges i.e. BSE and NSE and forwarded the same to NSDL and CDSL. The details of IPOs during 2003-2005 as obtained from the stock exchanges are as given below:

5.2. SEBI advised the depositories viz. NSDL and CDSL to examine the above 105 IPOs with respect to

off-market transactions during the period from the date of close of respective IPO to the first day of trading on listing (both days including) for identifying master account holders that had received IPO shares from numerous afferent demat accounts. Since the pay-in / pay-out for shares listed on the stock exchanges commences two days after the date of listing on the stock exchanges, it stands to reason that off-market trades done till one day after listing would necessarily involve dealing in IPO shares..

5.3. NSDL and CDSL submitted data in respect of the IPOs during 2003-2005 regarding the above. From the data submitted by NSDL it is seen that there are a total of 1579 dematerialized account-holders that have received IPO shares from 20 or more dematerialized accounts and in the case of CDSL there were 700 such dematerialized account-holders.

5.4. The floor level of 500 or more is adopted in this order for determining the suspect multiple demat accounts in typical samples, as samples with lesser numbers may not be truly representative of the "suspect" character, especially having regard to the large incidence of multiple accounts in any IPO with genuine combinations at lower levels.

Further a sample of more than 500 multiple demat account would impart the necessary focus and direction to the whole exercise of tracking down the real culprit accounts in cornering the IPO allotment and dealing with them effectively in a demonstrative regulatory action.

Also any group / cluster activity involving 500 or more demat accounts in IPO allotment excites a genuine suspicion in the context of off-market transfers from such accounts to one account which would normally be possible, if only such afferent accounts were dummies with unity of control resting with the master account holders. Definitely, synchronized off-market transfers in large numbers to a common master account have something uncommon about them, while suggesting control exercised by that master account holder in moving those afferent accounts, which have no existence of their own.

5.5. This is however not to state that where there are less than 500 afferent accounts, the same would pass off as genuine. The focus of the SEBI investigations has been on entities indulging in off-market transactions prior to listing and commencement of trading on the stock exchanges.

5.6. In the case of NSDL 23 master account holders had received shares from 500 or more afferent account in 21 IPOs during the years 2003-2005 whereas in the case of CDSL there were three such master account holders who had received shares in 9 IPOs during the year 2005.

5.7. Accordingly, the IPOs in which the dematerialized account-holders received credit of IPO shares from 500 or more dematerialized accounts were identified. It is seen that in the case of NSDL there were 21 IPOs in which 23 dematerialized account-holders received off-market credit of shares from 500 or more dematerialized account-holders having certain commonalities. The details in respect of the these IPOs are summarized below: Table 5.7 (a) - IPO - NSDL

Sl. No.	Company Name	NSDL SI. No.
1	Roopalben Nareshbhai Panchal Karvy Stock Broking Limited	11920868
2	Datamatics Technologies Ltd.	Roopalben Nareshbhai Panchal Karvy Stock Broking Limited 11920868
3	Dishman Pharma. & Chemicals Ltd.	Roopalben Nareshbhai Panchal Karvy Stock Broking Limited 11920868
4	FCS Software Solutions Ltd.	Sugandh Estates And Investments Pvt. Ltd. Karvy Stock Broking Limited 14405199
5	Roopalben Nareshbhai Panchal Karvy Stock Broking Limited	11920868
6	Gateway Disriparks Lrd Purshottam Budhwani Anagram Stockbroking Ltd.	10093022
7	Roopalben Nareshbhai Panchal Karvy Stock Broking Limited	11920868
8	Anagram Stockbroking Ltd.	10093022
9	Roopalben Nareshbhai Panchal Karvy Stock Broking Limited	11920868
10	Sugandh Estates And Investments Pvt. Ltd.	Karvy Stock Broking Limited 14405199
11	Devangi Dipakbhai Panchal Karvy Stock Broking Limited	11933458
12	Infrastructue Development Finance Co. Ltd.	Roopalben Nareshbhai Panchal Karvy Stock Broking Limited 11920868
13	Sugandh Estates And Investments Pvt.Ltd.	Karvy Stock Broking Limited 14405199
14	Karvy Stock Broking Limited	10004600
15	Karvy Stock Broking Limited	12501284
16	Anagram Stockbroking Ltd.	10093022
17	Karvy Stock Broking Limited	40081967
18	Karvy Stock Broking Limited	10004626
19	Karvy Stock Broking Limited	15530980
20	Karvy Stock Broking Limited	40080736
21	Karvy Stock Broking Limited	40080719
22	Deepakkumar	

Shantilal Jain Pravin Ratilal Sh & Stk 10403856 Khandwala Int.Fin.S.Pv.L
10139886 Jet Airways (India) Ltd. Deepak Madhukant Patel Pravin Ratilal Sh &
Stk 10127493 Roopalben Nareshbhai Panchal Karvy Stock Broking Limited
11920868 National Thermal Power Corporation Ltd. Roopalben Nareshbhai
Panchal Karvy Stock Broking Limited 11920868 Sugandh Estates And
Investments Pvt.Ltd. Karvy Stock Broking Limited 14405199 Karvy Stock Broking
Limited 12501284 Karvy Stock Broking Limited 40064516 Nectar Lifesciences Ltd.
Roopalben Nareshbhai Panchal Karvy Stock Broking Limited 11920868 Karvy
Stock Broking Limited 12501284 Karvy Stock Broking Limited 40081967 Patni
Computer Systems Ltd. Arjav Nareshbhai Panchal Karvy Stock Broking Limited
11932970 Sasken Communication Technologies Ltd. Roopalben Nareshbhai
Panchal Karvy Stock Broking Limited 11920868 Sugandh Estates And
Investments Pvt.Ltd. Karvy Stock Broking Limited 14405199 Roopalben
Nareshbhai Panchal Karvy Stock Broking Limited 11920868 Karvy Stock Broking
Limited 40081967 Anagram Stockbroking Ltd. 10093022 Roopalben Nareshbhai
Panchal Karvy Stock Broking Limited 11920868 Karvy Stock Broking Limited
40081967 Roopalben Nareshbhai Panchal Karvy Stock Broking Limited 11920868
Khandwala Int.Fin.S.Pv.L 10139886 Anagram Stockbroking Ltd. 10093022 Jhaveri
Securities Pvt. Ltd. Jhaveri Securities P Ltd. 10005806 Karvy Stock Broking
Limited 15530980 Chandrakant Amratlal Parekh Khandwala Int.Fin.S.Pv.L
10183690 Goldmine Stocks Pvt.Ltd. 10068824 The Kalupur Com.Co.Bank
10005792 Devangi Dipakbhai Panchal Karvy Stock Broking Limited 11933458
Tata Consultancy Services Ltd. Roopalben Nareshbhai Panchal Karvy Stock
Broking Limited 11920868 Sugandh Estates And Investments Pvt.Ltd. Karvy Stock
Broking Limited 14405199 Ambuja Estate And Holdings Pvt.Ltd. Karvy Stock
Broking Limited 13997078 Anagram Stockbroking Ltd. 10093022 Karvy Stock
Broking Limited 12501284 Indiabulls Securities Ltd. Indiabulls Securities Ltd.
10131283 Roopalben Nareshbhai Panchal Karvy Stock Broking Limited 11920868
Sugandh Estates And Investments Pvt.Ltd. Karvy Stock Broking Limited 14405199
Karvy Stock Broking Limited 40081967 Karvy Stock Broking Limited 40080736
Table 5.7 (b) - IPO - CDSL Sr. No.No. of accounts from which shares received
Infrastructure Development Finance Company Limited (July 2005)
1301440000307503 Roopal Nareshbhai Panchal 3934140 Purshottam

Ghanshyamdas Budhwani 750386 FCS Software Solutions Limited (August 2005) 1301440000307503 Roopal Nareshbhai Panchal 156300 Suzlon Energy Limited (September 2005) 1301440000051951 Purshottam Ghanshyamdas Budhwani 16288 Shoppers Stop Limited (April-May 2005) 1202020000006413 Nectar Lifesciences Limited (June 2005) 1202020000006413 Yes Bank Limited (June 2005) 1202020000006413 SPL Industries Limited (June-July 2005) 1202020000006413 Sasken Communication Technologies Limited (August 2005) 1301440000307503 Roopal Nareshbhai Panchal 15150 Purshottam Ghanshyamdas Budhwani 12950 IL & FS Investmart Limited (July 2005) 1202020000006413

6. Summary of the major IPOs

6.1. The details regarding the six IPOs, identified on the basis of entity-wise analysis as discussed in detail in later paragraphs, wherein the above modus operandi for cornering retail portion of IPOs have been adopted on a large scale is given below. In this context it may be mentioned that the largest number of multiple / benami / fictitious applications have occurred in the IPO of IDFC and the same have been discussed in detail in the SEBI interim order dated January 12, 2006, and hence has not been included in the narration below.

Further it is seen that the first IPO in which the key operators have participated was the IPO of Maruti Udyog Ltd. (June 2003); however the fictitious/benami demat accounts used by the key operators in the Maruti IPO were not in significant numbers (i.e. less than 500) and hence is not covered in the sweep of this order. The last IPO in which the same modus operandi for cornering the retail portion of the IPO had been adopted was Suzlon Energy Ltd. (21,692 different accounts) which IPO was during September 2005.

6.2. Suzlon Energy Limited came out with a public issue of 29,340,000 equity shares consisting of a fresh issue of 26,762,680 equity shares by Suzlon Energy Limited and an offer for sale of 2,577,320 equity shares by Citicorp International Finance Corporation Inc for cash at a price of Rs. 510 per equity share (including a share premium of Rs 500 per equity share) aggregating Rs. 14,963,400,000.

6.3. Out of 29,340,000 equity shares offered in the public issue, 8,626,500 equity shares (allocation on proportionate basis) was offered to Retail Individual

Investors. The pre-issue capital of Suzlon Energy Limited consisted of 260,768,700 Equity Shares and the post issue capital of Suzlon Energy Limited was to be 287,531,380 equity shares.

The issue constituted 10.20% of the fully diluted post issue paid-up capital of the company.

6.4. The IPO opened on September 23, 2005 and closed on September 29, 2005. J M Morgan Stanley Private Limited and Enam Financial Consultants Pvt. Ltd. were the Book Running Lead Managers to the issue, CLSA India Ltd. was the Senior Co-Book Running Lead Manager and Yes Bank Ltd. was the Co-Book Running Lead Manager and Karvy Computershare Private Ltd. was the Registrar to the Issue.

6.5. The retail portion of the issue was oversubscribed by 6.04 times and the noninstitutional portion was oversubscribed by 40.27 times.

6.6. The basis of allotment was finalized on October 11, 2005. The shares were credited to the IPO allottees on October 13/14, 2005. On October 19, 2005, the shares of Suzlon Energy Limited got listed on the Stock Exchanges.

6.7. The key operators who cornered the retail portion of Suzlon Energy IPO were Roopalben Nareshbhai Panchal, Dhaval A. Mehta, Purshottam Budhwani, Manojdev Seksaria, Jhaveri Securities Pvt. Ltd., Biren Kantilal Shah, Chandrakant Amratlal Parekh, Pratik Mafatlal Shah and Himani N Patel. The above key operators have used 21,692 afferent accounts to corner 323023 shares representing 3.74% of the total number of shares allotted to the retail individual investors. Their financiers were Saumil A Bhavnagari, Jayesh P Khandwala HUF, Rajan Vasudev Dapki, Umang R Shah, Chirag Jayendrakumar Shah and Sheelu Lalwani.

6.8. Jet Airways (India) Ltd. came out with a Public offer of 17,266,801 equity shares comprising a fresh issue of 14,245,111 Equity Shares by Jet Airways (India) Limited and an Offer for Sale of 3,021,690 Equity Shares by Tail Winds Limited) of Rs.10 each for cash at a price of Rs. 1100 per Equity Share,

aggregating to Rs. 18,993 million.

6.9. Out of the public issue, 4,016,700 equity shares (allocation on proportionate basis) was offered to Retail Individual Investors. The pre-issue capital of Jet Airways (India) Ltd. consisted of 72,088,900 equity shares and the post issue capital of Jet Airways (India) Ltd. was to be 86,334,011 equity shares. The Offer constituted 20% of the fully diluted post Offer paid-up equity capital of the Company.

6.10. The IPO opened on February 18, 2005 and closed on February 24, 2005. Deutsche Equities India Private Ltd., HSBC Securities and Capital Markets India) Private Limited, UBS Securities India Private Limited, Citigroup Global Markets India Private Limited, DSP Merrill Lynch Limited and Kotak Mahindra Capital Company Limited were the Book Running Lead Managers to the issue, CLSA India Ltd. was the Senior Co-Book Running Lead Manager and Yes Bank Ltd. was the Co-Book Running Lead Manager and Karvy Computershare Private Ltd. was the Registrar to the Issue.

6.11. The retail portion of the issue was oversubscribed by 2.99 times and the noninstitutional portion was oversubscribed by 12.5 times.

6.12. The basis of allotment was finalized on March 8, 2005. The shares were credited to the IPO allottees on March 9/10,2005. On March 14, 2005 the shares of Jet Airways (India) Ltd. got listed on the Stock Exchanges.

6.13. The key operators who cornered the retail portion of Jet Airways IPO were Deepak Madhukant Patel and Opee Stock - Link Ltd. The above key operators used 1186 different accounts for cornering 20901 shares representing 0.52% of the total number of shares allotted to the retail individual investors. Their financiers were Bagrecha Ashok K. and Rupesh Bipinchandra Shah.

6.14. National Thermal Power Corporation Ltd. came out with a Public Issue of 865,830,000 Equity Shares consisting of a Fresh Issue of 432,915,000 Equity Shares of Rs. 10 each by National Thermal Power Corporation Limited and an Offer for Sale of 432,915,000 equity shares of Rs. 10 each by the President of

India acting through the Ministry of Power, Government of India of Rs. 10 each for cash at a price of Rs 62 per equity share aggregating Rs.53,681.46 million.

6.15. Out of the public issue, 211,303,750 equity shares (Allocation on a proportionate basis) was offered to Retail Individual Investors. The pre-issue capital of National Thermal Power Corporation Ltd. consisted of 7,812,549,400 Equity Shares and the post issue capital of National Thermal Power Corporation Ltd. was to be 8,245,464,400 Equity Shares.

The Issue constituted 10.5% of the fully diluted post Issue paid-up capital of the Company.

6.16. The IPO opened on October 7, 2004 and closed on October 14, 2004.

ICICI Securities Limited, Enam Financial Consultants Pvt.Ltd.and Kotak Mahindra Capital Company Limited were the Book Running Lead Managers to the issue and Karvy Computershare Private Ltd. was the Registrar to the Issue.

6.17. The retail portion of the issue was oversubscribed by 3.73 times and the noninstitutional portion was oversubscribed by 11.93 times.

6.18. The basis of allotment was finalized on October 27, 2004. The shares were credited to the IPO allottees during October 29, 2004 to November 02, 2004. On November 05, 2004 the shares of National Thermal Power Corporation Ltd. got listed on the Stock Exchanges.

6.19. The key operators who cornered the retail portion of NTPC IPO were Roopalben Nareshbhai Panchal, Sugandh Estates and Investments Pvt.Ltd, Kelan Atulbhai Doshi and D B Mehta. The above key operators had used 12,853 different accounts for cornering 2750730 shares representing 1.30% of the total number of shares allotted to the retail individual investors. Their financiers were Devangi Dipakbhai Panchal, Hina Bhargav Panchal, Jayantilal Jitmal, Sanjay Rameshchandra Shah, Himanshu Piyushkumar Cholia, Rajesh Jhaveri Stock Brokers Pvt. Ltd., Zenet Software Ltd. and Karvy Stock Broking Ltd. 6.20. Tata Consultancy Services Ltd. came out with a Public Issue of 63,770,480 Equity Shares consisting of a Fresh Issue of 22,775,000 Equity Shares of Re. 1 each by

Tata Consultancy Services Limited and an Offer for Sale of 32,677,600 Equity Shares by Tata Sons Limited and certain other shareholders of Tata Consultancy Services Ltd. of Re. 1 each for cash at a price of Rs. 850 per Equity Share aggregating Rs. 47,134,710,000. Out of the public issue, 12,476,840 Equity Shares was offered to Retail Individual Investors.

6.21. The IPO opened on July 29, 2004 and closed on August 05, 2004. JM Morgan Stanley Private Limited, DSP Merrill Lynch Limited and JP Morgan India Private Limited were the Book Running Lead Managers to the issue and Karvy Computershare Private Ltd. was the Registrar to the Issue.

6.22. The retail portion of the issue was oversubscribed by 2.86 times and the noninstitutional portion was oversubscribed by 19.15 times.

6.23. The basis of allotment was finalized on August 18, 2004. The shares were credited to the IPO allottees during August 19-23, 2004. On August 25, 2004 the shares of Tata Consultancy Services Ltd. got listed on the Stock Exchanges.

6.24. The key operators who cornered the retail portion of TCS IPO were Roopalben Nareshbhai Panchal, Sugandh Estates and Investments Pvt.Ltd, Ambuja Estate and Holdings Pvt.Ltd, Purshottam Budhwani, Kelan Atulbhai Doshi and Indiabulls Securities Ltd. The above key operators had used 14,619 afferent accounts to corner 2,61,294 shares representing 2.09% of the total number of shares allotted to the retail individual investors. Their main financiers were Jayantilal Jitmal, Bhargav Ranchodlal Panchal, Taurus Infosys, Vasudev Gordhandas Dapki, Gautam N Jhaveri, Dipak Jashvantlal Panchal, Patel Rajeshkumar, Deep Stock Broking Pvt. Ltd., Excel Multitech Ltd., Arth Stock Broking Pvt. Ltd., Anagram Securities Ltd. and Ajay Kumar Gupta.

6.25. Patni Computer Systems Ltd. came out with a Public Issue of 18,724,000 equity shares comprising fresh issue of 13,400,000 equity shares of Rs.2 each at a price of Rs.230 for cash aggregating Rs.3,082.0 million and offer for sale of 5,324,000 equity shares of Rs.2 each at a price of Rs.230 for cash aggregating Rs.1,224.5 million.

6.26. Out of the public issue, 4,681,000 equity shares (allocation on a proportionate basis) were offered to Retail Individual Investors. The pre-issue capital of Patni Computer Systems Ltd. consisted of 111,420,849 equity shares and the post issue capital of Patni Computer Systems Ltd. was to 124,820,849 equity shares. The offer constituted 15% of the fully diluted post offer paid-up capital of the company.

6.27. The IPO opened on January 27, 2004 and closed on February 5, 2004. DSP Merrill Lynch Limited and Kotak Mahindra Capital Company Limited were the Book Running Lead Managers to the issue and Karvy Consultants Limited was the Registrar to the Issue.

6.28. The retail portion of the issue was oversubscribed by 9.36 times and the noninstitutional portion was oversubscribed by 39.22 times.

6.29. The basis of allotment was finalized on February 17, 2004. The shares were credited to the IPO allottees on February 19, 2004. On February 25, 2004 the shares of Patni Computer Systems Ltd. got listed on the Stock Exchanges.

6.30. The key operator who cornered the retail portion of Patni Computer Systems Ltd. IPO was Arjav Nareshbhai Panchal. He had used 2541 afferent accounts for cornering 1,27,050 shares representing 2.71% of the total number of shares allotted to the retail individual investors. His main financiers were Dipak Jashvantlal Panchal, Shah Kantilal Jitmal and Vasudev Gordhandas Dapki.

6.31. T.V. Today Network Ltd. came out with a Public issue of 14,500,000 equity shares of Rs.5 each at a price of Rs.95 comprising fresh issue of 10,000,000 equity shares for cash aggregating Rs.950 million and offer for sale of 4,500,000 equity shares for cash aggregating Rs.427.5 million.

6.32. Out of the public issue, 3,625,000 Equity Shares (allocation on a proportionate basis) were offered to Retail Individual Investors. The pre-issue capital of Patni Computer Systems Ltd. consisted of 48,000,000 equity shares and the post issue capital of Jet Airways (India) Ltd. was to 58,000,000 equity shares. The Issue constituted 25% of the fully diluted post issue paid-up capital of the

Company.

6.33. The IPO opened on December 18, 2003 and closed on December 27, 2003. JM Morgan Stanley Private Limited was the book running lead managers to the issue and MCS Limited was the registrar to the issue.

6.34. The retail portion of the issue was oversubscribed by 24.59 times and the noninstitutional portion was oversubscribed by 85.28 times.

6.35. The basis of allotment was finalized on January 8, 2004. The shares were credited to the IPO allottees on January 10, 2004. On January 16, 2004 the shares of T.V. Today Network Ltd. got listed on the Stock Exchanges.

6.36. The key operator who cornered the retail portion of T. V. Today Network Ltd. IPO was Devangi Dipakbhai Panchal. She has used 862 afferent accounts for cornering 86,200 shares representing 2.37% of the total number of shares allotted to the retail individual investors. Her financiers were Vasudev Gordhandas Dapki and Arth Stock Broking Pvt.

Ltd. 6.37. Further, it is seen that in NSDL and CDSL taken together in respect of 21 IPOs, 24 dematerialized account-holders (hereinafter referred to as 'master account holders') have received shares in off-market transactions from 500 or more demat transferors during the pre-listing period.

7. Examination Relating to Key Operators 7.1. Having identified the IPOs and the key operators with off-market transfers from 500 or more accounts which are in the nature of multiple accounts, the scrutiny is focused on the scale of operation of the key operators.

7.2. The details in respect of the 23 key operators in the case of NSDL are summarized below: Table 7. 2 - 23 Key Operators in NSDL

Sr. No.	Number of demat accounts from which shares received	No of shares transferred
1	ROOPALBEN NARESHBHAJ PANCHAL KARVY STOCK BROKING LIMITED	11920868
1	Infrastructue Development Finance Co. Ltd.	12258
3	National Thermal Power Corporation Ltd.	7386
4	Tata Consultancy Services Ltd.	7228
7	NECTAR LIFESCIENCES LTD.	4004
9	Dishman Pharma. & Chemicals Ltd.	1958

10 Sasken Communication Technologies Ltd. 1598 11 FCS Software Solutions Ltd. 1594 13 Datamatics Technologies Ltd. 1549 15 GATEWAY DISPRIPARKS LRD 971 SUGANDH ESTATES AND INVESTMENTS PVT.Ltd KARVY STOCK BROKING LIMITED 14405199 1 Infrastructue Development Finance Co. Ltd. 10194 2 National Thermal Power Corporation Ltd. 3322 3 Tata Consultancy Services Ltd. 3197 5 FCS Software Solutions Ltd. 1624 7 Sasken Communication Technologies Ltd. 816 KHANDWALA INT. FIN. S. PV. L 10139886 2. Infrastructue Development Finance Co. Ltd. 660 ARJAV NARESHBHAJ PANCHAL KARVY STOCK BROKING LIMITED 11932970 1. Patni Computer Systems Ltd. 2541 KARVY STOCK BROKING LIMITED 10004600 1. Infrastructue Development Finance Co. Ltd. 2083 KARVY STOCK BROKING LIMITED 12501284 1. Infrastructue Development Finance Co. Ltd. 1970 2. National Thermal Power Corporation Ltd. 1435 3. Tata Consultancy Services Ltd. 979 4. NECTAR LIFESCIENCES LTD.930 AMBUJA ESTATE AND HOLDINGS PVT.Ltd. KARVY STOCK BROKING LIMITED 13997078 1. Tata Consultancy Services Ltd. 1665 ANAGRAM STOCKBROKING LTD.10093022 1. Infrastructue Development Finance Co. Ltd. 1379 3. Tata Consultancy Services Ltd. 991 4. GATEWAY DISPRIPARKS LRD 988 KARVY STOCK BROKING LIMITED 40081967 1. Infrastructue Development Finance Co. Ltd. 1206 2. NECTAR LIFESCIENCES LTD.704 JHAVERI SECURITIES PVT. LTD.JHAVERI SECURITIES P LTD.10005806 KARVY STOCK BROKING LIMITED 15530980 2. Infrastructue Development Finance Co. Ltd. 829 KARVY STOCK BROKING LIMITED 10004626 1. Infrastructue Development Finance Co. Ltd. 883 DEVANGI DIPAKBHAJ PANCHAL KARVY STOCK BROKING LIMITED 11933458 1. T. V. Today Network Ltd. 862 CHANDRAKANT AMRATLAL PAREKH KHANDWALA INT. FIN. S. PV. L 10183690 KARVY STOCK BROKING LIMITED 40080736 1. Infrastructue Development Finance Co. Ltd. 749 KARVY STOCK BROKING LIMITED 40064516 1. National Thermal Power Corporation Ltd. 710 SHAH INVESTOR'S HOME LTD.10533279 GOLDMINE STOCKS PVT.LTD.10068824 KARVY STOCK BROKING LIMITED 40080719 1. Infrastructue Development Finance Co. Ltd. 700 DEEPAKKUMAR SHANTILAL JAIN PRAVIN RATILAL SH & STK 10403856 1. Infrastructue Development Finance Co. Ltd. 686 THE KALUPUR COM. CO. BANK 10005792 1. JET AIRWAYS (INDIA) LTD.633

INDIABULLS SECURITIES Ltd. INDIABULLS SECURITIES LTD.10131283 1. Tata Consultancy Services Ltd. 559 PRAVIN RATILAL SH & STK 10127493 1. JET AIRWAYS (INDIA) LTD.553 7.3. The details in respect of the three key operators in the case of CDSL are summarized below: Table 7.3 - Three Key Operators in CDSL

Sr. No.	No. of demat accounts from which shares received	No. of shares received	Operator Name
1	1	14790	ROOPALBEN NARESHBHAI PANCHAL KARVY STOCK BROKING LIMITED
2	2	1563	Infrastructue Development Finance Co. Ltd. FCS Software Solutions Ltd. Suzlon Energy Ltd. Sasken Communication Technologies Ltd.
3	3	606	Purshottam Ghanshyamdas Budhwani KARVY STOCK BROKING LIMITED

Development Finance Co. Ltd. 4114 (2821+ 1293) 2238 (1220+1 018) 1094324 PRATIK STOCK VISION P LTD.120202000 0006413 3 Shoppers Stop Limited 936 4 Nectar Lifesciences Limited 752 6 SPL Industries Limited 695 7 IL & FS Investmart Limited 528 8 Sasken Communication Technologies Ltd. 518 KARVY STOCK BROKING LIMITED 130144000 0051951 1 Infrastructue Development Finance Co. Ltd. 1989 3 Sasken Communication Technologies Ltd. 521 7.4. It appears that the entities (dematerialized account-holders) that have received IPO shares from 500 or more dematerialized accounts through off-market transfers during the pre-listing period are the key operators that have abused the IPO allotment process through the means of making multiple applications in fictitious / benami names for cornering the retail portion of the IPOs. In the case of NSDL there are 23 such key operators / master account holders and in the case CDSL there are three such master account holders/key operators (including two which are common for both NSDL and CDSL).

7.5. From the above discussions relating to key operators (dematerialized account-holders in NSDL and CDSL taken together) of the IPO abuse it follows that a total of 24 key operators have indulged in abusive practices in respect of 21 IPOs.

7.6. The above 24 master account holders have 34 demat accounts and out of these 34 demat accounts as many as 16 demat accounts are held with Karvy DP. Also out of the above 24 master account holders as many as 14 master account holders have their dematerialized accounts with Karvy-DP. It may be seen from

the discussions elsewhere in this order that almost all the afferent demat accounts that served as conduits for these master account holders were also held with Karvy-DP.7.7. Many of these master account holders are found to have in turn made offmarket transfer of the IPO shares to various common groups of entities who appear to be their principals. It is seen that some of the master account holders have also made off-market transfers amongst themselves. This shows that there are inter linkages amongst the master account holders as well as between groups of master account holders and their principals.

7.8. Financial transactions amongst the master account holders as well as between the master account holders and Karvy have been noticed thereby leading to the view that there are strong interlinkages amongst the master account holders as well as between Karvy and the master account holders. The interse linkages between the 24 master account holders as well as their principals have been discussed in detail in later portion of this order.

8. Examination of Demat Accounts acting as Conduits - demat accounts opened on the same date 8.1. The data relating to the demat accounts that had acted as conduits (hereinafter referred to as 'afferent accounts') for the above 23 entities was obtained from NSDL. It is seen that there are 37,240 demat accounts that had acted as afferent accounts for the above 23 entities. NSDL has informed that out of the above 37,240 dematerialized accounts, as many as 31,818 demat accounts have been closed. In respect of the remaining 5422 accounts, NSDL has advised its DPs to confirm whether they have the KYC documents for such accounts. Subsequent information furnished by NSDL relating to 4602 demat accounts, shows that in many of the cases the DPs had obtained KYC documents towards POI and POA. However, in respect of six demat accounts (4 with DP ICICI Bank, 1 with ING Vysya Bank and 1 with Shah Investor's Home Ltd), there were neither POI nor POA. In respect of 820 accounts pertaining to HDFC Bank (684 accounts) and Karvy DP (136 accounts), NSDL informed that the same would be provided in due course.

8.2. Further, it was noticed that many of the above afferent accounts were opened in bulk on certain days. The details where 500 or more accounts were opened on

the same date is given below: Table 8.2 - NSDL Demat accounts opened on same date

Sr No	DATE OF OPENING OF DEMAT ACCOUNT	Number of demat accounts opened	Name of major DP
Most of the dematerialized account-holders addresses are the same as that of Roopalben Panchal or SEIPL	Most of the dematerialized account-holders addresses are the same as that of SEIPL	Most of the dematerialized account-holders addresses are the same as that of Kelan Atulbhai Doshi	Most of the dematerialized account-holders addresses are the same as that of SEIPL (Parag P Jharveri)
Almost all the account holders have the same address as Roopalben Panchal	1531 accounts have the same address as Roopalben Panchal	1099 accounts have the same address as Roopalben Panchal	1096 accounts have the same address as SEIPL
Closed / Suspended - 1043	Active - 7	All the closed accounts have the address of Kelan Atulbhai Doshi (606 accounts) or Shah Biren Kantilal (437 accounts)	All the closed accounts have the address of Roopalben Panchal
Almost all the closed accounts have the address of Roopalben Panchal or SEIPL or Kelan Atulbhai Doshi	Out of the 830 closed accounts 819 have the address of SEIPL	Out of 752 closed accounts 627 have the address of SEIPL	All the 761 closed accounts have the address of Roopalben Panchal
All the closed accounts have the address of Roopalben Panchal or Jayantilal Jitmal	Closed / suspended - 570	Active - 4	All the closed accounts have the address of Roopalben Panchal
All the closed accounts have the address of Roopalben Panchal or Jayantilal Jitmal	Total Closed / Suspended - 25895	Active - 163	

8.3. Based on the data furnished by NSDL it is seen that the 37,240 afferent accounts were held with 55 DPs. It is seen that out of the above 37,240 afferent accounts as many as 34,924 afferent accounts (representing about 94% of the afferent accounts) were held with seven DPs with each of these DPs having 500 or more afferent accounts. Karvy DP alone had 29,309 afferent accounts representing about 80% of the total afferent accounts in NSDL. The details are as below:

Table No.	8.3	-	NSDL	DPs	of	Afferent Accounts	Sr.
Source	DP	NAME	SOURCE	CLIENT	ID		7.
PRAVIN	RATILAL	SH	&	STK	510	Total	

The data relating to the demat accounts that had acted as conduits (herein referred to as 'afferent accounts') for the three master account holders (key operators) was obtained from CDSL. It is seen that there are 21,698 demat accounts that had acted as afferent accounts for the three master account holders in CDSL and all these afferent demat accounts were held with Karvy DP or Pratik DP. 20,399 afferent accounts (representing about 95% of the afferent accounts in CDSL) were held with Karvy DP and 1299 accounts were held with Pratik DP. As per information furnished by CDSL it is seen that out of the above 21,698 afferent accounts, as many as 21,612 accounts have been closed.

8.5. Further, it was noticed that many of the above afferent accounts were opened in bulk on certain days. The details where 500 or more accounts were opened on the same date is given below: Table 8.5 -CDSL DPs of Afferent Accounts DATE OF OPENING OF DEMAT ACCOUNT Number of demat accounts opened Status of Accounts All the addresses are of Roopalben Panchal 15072005 All the addresses are of Roopalben Panchal 22072005 Almost all the addresses are of Purshottam Budhwani and Manojdev Seksaria All the addresses are of Manojdev Seksaria 17082005 All the addresses are of Purshottam Budhwani and Manojdev Seksaria Total

8.6. In NSDL and CDSL taken together, a total of 58,938 accounts had been used as afferent accounts for cornering the retail portion of the IPO. Out of these 58,938 accounts 49,708 accounts representing about 84% of the total afferent accounts were held with Karvy DP.8.7. Also, in the case of both NSDL and CDSL, many of the afferent accounts have been opened in bulk on a few dates and the dematerialized account-holders have the same address as that of the master account holders viz. Roopalben Panchal, SEIPL, Purshottam Budhwani, Manojdev Seksaria, Kelan Atulbhai Doshi, Shah Biren Kantilal or Jayantilal Jitmal.

8.8. Significantly as many as 14 out of the 24 master account holders also had their respective demat accounts with Karvy-DP. Thus, it appears that Karvy-DP was actively in league by opening demat accounts for many of the master account holders and also for most (about 84%) of the afferent accounts that served as conduits for the master account holders. Also the numbers are too significant to be

dismissed as the normal incidence of business while the stunning percentage in terms of concentration of suspect accounts cannot but tar Karvy DP with the same brush.

9. Verification of Genuineness of Demat Account Holders 9.1. Upon examination of the details of afferent accounts that served as conduits for the master account holders, it is seen that multiple demat accounts were opened in large numbers since November 2003. More multiple demat accounts got opened in 2004 and the process continued till August 2005. Another common feature of the above conduit accounts is that most of these dematerialized account-holders were found to share common addresses which are the same as that of the master account holders.

9.2. The methodology based on 500 or more dematerialized account-holders making off-market transfers during the pre-listing period to one dematerialized account-holder for determining multiple accounts would not capture instances of benami / fictitious dematerialized account-holders where such off-market transfers did not take place or where such off-market transfers took place a few days after the date of listing.

9.3. Hence, SEBI advised NSDL and CDSL to advise their DPs to verify the genuineness of demat account holders where 20 or more account holders share common address. The observations on the reports submitted by the depositories in this regard are given below: 9.4. Verification by CDSL 9.5. CDSL initially stated "... we observed that 36 DPs were having instances of more than 20 accounts opened with the same name / address.

We advised these 36 DPs to specifically confirm about the genuineness of all the accounts opened with them and had also furnished them the list of BO IDs. In response to this, we received confirmation from 36 DPs...." Subsequently, CDSL informed SEBI that "During further checking it was observed that 16 more DPs have multiple accounts with same name / address. We have instructed these DPs to submit confirmation regarding verification of genuineness of account holders alongwith steps taken by January 30, 2006" Thereafter CDSL informed SEBI that "Further, with reference to our telephonic discussions, we wish to inform you that in case of HDFC Bank, we had found that 787 accounts with same name / same

address." As per information furnished by CDSL, it is seen that 53 DPs of CDSL had 20 or more demat account holders sharing common addresses. Upon perusal of the information submitted by CDSL in this regard it is seen that the following six DPs had 500 or more demat account-holders sharing common addresses.

Table 9.5 - Six DPs of CDSL with demat account-holders sharing common addresses
No. of multiple accounts sharing common addresses
Comments
Inspection and physical verification of the DP by a CA firm engaged by SEBI as discussed in later paragraphs revealed various irregularities including opening of demat accounts in the names of benamis / non-existent persons etc.

Pratik Stock Vision Pvt. Ltd. 1203
Inspection of the DP by SEBI brought out observations such as opening of demat accounts exclusively for the purpose of investment in IPOs, opening of demat accounts in bulk by procuring applications through IPO sub-brokers.

Inspection of the DP by the CA firm engaged by SEBI as well as by the firm engaged by CDSL brought out various violations.

Motilal Oswal Securities Ltd. 697
Inspection of the DP by a CA firm engaged by CDSL found various violations and the same have been narrated elsewhere in this order
Wellworth Shares and Stock Broking Ltd. 533 (260+273)
Verification done by a firm engaged by CDSL as well as by an independent CA firm engaged by SEBI brought out violations in terms of opening of multiple demat accounts in the names of the directors and their family members using various permutations and combinations of names, failure to obtain proof of identity and proof of address, etc.

9.6. In this context it may be mentioned that the verification done by CDSL does not include closed / frozen accounts and accordingly, Karvy-DP which had closed as many as 38,409 accounts held with CDSL during the course of the verification of genuineness of account holders sharing common addresses does not appear in the table given above. The details of these demat accounts closed by Karvy-DP have been discussed in detail elsewhere in this order.

9.7. It is seen that while Karvy DP had closed 38,409 CDSL demat accounts during the course of verification, 20,399 CDSL dematerialized accounts of Karvy DP had served as afferent accounts for abusing the IPO process. Thus it follows that 18,010 suspect demat accounts with Karvy DP were probably meant to be used in later IPOs.

9.8. All the 53 DPs have confirmed to CDSL that the KYC documentation in respect of the above dematerialized accounts is complete in all respects.

9.9. However, SEBI decided to conduct further verification relating to the above DPs. Accordingly, SEBI engaged an independent CA firm to conduct inspection / audit. The above DPs were also inspected by CDSL.

The inspection by SEBI appointed CA firm as well as by CDSL brought out numerous violations and the findings of the inspection are discussed elsewhere in this order.

9.10. Verification by NSDL 9.11. The verification by NSDL regarding genuineness of dematerialized account-holders revealed that there were 56216 dematerialized accounts wherein 20 or more account holders were sharing common addresses. These 56216 demat accounts were held with 105 DPs. The details of the 21 DPs wherein 500 or more account holders were sharing common addresses is given below: Table 9.11 - 21 DPs of NSDL with demat account-holders sharing common addresses

No. of account holders sharing common addresses	DP
KARVY STOCK BROKING LIMITED	6745
KOTAK SECURITIES LIMITED	6456
STANDARD CHARTERED BANK	1990
KOTAK MAHINDRA BANK LTD.	1725
KHANDWALA INT.FIN.S.PV.L	1399
INTEGRATED ENT. (I) LTD.	1031
ACTION FIN SERV (I) LTD.	858
JHAVERI SECURITIES P LTD.	686
STOCK HLDG CORP OF I LTD.	662
PRATIK STOCK VISION P LT	630
THE KALUPUR COM.CO.BANK	614
SSKI INVESTOR SER.PVT.L	596
INFINITE FIN SRV PVT.LTD.	524

9.12. From the above table it is seen that in NSDL, the DP HDFC Bank had the largest number of demat account holders sharing common addresses. The inspection of the DP by the CA firm engaged by SEBI brought out numerous violations which have been discussed in detail elsewhere in this Order.

9.13. NSDL originally reported that out of the above 56216 demat accounts, KYC documentation was absent or incomplete in respect of 8307 accounts. Subsequently, NSDL informed that out of the above 8307 demat accounts, the DPs could identify the clients in person in respect of 2521 accounts. Further NSDL informed that 4283 accounts had been frozen until the clients were identified and the balance 1503 accounts had been closed.

10. Financiers of the Key Operators 10.1. As per data obtained from NSDL and CDSL, it is seen that the 24 key operators have in turn made off-market transfers to various entities during the pre-listing period. It stands to reason that these entities who received shares through off-market transfers from the 24 key operators would have provided finance to the key operators which finance was used for cornering the retail portion of the IPO shares.

Since the financiers have received the shares from the key operators it would appear that these financiers are the ultimate beneficiaries of the IPO abuse committed by the key operators. As observed in the cases of Yes Bank and IDFC, it would be seen that many of the financiers might have sold the shares immediately on listing and commencement of trading on the stock exchanges thereby profiting from the higher listing price as compared to the issue price. Even in a few cases where the financiers may not have actually sold the shares in the market, still they have made notional gains from the higher listing price. The details of the financiers of each of the key operators are given below: 10.2. Financiers of Roopalben Panchal Table 10.2 - Financiers of Roopalben Panchal

Dp Name	Name Of Receiving Demat A/Ct Holder	Dp Name
Karvy Stock Broking Ltd. 11920868	Roopalben Nareshbhai Panchal IDFC Ltd.	H.Nyalchand Fin. Ser.Ltd. 10026782
Karvy Stock Broking Ltd. 11920868	Roopalben Nareshbhai Panchal IDFC Ltd.	Welvet Financial Advisers Pvt. Ltd. Khandwala Int.Fin.S.Pv.L 10148905
Karvy Stock Broking Limited 11920868	Roopalben Nareshbhai Panchal IDFC Ltd.	Khandwala Int.Fin.S.Pv.L 10000579
Karvy Stock Broking Limited 11920868	Roopalben Nareshbhai Panchal IDFC Ltd.	ASE Capital Markets Ltd. 10045158
Karvy Stock Broking Limited 11920868	Roopalben Nareshbhai Panchal IDFC Ltd.	Excell Multitech Limited H.Nyalchand Fin. Ser.Ltd. 10009317
Karvy Stock Broking Limited 11920868	Roopalben Nareshbhai Panchal IDFC Ltd.	

H.Nyalchand Fin. Ser.Ltd. 10009298 Karvy Stock Broking Limited 11920868
Roopalben Nareshbhai Panchal IDFC Ltd. H.Nyalchand Fin. Ser.Ltd. 10008962
Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal IDFC Ltd.
Seer Finlease Private Ltd. H.Nyalchand Fin. Ser.Ltd. 10026774 Karvy Stock
Broking Limited 11920868 Roopalben Nareshbhai Panchal IDFC Ltd. Devangi
Dipakbhai Panchal Karvy Stock Broking Limited 11933458 Karvy Stock Broking
Limited 11920868 Roopalben Nareshbhai Panchal IDFC Ltd. Dipak Jashvantlal
Panchal Karvy Stock Broking Limited 11933474 Karvy Stock Broking Limited
11920868 Roopalben Nareshbhai Panchal IDFC Ltd. ASE Capital Markets Ltd.
10029340 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal
IDFC Ltd. ASE Capital Markets Ltd. 10029340 Karvy Stock Broking Limited
11920868 Roopalben Nareshbhai Panchal IDFC Ltd. ASE Capital Markets Ltd.
10029333 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal
IDFC Ltd. Bhargav Ranchhodlal Panchal ASE Capital Markets Ltd. 10003008
Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal IDFC Ltd.
ASE Capital Markets Ltd. 10160406 Karvy Stock Broking Limited 11920868
Roopalben Nareshbhai Panchal IDFC Ltd. ASE Capital Markets Ltd. 10004296
Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal IDFC Ltd.
Dipak Jashvantlal Panchal Karvy Stock Broking Limited 11933474 Karvy Stock
Broking Limited 11920868 Roopalben Nareshbhai Panchal IDFC Ltd. Dipak
Jashvantlal Panchal ASE Capital Markets Ltd. 10005706 Karvy Stock Broking
Limited 11920868 Roopalben Nareshbhai Panchal IDFC Ltd. Bhanuprasad
Dipakkumar Trivedi Khandwala Int.Fin.S.Pv.L 10147757 Karvy Stock Broking
Limited 11920868 Roopalben Nareshbhai Panchal IL&FS Investsmart
H.Nyalchand Fin. Ser.Ltd. 10008962 Karvy Stock Broking Limited 11920868
Roopalben Nareshbhai Panchal IL&FS Investsmart H.Nyalchand Fin. Ser.Ltd.
10009298 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal
IL&FS Investsmart Excell Multitech Limited H.Nyalchand Fin. Ser.Ltd. 10009317
Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal IL&FS
Investsmart H.Nyalchand Fin. Ser.Ltd. 10026782 Karvy Stock Broking Limited
11920868 Roopalben Nareshbhai Panchal IL&FS Investsmart Seer Finlease
Private Ltd. H.Nyalchand Fin. Ser.Ltd. 10026774 Karvy Stock Broking Limited
11920868 Roopalben Nareshbhai Panchal IL&FS Investsmart Devangi Dipakbhai

Panchal Karvy Stock Broking Limited 11933458 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal IL&FS Investsmart ASE Capital Markets Ltd. 10045158 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nectar Lifesciences Ltd. Devangi Dipakbhai Panchal Ase Capital Markets Ltd. 10004133 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nectar Lifesciences Ltd. Hasmukhlal N. Vora H.Nyalchand Fin. Ser.Ltd. 10026782 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nectar Lifesciences Ltd. Umang R Shah Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nectar Lifesciences Ltd. Jayantilal Jitmal ASE Capital Markets Ltd 10004296 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nectar Lifesciences Ltd. Gautam N Jhaveri Ase Capital Markets Ltd 10045158 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd Sujal Leasing And Finance Pvt.Ltd. H.Nyalchand Fin. Ser.Ltd 10026812 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd Excell Multitech Limited H.Nyalchand Fin. Ser.Ltd 10009317 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd Seer Finlease Private Ltd. H.Nyalchand Fin. Ser.Ltd 10026774 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd Devangi Dipakbhai Panchal ASE Capital Markets Ltd 10004133 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd H.Nyalchand Fin. Ser.Ltd 10008962 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd Stock Hldg Corp Of I Ltd 15391897 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd Anand Netanand Choudhary The Kalupur Com.Co.Bank 10442065 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd Netanand Surjaram Bhambu The Kalupur Com.Co.Bank 10442080 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd Bhargav Ranchhodlal Panchal ASE Capital Markets Ltd 10003008 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd ASE Capital Markets Ltd 10029333 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal

Nandan Exim Ltd Anagram Stockbroking Ltd 10161819 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Nandan Exim Ltd Stock Hldg Corp Of I Ltd 15391547 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Yes Bank Ltd Devangi Dipakbhai Panchal Karvy Stock Broking Limited 11933458 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Yes Bank Ltd Devangi Dipakbhai Panchal ASE Capital Markets Ltd 10004133 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Yes Bank Ltd Seer Finlease Private Ltd. H.Nyalchand Fin. Ser.Ltd 10026774 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Yes Bank Ltd Excell Multitech Limited H.Nyalchand Fin. Ser.Ltd 10009317 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Yes Bank Ltd H.Nyalchand Fin. Ser.Ltd 10008962 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Yes Bank Ltd H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Yes Bank Ltd ASE Capital Markets Ltd 10029333 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Yes Bank Ltd Bhargav Ranchhodlal Panchal ASE Capital Markets Ltd 10003008 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Yes Bank Ltd ASE Capital Markets Ltd 10004296 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Gateway Distriparks Ltd Zenet Software Limited H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Shoppers'Stop Ltd Seer Finlease Private Ltd. H.Nyalchand Fin. Ser.Ltd 10026774 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Shoppers'Stop Ltd H.Nyalchand Fin. Ser.Ltd 10008962 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Shoppers'Stop Ltd ASE Capital Markets Ltd 10045158 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Shoppers'Stop Ltd H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal SPL Industries Ltd Excell Multitech Limited H.Nyalchand Fin. Ser.Ltd 10009317 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal SPL Industries Ltd Devangi Dipakbhai Panchal Karvy Stock Broking Limited 11933458 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal SPL Industries Ltd H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 11920868

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Nyalchand Fin. Ser.Ltd 10009317 Karvy Stock Broking Limited 11920868
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10009298 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal
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Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal FCS
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11920868 Roopalben Nareshbhai Panchal FCS Software H.Nyalchand Fin.
Ser.Ltd 10026732 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai
Panchal FCS Software H.Nyalchand Fin. Ser.Ltd 10026758 Karvy Stock Broking
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Fin. Ser.Ltd 10026740 Karvy Stock Broking Limited 11920868 Roopalben
Nareshbhai Panchal FCS Software The Kalupur Com.Co.Bank 10447367 Karvy

Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal FCS Software
Ase Capital Markets Ltd 10004296 Karvy Stock Broking Limited 11920868
Roopalben Nareshbhai Panchal FCS Software Bhargav Ranchhodlal Panchal Ase
Capital Markets Ltd 10160076 Karvy Stock Broking Limited 11920868 Roopalben
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Ser.Ltd 10026758 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai
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Com.Co.Bank 10447367 Karvy Stock Broking Limited 11920868 Roopalben
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Bhargav Ranchhodlal Panchal Ase Capital Markets Ltd 10160076 Karvy Stock
Broking Limited 11920868 Roopalben Nareshbhai Panchal FCS Software Ase
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Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Sasken
Commtech Ltd Ase Capital Markets Ltd 10027303 Karvy Stock Broking Limited
11920868 Roopalben Nareshbhai Panchal Sasken Commtech Ltd Velvet
Financial Advisers Pvt.Ltd Khandwala Int.Fin.S.Pv.L 10148905 Karvy Stock
Broking Limited 11920868 Roopalben Nareshbhai Panchal Sasken Commtech Ltd
Ase Capital Markets Ltd 10027303 Karvy Stock Broking Limited 11920868
Roopalben Nareshbhai Panchal Sasken Commtech Ltd Ase Capital Markets Ltd
10027303 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal
Sasken Commtech Ltd Devangi Dipakbhai Panchal Ase Capital Markets Ltd
10004133 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal
Dishman Pharmaceuticals & Chemicals Ltd. Zenet Software Limited H.Nyalchand
Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 11920868 Roopalben
Nareshbhai Panchal Dishman Pharmaceuticals & Chemicals Ltd. Dipak
Jashvantlal Panchal Ase Capital Markets Ltd 10005706 Karvy Stock Broking

Limited 11920868 Roopalben Nareshbhai Panchal Dishman Pharmaceuticals & Chemicals Ltd. Vasudev Gordhandas Dapki Ase Capital Markets Ltd 10007265 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Dishman Pharmaceuticals & Chemicals Ltd. Zenet Software Limited H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Datamatics Technologies Ltd Dipak Jashvantlal Panchal Ase Capital Markets Ltd 10005706 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Datamatics Technologies Ltd Dipak Jashvantlal Panchal Ase Capital Markets Ltd 10005706 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Datamatics Technologies Ltd Vasudev Gordhandas Dapki Ase Capital Markets Ltd 10007265 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Datamatics Technologies Ltd Zenet Software Limited H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Tata Consultancy Services Ltd. Jayantilal Jitmal Ase Capital Markets Ltd 10004296 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Tata Consultancy Services Ltd. Bhargav Ranchhodlal Panchal Ase Capital Markets Ltd 10003008 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Tata Consultancy Services Ltd. Taurus Infosys Ltd H. Nyalchand Fin. Ser.Ltd 10008962 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Tata Consultancy Services Ltd. Vasudev Gordhandas Dapki Ase Capital Markets Ltd 10007265 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Tata Consultancy Services Ltd. Gautam N Jhaveri Ase Capital Markets Ltd 10045158 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Tata Consultancy Services Ltd. Vasudev Gordhandas Dapki Ase Capital Markets Ltd 10007265 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Tata Consultancy Services Ltd. Gautam N Jhaveri Ase Capital Markets Ltd 10045158 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Tata Consultancy Services Ltd. Dipak Jashvantlal Panchal Ase Capital Markets Ltd 10005706 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal Tata Consultancy Services Ltd. Taurus Infosys Ltd H.Nyalchand Fin. Ser.Ltd 10008962 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal National Thermal Power Corporation Ltd. Devangi Dipakbhai Panchal

Karvy Stock Broking Limited 11933458 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal National Thermal Power Corporation Ltd. Hina Bhargav Panchal Karvy Stock Broking Limited 12509057 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal National Thermal Power Corporation Ltd. Jayantilal Jitmal Ase Capital Markets Ltd 10004296 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal National Thermal Power Corporation Ltd. Sanjay Rameshchandra Shah Anagram Stockbroking Ltd 10083599 Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal National Thermal Power Corporation Ltd. Himanshu Piyushkumar Choliya Infra Leas & FinSerLtd Karvy Stock Broking Limited 11920868 Roopalben Nareshbhai Panchal National Thermal Power Corporation Ltd. Sanjay R. Shah Anagram Stockbroking Ltd 10099329 10.3. It is seen that Roopalben Panchal has made off-market transfers during the pre-listing period to the various entities mentioned above.

Further it is seen from bank account statements that many of the entities such as Hasmukhlal N Vora, Jayesh P Khandwala HUF, Gautam N Jhaveri, Excel Multitech Ltd., Zenet Software Ltd., etc. have provided finance to Roopalben Panchal for making applications in various IPOs.

10.4. SEBI worked out a preliminary estimate of the profits made (real or notional) by the above financiers of Roopalben Panchal by comparing the closing price (on NSE) on the first day of listing in respect of each of the above IPOs with the issue price of the respective IPOs. The calculations are given below: Table 10.4 -Profits made by the financiers of Roopalben Panchal Company Name Close price on the date of listing Issue Price (Rs.) Velvet Financial Advisers Pvt Ltd 417000 Excell Multitech Limited 658000 Seer Finlease Private Ltd. 465000 Devangi Dipakbhai Panchal 1000000 Dipak Jashvantlal Panchal 1000000 Bhargav Ranchhodlal Panchal 8290 Dipak Jashvantlal Panchal 700000 Dipak Jashvantlal Panchal 10374 Bhanuprasad Dipakkumar Trivedi 1100000 Excell Multitech Limited 44000 Seer Finlease Private Ltd. 55550 Devangi Dipakbhai Panchal 60000 Nectar Lifesciences Ltd Devangi Dipakbhai Panchal 10000 Nectar Lifesciences Ltd Hasmukhlal N. Vora Nectar Lifesciences Ltd Umang R Shah Nectar Lifesciences Ltd Jayantilal Jitmal Nectar Lifesciences Ltd Gautam N Jhaveri Sujal Leasing And

Finance Pvt Ltd. 20000 Excell Multitech Limited 40000 Seer Finlease Private Ltd. 160000 Devangi Dipakbhai Panchal 41000 Anand Netanand Choudhary 5000 Netanand Surjaram Bhambu 5000 Bhargav Ranchhodlal Panchal 1750 Devangi Dipakbhai Panchal 170000 Devangi Dipakbhai Panchal 50000 Seer Finlease Private Ltd. 332875 Excell Multitech Limited 161180 Bhargav Ranchhodlal Panchal 2550 Gateway Distriparks Ltd Zenet Software Limited Seer Finlease Private Ltd. 14250 Excell Multitech Limited 65300 Devangi Dipakbhai Panchal 34800 Devangi Dipakbhai Panchal 7100 Devangi Dipakbhai Panchal 221000 Masat Texturising And Twisting Private Ltd 42700 Excell Multitech Limited 40000 Seer Finlease Private Ltd. 30000 Bhargav Ranchhodlal Panchal 1200 Panchal FCS Software Welvet Financial Advisers Pvt Ltd 1625 Devangi Dipakbhai Panchal 10450 Dishman Pharmaceuticals & Chemicals Ltd. Zenet Software Limited Dishman Pharmaceuticals & Chemicals Ltd. Dipak Jashvantlal Panchal 14700 Dishman Pharmaceuticals & Chemicals Ltd. Vasudev Gordhandas Dapki 1650 Dishman Pharmaceuticals & Chemicals Ltd. Zenet Software Limited Datamatics Technologies Ltd Dipak Jashvantlal Panchal 250 Datamatics Technologies Ltd Dipak Jashvantlal Panchal 5750 Datamatics Technologies Ltd Vasudev Gordhandas Dapki 3350 Datamatics Technologies Ltd Zenet Software Limited Tata Consultancy Services Ltd. Jayantilal Jitmal Tata Consultancy Services Ltd. Bhargav Ranchhodlal Panchal 1581 Tata Consultancy Services Ltd. Taurus Infosys Ltd Tata Consultancy Services Ltd. Vasudev Gordhandas Dapki 3870 Tata Consultancy Services Ltd. Gautam N Jhaveri Tata Consultancy Services Ltd. Vasudev Gordhandas Dapki 6000 Tata Consultancy Services Ltd. Gautam N Jhaveri Tata Consultancy Services Ltd. Dipak Jashvantlal Panchal 10842 Tata Consultancy Services Ltd. Taurus Infosys Ltd National Thermal Power Corporation Ltd. Devangi Dipakbhai Panchal 1500000 National Thermal Power Corporation Ltd. Hina Bhargav Panchal National Thermal Power Corporation Ltd. Jayantilal Jitmal National Thermal Power Corporation Ltd. Sanjay Rameshchandra Shah 10700 National Thermal Power Corporation Ltd. Himanshu Piyushkumar Choliya 1070 National Thermal Power Corporation Ltd. Sanjay R. Shah Total Gains of the Principals of Roopalben Panchal 458,182,764.35 10.5. Thus, as per the above calculations, it is seen that total gains of the financiers of Roopalben Panchal in all the IPOs during 2003- 2005 works out to Rs.45.82 crores.

10.6. Financiers of Sugandh Estates & Investments P Ltd. (SEIPL) The details of financiers of SEIPL are given below: Table 10.6 Financiers of SEIPL

Sl. No.	Name	Address	Pin Code
1	Karvy Stock Broking Limited	14405199 Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.
2	Excell Multitech Limited	H. Nyalchand Fin. Ser.Ltd	10009317
3	Karvy Stock Broking Limited	14405199 Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.
4	Sujal Leasing And Finance Pvt Ltd.	H. Nyalchand Fin. Ser.Ltd	10026812
5	Karvy Stock Broking Limited	14405199 Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.
6	H. Nyalchand Fin. Ser.Ltd	10008962	Karvy Stock Broking Limited
7	14405199 Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.	Dushyant Natwarlal Dalal Karvy Stock Broking Limited
8	40033412	Karvy Stock Broking Limited	14405199
9	Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.	Khandwala Int.Fin.S.Pv.L
10	10112752	Karvy Stock Broking Limited	14405199
11	Sugandh Estates And Investments Pvt Ltd.	IDFC Ltd.	Karvy Stock Broking Limited
12	10004691	Karvy Stock Broking Limited	14405199
13	Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.	Khandwala Int.Fin.S.Pv.L
14	10154728	Karvy Stock Broking Limited	14405199
15	Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.	Seer Finlease Private Ltd.
16	H.Nyalchand Fin. Ser.Ltd	10026774	Karvy Stock Broking Limited
17	14405199	Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.
18	H.Nyalchand Fin. Ser.Ltd	10009298	Karvy Stock Broking Limited
19	14405199	Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.
20	Khandwala Int.Fin.S.Pv.L	10000579	Karvy Stock Broking Limited
21	14405199	Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.
22	Seer Finlease Private Ltd.	H.Nyalchand Fin. Ser.Ltd	10026774
23	Karvy Stock Broking Limited	14405199	Sugandh Estates And Investments Pvt Ltd
24	IDFC Ltd.	Khandwala Int.Fin.S.Pv.L	10112980
25	Karvy Stock Broking Limited	14405199	Sugandh Estates And Investments Pvt Ltd
26	IDFC Ltd.	Ase Capital Markets Ltd	10045158
27	Karvy Stock Broking Limited	14405199	Sugandh Estates And Investments Pvt Ltd
28	IDFC Ltd.	Khandwala Int.Fin.S.Pv.L	10153198
29	Karvy Stock Broking Limited	14405199	Sugandh Estates And Investments Pvt Ltd
30	IDFC Ltd.	Ase Capital Markets Ltd	10045158
31	Karvy Stock Broking Limited	14405199	Sugandh Estates And Investments Pvt Ltd
32	IDFC Ltd.	Sujal Leasing And Finance Pvt Ltd.	H.Nyalchand Fin. Ser.Ltd
33	10026812	Karvy Stock Broking Limited	14405199
34	Sugandh Estates And Investments Pvt Ltd	IDFC Ltd.	Dushyant Natwarlal Dalal Karvy Stock Broking Limited
35	40033412	Karvy Stock	

Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd IDFC Ltd.
H.Nyalchand Fin. Ser.Ltd 10008962 Karvy Stock Broking Limited 14405199
Sugandh Estates And Investments Pvt Ltd IDFC Ltd. Seer Finlease Private Ltd.
H.Nyalchand Fin. Ser.Ltd 10026774 Karvy Stock Broking Limited 14405199
Sugandh Estates And Investments Pvt Ltd IDFC Ltd. Khandwala Int.Fin.S.Pv.L
10153198 Karvy Stock Broking Limited 14405199 Sugandh Estates And
Investments Pvt Ltd IDFC Ltd. Ase Capital Markets Ltd 10045158 Karvy Stock
Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd IDFC Ltd.
Ase Capital Markets Ltd 10045158 Karvy Stock Broking Limited 14405199
Sugandh Estates And Investments Pvt Ltd IL&FS Investsmart Khandwala
Int.Fin.S.Pv.L 10112980 Karvy Stock Broking Limited 14405199 Sugandh Estates
And Investments Pvt Ltd IL&FS Investsmart Khandwala Int.Fin.S.Pv.L 10113005
Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd
IL&FS Investsmart Dushyant Natwarlal Dalal Karvy Stock Broking Limited
40033412 Karvy Stock Broking Limited 14405199 Sugandh Estates And
Investments Pvt Ltd IL&FS Investsmart Sujal Leasing And Finance Pvt Ltd.
H.Nyalchand Fin. Ser.Ltd 10026812 Karvy Stock Broking Limited 14405199
Sugandh Estates And Investments Pvt Ltd IL&FS Investsmart Excell Multitech
Limited H.Nyalchand Fin. Ser.Ltd 10009317 Karvy Stock Broking Limited
14405199 Sugandh Estates And Investments Pvt Ltd IL&FS Investsmart
H.Nyalchand Fin. Ser.Ltd 10008962 Karvy Stock Broking Limited 14405199
Sugandh Estates And Investments Pvt Ltd IL&FS Investsmart Karvy Stock Broking
Limited 10004691 Karvy Stock Broking Limited 14405199 Sugandh Estates And
Investments Pvt Ltd IL&FS Investsmart Khandwala Int.Fin.S.Pv.L 10112752 Karvy
Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd IL&FS
Investsmart Khandwala Int.Fin.S.Pv.L 10112980 Karvy Stock Broking Limited
14405199 Sugandh Estates And Investments Pvt Ltd FCSSoftware Khandwala
Int.Fin.S.Pv.L 10154728 Karvy Stock Broking Limited 14405199 Sugandh Estates
And Investments Pvt Ltd FCSSoftware Excell Multitech Limited H.Nyalchand Fin.
Ser.Ltd 10009317 Karvy Stock Broking Limited 14405199 Sugandh Estates And
Investments Pvt Ltd FCSSoftware Karvy Stock Broking Limited 10004600 Karvy
Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd
FCSSoftware H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited

14405199 Sugandh Estates And Investments Pvt Ltd FCSSoftware H.Nyalchand Fin. Ser.Ltd 10008962 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd FCSSoftware H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd FCSSoftware H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd FCSSoftware Karvy Stock Broking Limited 40033429 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd FCSSoftware Khandwala Int.Fin.S.Pv.L 10154728 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd Yes Bank Ltd Sujal Leasing And Finance Pvt Ltd. H.Nyalchand Fin. Ser.Ltd 10026812 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd Yes Bank Ltd Khandwala Int.Fin.S.Pv.L 10112980 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd Yes Bank Ltd Khandwala Int.Fin.S.Pv.L 10113005 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd Sasken Commtech Ltd Dushyant Natwarlal Dalal Karvy Stock Broking Limited 40033412 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd Sasken Commtech Ltd Khandwala Int.Fin.S.Pv.L 10000579 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd Sasken Commtech Ltd Karvy Stock Broking Limited 10004600 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd Sasken Commtech Ltd Khandwala Int.Fin.S.Pv.L 10154728 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd National Thermal Power Corporation Ltd. Rajesh Jhaveri Stock Brokers Pvt. Ltd. Ase Capital Markets Ltd 10023175 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd National Thermal Power Corporation Ltd. Zenet Software Limited H.Nyalchand Fin. Ser.Ltd 10009298 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd Tata Consultancy Services Ltd. Patel Rajeshkumar H.Nyalchand Fin. Ser.Ltd 10000047 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd Tata Consultancy Services Ltd. Deep Stock Broking Private Limited H. Nyalchand Fin. Ser. Ltd 10000272 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt. Ltd Tata Consultancy Services Ltd. Excell Multitech Limited H.

NyalchandFin. Ser. Ltd 10009317 Karvy Stock Broking Limited 14405199 Sugandh Estates And Investments Pvt Ltd Tata Consultancy Services Ltd. Arth Stock Broking Pvt. Ltd Ase Capital Markets Ltd 10007166 10.7. SEBI worked out a preliminary estimate of the profits made by the above financiers of SEIPL by comparing the closing price (on NSE) on the first day of listing in respect of each of the above IPOs with the issue price of the respective IPOs. The calculations are given below: Table 10.7 Profits made by financiers of SEIPL

Company Name	Close price on the date of listing (d)	Issue Price	Diff. in Price (Rs.) (f)	Gain (Rs.)
Excell Multitech Limited	11100	46550		
Sujal Leasing And Finance Pvt Ltd.	490504	196574		
Seer Finlease Private Ltd.	7000	192234		
Sujal Leasing And Finance Pvt Ltd.	532	798		
Seer Finlease Private Ltd.	266	19650		
Sujal Leasing And Finance Pvt Ltd.	40600	3650		
National Thermal Power Corporation Ltd.	42158	7150		
Rajesh Jhaveri Stock Brokers Pvt. Ltd.	10000	36500		
National Thermal Power Corporation Ltd.	3000	156750		

10.8. Thus, from the above calculations, it is seen that the gain of the principals of SEIPL in various IPOs during 2003 - 2005 works out to Rs.14.90 crores.

10.9. Financiers of other Master Account Holders The details of financiers of the master account holders are given below: The details of financiers of Roopalben Panchal are given below: Table 10.9 Financiers of master account holders

Client Id	Company Name
Tata Consultancy Services Ltd.	Anagram Securities Limited
Anagram Stockbroking Ltd 10153985	Gateway Distriparks Ltd-
Dushyant Natwarlal Dalal Karvy Stock Broking Limited 40033412	Shoppers'stop Limited
Equity Share Magnum Equity Services Limited	Indusind Bank Ltd.
Chirag Jayendrakumar Shah Hdfc Bank Ltd	Khandwala Int.Fin.S.Pv.L 10153198
Jet Airways (India) Limited-Eq Bagrecha Ashok K.	Anagram Stockbroking Ltd 10148567
National Thermal Power Corporation Ltd.	Kelan Atulbhai Doshi Anagram Stockbroking Ltd 10148567
National Thermal Power Corporation Ltd.	Kelan Atulbhai Doshi Anagram

Stockbroking Ltd 10148567 National Thermal Power Corporation Ltd. Kelan
Atulbhai Doshi Anagram Stockbroking Ltd 10148567 Tata Consultancy Services
Ltd. Kelan Atulbhai Doshi Anagram Stockbroking Ltd 10148567 Nectar
Lifesciences Limited-Eq Kelan Atulbhai Doshi Anagram Stockbroking Ltd
10148567 Khandwala Int.Fin.S.Pv.L 10153198 Indiabulls Securities Ltd. Tata
Consultancy Services Ltd. Ajay Kumar Gupta Indiabulls Securities Ltd 10069837
Ashmi Financial Consultancy Pvt Ltd Khandwala Int.Fin.S.Pv.L 10148913
CHIMANLAL GIRDHARLAL SHAH PRABHUDAS LILLADHER PVT LTD
1201130000056161 Khandwala Int.Fin.S.Pv.L 10113966 Khandwala
Int.Fin.S.Pv.L 10113966 Khandwala Int.Fin.S.Pv.L 10113966 Ashmi Financial
Consultancy Pvt Ltd Khandwala Int.Fin.S.Pv.L 10148913 Velvet Financial
Advisers Pvt Ltd Khandwala Int.Fin.S.Pv.L 10148905 Stock Hldg Corp Of I Ltd
14168053 Stock Hldg Corp Of I Ltd 14168053 Nectar Lifesciences Limited-Eq
Natvarlal N Dadia Nectar Lifesciences Limited-Eq Deepak N Dadia Nectar
Lifesciences Limited-Eq Velvet Financial Advisers Pvt Ltd Khandwala
Int.Fin.S.Pv.L 10148905 Shoppers'stop Limited Equity Share Ashmi Financial
Consultancy Pvt Ltd Khandwala Int.Fin.S.Pv.L 10148913 Shoppers'stop Limited
Equity Share Dadia Finvest Limited Spl Industries Limited - Eq Velvet Financial
Advisers Pvt Ltd Khandwala Int.Fin.S.Pv.L 10148905 Yes Bank Ltd -Equity Shares
Velvet Financial Advisers Pvt Ltd Khandwala Int.Fin.S.Pv.L 10148905 Motilal
Oswal Securities Limited 1201090000195905 Motilal Oswal Securities Limited
1201090000194838 Motilal Oswal Securities Limited 1201090000193380
Kashmira Narendra Dadia Motilal Oswal Securities Limited 1201090000193376
Devangi Dipakbhai Panchal Tv Today Network Limited Vasudev Gordhandas
Dapki Ase Capital Markets Ltd 10007265 Devangi Dipakbhai Panchal Tv Today
Network Limited Arth Stockbroking Pvt.Ltd Ase Capital Markets Ltd 10007166
Devangi Dipakbhai Panchal Tv Today Network Limited Arth Stockbroking Pvt.Ltd
Ase Capital Markets Ltd 10007166 Devangi Dipakbhai Panchal Indraprasth Gas
Eq Panchal Bhargav Ranchhodlal Karvy Stock Broking Limited 10067238 Devangi
Dipakbhai Panchal Indraprasth Gas Eq Vasudev Gordhandas Dapki Ase Capital
Markets Ltd 10007265 Jet Airways (India) Limited-Eq Rupesh Vipinchandra Shah
Anagram Stockbroking Ltd 10084010 National Thermal Power Corporation Ltd.
Karvy Stock Broking Limited Karvy Stock Broking Limited 40003868 National

Thermal Power Corporation Ltd. Karvy Stock Broking Limited Karvy Stock Broking Limited 40003868 Khandwala Int.Fin.S.Pv.L 10000579 Khandwala Int.Fin.S.Pv.L 10000579 Arjav Nareshbhai Panchal Patni Computer Systems Ltd. Dipak Jashvantlal Panchal Ase Capital Markets Ltd 10005706 Arjav Nareshbhai Panchal Patni Computer Systems Ltd Shah Kantilal Jitmal Ase Capital Markets Ltd 10007964 Arjav Nareshbhai Panchal Patni Computer Systems Ltd Vasudev Gordhandas Dapki Ase Capital Markets Ltd 10007265 Arjav Nareshbhai Panchal Patni Computer Systems Ltd Dipak Jashvantlal Panchal Ase Capital Markets Ltd 10005706 Arjav Nareshbhai Panchal Patni Computer Systems Ltd Dipak Jashvantlal Panchal Ase Capital Markets Ltd 10005706 Ambuja Estate And Holdings Pvt Ltd Tata Consultancy Services Ltd. Patel Rajeshkumar H.Nyalchand Fin. Ser.Ltd 10000047 Ase Capital Markets Ltd 10045158 Ambuja Estate And Holdings Pvt Ltd Tata Consultancy Services Ltd. Arth Stockbroking Pvt.Ltd Ase Capital Markets Ltd 10007166

10.10. The gains made by the above financiers of the master account holders were worked out by comparing the closing price (on NSE) on the first day of listing in respect of each of the above IPOs with the issue price of the respective IPOs. The calculations are given below:

Client Name	Close price on the date of listing	Issue Price	Gateway
Dustiparks Ltd	38340	39900	Ashmi Financial Consultancy Pvt Ltd
Dushyant Natwarlal Dalal	11100	146832	Chimanlal Girdharlal Shah
Ashmi Financial Consultancy Pvt Ltd	43624	7062	Welvet Financial Advisers Pvt Ltd
Kashmira Narendra Dadia	2900	4900	Devangi Dipakbhai Panchal
Indraprasth Gas Eq Panchal Bhargav Ranchhodlal	244	7500	Devangi Dipakbhai Panchal
Indraprasth Gas Eq Vasudev Gordhandas Dapki	50000	50000	Jet Airways (India) Limited-Eq
Bagrecha Ashok K.Jet Airways (India) Limited-Eq	244	244	Rupesh Vipinchandra Shah
National Thermal Power Corporation Ltd. Kelan Atulbhai Doshi	7500	7500	National Thermal Power Corporation Ltd.
Kelan Atulbhai Doshi National Thermal Power Corporation Ltd. Karvy Stock Broking Limited	7500	7500	National Thermal Power Corporation Ltd.
Karvy Stock Broking Limited	50000	50000	Nectar Lifesciences Limited-Eq
Kelan Atulbhai Doshi Nectar Lifesciences Limited-Eq	50000	50000	Natvarlal N Dadia
Nectar Lifesciences Limited-Eq	12000	12000	Deepak N Dadia
Nectar Lifesciences Limited-Eq	12000	12000	Welvet Financial Advisers Pvt Ltd
Arjav Nareshbhai Panchal Patni Computer Systems Ltd	12000	12000	Shah Kantilal

Jitmal Arjav Nareshbhai Panchal Patni Computer Systems Ltd Vasudev Gordhandas Dapki 10250 Arjav Nareshbhai Panchal Patni Computer Systems Ltd Dipak Jashvantlal Panchal 35000 Arjav Nareshbhai Panchal Patni Computer Systems Ltd Dipak Jashvantlal Panchal 35000 Arjav Nareshbhai Panchal Patni Computer Systems Ltd. Dipak Jashvantlal Panchal 2250 Shoppers'stop Limited Equity Share Magnum Equity Services Limited 5000 Shoppers'stop Limited Equity Share Ashmi Financial Consultancy Pvt Ltd 12700 Shoppers'stop Limited Equity Share Dadia Finvest Limited Spl Industries Limited - Eq Velvet Financial Advisers Pvt Ltd 7300 Chirag Jayendrakumar Shah 18 Tata Consultancy Services Ltd. Anagram Securities Limited 3750 Tata Consultancy Services Ltd. Kelan Atulbhai Doshi Indiabulls Securities Ltd. Tata Consultancy Services Ltd. Ajay Kumar Gupta Ambuja Estate And Holdings Pvt Ltd Tata Consultancy Services Ltd. Patel Rajeshkumar Ambuja Estate And Holdings Pvt Ltd Tata Consultancy Services Ltd. Gautam N Jhaveri Ambuja Estate And Holdings Pvt Ltd Tata Consultancy Services Ltd. Arth Stockbroking Pvt.Ltd 1500 Devangi Dipakbhai Panchal Tv Today Network Limited Vasudev Gordhandas Dapki 6900 Devangi Dipakbhai Panchal Tv Today Network Limited Arth Stockbroking Pvt.Ltd 28200 Devangi Dipakbhai Panchal Tv Today Network Limited Arth Stockbroking Pvt.Ltd 13000 Yes Bank Ltd -Equity Shares Velvet Financial Advisers Pvt Ltd 55000 100,643,676.75 10.11. Thus, from the above calculations, it is seen that the gain of the financiers of other key operators in various IPOs during 2003 - 2005 works out to Rs.10.06 crores.

10.12. Financiers of Key Operators in CDSL 10.13. Upon examination of the CDSL transactions of the three key operators , it is seen that Roopalben Panchal has transferred 39,43184 shares of IDFC and 1,56,300 shares of FCS on August 11, 2005 (i.e.

prior to listing) and September 21, 2005 respectively from her CDSL account (ID: 1301440000307503 held with Karvy DP) to her NSDL account (ID: 11920868 held with Karvy-DP). This is an interesting feature showing that Roopalben Panchal did not use her CDSL account for effecting off-market transfers to her financiers and used her NSDL account exclusively for such transfers.

10.14. In the case of Suzlon Energy Ltd. (ISIN: INE040H01013), Purshottam Budhwani (Bo ID: 1301440000247208 with Karvy-DP), Himalaya Bldg B/2 Asalfa Milind Nagar Ghatkopar W, Mumbai 400084 has transferred 16,304 shares to one Shri. M Kishanmurari Seksaria (apparently Manojdev K. Seksaria) (Demat account client ID: 1202020000030991 held with Pratik DP) , 33 Maheshwari Niketan 5/3 Peddar Road, Mumbai 400026 on October 20, 2005 i.e. one day after listing on the stock exchange and prior to commencement of pay in / pay out on the secondary market trades. This off-market transfer of IPO shares from Purshottam Budhwani to Manojdev Seksaria clearly shows the linkage between Purshottam Budhwani and Manojdev Seksaria.

10.15. Upon perusal of the off market transaction details of Purshottam Budhwani, B/4, Panchsheel Building, Nath Pai Nagar, Ghatkopar (East) Mumbai 400077 in the client id 1202020000006413 held with Pratik DP (demat account opened on June 26, 2003), as obtained from CDSL, it is seen that he has made off-market transfer of IPO shares to the following entities: Nectar Life Sciences Ltd. 18072005 Puloma Dushyant Dalal & Dushyant Natwarlal Dalal Flat No 4 A Chandan 4th Floor, 62BDr Gopalraodes hmukh Marg, Peddar Road, Mumbai 400026 Rasila Natwarlal & Natwarlal Thakordas Flat No 4 A Chandan 4th Floor, 62 B Dr Gopalrao Deshmukh Marg, Peddar Road, Mumbai 402 A Mahavideh Chandavarkar Road, Near Ramdev Park Borivali (West),, Mumbai, 31/5, Vasant Mahal, 'C' Road, Churchgate, Mumbai 400020 IDFC Balvinder Gurmukhsingh Purswani Office No 9 Samarpan Complex, Sector-17, Hira Ghat Road, Ulhasnagar 421003 Natwarlal Thakordas & Dushyant Natwarlal Dalal Flat No 4 A Chandan 4th Floor, 63 B Dr Gopalrao Deshmukh Marg, Peddar Road, Mumbai 400026 402 A Mahavideh Chandavarkar Road, Near Ramdev Park Borivali (West),, Mumbai, 400092 IN30002010339768 IN30002011215270 Meenakshi L Phulwani & Laxminarain L Phulwani L L Phulwani 400/501 Mangal Archana, 15th Rd, Bandra W, Mumbai 400050400/501 Mangal Archana, 15th Road 5th Floor, Bandra West, Mumbai 400050 IDFC A 65 Shantipark Soc, B/H Amitnagar, Karelibaug Vip Road, Baroda 390022 IDFC Laxminarain L Phulwani & Meenakshi Phulwani 400/501, Mangal Archana, 15th Rod Bandra, Mumbai 400050 IDFC Balvinder Gurmukhsingh Purswani Office No 9 Samarpan Complex, Sector-17, Hira Ghat Road, Ulhasnagar 421003 A 65 Shantipark Soc, B/H Amitnagar, Karelibaug Vip

Road, Baroda 390022 IDFC Gurmukhdas Rameshkumar Giyamalani C- 44 Troika Apartment, B Hi Point Restaurant, Swami Samarth Nagar , X Road 3, Andheri West, Mumbai 400053 IDFC 901, Kent Tower, Narsing Lane,, Vardhman Nagar,, Malad (W), Mumbai 400064 Magnum Equity Services Limited 103, Harganga Mahal, Annexe Khodadad Circle, Dadar T. Mumbai. 400014 IDFC R. No. 2, Crystal Premises, 2nd Floor, 3rd Road, Khar(W), Mumbai 400052 MSP Steel and Power Ltd. 18072005 Puloma Dushyant Dalal & Dushyant Natwarlal Dalal Flat No 4 A Chandan 4th Floor, 62 B Dr Gopalraodeshmukh Marg, Peddar Road, Mumbai 400026 Puloma Dushyant Dalal & Dushyant Natwarlal Dalal Flat No 4 A Chandan 4th Floor, 62 B Dr Gopalrao Deshmukh Marg, Peddar Road, Mumbai 400026 Puloma Dushyant Dalal & Dushyant Natwarlal Dalal Flat No 4 A Chandan 4th Floor, 62 B Dr Gopalrao Deshmukh Marg, Peddar Road, Mumbai 400026 10.16. From the above table it is seen that Purshottam Budhwani has made off market transfers of IPO shares to Puloma Dushyant Dalal & Dushyant Natwarlal Dalal, a Chartered Accountant, Rasila Natwarlal & Natwarlal Thakordas, Natwarlal Thakordas & Dushyant Natwarlal Dalal, Nimisha Kadakia, Rajkumar Jain, Balvinder Gurmukhsingh Purswani, Jayprakash Girdharilal, Niranjana Girdharilal, Gurmukhdas Rameshkumar Giyamalani, Mehta Bansilal and Magnum Equity Services Limited. It appears that the above entities may have acted as financiers of Purshottam Budhwani for cornering the retail portion of the IPOs.

10.17. SEBI worked out the gains made by the above financiers of Purshottam Budhwani by comparing the closing price (on NSE) on the first day of listing in respect of each of the above IPOs with the issue price of the respective IPOs. The calculations are given below: Table 10.17- Close price on the date of listing Issue Price Nectar Life Sciences Ltd. Puloma Dushyant Dalal & Dushyant Natwarlal Dalal 13500 Rasila Natwarlal & Natwarlal Thakordas 14120 Balvinder Gurmukhsingh Purswani 15000 Natwarlal Thakordas & Dushyant Natwarlal Dalal 144000 Meenakshi L Phulwani & Laxminarain L Phulwani 2800 Laxminarain L Phulwani & Meenakshi Phulwani 10500 Balvinder Gurmukhsingh Purswani 35275 Gurmukhdas Rameshkumar Giyamalani 6000 Magnum Equity Services Limited 15000 MSP Steel and Power Ltd. Puloma Dushyant Dalal & Dushyant Natwarlal Dalal 20200 Puloma Dushyant Dalal & Dushyant Natwarlal Dalal 7160 Puloma Dushyant Dalal & Dushyant Natwarlal Dalal 840 10.18. Thus, from the above

calculations, it is seen that the gain of the financiers of Purshottam Budhwani in various IPOs during 2003 - 2005 works out to Rs.1.6 crores.

10.19. From the above calculations of the gains made by the financiers of Roopalben Panchal, SEIPL and other key operators, it is seen that the total gains of these financiers, in both NSDL and CDSL, works out to roughly Rs. 72.38 crores. I note that this estimate of the gains made by the financiers is close to that unearthed by the Income Tax Department during the course of their investigations into the irregularities relating to IPOs. In this regard Income Tax department has stated that "The investigation wing of the Income-tax Department has carried out investigations to determine the unexplained investment made, income earned and tax liability arisen from IPOs and to ensure that the taxes are paid as per provisions of the I.T. Act 1961. As a consequence of investigations made, the assesseees have admitted total income of Rs.60.62 crores from 01/04/2004 till the IPO of Renuka Sugar Ltd. on 14.10.2005 and paid total tax of Rs.14.66 Crores."

10.20. As regards the IPO of Renuka Sugar Ltd. it is understood that the key operators had not made off-market transfers of the IPO shares cornered by them during the pre-listing period and accordingly the same does not appear in the IPO information submitted by the depositories.

However, the off-market transfers were to the account of Roopalben Panchal which has otherwise been covered while delating with accounts of key operators.

10.21. Upon perusal of the CDSL off market transaction details of Manojdev Seksaria 33 Maheshwar Niketan 5B Peddar Rd Mumbai 400026 in the client id 1301440000051951 held with karvy DP (demat account opened on July 8, 2005), as obtained from CDSL, it is seen that he has made off market transfer of IPO shares to the following entities: Table 10.21 - R. No. 2, Crystal Premises, 2nd Floor, 3rd Road, Khar(W), Mumbai 400052 FCS Software Ltd. 33 Maheshwar Niketan 5b Peddar Rd 10.22. In the case of Suzlon Energy Ltd. (ISIN: INE040H01013), Manojdev Seksaria .33 Maheshwar Niketan 5B Peddar Rd Mumbai 400026 in the client id 1301440000051951 held with karvy DP has transferred 18,624 shares to Purshottam Budhwani (client ID IN30220110093022 held with Anagram Stock Broking Ltd.) R. No. 2, Crystal Premises, 2nd Floor, 3rd

Road, Khar (W), Mumbai 400052 on October 20, 2005 i.e. one day after listing on the stock exchange and prior to commencement of pay in / pay out on the secondary market trades.

11.0. Linkages amongst the Key Operators and Financiers 11.1. From a perusal of NSDL and CDSL accounts of the key operators, it is seen that, in CDSL, on October 20, 2005 Purshottam Budhwani transferred 16,304 shares of Suzlon Energy to Manojdev Seksaria and on the same day Manojdev Seksaria transferred back 18,624 shares to Purshottam Budhwani. These off-market transfers between Purshottam Budhwani and Manojdev Seksaria done prior to commencement of pay in / pay out on the stock exchanges clearly bring out the linkages between them.

11.2. It is also seen that in CDSL, Purshottam Budhwani has made off-market transfers of IPO shares to various entities namely Puloma Dushyant Dalal & Dushyant Natwarlal Dalal, Rasila Natwarlal & Natwarlal Thakordas, Natwarlal Thakordas & Dushyant Natwarlal Dalal, Nimisha Kadakia, Rajkumar Jain, Balvinder Gurmukhsingh Purswani, Jayprakash Girdharilal, Niranjana Girdharilal, Gurmukhdas Rameshkumar Giyamalani, Mehta Bansilal and Magnum Equity Services Limited. It is also seen that in NSDL, SEIPL had made off-market transfers of IDFC shares to Puloma Dushyant Dalal & Dushyant Natwarlal Dalal in NSDL thus showing that SEIPL and Purshottam Budhwani had made off-market transfers to a common set of entities. Further, in NSDL, Roopalben Panchal and SEIPL have made off-market transfers to common sets of entities such as Zenet Software, Seer Finlease, Excel Multitech, Taurus Infosys, etc.

11.3. It is seen that Dharmesh Bhupendra Mehta, a key operator and a major client of BHOB Goregaon branch who had been introduced by Karvy to BHOB, had transferred around 43,624 shares of IDFC to M/s. Velvet Financial Advisers Pvt.Ltd. (Velvet Financial) on August 11, 2005 i.e.

just before listing of shares on stock exchanges. The scrip was listed on stock exchanges on August 12, 2005. It is seen that Roopal Panchal had also transferred 4,17,000 shares of IDFC to Velvet Financial on August 9, 2005. SEBI queried Dharmesh Mehta about his relationship with Velvet Financial and he

interalia stated as below: 11.4. "8. What is your relationship with M/S. Velvet Financial Advisors Ltd. and transactions with them.

11.5. M/s. Velvet Financial Advisors Ltd. have approached us for lending us money in subscribing for IPO. They have lent me Rs.78 lakhs for the purpose of making margin for retail application to my group.

After getting allotment of IDFC, we have transferred 43,000 equity shares of IDFC as per their instruction and balance amount of Rs.64 lakhs returned by cheque payment." 11.6. Upon examination of the bank transaction statement of Velvet Financial it was observed that Velvet Financial had paid Rs 76,56,250 to Dharmesh Mehta and apparently there is no receipt of Rs 64 lakhs by Velvet from Dharmesh Mehta. In view of the above it appears that Velvet Financial had approached Dharmesh Mehta for making applications in the retail category and provided the necessary finance for the same. Upon receipt of allotment, it is seen that Dharmesh Mehta has transferred the IPO shares to Velvet Financial while retaining some of these shares as his commission for executing the transactions.

11.7. In this context it is seen that in the month of June 2005, Velvet Financial had directly applied for 60,75,000 shares in the public issue of Yes Bank for Rs 27 crores and was allotted only 1,39,073 number of shares. It appears that Velvet Financial had applied in the non-institutional (High Networth) category in the IPO of YES Bank and hence had failed to get allotment of large number of shares in the YES Bank IPO. In view of the above, apparently, Velvet Financial had approached Dharmesh Mehta and Roopalben Panchal for the purpose of making applications in the retail category in the IPO of IDFC since Dharmesh Mehta and Roopalben Panchal had large number of demat accounts under their control.

11.8. Thus, there was apparently arrangement between Dharmesh Mehta and Velvet Financial for cornering the retail portion of the IDFC IPO and this arrangement was sought to be given the color of loan transaction.

Since Roopalben Panchal has also made off-market transfers to Velvet Financial as done by Dharmesh Mehta, it appears that similar arrangements might have existed between Roopalben Panchal and Velvet Financial. Thus Velvet Financial

has acted as financier for both Roopalben Panchal and Dharmesh Mehta.

11.9. Upon examination of Roopalben Panchal's bank account statement with BHOB Worli Branch, it is seen that Roopal Panchal had brought in margin money for IPO finance to the tune of Rs 22.03 crores which correlates with the margin money for 4,663 applications. Upon examination of the source of funds of Roopalben Panchal for the margin money brought in by her, the following entities appear to have provided her finance for making the above applications: Table 11.9 - Amount given as margin money to BHOB, Worli Branch Seer Finlease Pvt. Ltd Rs 22,03,50,375 (which includes Rs 20,05,00,000) Taurus Infosys Ltd 11.10. Based on discussions in the earlier paragraphs relating to Dharmesh Mehta and Velvet Financial, it appears that the arrangement between Roopalben Panchal and the above entities / financiers were also an arrangement for cornering retail portion of IPO which has been sought to be given a color of pure financing transaction.

11.11. As per the bank account opening form of Kantibhai who holds an account no. 8.100.17442 with BHOB Worli branch and whose account was used for the purpose of providing margin money for entities related to Roopalben Panchal in the case of IDFC issue, it was observed that this account was introduced by Panchal and there were also funds transfer from the account of Roopalben Panchal to the account of Kantibhai.

Similarly, Jhaveri Group also transferred funds to Kantibhai and vice versa. Thus it appears that the account in the name of Kantibhai was a central account for both Roopal and Jhaveri Group (Sugandh Group). The details of the above transactions in the bank account of Kantibhai are given below.

- o On 08.07.2005 there was a credit of Rs 6.56 crores from the saving account of Roopalben Panchal.

- o On 22.07.2005, there were credit entries of Rs 31.30 lakhs, Rs 2.15 crore and Rs 5.01 crores from saving accounts of Kirti M Jhaveri (8.100.19904), Kamal P Jhaveri (8.100.19890) and Parag P Jhaveri (8.100.19883) respectively.

o On 17.08.2005, there were credit entries of Rs 1.70 crore, Rs 1.70 crores and Rs 3.41 crores from the savings accounts of Kamal P Jhaveri (8.100.19890), Parag P Jhaveri (8.100.19883) and Dhaval A Mehta (8.100.19997) respectively 11.12. Thus there appear to be inter-linkages between Roopalben Panchal group and Jhaveri group, comprising of SEIPL, Parag Jhaveri and others.

11.13. Additional linkages, besides the above, between the Panchal group (consisting of Roopalben Panchal and others) and Jhaveri group (consisting of SEIPL and others) are also noticed and the same have been discussed in detail in later paragraphs. These linkages include the following: Dipakbhai Panchal and Bhargav Ranchodlal Panchal who belong to the Panchal group and Kamal Priyakant Jhaveri who belongs to the Jhaveri group are common directors in Arth Stock Broking P Ltd., a broker of Ahmedabad Stock Exchange. Also, Arth Realty P Ltd. (which has the same address as that of SEIPL) and Devangi Dipakbhai Panchal are the two largest shareholders in Arth Stockbroking P Ltd. Further Grace Consultancy- C\O Dipak J Panchal, Arth Realty P Limited (which has the address same as SEIPL), Purshottam Budhwani and Manoj Seksaria are all sub-brokers of Karvy-DP and are amongst the top four sub-brokers in terms of number of applications for demat accounts procured for Karvy-DP.11.14. Financial transactions are also noticed among the key operators.

Purshottam Budhwani and Manojdev Seksaria have transferred funds among themselves. Roopalben Panchal, SEIPL, Purshottam Budhwani and Manojdev Seksaria have transferred funds to Karvy Consultants. Karvy Consultants also has financial transactions with Anagram Securities Ltd., Anagram Stock Broking, Balwinder Purswani and Dushyant Natwarlal Dalal. These financial transactions also support the view that there are strong interlinkages amongst the key operators as well as between Karvy group and the key operators. The details of the financials transactions have been narrated in detail else where in this order.

11.15. Findings relating to HDFC Bank 11.16. SEBI obtained the bank account statements for the period May -October, 2005 and the account opening forms in respect of the following entities which were identified in the SEBI orders in the cases of Yes Bank and IDFC and having their accounts with HDFC Bank: Table

11.16 Name of the Bank and Branch Bank Account No. Welvet Financial Advisors Pvt. Ltd. B-25/A 68 GATE NO 6, MALWANI, MALAD WEST, MUMBAI 400095
HDFC BANK FORT BRANCH, MUMBAI 400001 Current 0602320009328 68
SAMAST B SOCIETY, OPP. PINAKIN SOCIETY, PALDI, AHMEDABAD 380007
HDFC BANK LTD HDFC HOUSE, NR. MITHAKALI SIX ROAD, NAVRANGPURA, AHMEDABAD 380009 20, BASANT BAHAR, NR. PURSHOTTAM NAGAR BUS STAND, BOPAL, AHMEDABAD 380058 HDFC BANK LTD HDFC HOUSE, NR. MITHAKALI SIX ROAD, NAVRANGPURA, AHMEDABAD 380009 Seer Finlease Pvt. Ltd. H.N. HOUSE, 2ND FLOOR,, NR. OLD HIGH COURT RLY CROSSING, NAVRANGPURA,, AHM 380009 HDFC BANK LTD HDFC HOUSE,, NR. MITHAKHALI SIX ROAD,, NAVRANGPURA, AHMEDABAD 380009 3RD FLOOR, H. N. HOUSE,, NR. OLD HIGH COURT RAILWAY CROSSING,, NAVRANGPURA, 380009 HDFC BANK LTD HDFC HOUSE,, NR. MITHAKHALI SIX ROAD,, NAVRANGPURA, AHMEDABAD 380009 1134, Girdharlal, No Khancho, Khadia, Ahmedabad-380001 HDFC BANK LTD KAMDHENU COMPLEX,, NR SAHAJANAND COLLEGE,, PANJARAPOLE,, AHMEDABAD 380015 163, KAMDHENU COMPLEX,, PANJARA POLE,, AHMEDABAD 380015 HDFC BANK LTD Silicon Valley Co op Hsg Soc, B Tower Satellite Road, Vejalpur, Ahmedabad 380015 Current 0482100000451 B-81, "PARISEEMA" COMPLEX, C.G.ROAD, ELLISDBRIDGE, AHMEDABAD 380006 HDFC BANK MITHAKALI SIX ROADS, MITHAKALI, AHMEDABAD 380009 Current 0061000026320 3RD FLOOR, H. N. HOUSE,, NR. OLD HIGH COURT RAILWAY CROSSING,, NAVRANGPURA, 380009 HDFC HOUSE, NR. MITHAKALI SIX ROAD, NAVRANGPURA, AHMEDABAD, 380009 Current 0062340000330 3RD FLOOR, H. N. HOUSE,, NR. OLD HIGH COURT RAILWAY CROSSING,, NAVRANGPURA,, 380009 HDFC HOUSE, NR. MITHAKALI SIX ROAD, NAVRANGPURA, AHMEDABAD, 380009 Current 0062340000357 Shri Purshottam Ghanshyam Budhwani B/4, Panchsheel Building, Nath Pai Nagar, Ghatkopar (East), Mumbai-400077 (or) B-2, Himalaya Society Milind Nagar, Asalfa Ghatkopar (West), Mumbai -400084 HDFC Bank, Fort, Mumbai 400023 Savings 0602100001225 33 Maheshwar Niketan 5B Peddar Rd Mumbai 400026 HDFC Bank Ltd., Tirupati Apts., Shop No. 10, Bhulbhai Desai Road, Mumbai -400026
11.17. The above period was chosen based on the dates of the IPOs of M/s. YES

Bank Ltd. and M/s. IDFC Ltd. SEBI examined the bank account statements of the above entities relating to fund transfers to the bank account of Ms. Roopalben Panchal. Client Account Opening forms were also scrutinized vis-is the name of the introducer, address etc.

11.18. The details of funds received by Ms. Roopalben Panchal from the HDFC Bank accounts of the identified entities are summarized below.

Table 11.18- Source of original funds Remarks BSE Additional Base Capital (ABC) Release 17.08.05 Zenet Nyalchand (broker of NSE) NSE Payout The fund transfer is on account of payout to Zenet 17.08.05 No payout was due to Seer 17.08.05 No payout was due to Seer 18.08.05 No payout was due to Seer 24.08.05 Seer - Parklight (broker of BSE) BSE Payout The fund transfer is on account of payout to Seer 07.07.05 Excell - Parklight (broker of BSE) BSE ABC Release Excell - Nyalchand (broker of NSE) NSE Payout The fund transfer is on account of payout to Excell 27.06.05 Hasmukh HUF- Dhiren Vor - Nyalchand NSE Payout The fund transfer from Nyalchand to Dhiren Vora to the extent of Rs. 175 lacs is on account of payout 27.06.05 Hasmukh HUF - Rajesh Patel - Nyalchand NSE Payout No payout was due to Rajesh Patel 27.06.05 Hasmukh HUF-Hasmukh Vora - Nyalchand (broker of NSE) NSE Payout The fund transfer of Rs.141.67 lakhs from Nyalchand to Hasmukh Vora is on account of payout Hasmukh HUF -Hasmukh Vora -Nyalchand NSE Payout The fund transfer of Rs.44.58 lakhs is on account of payout to Excell Hasmukh HUF - Hasmukh Vora - Parklight - H S Shah, N S Shah and Mittal Shah Shah have transferred Rs.20.00 lakhs to Parklight.

27.06.05 Hasmukh HUF - Sujal Leasing - Nyalchand NSE Payout No payout was due to Sujal Leasing 28.06.05 Hasmukh HUF - DhirenVor a- Nyalchand (broker of NSE) NSE Payout The fund transfer is on account of payout to Dhiren Vora 28.06.05 HasmukhHUF4- HasmukhV ora-Nyalchand (broker of NSE) NSE Payout The fund transfer is on account of payout to Hasmukh Vora 07.07.05 Hasmukh HUF-ZealousTra ding - Khandwala Integrated Fin. Serv. Ltd. - The redemption pertains to short term parking of funds in the HDFC Cash Managemen t Fund.

07.07.05 Hasmukh HUF-TaurusInfo -Sputnik Steels Pvt. Ltd. --- Hasmukh HUF-Sonal Vora - Parklight BSE ABC Release Hasmukh HUF-ParklightS ec - Girdhari

Bhatia-Inani Commodities Pvt.

Ltd. Inani Securities transferred -Inani Securities Ltd. Rs. 25 lacs to Inani Commodities which in turn transferred the same to Girdhari Bhatia.

The fund transfer to the extent of Rs. 6.78 lacs is on account of payout to Girdhari Bhatia Hasmukh HUF-ParklightSec-GirdhariBhatia- Inani Commodities Girdhari Bhatia received Rs. 24 lacs from Inani Commodities which in turn had received the funds through redemption of units of JM Mutual Fund.

Hasmukh HUF-TaurusInfo -Lok Prakashan --- Excell-SputnikSteels Pvt. Ltd. --- ---
The redemption pertains to short term parking of funds in the HDFC Cash Management Fund.

24.05.05 The redemption pertains to short term parking of funds in the HDFC Cash Management Fund.

20.06.05 The redemption pertains to short term parking of funds in the HDFC Cash Management Fund.

20.06.05 The redemption pertains to short term parking of funds in the HDFC Cash Management Fund.

20.06.05 The redemption pertains to short term parking of funds in the HDFC Cash Management Fund.

28.06.05 The redemption pertains to short term parking of funds in the HDFC Cash Management Fund.

11.19. It may be seen from the above table that in most of the cases the original source of funds were either BSE/NSE additional base capital release or BSE/NSE payout or redemption of funds in the HDFC Cash Management Fund. This shows that some of the financiers of Roopalben Panchal and others were brokers of BSE or NSE.11.20. It may be seen from the above that Zenet Software had received Rs. 1688.30 lakhs from Parklight, Nyalchand, Lokprakashan, Bahubali Shah and redemption of funds in the HDFC Cash Management Fund, all put together.

- 11.21. Seer Finlease had received Rs. 1715.62 lakhs from Parklight, Nyalchand and redemption of funds in the HDFC Cash Management Fund, all put together.
- 11.22. Excell Multitech had received Rs. 1842.02 lakh from Parklight, Nyalchand, SputnikSteels Pvt. Ltd., Shruti Shah, Shreyans Shah, Lokprakashan and redemption of funds in the HDFC Cash Management Fund, all put together.
- 11.23. Taurus Infosys had received Rs.767.50 lakhs from Lokprakashan and redemption of funds in the HDFC Cash Management Fund, both put together.
- 11.24. Hasmukh HUF has received received in all Rs. 2475.36 lakhs from various sets of entities viz. Dhiren Vora, Rajesh Patel, Hasmukh Vora, Sujal Leasing, Zealous Trading, Taurus Infor, Sonal Vora, Girdhari Bhatia-Inani Commodities Pvt. Ltd. and redemption of funds in the HDFC Cash Management Fund. The original sources of the funds in most of the instances were Parklight (a BSE broker) or Nyalchand (a NSE broker) or SputnikSteels Pvt. Ltd. or Lokprakashan or H S Shah, N S Shah and Mittal Shah or Khandwala Integrated Fin. Ser. Ltd. or Inani Securities Ltd. or Inani Commodities.
- 11.25. In respect of the entities identified in the cases of YES Bank and IDFC, having their bank accounts with HDFC, transactions of Rs. 1 Crore or more in these accounts during the period from May to October 2005 were examined and the findings are tabulated below: Table 11.25- 11.26. From the above table it is seen that Shri Hasmukhlal N Vora had received large amount of funds from Zenet Software Ltd., Taurus Infosys Ltd. and Excell Multitech Ltd. and has also given large amount of funds to the above entities.
- 11.27. The client account opening forms of the identified entities having their bank accounts with HDFC Bank were examined (except in the cases of Purshottam Budhwani and Manojdev Seksaria which have been discussed elsewhere in this order) and the observations are summarized below: HDFC Bank, Navrangpura, Ahmedabad Nimesh G. Gandhi Taurus Infosys HDFC Bank, Navrangpura, Ahmedabad Nimesh G. Gandhi Seer Finlease Ltd. HDFC Bank, Navrangpura, Ahmedabad Uday H. Vora HDFC Bank, Navrangpura, Ahmedabad Nimesh G. Gandhi Jay Shah HDFC Bank, ASE Branch ST Investments Welvet Financial

Advisors P Ltd Current Account HDFC Navrangpura, Ahmedabad Bank, 11.28. As per the client account opening forms of Zenet Software Ltd., Excell Multitech Ltd. and Taurus Infosys Ltd. it is seen that these companies have the same set of directors viz. Saryuben Vora, Rajesh Patel, Kirtiben Patel and Vishal Patel and have been introduced to HDFC Bank by the same person namely, Shri Nimesh G. Gandhi.

11.29. As per the client account opening form of Seer Finlease Ltd. it is seen that Sonal Vora and Saryuben Vora are the authorized signatories for the account maintained by the company.

11.30. As per the client account opening form of Velvet Financial Advisors Pvt. Ltd. it is observed that it is seen that Hasmukh K Modi is the authorized signatory for the account maintained by the company.

The client account opening forms of Hansmukhlal Vora HUF and Jayesh P. Khandwala HUF are yet to be provided by HDFC Bank.

11.31. Examination of HDFC Bank Account of Purshottam Budhwani by the CA Firm 11.32. The CA firm engaged by SEBI also examined the HDFC Bank account transactions of Purshottam Budhwani and the major observations emerging from the examination is given below: 11.33. Perusal of the statement of the principal account of Purshottam Budhwani (account no. 0602100001225 with HDFC Bank Limited, Fort Branch) for the year 2005 revealed the following: Table 11.33- Debit Payment Anagram Securities Ltd. 20,026,460.43 Anagram Stock Broker Pt. Ltd. 3,402,482.07 - 24,415,000.00 Dushyant Nathalal Dalal 654,572,434.00 - - 250,000.00 288,877,726.00 - 1,300,000.00 Total 11.34. From the above, it can be seen that Purshottam Budhwani has received from and made payments to, inter alia Manoj G. Seksaria, Dushyant Nathalal Dalal and Karvy Consultants. The above financial transactions between Purshottam Budhwani and Manojdev Seksaria shows the interlinkages between them. In this context it may be mentioned that during October 2005 there were off-market transactions in the shares of Suzlon Energy between Purshottam Budhwani and Manojdev Seksaria and the details of the same have been narrated earlier in this order.

11.35. It is also seen that Purshottam Budhwani has received Rs. 54.71 crores from Dushyant N Dalal and has paid Rs. 65.45 crores to him. In this context it may be mentioned that Dushyant N Dalal is amongst the principals who have financed master account holders such as SEIPL.

11.36. It appears that Karvy Consultants has provided loans/IPO financing to Purshottam Budhwani as evidenced from the fact that it has provided funds to Purshottam Budhwani and has also received back the same. Whereas Karvy Stock Broking has only made payments to Purshottam Budhwani. Apparently these payments made to Purshottam Budhwani who is a sub broker of Karvy Stock Broking, represent the fees/commissions for procuring demat clients for Karvy DP and also for acting as sub broker for the IPOs marketed by Karvy group. The examination of bank account statement of Karvy Consultants, discussed in detail in the later paragraphs, also corroborates this finding.

11.37. The above discussions bring out the interlinkages between Purshottam Budhwani, some of the other master account holders, some of the financiers of the master account holders and Karvy.

11.38. In view of the inter linkages amongst the master account holders and their financiers, it appears that a few common sets of entities were indulging in irregularities in a large scale in the various IPOs, indicating interlacing and interlocking operation with a common control.

12. Inspection of Depository Participants 12.1. SEBI conducted inspection of the two major DPs viz. Karvy-DP and Pratik-DP identified in the interim orders in the cases of Yes Bank and IDFC. Further, during the course of verification of the dematerialized accounts done by NSDL and CDSL, it was found that five DPs namely, HDFC Bank Ltd.(HDFC), Dindayal Biyani Stock Brokers Ltd.(DBSBL), Centurion Bank of Punjab Ltd.(CBPL), Infrastructure Leasing & financial Services Ltd. (ILFS) and Wellworth Shares and Stock Broking Ltd. (WSSBL) had large numbers of dematerialized account-holders sharing a few common addresses. Accordingly, SEBI engaged an independent Chartered Accountant ('CA') firm to conduct an investigative audit of the DPs.

CDSL has also conducted inspection of five DPs namely HDFC, CBPL, ILFS, WSSBL and Motilal Oswal Securities Ltd. The findings of SEBI inspection of Karvy DP have been narrated under the heading "Examination of the Role, Activities and Demat account related documents of Karvy-DP". The significant findings emanating from the inspection / audit of the other DPs are given below: 12.2. Inspection of Pratik-DP by SEBI: SEBI has conducted a limited purpose inspection of books of accounts, documents and other records of M/s. Pratik Stock Vision Private Limited, (hereinafter referred to as "entity" or "Pratik" or "member" or "DP" or "participant" or "PSVPL") member of National Stock Exchange of India Limited(NSE), depository participant (DP) of National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) having SEBI Registration Numbers INB23754839, IN-DP-CDSL-107-2000, IN-DP-NSDL-171-2000.

12.3. The inspection which was conducted by a team of SEBI officials was carried out using sample and random test check method for inspecting the books of account and other records of the entity. In addition to this, the inspection team also verified documents such as Account opening Forms (AOF), client agreements, Know Your Client (KYC), issuance and processing of Delivery Instruction Slips (DIS), client ledgers etc selected on a random basis. The various operations of the entity were also discussed with the management.

12.4. The trading terminal of Pratik was deactivated by NSE w.e.f December 11, 2003 as a risk containment measure. The withdrawal of the trading facility was due the arrest of Shri Rajendra Jhunjunwala, a dominant shareholder and director of PSVPL. The terminal of the member was re-enabled by NSE on July 06, 2005, but the member has not commenced trading. During the discussions with PSVPL, it was stated that they have not undertaken any broking activity since the arrest of one of its directors.

12.5. The inspection team followed the sample and random test check method for inspecting the books of account and other records of the entity. In addition to this, the inspection team has also verified documents such as Account opening Forms (AOF), client agreements, Know Your Client (KYC), issuance and processing of

Delivery Instruction Slips (DIS), client ledgers etc selected on a random basis. The various operations of the entity were also discussed with the management.

12.6. Pratik DP Inspection findings relating to Account Opening 12.7. PSVPL has 3581 active/operative accounts at CDSL and 2108 operative/active accounts at NSDL as at the end of December 2005. As per the details submitted by PSVPL, the number of active accounts, accounts opened and closed during each month at both the depositories for the period from April to December 2005 is tabulated as under: Table 12.7 No.of operative/active accounts at NSDL and CDSL from April till Dec05

Month	CDSL new account opened	CDSL Account closed	CDSL Closing balance	NSDL new account opened	NSDL Account closed	NSDL Closing balance
April	13	37	3519	19	15	23367

12.8. From the above table it could be seen that at CDSL during the months of June and July 2005 there was a sudden spurt in the opening of the BO accounts while during the month of December 2005 a large number of the accounts were closed. Similarly at NSDL during the month of June and August 2005 there was an increase in the opening of new accounts while during the months of November and December 2005 large number of accounts were closed. The observations of the inspection team based on the analysis of the accounts opened and closed during the period under examination is as under:

- o 160 accounts out of 293 new accounts opened at CDSL during June 2005 were pertaining to the Budhwani group. These accounts were opened mainly on June 14, 2005, June 15, 2005 and June 16,2005 with the address as B/2,Himalaya Society, Milind Nagar, Asalaf, Ghatkopar (West) Mumbai - 400084 .

- o With respect to the 265 accounts opened at CDSL during July 2005, approximately 13 accounts were opened on July 13, 2005 with the address as 16/1, Khatau Building, Alkesh Dinesh Mody, Fort Mumbai - 400023. These accounts pertain to Arti Rajendra Jhunjhunwala and Rajendra Prasad Jhunjhunwala in various combinations of first, middle and last names.

- o Similarly, 9 accounts with the address A-52 or B13, Kalumal Estate, Opp. Juhu Post Office, Juhu, Mumbai - 400049 were opened in the names of Dipen Jain and Hemlata Jain in various combinations.

o Out of the 465 accounts closed in December 2005, 110 accounts had same address as c/o Kamala Bordia with address 201-Neehar Apts., Kokhani Lane, Nr.Rly Station, Ghatkopar E, Mumbai - 400077 and were closed on December 26, 2005.

o Further, 54 accounts of the Bajaj group were closed on December 27, 2005, December 28, 2005 and December 29, 2005 with address 1, "Kalpana" Building, Ground Floor, "H" Road, Marine Drive, Mumbai - 400002.

o Similarly , it was observed that 74 accounts of Purswani /Ledhwani /Bhatia / Mangtani / Taal/ Talreja group having address as Office No. 9, Samar Hira Ghat, Section, Ulhasnagar, Mumbai - 421003 were also closed during the month of December 2005.

o 74 accounts of Dhanuka and Seth group having address as Happy Home Society No 23, Nehru Road, Vile Parle (East), Mumbai - 400057 were closed in the last week of December.

o With respect to NSDL out of the 81 accounts closed during July, 2005, 29 accounts were closed on July 15, 2005. Those accounts were pertaining to various persons having same address as Rich Feel Health And Beauty Centre, Link Komal Apts.,Opp. Rajesh Lib, Next to HDFC Bank , Linking Road, Santacruz (West), Mumbai.

o Out of the 133 accounts closed in December, 21 accounts pertaining to the address c/o Kamla Boradia, 201-Neehar Apt, Khokhani Lane, Nr.

Rly. Station, Ghatkopar (East), Mumbai - 400077 and the accounts were belonging to the Bordia, Ranka and Kanther families. Further, it was observed that all accounts were opened on June 26, 2003 and were closed on December 27, 2005.

o Similarly, 28 accounts of the Bajaj group, having address 1, Kalpana Building, Ground Floor, H Road, 96, Marine Drive, Mumbai. - 400002 were closed.

o Further, 49 accounts in various names but having a common address as Link Komal Co-Op Society, Opp. Rajesh Library, Next to HDFC, Santacruz (West),

Mumbai; all of which were opened on January 5 and 6, 2004 were closed on December 19, 2005.

12.9. From the above analysis it is seen that during the month of June and July 2005 a large number of accounts were opened by Pratik DP. Majority of these accounts were pertaining to Purshottan Budhwani Group. While the accounts which were closed by PSVPL were pertaining to various groups such as Kamla Bordia, Bajaj group, Dhanuka group, Sheth group etc. These accounts were apparently closed consequent to SEBI's order in the matter of Yes Bank Ltd.

12.10. During the discussions with the officials of the PSVPL, it was stated that the Account Opening Forms (AOF) along with the Know Your Client (KYC) forms is received at the office of the DP and after the scrutiny of AOF and KYC and verification of documents submitted with the original documents, the account is opened. It was however observed that in some cases the DP had opened the accounts without having a valid proof of identity (POI) and proof of address (POA) in violation of SEBI circular number SMDRP/POLICY/CIR- 36/2000 dated August 4, 2000.

12.11. The DP had opened many accounts of the same person with varying combination of names (e.g. interchanged the names or by abbreviating the names or by expanding the names or by adding some alphabets or adding some titles such as Shri, Kum, Miss, Mrs, Bahan, Devi, Bhai, Dev, Smt etc) and with the same set of photographs, POI and POA.

12.12. The DP opened number of accounts wherein there are discrepancies observed in the address proof submitted and address captured in the DPM system. The details of few instances are as under:

Table 12.12 : Discrepancies in address in Address proof supplied and address captured in the DPM system

Name of account holder	Address in POA submitted
Swati Agarwal	PM-18 Rotunda Building Mezz Floor, Mumbai Samchar Marg, Fort, Mumbai - 400023
703, Sujata Apts., August Kranti Marg, Kemp's Corner, Mumbai-36	Shelar Santosh P B/4, Panchsheel, Nath Pai Nagar, Ghatkopar (E) Mumbai - 400077
4-99 Bim Nagar, H-Part-4, LBS Marg, Ghatkopar (W), Mumbai-86	Smt Veena Agarwal 1202020000019566 353 , Mani Mahal, 4th Floor, Room No.6 A, Kalbadevi, Mumbai- 400002
101, Dilraag Building No. 2, N.S.Road No. 9 JVPD Scheme, Mumbai-49	Niket Agarwal 353 , Mani Mahal, 4th Floor, Room No.6 A,

Kalbadevi,Mumbai- 400002 101, Dilraag Building No. 2, N.S.Road No. 9 JVPD Scheme,Mumbai-49 Veena Agarwal 353 , Mani Mahal, 4th Floor, Room No.6 A, Kalbadevi,Mumbai- 400002 101, Dilraag Building No. 2, N.S.Road No. 9 JVPD Scheme,Mumbai-49 12.13. The above discrepancy is probably due to the DP capturing the correspondence address in the depository system while accepting POA for permanent address.

12.14. PSVPL in certain cases opened accounts on the basis of banker's verification for POI and POA submitted by the investor. Discrepancies were observed in such banker's verification certificate. The details of certain such discrepancies are as under: o In case of Madanlal Mohanlal Bordia, Client ID 10031237 the BO had submitted Bankers verification certificate from one The Deccan Merchants Co-operative Bank Limited. The banker's certificate was issued on April 20, 2002 while the account was opened on January 02, 2004.

o The banker's certificate from The Deccan Merchants Co-operative Bank Limited and Punjab National Bank does not contain the unique specimen signature code, issued by the bank. Further the Banker's verification certificate was not on the Bank's stationary. E.g.

client ids 10031260, 10031245, 10031157, 10031122, 10031259, 10031114 etc.

12.15. In certain cases the DP had taken bank statements along with sample cheque leaves for the POA for the correspondence address of the investor. On random sample check basis of such KYC's following are the observations.

o In case of the accounts having correspondence address as Room No. 2, Crystal Premises, 2nd Floor, 3rd Road Khar (W), the Photocopy of the voter ID was submitted as proof of identity and permanent address. However for the correspondence address there was no written request by the BO holder. For the correspondence address the DP had relied upon the cheque leaf provided by the BO wherein one Purshottam Budhwani was the first holder and the bank statement was in name of Purshottam Budhwani. In these cases the bank accounts were opened in six joint names with the branches of HDFC Bank Limited and ICICI Bank Limited. Further in all these BO accounts the central point for off-

market transfers pertaining to IPO allotments were the account of Purshottam Budhwani.

o In case of the accounts having correspondence address as B/2 Himalaya Society, Milind Nagar, Asalfa, Ghatkopar (W), Mumbai the Photocopy of the voter ID was submitted as proof for Identity and permanent address. However for the correspondence address there was no written request by the BO holder. For the correspondence address the DP had relied upon the cheque leaf provided by the BO wherein one Prushottam Budhwani was the first holder and the bank statement was in the name of Purshottam Budhwani. In these cases the bank accounts were opened in six joint names with the HDFC Bank Limited.

Further in all these BO accounts the central point for off-market transfers pertaining to IPO allotments were the account of Prushottam Budhwani.

o In case of the accounts having correspondence address as c/o Kamla Boradia, 201-Neehar Apts., Khokhani Lane, Nr. Ray. Station, Ghatkopar (E), Mumbai-77 the proof of identity and proof of address was given as banker's certificate. Further for the address the DP had relied upon the cheque leaf provided by the BO wherein one Kamla Bordia was one of the joint holders. In these cases the bank accounts were opened in various joint names with the branches of Punjab National Bank and the Deccan Merchant Co-operative Bank Limited. In these accounts the central point for off-market transfers was a BO account held with ICICI Bank Limited at NSDL having Client ID 10537568.

o In certain cases wherein the address was 353, Mani Mahal, 4th Floor, Room No. 6, Kalbadevi Road Mumbai-2, the POI and POA was banker's certificate. However the banker's certificate certified that "the signature agrees with the one on our records". In such certain cases one Nitin Ganeriwal was one of the joint holders having bank account with branches of HDFC bank Limited. Further in these accounts the central point for off-market transfers pertaining to IPO allotments were the account of Nitin Ganeriwal. Further in some of the cases such accounts were opened during September 2003 while the banker's verification was dated November 2005.

o During the inspection of PSVPL it was revealed that the DP had opened a large number of accounts at same or similar address. On scrutinizing the transactions in such accounts it was revealed that these accounts were opened mainly for getting allotment in the Initial Public Offer (IPO) of various companies. Details of large number of accounts at same/similar addresses are tabulated as under: Table 12.15 - Large number of accounts at same or similar address Sr.

Account associated with Approximate number of accounts at both depositories C/o 32 Trinity Street, Opp Jain Temple, Dhobi Talao, Mumbai -400020 239 Rich Feel Health & Beauty Cent Link-Komal Co-Op.Society, Linking Road, Santacruz (West) Mumbai - 400054 105 Flat No.10,Kailas Deep , 2nd Floor, InOfBajajRoad, Vithalbai Road, Vile Parle (W) Mumbai - 400056 43 C/o L and T Finance 802,Swastik Chambers, CST Road Chembur Mumbai - 400071 32 A-16, Mirani Nagar Ganesh Gavde Road, Mulund (West) Mumbai 400080 30 Kalpana Bldg or 1 Kalpana Bldg, Gr Floor,H-Road, 96, Netaji Subhash Rd Next To Marine Lines Station W or Marine Drive, Mumbai - 400002 Bajaj Group Happy Home Society No 23, Nehru Road, Vile Parle (East), Mumbai 400057 Dhanuka/Seth group 201-Neehar Apts.; Kokhani Lane; Nr.Rly Station ;Ghatkopar (E) Mumbai - 400077 33 Maheshwar Niketan, 5/3 Peddar Road Mumbai - 400026 Manojdev Seksaria Dilraj Building, 1st Floor, North South Road, Behind Krishna Temple Mumbai - 400049 353 Mani Mahal 4th Floor Room No 6 Kalbadevi Road, Kalbadevi Mumbai - 400002 B/4,Panchsheel Bldg., Nath Pai Nagar, Ghatkopar (East) Mumbai - 400077 Purshottam Budhwani group 573 B/2; Himalaya Society; Milind Nagar; Asalafa; Ghatkopar (West) Mumbai - 400084 Room No.2, Crystal Premises, 2nd Floor, 3rd Road, Khar(West) Mumbai - 400052 85 Office No. 9, Samarpan Complex Hira Ghat, Section - 17, Ulhasnagar Mumbai - 421003 Sujata Bldg, Rani Sati Marg Flat No 10, Malad (East) Mumbai - 400097 Sharad Singhanian group 2658

12.16. On a quick analysis of the data of PSVPL it was observed that there were more than 16 sets of addresses where the number of accounts was more than 20. Further the accounts having such common addresses were approximately 2658 which belong to various groups of persons such as Purshottam Budhwani, Kamla Bordia/Boradia, Nitin Ganeriwal, Purswani /Talreja / Ledhwani, Manojdev Seksaria and Sharad Singhanian etc. The combined client master of PSVPL at NSDL and CDSL shows the total number of BO accounts

(active, inoperative, closed and suspended) with PSVPL since its inception were totaling to 8853. Thus the above accounts constituted nearly 30.3% of total accounts.

12.17. PSVPL had offered a scheme through CDSL with effect from August 15, 2003 called "Investor IPO". The charges in this scheme were minimal and were to attract those investors who were mainly investing in IPO's only. The charges under this scheme were less as compared to other normal investors as tabulated under: Table 12.17 - Comparison of charges levied by PSVPL on investors through CDSL w.e.f. 15-08-2003

Services	Purchase/receipt	Market & Off-market
0.01%(MinRs.5/-)	0.01%	0.02% (Min Rs. 10/-)

12.18. Further PSVPL had stated in its schedule of charges that the clients under scheme "Investor IPO" to pay all transaction charges at the time of delivering instructions upfront together with service tax.

It shows that the DP was opening accounts of investors only for the specific purposes of IPO's. It was observed that large number of beneficiary accounts opened by DP was of those investors who were basically investing in public issues only. Further there were off market transfers to a set of other BO accounts from these Investor IPO accounts, maintained within the Pratik or within the depository or in other depository, from these IPO accounts 12.19. Pratik DP Inspection findings relating to Delivery Instruction Slips (DIS) 12.20. During the discussions with the officials of the DP it was stated that DP while issuing the DIS to its clients, it updates the corresponding DIS in its back office system. It was, however, observed that in some cases the DIS numbers issued to the BO holders were not captured in the back office system of the DP. Further in some cases it was observed that the PSVPL had received the DIS on a day earlier to its issuance date as per the entry in the back office system of PSVPL.

Certain such examples wherein DIS not captured into the back-office system of PSVPL or DIS issue date is later than the date of receipt by PSVPL is as tabulated below: Table 12.20 - Discrepancy in DIS issuance

DIS number	Date of Issue as per PSVPL	Back office Date of receipt by PSVPL	Used by
			12.21. PSVPL had submitted that it had issued loose DIS on personal request to various clients

namely Nitin Ganeriwal & other, Sharad Singhanian & others, Shanuka & others, Purshottam Budhwani & others, Gurmukh Purswani & others, Boradia & others and Manoj Seksaria & others which were mainly transacting in IPO's..

12.22. During the discussions with the officials of the DP it was stated that DP while processing the DIS it matched the signatures of BO holders with the signatures captured in DPM. It was, however, observed that in some cases, there was mismatch between signature on DIS and the signature captured in DPM. The details of some instances is as tabulated under: Table 12.22 - Discrepancy in DIS processing Client ID 12.23. It was observed that the depository participant has not exercised proper care and precautions as stipulated under Regulation 42(2), 42(3) and Regulation 20A of SEBI (depositories and Participant) Regulations 1996, while processing of the DIS for transfer of securities.

12.24. Pratik DP Inspection findings relating to Off-Market Transfers 12.25. The inspection revealed that the DP had executed off-market transfers in certain scrips which had recently come out with an IPO as tabulated below. These off market transfers were executed prior to the date on which scrip was made available by the exchange for trading or get listing at the exchanges. There were large number of off-market transfers into a particular beneficiary account pertaining to the groups mentioned above.

Table 12.25 - Transfers executed by DP prior the commencement of listing and trading on exchanges
Scrip Date of allotment* Date of first transfer executed by the DP Date of listing at Exchange*
IDFC Jet Airways (India) Ltd. 9-Mar-05
Nectar Life sciences Ltd 11-Jul-05
Siskin Communication Technologies 31-Aug-05

*source Stock Exchanges 12.26. The inspection of the DP had revealed that there were large numbers of off-market transfers effected in a particular set of accounts from various BO's in a particular quantity. Such off-market transfers were mainly done in that scrip which had recently come out with Initial Public Offerings (IPO) or Follow-on Public Offerings (FPO). Observations on the off-market transfers from these accounts are as under:
o In case of scrip IDFC Limited there were off-market transfers of 266 hares each from approximately 1298 CDSL accounts (held with PSVPL) into the account of Purshottam Budhwani having client Id

1202020000006413 (held on CDSL) with PSVPL. All these transfers were executed mainly on August 08, 2005, August 12, 2005 and August 25, 2005. These transfers amount to 345268 shares of IDFC. o In case of scrip Yes Bank there were off-market transfers of 150 hares each from approximately 734 CDSL accounts (held with PSVPL) into the account of Purshottam Budhwani having client Id 1202020000006413 (held on CDSL) with PSVPL. All these transfers were executed mainly on July 11, 2005 and July 13, 2005. These transfers amount to 110,100 shares of Yeas Bank.

o In case of BO accounts at address c/o Kamala Boradia, 201-Neehar Apts., Konkani Lane, Nr. Rely. Station, Ghatkopar (E), Mumbai-77, there were off-market transfer in scrip IDFC Limited to account number 1201090000103405 (CDSL) mainly on August 02, 2005. These were approximately 136 transfers of 266 shares each amounting to 36176 shares.

o In case of scrip Suzlon Energy there were off-market transfers of 16 hares each from approximately 1220 CDSL accounts (held with PSVPL) into the account of Purshottam Budhwani having client Id 1202020000006413 (held on CDSL) with PSVPL. These transfers amount to 19520 shares.

o In case of BO accounts at address Kalpana Bldg OR 1 Kalpana Bldg, Gr Floor,H-Road, 96, Netaji Subhash Rd Next To Marine Lines Station W OR Marine Drive, Mumbai - 400002 there were off-market transfer in scrip IDFC Limited to account numbers 1201090000012841, 1201090000014657, 1201090000017681, 1201090000007341 (CDSL) mainly on August 08, 2005. These were approximately 85 transfers of 266 shares each amounting to 22610 shares.

o In case of scrip IDFC Limited there were off-market transfers of 531 hares each from approximately 58 accounts held with PSVPL into the account of Priyamvadha Ganeriwal having client Id 10007314 (held on NSDL) with PSVPL. These transfers amount to 30798 shares.

o In case of scrip IDFC Limited there were off-market transfers of 266 hares each from approximately 72 accounts held with PSVPL into the account of Nitin Ganeriwal having client Id 1202020000001421 (held on CDSL) with PSVPL.

These transfers amount to 19152 shares.

o In case of the Scrip SPL industries Limited there were off-market transfers of 100 shares each from approximately 38 CDSL accounts (held with PSVPL) into the account of Nitin Ganeriwal having client Id 1202020000001421 on CDSL with PSVPL. All these transfers were executed mainly on July 25, 2005 o In case of scrip SPL industries Limited there were off-market transfers of 100 shares each from approximately 696 CDSL accounts (held with PSVPL) into the account of Purshottam Budhwani having client Id 1202020000006413 held on CDSL with PSVPL. All these transfers were executed mainly on July 26, 2005 and 27, 2005.

Further from the CDSL account with PSVPL Purshottan Budhwani had done inter depository off-market transfers of 15000 and 46465 shares respectively to IN301127/15754364 and IN302201/10093022 on August 02 and 08, 2005.

o In case of scrip SPL scrip SPL industries Limited there were off-market transfers of 100 shares each from approximately 66 NSDL accounts (held with PSVPL) into the account of ManojDev Seksaria having client Id 10004049 held on NSDL with PSVPL. All these transfers were executed on a single day of July 29, 2005 o In case of CDSL accounts at address c/o Kamla Boradia, 201-Neehar Apts., Khokhani Lane, Nr. Rly. Station, Ghatkopar (E), Mumbai-77, there were off-market transfer in scrip Shri Ramrupai Balaji Steels Limited to account number 1201090000103405 (CDSL) mainly on August 02, 2005. These were approximately 92 transfers of 250 shares each amounting to 23000 shares.

o In case of scrip IDFC Limited there were off-market transfers of 266 shares each from approximately 141 accounts at NSDL/CDSL (held with PSVPL) into the account of Sharad Singhanian having client Id 10003337 at NSDL with PSVPL. All these transfers were executed mainly on August 12, 13 and 16, 2005 o In case of scrip Gokaldas Exports Limited there were off-market transfers of 15 shares each from approximately 57 accounts of CDSL (held with PSVPL) into the account of Priyamvada Ganeriwal having client Id 10007314 at NSDL with PSVPL. All these transfers were executed mainly on April 25 and 26, 2005 o In case of scrip K. M. Sugar Mills Ltd. there were off-market transfers of 100 shares each from approximately 81 accounts of CDSL (held with PSVPL) into the account of

Priyamvadha Ganeriwal having client Id 10007314 at NSDL with PSVPL. All these transfers were executed mainly on November 17 and 18, 2005 o In case of NSDL accounts at address c/o Kamla Boradia, 201-Neehar Apts., Khokhani Lane, Nr. Rly. Station, Ghatkopar (E), Mumbai-77, there were off-market transfer in scrip Suzlon Energy Limited to client ID 10537568 maintained with ICICI bank DP of NSDL mainly on October 18 and 2005. These were approximately 38 transfers of 16 shares each.

o In case of scrip SPL scrip Yes Bank Limited there were off-market transfers of 150 shares each from approximately 88 NSDL accounts (held with PSVPL) into the account of ManojDev Seksaria having client Id 10004049 held on NSDL with PSVPL. All these transfers were executed on July 11 and 12, 2005.

o In case of scrip IDFC Limited there were off-market transfers of 266 hares each from approximately 47 CDSL accounts (held with PSVPL) into the account of Vinod F. Goyanka HUF having client Id 1202020000022465 (held on CDSL) with PSVPL. All these transfers were executed mainly on August 09, 2005, and August 11, 2005. These transfers amount to 12502 shares of IDFC.12.27. Thus various BO accounts namely Nitin Ganeriwal (1202020000001421), Purshottam Budhwani (1202020000006413), Manoj Dev Seksaria (10004049), Sharad Singhania (10003337), Priyamvadha Ganeriwal (10007314), Vinod F. Goyanka HUF (1202020000022465) were acting as central account or convergence account for transferring IPO allotments through off-market transfers from various BO accounts for offloading or transferring the holdings to other persons. Similarly the BO accounts maintained with PSVPL were used to transfer the allotment of IPO to accounts maintained with other DP's. For examples in case of addresses at 201Neehar Apts., Khokhani Lane, Nr. Rly. Station, Ghatkopar (E), Mumbai-77, the shares were transferred to 1201090000103405 (CDSL) or 10537568 held with ICICI bank at NSDL.

12.28. Pratik DP Inspection findings relating to Client Ledger 12.29. Normally transaction charges are debited to the respective accounts periodically. It was observed that most of the IPO accounts opened by clients related to the groups mentioned elsewhere in the report, such charges were not debited to the

respective accounts on a periodical basis. For instance no charges were debited to the accounts of clients (BO IDs 1202020000016282, 1202020000016297, 1202020000016303, 1202020000029397 and 1202020000029403) related to Budhwani group after October 14, 2004, though there were debit transactions in the accounts. However there was a narration in the client ledger stating "to being transferred to a/c. no. 6413".

Similarly, in approximately 400 odd cases it was observed that the ledgers of such BO accounts were having a narration "to being transferred to a/c. no. 6413". Account Number 6413 in CDSL belongs to Purshottam Budhwani. Further in all such cases there were off-market transfers only to the account of Purshottam Budhwani.

12.30. Summary of Findings relating to Inspection of Pratik DP 12.31. Pratik is a broker DP though they have not been undertaking any broking activity since December 2003. Even their DP registration is expired in 2005 and they were not opening any new DP accounts since September 2005. Pratik has about 5,000 plus active BO accounts at both the depositories put together. A significant number of accounts were opened exclusively for IPO purpose under their "Investor IPO scheme".

Accounts opened under the scheme are at special tariff.

12.32. Apparently, many IPO sub brokers brought in clients and opened accounts under the "Investor IPO scheme". During the month of June and July 2005, the time when large IPOs hit the market, more than 600 accounts were opened. These accounts were opened in most cases with the same correspondence address i.e. the address of the IPO sub broker. The DP opened BO accounts in similar manner with 16 set of addresses where the number of accounts were more than 20. The accounts on such addresses were approximately 2,658 which belonged to various groups of persons such as Purshottam Budhwani, Kamla Bordia/Boradia, Nitin Ganeriwal, Purswani /Talreja / Ledhwani, Seksaria, Singhanian etc. Some of these entities may not figure as key operators identified in this order as they have apparently used less than 500 demat accounts as conduits. The combined client master of Pratik DP at NSDL and CDSL shows the total number of BO accounts

(active, inoperative, closed and suspended) with Pratik DP since its inception were 8853. Thus the above accounts constituted nearly 30.3% of total accounts.

12.33. The DP had opened many accounts of the same person with varying combination of names with the same set of photographs, proof of identity and address. In certain cases proof of identity and address were not taken. The proof of address taken varied from the address captured in the Depository Participant Module (DPM) system in certain cases. There were various discrepancies in banker's certificates obtained as proof of identity and address since the certificates do not contain unique specimen signature code and the certificates issued were not on bank's stationery. The DP has also taken bank statement along with cheque leaf as proof of address. The bank accounts in such cases are opened in joint names of six or more persons. In certain cases the DP has taken photo copy of the voter ID as proof of identity and permanent address. However, the DPM system captured correspondence address for which no proof was taken and there was no written request from the account holder to incorporate the correspondence address.

12.34. In certain cases the details of DIS issued to BO was not captured in back office system. Loose DISs were issued to the clients who have opened accounts under the IPO scheme on personal requests. In certain cases mismatch of signature in the account opening form and DIS was observed.

12.35. There were large numbers of off market transfers executed from various accounts opened under the IPO scheme to certain accounts apparently of the IPO sub brokers immediately after the allotment of IPO. 12.36. Normally DP charges are debited to the respective BO accounts periodically. However, it was observed that for the clients connected to the Budhwani group, the charges were debited to the account of Shri Budhwani and settled with him.

12.37. The findings of inspection of Pratik DP by SEBI as narrated above indicate that the internal control procedures at Pratik DP with respect to the account opening procedures were inadequate. The DP has not exercised proper care and due diligence as stipulated under Regulation 20A of SEBI (Depositories and Participant) Regulations 1996 while opening beneficial owners account. The

depository participant has not exercised proper care and precautions as stipulated under Regulation 42(2), 42(3) and Regulation 20A of SEBI (depositories and Participant) Regulations 1996, while processing of the Delivery Instruction Slip (DIS) for transfer of securities.

12.38. Findings of inspection / audit of five DPs: 12.39. Subsequent to the SEBI interim orders in the cases of Yes Bank and IDFC, as mentioned earlier, SEBI advised the depositories to carry out verification of genuineness of verification of dematerialized account-holders where 20 or more account holders were sharing common addresses. In reply thereto CDSL initially stated that "... we observed that 36 DPs were having instances of more than 20 accounts opened with the same name / address. We advised these 36 DPs to specifically confirm about the genuineness of all the accounts opened with them and had also furnished them the list of BO IDs. In response to this, we received confirmation from 36 DPs...." Subsequently, CDSL informed SEBI that "During further checking it was observed that 16 more DPs have multiple accounts with same name / address. We have instructed these DPs to submit confirmation regarding verification of genuineness of account holders alongwith steps taken by January 30, 2006" Thereafter CDSL informed SEBI that "Further, with reference to our telephonic discussions, we wish to inform you that in case of HDFC Bank, we had found that 787 accounts with same name / same address." Based on the information furnished by CDSL, it was noticed that six DPs namely Centurion Bank Ltd.(25943 account holders sharing common addresses), IL&FS (3421), Pratik Stock Vision Pvt. Ltd. (1203), HDFC Bank(787), Motilal Oswal Securities Ltd. (697) and Wellworth Shares and Stock Broking Ltd. (533). While Pratik DP had been inspected by SEBI officials and Motilal Oswal was inspected by a CA firm engaged by CDSL, SEBI engaged a CA firm to conduct inspection of the remaining four DPs namely HDFC Bank Ltd., Centurion Bank of Punjab Ltd.(CBPL)., Infrastructure Leasing & financial Services Ltd.(IL&FS) and Wellworth Shares and Stock Broking Ltd. (WSSBL) and one another DP namely Dindayal Biyani Stock Brokers Ltd.(DBSBL) (339 account holders sharing common addresses as per CDS L data) having regard to the sheer number of demat account holders sharing common addresses in respect of these five DPs.

12.40. Summary of Findings of inspection of Five DPs: 12.41. I have carefully considered the findings of the independent CA firm in respect of each of these DPs. I find that the following are the major observations in respect of the inspection of these three DPs (except for CBPL and HDFC Bank which have been discussed in detail separately): 12.42. DBSBL the depository participant is exclusively serving the interest of the director's family members and has not quite associated with any public customers. In the absence any public association it can as well use the services of any other Depository participants. DBSBL presently has permitted opening of multiple accounts within the family in permutation and combinations of names. This facilitated BO to make multiple applications for shares in IPOs under the retail category by indicating separate Demat accounts in the respective application forms.

It is apparent that there is a conflict of interest between the activities DBSBL as a DP and that of its directors as multiple applicants in the IPOs.

12.43. The activities of WSSBL DP are of a piece with the pattern as noticed in the case of DBSBL. DBSBL has opened accounts in the names of Directors and their family members. In the absence of dealings with public, the DP registration granted to WSSBL and DBSBL does not serve any meaningful purpose as its directors can open demat accounts with other DPs for their securities market activities.

12.44. ILFS has been predominantly entertaining IPO financing in its operations for catering to the BO/Demat accounts. It funds the public issues by accepting very little margin and providing finance for the remaining major portion. e.g. in the case of IDFC, the issue was for Rs.36/-per share, while it financed Rs.34.50 and accepted Rs.1.50 as margin. ILFS have accepted a mandate from every BO/loanee that on receipt of the allotted shares, it will have to be transferred through off-market transfers to any other demat account of their choice and DP. This sort of arrangement is not in the interest of securities market as the same may result in creation of name lenders and not genuine investors.

12.45. As mentioned earlier, CDSL (either on its own or through CA firms) had also conducted inspection of the above DPs and findings of these inspection also

support the findings of inspection by SEBI and those conducted by the CA firm engaged by SEBI.12.46. Findings of Inspection of DP Centurion Bank of Punjab Ltd. by CA Firm engaged by SEBI 12.47. CBPL predominantly floated IPO financing scheme to garner support for its retail lending operations and also for sourcing business for its Demat business activities. CBPL was found to lack the wherewithal to ascertain the genuineness of the individuals in whose names it opened demat accounts. Consequently many of applicants for Demat accounts ended up being mere name lenders or benamis for other market operators.

12.48. CBPL financed 50% of the IPO application amount. The BO had to only issue cheque equivalent to the margin which was 50% of the application amount. CBPL only charged interest and Demat account opening charges for opening a limited purpose demat account and for providing IPO finance. In the Loan document, CBPL had taken a mandate for closure of Demat account on the successful completion of the IPO process. The amount collected from the demat account holders/BOs was received in a common current account of CBPL. CBPL had also taken upfront One delivery slip duly signed by the BO for prompt transfer of shares on allotment to a designated BO/Demat account other than the one used in the IPO financing scheme.

12.49. Since the key operators provided funds for the IPO applications, they took the route of the Delivery slip mandate in their favour for transferring the IPO shares to their demat accounts. Upon scrutiny of IPO applications, it was found that the names were in multiple combinations of initials, surnames, first names, middle names and in very many permutations and combinations. In other words the same name have been used in different permutation and combinations.

12.50. In CBPL the cheques received for margin were deposited into one current account. This helped the key operators to deposit money thru name lenders. In certain cases the name lenders deposited cash into the savings bank account and then issued cheques for margin in the IPO finance. On allotment the shares were duly transferred directly to the key operator and the refunds were given to the BO. The BO in turn deposited the refund orders into the bank and withdrew cash. Obviously such cash withdrawals strongly indicate that funds came from sources

other than the name lenders.

12.51. In the case of CBPL it was found that the public issues were marketed by agencies which were also acting as marketing agents for the IPO financing scheme of the Bank. This allowed the marketing agents to bring in fictitious/benami names. Examination of savings bank accounts of the dematerialized account-holders indicated that the funds were provided from the single account of the key operator and distributed to other BO/Demat account holders' bank accounts and in reverse the refunds were credited to the Savings bank account of the individual dematerialized account-holders from where the funds were transferred back to the main operator's account. Thus it is seen that the funds for making IPO applications in the names of the fictitious/benami applicants had come by way of cash deposits into their SB accounts or by way of transfer of funds from the key operators which went into a common account.

12.52. Findings of Inspection of DP Centurion Bank of Punjab Ltd. by CDSL 12.53. As per information furnished by CDSL, it was noticed that Centurion Bank of Punjab Ltd. (CBPL) was the DP with largest number of dematerialized account-holders sharing common addresses. As per data obtained from CDSL, 25,943 dematerialized account-holders of CBPL were sharing common addresses. In view of the above, CDSL advised the DP to verify the genuineness of the dematerialized account-holders. In reply thereto the DP stated that (1) At the time of account opening, relevant documents as mentioned in SEBI circular ref no. 29/2004 dated August 24, 2004 are being obtained. The formalities in this regard are being adhered scrupulously. (2) As mentioned in our point no. 1 above we adhere to all the norms prescribed for opening of depository accounts including documentation for both correspondence and the permanent address.

12.54. To verify the genuineness of the dematerialized account-holders of CBPL, CDSL conducted inspection at the office of the DP situated at 101, Central Bombay Infotech Park, Mahalaxmi, Mumbai during January 27 - 31, 2006. The inspection by CDSL revealed that the above confirmation given by CBPL was incorrect. A Summary of the findings of inspection by CDSL is given below: i. 27 account opening forms were not available with the DP and were not produced for

verification during the inspection. The DP claimed that three account opening forms were destroyed in the fire on October 29, 2004 and the same were being reconstructed.

ii. In 93 instances the DP did not obtain proof of identity from the dematerialized account-holders. In 92 instances, the DP did not obtain proof of address from the dematerialized account-holders. In 10 instances the proof of identity and proof of address as recorded by the DP in the depository system did not match with the account opening form. In 30 instances the DP had not verified the copies of POI and POA with the original. In 17 instances the DP did not obtain photograph of the dematerialized account-holders. In 12 instances the documents obtained by the DP towards POI and POA were found to be invalid.

iii. In seven instances where the DP had obtained bank verification letters towards POI and POA, it was found that the bank verification letters did not contain the signature of the bank manager alongwith his employee code. In 22 instances the permanent and correspondence address have been shown to be the same as Centurion Bank. This leads to the inference that the DP had failed to obtain proof of permanent address before obtaining the demat accounts.

iv. In ten instances, the permanent address mentioned in the account opening forms have not been entered into the depository system by the DP. In two instances the DP did not obtain the signature of the account holders in the account opening forms and the DP - BO agreement. In 36 instances the DP had not obtained the signature of the dematerialized account-holders across the photographs. In seven instances the same sets of persons appear to have signed for two groups of dematerialized account-holders. In one instance the DP has opened the demat account in a name different from that mentioned in the account opening form. In one instance while the account opening form contains details of only two account holders, the DP has captured three account holders in the depository system.

v. In 22 instances the DP did not obtain the signature of the account holder in the DP - BO agreement. In five instances the DP had entered a different name in the agreement which does not match with the name of the account holder in the

account opening form as well as depository system. In nine instances the DP has not obtained authentication from the account holder for corrections in account opening form and agreement and the other related documents. In 49 instances the DP has not completed the details such as date and place of agreement and complete name and address of BO in the DP - BO agreement. In three instances it was found that the signature of the dematerialized account-holders in account opening form and agreement were different.

vi. The DP did not have any record of the persons who were authorized to sign the agreements on behalf of the DP and hence the DP was unable to identify the persons who had signed the agreements on behalf of the DP. vii. In 29 instances it was found that the DP had not mentioned the name of the nominee in the nomination form signed by the account holder. Also in 23 instances the nomination details were not captured in the depository system.

viii. It was found that the DP was obtaining account closure forms signed by the dematerialized account-holders at the time of the opening of the demat accounts. The account closure form authorized the DP to initiate closure of the demat account without any prior notice to the dematerialized account-holders. Apart from causing inconvenience to the account holder this practice of CBPL cast a lot of uncertainty about continuation of services to the account holder.

12.55. Findings of Physical Verification of the BOs of CBPL by CA firm 12.56. As mentioned earlier, a large number of dematerialized account-holders of the DP CBPL were found to share common addresses.

This raised suspicion as to whether these thousands of dematerialized account-holders of CBPL were genuine. The various irregularities relating to the opening of demat accounts and other activities of the DP as found during the course of inspection of the DP by CDSL also supported this suspicion. Hence SEBI advised the CA firm that had done inspection of the DP to conduct physical verification in respect of randomly selected dematerialized account-holders purportedly sharing a few addresses situated at Ahmedabad. The physical verification by the CA firm confirmed that many of the dematerialized account-holders were not found at the addresses given by the DP and a summary of the findings of physical verification

by the CA firm is given below.

a. CBPL did not exercise due diligence while opening of the Beneficiary Owner (Demat) accounts for IPO financing.

b. The BOs of CBPL were only name lenders (benamis) to the IPO issues. Mr. Mahesh Shah, Director of Infinite Financial Services Private Limited, acting on behalf of one of the key operators, has informed that they had used the names of certain persons to open many demat accounts and had given few common addresses to facilitate receipt of IPO allotment advices and refund orders. Mr. Mahesh Shah also indicated the involvement of Mr. Tushar Shah and Mr. Paragbhai, who are the directors of a key operator viz. SEIPL.

c. CBPL was approached by the sourcing agents whenever there were IPO issues and CBPL also did active campaigning for its scheme of IPO Financing.

d. When asked about the procedure followed for opening of the demat accounts, the Ahmedabad Branch head of CBPL informed that the applications were received, verified and then sent to some outsourcing agency for data entry alongwith the sticker slips. Slips with details of name, BO ID, and address and other reference were generated and affixed on the application forms and sent to the office of CBPL DP at Mumbai. The agreements and stamping were done at Ahmedabad. The officials of CBPL agreed that there might have been negligence/inadvertence due to large volume of IPO financing applications. The Applicants either came personally or CBPL's executives visited the applicants to obtain their signatures.

Despite the denial of CBPL it appears to be a case of active collusion.

e. CBPL used to send the application forms either directly to BO or through the sub-Brokers. The BOs were not required to visit the branches of CBPL for collecting the application forms.

f. The findings of the verifications in respect of suspected benami / fictitious demat clients of DP CBPL are given below: Table 12.56(f) - Benami/ Fictitious demat clients of DP CBPL Name of BO Comments/ Observations/ Remarks Various

BOA/c. Holders identified 1195, DevniSheri, Mandvi Ni Pole, Manekchowk, Ahmedabad.

The BO does not stay here. One Mr. Tagaram Choudhary present at the address informed that he is staying there on rent. Neighbours informed that the bo had sold the house some nine to ten years back.

Various BOA/c. Holders identified 85-88, City Centre, C. G. Road, Navrangpura, Ahmedabad.

Mahesh K.Shah, Whole-time Director of Infinite Financial Services Private Limited (IFSPL) has informed that he had opened the account of various BOs with CBPL by collecting their POI and POA and further opened their bank accounts with his name as first name and others as joint holders in Apni Sahakari Bank Ltd, Ahmedabad. He further informed that he has opened accounts in various names for his financial benefits and he has financed the margins for the funding accounts opened with CBPL. Further Mr. Tushar Shah and Mr.

Paragbhai of SEIPL are active participants in his activities.

Various BOA/c. Holders identified 5-104, Potalia Slum Quarters, Saraspur, Ahmedabad The BO is a lady and illiterate. When asked to sign she informed that she can only put the "thumb impression". Her son informed her voter's ID card was given to Mr. Maheshbhai.

Various BOA/c. Holders identified 8/188, Potalia Slum Quarters, Saraspur, Ahmedabad The BO first denied having any BO account opened with CBPL, Ahmedabad.

Later on he informed that his son had taken documents from him and given the same to one Mr. Gunvantbhai who must have in turn given to Mr. Maheshbhai.

Various BOA/c.Holders identified Various house numbers viz. 10,11,12, 13,17,19,23,24,31, 32,48,49, 55, 56, 57, 58, 654, 9 in Jajakeshaavni Chali, Near Nutan Mills, Saraspur, Ahmedabad They are slum hutments, dominated by labour class persons/ daily wagers. It was found that Shri Mahesh KShah of Infinite

Financial Services had collected voter IDs and other related documents from the dwellers and had opened demat accounts with CBPL in their names Various BOA/c. Holders identified 1003-B-46, Aryanagar, Society, Kankaria Road, Jamalpur, Ahmedabad and One of the BO Jitendra Solanki has opened the various BO accounts in the names of his relatives and his friends who used his address. He is a peon in a BIFR company "Unipon India Limited." He informed that he had done this at the behest of Parag Jhaveri of SEIPL.

Ajay J Leuva 1003/B-51, Aryanagar Society, Nr. Football Ground, Kankaria, Ahmedabad -380022 It was found that there was no such BO at the address and the residents at the address given denied knowledge of such BO. Swati Shah B/51/813 Krishna Nagar, Saijpur Bogha, Naroda Road, Ahmedabad - 382346 No such BO stays at this address. The BO's neighbours do not know such BO. Various BOA/c. Holders identified Anuj 26, Samast Brahmachatriya Society, Near Shantivan Society, Narayannagar Road, Paldi, Ahmedabad.

The address is in the name of Mr. Gaurang M Doshi of Anuj Securities, who is a sub-broker with Anagram Stock Broking. He could not verify the other BO who used his address for opening demat accounts with CBPL.

Various BOA/c. Holders identified D-97, Ground Floor, Kamdhenu Complex, Opp. Sahjanand College, Ambawadi, Ahmedabad.

This address belongs to a Sub Broker - Mr. Jayesh P Shah, Remisier - Anagram Stock Broking Limited.

12.57. Physical Verification of the BOs of CBPL by SEBI and Examination of CBPL Official 12.58. Centurion Bank is registered with SEBI as a depository participant of NSDL and CDSL under the category of Scheduled Bank. The bank introduced the product of IPO finance to individuals from July 2005 onwards. The bank had provided Rs. 12.49 crores to around 2956 customers in the issue of IDFC. Out of which, Centurion Bank, Ahmedabad Branch had financed 2200 customers for around Rs. 7.00 crores. The bank had not provided finance in the issue of Yes Bank.

12.59. For availing finance, the bank had made it mandatory for individuals to open CDSL demat accounts with CBPL for crediting the shares on allotment. CBPL had made it mandatory for their demat clients to mention the correspondence address of these accounts as the address of Centurion Bank, Mumbai. This was done to get the refund amount directly to the bank. The bank then adjusted the refund against the IPO finance availed by the customer and the balance amount was refunded to the customer through warrant. The bank dispatched the refund warrants to the permanent addresses of the customers which was maintained separately by CBPL.

12.60. It was seen that since the launch of IPO finance scheme in July 2005, the bank had opened around 24000 odd CDSL demat accounts for the purpose of providing IPO finance. On verification of data of 24000 CDSL demat accounts information provided by the bank, it was found that there were instances of many persons sharing common permanent addresses. The details of the addresses where 30 or more demat clients of CBPL were sharing common addresses are given below: Table 12.60 Demat clients of CBPL sharing common addresses

Sl. No.	No. of persons stated to have been staying at the said address	Address
46	144	"Anuj" 26, Samast Brhahmchatriya Society, Kankaria Road, Kankaria, Ahmedabad, 380022
105	56	Jaja Keshvni Millas, Nr Nutan Mills, Sarasput, Ahmedabad, 380007
75	57	Jajakeshav Ni Chali, Nr Nutan Mills, Saraspur, Ahmedabad 380018
70	C 15	Rushika Apartment, Girdharnagar, Shahi Baug, Ahmedabad, 380004
61	23	Jajakeshwani Chali, Saraspur, Ahmedabad, 380018
60	15	Paritosh Bungalows, Opp Ashwamegh -1, Ring Road Satellite, Ahmedabad-380015
VIR-1		Gayatri Darsan Bunglow, Opp Hare Ram Flat, Bhjawahar Nagar Soc, Paldi, Ahmedabad, 380007
49	112	Ground Floor, Kamdhenu Complex, Ambawadi, Ahmedabad, 380015
47	155	Dharam Nagar Society, Part 2, Sabarmati, Ahmedabad, 380005
42	A 3	Sutirth Apartment, Behind Prerna Tower, Vastrapur Rd., Boadkdev, Ahmedabad, 380054
155		Dharam Nagar Society, Part 2. Sabarmati, Ahmedabad, 380005
42	85/88	City Center, C G Road, Navrangpura, Ahmedabad, 380009
40	20/237	Adarsh Nagar, Nr. Vijaynagar, Naranpura, Ahmedabad, 380013
37	G 1	Shalibhadra Appartment, Opp Abu Vihar Hall, Sabarmati, Ahmedabad, 380005
13		Judgekeshavni Chali, Asarwa, Ahmedabad,

380016 35 7 Sejal Palace, Merchant Park, Near Jain Merchant Society, Paldi, Ahmedabad, 380007 22 Ushadeep Society, Behind L D Engg. Hostel, Gulbai Tekra, Ahmedabad, 380015 1195 Devni Sheri, Mandvi Ni Pole, Manekchowk Ahmedabad, 380001 34 49 Jajakeshaavni Chali, Asarva, Ahmedabad, 380016 33 C 1 Shubham Flat, Opp. Abhilaxmi Flat, Labh Soc Road, Vastrapur, Ahmedabad, 380015 104 Honey Avenue, New Bramkhasiriya Society, Narannagar Road, Paldi, Ahmedabad, 380007 40, Ashwa Megh Bunglows Part-III,,B/h. Someshwar Jain Temple, 132 Feet Ring Road, Satellite, Ahmedabad, 380015 31 4 Jay National Society, Nr. Aradhana Flats, Naranpura Char Rasta, Ahmedabad, 380013 RA 21, Maruti Raw House, Subhash Chowk, Gurukul Road, Ahmedabad, 380052 Total 12.61. SEBI officials conducted physical verification of some of the above addresses by visiting these locations on February 28, 2006 and March 1, 2006 in order to verify whether these persons were staying at said addresses as stated in the depository system and the details of the same are given below: Table 12.61 Physical verification of demat clients of CBPL sharing common addresses Number of persons stated to be residing in the address Findings of Physical verification 46 Aryanagar Society, Kankaria Road, Kankaria, Ahmedabad, 380022 144 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

B-46, Arya Nagar Society, Near Football ground, Kankaria, Ahmedabad 139 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

Anuj 26, Samast Brahmachatriya Society, Near Sahntivan Society, Narayannagar Road, Paldi, Ahmedabad 89 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

112 Ground Floor, Kamdhenu Complex, Ambawadi Ahmedabad, 380015 47 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

VIR-1, Gayatri Darshan Bunglow, Opp. Hare Ram Flat, Behind Jawahar Nagar Society, Paldi, Admedabad 46 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

85-88, City Centre, CG Road, Navrangpura, Ahmedabad 40 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

20/237, Adarshnagar, Nr.Vijaynagar Naranpura, Ahmedabad, 380013 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

22 Ushadeep Society, Behind L D Engg. Hostel Gulbai Tekra, Ahmedabad, 380015 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

1195, Devni Sheri, Mandvini Pole, Manekchowk, Ahmedabad 34 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

104 Honey Avenue, New Brahm Kshtriya Society, Narayan Nagar Road, Paldi, Ahmedabad- 380007 34 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

A3 Sutirth Apartment, Behind Prerna tower, Vastrapur Rd., Bodakdev, Ahmedabad, 380054 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

38 Tribhovan Market, Near Ashirwad Market, Kalupur, Ahmedabad 27 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

D-97 Kamdhenu, Complex, Gr. Floor, Opp sahajaanand college, Ambawadi, Ahmedabad- 380015 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

412 Ashwamegh Avenue, Nr.

Mithakhali Circle, Navarngpura, Ahmedabad 380009 23 Except for one or two persons the other dematerialized account-holders were not residing at the said address.

12.62. Some of the persons present at the above addresses have stated that they have used the names of relatives, friends for making multiple applications and they had opened bank accounts in joint names and the money required for the applying in the issue was arranged by them and the details of the same are given below: 1. Sr. no. 6 of the above Table: Address: 85-88, City Centre, CG Road, Navrangpura, Ahmedabad: It was found that the office at the said address belonged to a SEBI registered stock broker viz.

Infinite Financial Services Ltd. The director of the company Shri Mahesh K Shah stated that they had used about 150 names with common address at 85-88, City Centre, CG Road, Navrangpura, Ahmedabad for making applications in various IPOs such as IDFC, Kernex, Suzlon, ICICI etc. Shri Shah submitted that the IPO finance for the above applications were arranged by them. He also stated that the bank account of the clients were either opened by him or introduced by him. Analysis of some bank statements of the clients with Apna Sahakari Bank Ltd. reveals that the accounts are opened in the name of Shri Mahesh K Shah and about three names are added to the account as joint names.

2. Sr. no. 5 of the above Table: Address VIR-1, Gayatri Darshan Bunglow, Opp. Hare Ram Flat, Behind Jawahar Nagar Society, Paldi, Admedabad: It was found that the address was the residence of one Shri Samir K Mehta. Shri Mehta submitted that the 50 accounts, which belonged to his relatives and friends, were opened for applying shares in IPOs. He also stated that bank accounts in respect of these persons were opened by him in Nutan Nagarik Co-op Bank Ltd. jointly with his name as the first name.

3. Sr. No. 12 of the above Table: Address 38, Tribhovan Market, Near Ashirwad Market, Kalupur, Ahmedabad: It was found that the office at the said address belonged to Shri Ashish Shah who is a cloth merchant. Shri Ashish Shah and his brother Shri Vikas Shah submitted that the 27 accounts were opened by them in the name s of their friends and relatives for the purpose of applying for shares in the IPOs of Punj Lyod, Royal Orchid, Bannari Spinning, GSPL, Gitanjali Gems etc. It was submitted that after the allotment, the shares were transferred to the demat A/c of one Shri Pradip Shah (one of their relative) maintained with the DP

Khandwala Integrated Financial Services Pvt. Ltd. For this purpose, they used to collect Delivery Instruction slips in advance from the above mentioned Demat A/c holders for this purpose. For the margin money of the IPO finance, they used their own funds and also arranged finance from friends and relatives. The shares were sold through broker Khandwala Integrated Financial Services Pvt. Ltd. 4. Sr. No. 3 of the above Table -Anuj 26, Samast Brahmachhatriya Society, Near Sahntivan Society, Narayannagar Road, Paldi, Ahmedabad: It was found that the address was the residence of one Shri Gaurang M Doshi, who is a sub-broker of Anagram Stock Broking Ltd. It was informed that he had opened 89 demat accounts in CBPL in the name s of his close relatives giving his address, for applying in various IPOs.

5. Sr. No. 11 of the above Table: A3/Sutirth Apartment, Behind Prerna tower, Vastrapur Rd., Bodakdev, Ahmedabad, 380054: It was found that the address was the residence of one Shri Madhukar K Patel. It was informed that he had opened 29 demat accounts in the names of his relative, friends and employees. The bank accounts in respect of these persons were opened by him in Naroda Coop Bank Ltd, Gurukul branch. He availed IPO finance from CBPL and IDBI Bank Ltd.and the margin money was paid from the accounts of his family members in Naroda Co-op Bank Ltd, Gurukul branch. After the allotment of shares, these shares were transferred to his demat account maintained with HDFC bank, Navrangpura and were sold subsequently through Gaurang Doshi, a sub broker of Anagram Stock Broking.

12.63. The details of the above findings of physical verification were shown to the branch manager of CBPL, Ahmedabad branch. When asked to comment on the above finding, he stated that they need to look into the matter and would inform SEBI after verifying the same. However no reply has been received in this regard till date.

12.64. SEBI appointed CA firm also had carried out a physical verification of the beneficiary owners (BOs) along with the Branch Manager of CBPL, Ahmedabad branch during February 24 to 26, 2006. It was seen that in some cases the BOs were not present at the ir permanent address. It was also found that some of the

BOs were not aware that they had availed IPO finance from CBPL. It was noticed that around 250 persons had their permanent address at Jajakeshavani Chali.

During the course of inquiry some of the residents stated that they had given their voter ID in bulk to one Mr Maheshbhai who has his office at Sakar-1, Near Ellisbridge, Ahmedabad and the said Maheshbhai had opened demat accounts with CBPL on their behalf. The account holders were mostly illiterate and they were not even aware of the room number in which they were residing. When asked to comment on the above findings, the Branch Manager of CBPL stated that "during the course of physical verification on the said dates, it was found that the persons did exist even though not present there at the time of the visit. In Jajakeshavani Chali the addresses were matching as given in the election card on sample verification which was captured in the system.

In the sample check, nearly everyone had a proof of identity and proof of residence." 12.65. When confronted with the fact that the opening of multiple demat accounts with the same address should have alerted the bank as to the genuineness of the individuals who have taken IPO finance, the branch manager stated that they needed to look into the matter and would inform after verifying the same. So far no reply has been received from CBPL in this regard.

12.66. Summary of findings relating to CBPL DP: 12.67. From the above discussions relating to the examinations and physical verifications relating to the demat account operations and demat clients of CBPL DP, it follows that CBPL has failed to exercise even basic due diligence or adhere to the KYC norms prior to the opening of demat accounts in the names of thousands of clients who upon verification ultimately turned out to be men of straw.

12.68. Besides various glaring lapses in documentation that were noticed during the course of random checks, it was also seen that CBPL did not care to ascertain the genuineness of the persons in whose name it opened dematerialized accounts. The physical verifications carried out by SEBI as well as by the CA firm revealed that many of the dematerialized account-holders of CBPL simply did not exist. In some cases where they did exist it was found that they were merely name-lenders who did not have the wherewithal to open and operate demat

accounts or deal in securities market.

12.69. CBPL Ahmedabad branch has provided IPO finance to the tune of Rs.7 crores to about 2200 applicants in the case of IDFC issue. In the light of the findings of the physical verifications as narrated above, it appears that many of the customers to whom CBPL has provided IPO finance may be fictitious/benami. The glaring lapses in the demat operations of CBPL is accentuated by the fact that it not only opened demat accounts in the names of the non-existent/fictitious/benami entities but also provided IPO finance to these entities without conducting basic customer due diligence of its borrowers.

12.70. Physical verification at the addresses of the demat clients of CBPL DP by SEBI officials as well as by the CA firm engaged by SEBI has revealed that many of the demat clients were not residing at the addresses as per the records of CBPL. In some cases, the addresses were located in chawls and the account holders were men of straw whose voter ID and other identity documents were exploited by Mahesh Shah and his associates/principals such as SEIPL for opening multiple demat accounts.

12.71. The statement of the Branch Manager of CBPL, as given in the earlier paragraphs, are nothing but self-serving assertions since the field verification coupled with other lapses found during inspection as well as the system of having common bank account for making IPO applications, preponderantly indicate a prevalent abuse.

12.72. Findings of Inspection of HDFC Bank by CA Firm 12.73. The documents relating to some of the demat accounts of HDFC bank were scrutinised by the CA firm on a random and test check basis.

While various irregularities were noticed in respect of account holders sharing the common address -B-2, Himalaya Society, Milind Nagar, Asalafa, Ghatkopar (W), Mumbai - 400 084, the most glaring example is cited below
Name : Maniben Hirji Dand
Address on Voters ID Card : H.No.1-8, Kutch Castle-1, Deraser Lane (South)
Demat Account No. : 1301240000083423 Demat A/c. activated on : 3-10-2004
E.Credit Mandate : HDFC Bank, Fort, Mumbai
Savings A/c.No. :

0601000173157 12.74. Upon scrutiny of the documents relating to the above dematerialized account-holder of HDFC bank, it is seen that the Voters ID card produced as identity shows age as on 01-01-1991 as 81 years which means that as on the date of opening of demat account, the age of the BO was around 94 years. It is highly improbable that a 94 year old person would be interested in opening a demat account and transacting in securities. This suspicion regarding the genuineness of the dematerialized account-holder is further strengthened by the fact that Purshottam Budhwani's bank account held with HDFC Bank, Ghatkopar (W), Mumbai with A/c.No.0601000173157 has been used for bank verification while opening the above demat account. The said account of Purshottam Budhwani does not contain the above account holder's name.

12.75. The payment of charges in respect of the account has been made through HDFC Bank Fort, Mumbai - S.B.A/c.No.0601000173113 which is the account of Purshottam Budhwani.

12.76. Further it is seen that a common correspondence address has been mentioned in respect of various dematerialized accounts though the election card carries different address of residence.

Instances of Identical signatures of different BOs of HDFC bank 12.77. While verifying the CDSL demat account opening forms of HDFC bank, it was found that in some instances the signatures of various dematerialized account-holders appeared to be identical. However the photographs as well as POI and POA attached to the respective account opening documents were different. Instances of the same are given below Table 12.77 - Discrepancies in photographs of demat clients of HDFC Bank

Account No.	Client Name	Address
1301240000083535 (CDSL)	Santoshkumar Dadasaheb Kabadi	G-2, Valmiknand Chawl, R.B. Kadam Road (N), Kurla, Bombay
0601000173167	Santosh Jaywant Ahire	G-5, Janabai Mohite Chawl, Kiroлгаon, Ghatkopar (W), Bombay
1301240000083860 (CDSL)	Santosh Bhimrao Bansode	Htmt 272, Bhimanagar Htmt Area-5, Lal Bahadur Shastri Marg (W), Ghatkopar (W), Bombay
0601000173287	Santosh Mahadev Prabhu	T-7, Saiyyad Gadakori
1301240000088761 (CDSL)		
1301240000089254 (CDSL)		

Chawl, R.B.Kadam Road (N), Kurla, Bombay HDFC, Fort, Mumbai - 0601000173098 12.78. It is seen that Purshottam Budhwani has 286 Savings Accounts under different Customer ID with various joint account holders with various branches of HDFC Bank. A list of such savings bank accounts with HDFC Bank is as below: Table 12.78 - 286 SB accounts of Purshottam Budhwani Sr.No.Tulsiani Chamber, Nariman Point 0011000029537 Sandoz House, Worli, Mumbai 2401000042507 Sandoz House, Worli, Mumbai 2401000042514 12.79. Out of the above 286 accounts, it is seen that the account at sl. No. 1 above having account no. 0602100001225 held with HDFC Bank, Fort branch has been used by Purshottam Budhwani as his principal account. The sheer number of savings accounts of a single account holder, which is uncommon, should have alerted HDFC Bank to keep a close watch on the activities of Purshottam Budhwani. The findings of the detailed examination of some of the bank accounts with HDFC Bank are given in the later part of this order.

12.80. Findings of Inspection of HDFC Bank by CDSL 12.81. During the course of verification of genuineness of demat account holders of various DPs, CDSL found that 787 dematerialized account-holders of HDFC Bank DP were sharing common addresses. Hence, CDSL engaged a CA firm to conduct inspection of HDFC Bank DP. Some of the major findings of the said inspection are summarised below: 12.82. In some cases the Agreement was not duly executed before account was activated in Depository system (called CDAS). It is seen that the inspection report has identified 471 such instances. A randomly selected sample of 10 such instances is reproduced below: Table 12.82 - HDFC Bank -Agreements not executed before activation in depository system Date 1 12.83. In some cases there are lookalike signatures for different BOs.

Instances of the same are given below: Table 12.83 - HDFC Bank -Lookalike signatures of different BOs Sr. No.1301240000088761 1301240000083535 1301240000084085 1301240000083685 1301240000082599 1301240000084110 1301240000083968 1301240000083161 1301240000090331 12.84. In some cases the permanent address of the BO ID are not mentioned. All the BOs have same correspondence address. Instances of the same are given below: Table 12.84 - HDFC Bank -Account holders having same correspondence address

12.85. In some cases the photo identity proof is not clearly visible.

Instances of the same are given below: Table 12.85 - HDFC Bank - Photoidentities not clear Sr. No 12.86. Many of the Duplicate Accounts in Ahemadabad were closed on 31st January 2006. Instances of the same are given below: Table 12.86 - HDFC Bank-Duplicate demat accounts closed Sr.No Lilavati S. Shah Monika S. Shah 2 Lagni B. Shah Monika S. Shah 3 Monika S. Shah Bhadresh S. Shah 1301240000093581 Lagni B. Shah 4 Shrenik M. Shah Ranjan M. Shah 5 Mahendra S. Shah Shrenik M. Shah 6 Monika S. Shah Lagni B. Shah 7 Bhadresh S. Shah Lilavati S. Shah 8 Shrenik M. Shah Ranjan M. Shah 9 Ranjan M. Shah Mahendra S. Shah 10 Mahendra S. Shah Shrenik M. Shah 11 Monika S. Shah Bhadresh S. Shah 12 Lagni B. Shah Lilavati S. Shah 13 Shrenik M. Shah Lagni B. Shah 14 Ranjan M. Shah Bhadresh S. Shah 15 Monika S. Shah Shrenik M. Shah 16 Monika S. Shah Ranjan M. Shah 17 Ranjan M. Shah 18 Mahendra S. Shah 19 Lilavati S. Shah Shrenik M. Shah 20 Ranjan M. Shah Mahendra S. Shah 12.87. During the course of the inspection CDSL noticed that the funds were received from few accounts and then the funds were transferred back to few Accounts like 0602100001225 (principal account of Purshottam Budhwani), 1182100001204, 1182100001248 and 1182100001258, as a result of which the balances in the BO's account at the end of a period was always close to minimum balance.

12.88. Summary Findings relating to HDFC Bank 12.89. Based on the findings of inspection of DP operations of HDFC Bank by the CA firm engaged by SEBI as well as the firm engaged by CDSL, as detailed above, it emerges that HDFC bank has failed to exercise due diligence and has opened demat accounts in the names of fictitious / benami entities. Numerous irregularities and non-adherence to the prescribed KYC norms have been brought out by the inspection reports. During the course of verification of genuineness of account holders done by the depositories at the instance of SEBI, HDFC bank DP has confirmed that it has complied with the KYC norms in respect of its demat account clients. In the light of the findings of the inspections, the above confirmation by HDFC Bank DP appears to be totally divorced from reality as established. 286 SB accounts with a key operator is clearly proof enough for the plan of action to open multiple dematerialized accounts and channelise the funds in a manner that would bury the

audit trail.

12.90. With regard to the banking operations of HDFC bank it is seen that some of the bank account transactions as examined by SEBI as well as the CA firm engaged by SEBI are of suspicious nature and appear to be tarred with the same brush as noticed in relation to HDFC Bank as DP. The details of these transactions have been discussed in the later part of this order. In any case I note that RBI has also conducted inspection of HDFC bank in the context of the irregularities noticed relating to opening of bank accounts in fictitious / benami names and providing IPO funding. I note that the inspection by RBI revealed violation of KYC norms for IPO subscription and cornering of retail portion of IPO through fictitious/benami demat accounts and RBI has levied monetary penalty on HDFC bank. In that view, the role of HDFC Bank, despite stated confirmation regarding compliance to KYC norms, raises serious concerns on its compliance while suggesting it had truck with Purshottam Budhwani in so far as it had actively lent its system to be misused by wily operators.

12.91. Inspection of DP Motilal Oswal Securities Ltd. by a CA firm Engaged by CDSL 12.92. During the course of verification it was found that in the case of the CDSL, the DP Motilal Oswal Securities Ltd.(MOSL) had 697 demat clients sharing common addresses. In view of the above CDSL engaged a CA firm to conduct inspection of the DP. Upon consideration of the findings of inspection of MOSL done by a CA firm engaged by CDSL the following facts emerge : a) In some cases proof of identity of second and/or third holder not obtained. Instances of the same are given below: Sr. No. * Introduction is available.

b) In some cases proof of identity is not visible Instances of the same are given below: c) In some cases proof of permanent address not obtained Instances of the same are given below: Sr. No. *Obtained during the course of audit.

d) In few cases proof of correspondence address not obtained.

Instances of the same are given below: Sr. No. e) Name of second holder and/or third holder written in agreement.

Instances of the same are given below: Sr. No. Rectified during the course of audit

f) In some cases corrections in various details on Account Opening Forms were not authenticated by the B.O. Instances of the same are given below: * We have been informed that most of the cases rectified during the course of audit.

g) In few cases of H.U.F. declaration of family member not obtained.

Instances of the same are given below: Sr. No. * Obtained during the course of audit.

h) In some cases Bank details is not obtained. Instances of the same are given below: i) In some cases supporting documents are not verified against original. Instances for the same are given below: Sr. No. j) In some cases date & place is not written in the agreement.

Instances for the same are given below: Sr. No. k) In some cases details & signature of two witnesses not found on agreement. Instances for the same are given below: Sr. No. Rectified during the course of audit l) In some cases across signature not obtained properly on photograph.

m) In case of B.O.I.D. 586476 & 939034 PMS account proof of correspondence address taken in system is MOSL's address although B.O. has written different correspondence address on Account Opening Forms.

12.93. Summary of findings of Inspection of DP MOSL 12.94. From the above inspection findings it is seen that the DP has not exercised due diligence while opening demat accounts. Various irregularities noticed during the course of inspection such as failure to obtain proof of identity, failure to obtain proof of address, not including the names of second and third holders in the DP - BO agreement, not verifying the photocopies of documents received towards POI and POA with the originals etc. show that the DP MOSL has not been adhering to the KYC norms applicable to DPs as prescribed by SEBI.12.95. Inspection of ILFS DP by CA firm engaged by CDSL 12.96. During the course of verification of genuineness of dematerialized account-holders, CDSL found that in the case of DP Infrastructure Leasing & Financial Services Ltd. (ILFS) 3421 demat account

holders were sharing a few common addresses. Therefore CDSL advised ILFS DP to confirm the genuineness of the dematerialized account-holders. In reply there to ILFS DP stated that "IL&FS-DP opens demat account on receipt of duly filled up Account Opening Form along with necessary KYC documents as prescribed by SEBI vide their circular no. MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004 as updated from time to time. Instructions/Communiques received from the Depository from time to time are also complied with. While accepting the documents, either the client visits DP office or DP representative visits client office/residence to verify the genuineness and original documents." 12.97. Further to the above, CDSL engaged a CA firm to conduct special inspection of the DP. The major findings of the inspection by the CA firm are given below: Discrepancies In KYC Norms

1. Permanent address / POA details are not entered into CDAS system:- It is observed that Permanent address/POA details are not entered into CDAS systems in all cases. Illustrative list of cases in reproduced here under:- Sr.No.

2. Changes made in Account opening form without Clients Authentication It is observed that Permanent address / POA details are not entered into CDAS system in all cases. Illustrative list of cases is reproduced here under:-It was observed that correspondence address of BOs had been changed in Account opening form using White Ink without obtaining BO's authentication. Illustrative list of cases is reproduced here under:- Sr.No.SAROJBEN GUNVANTLAL SHAH 5 DEVANGBHAI KANTILAL SHAH 7 KETANKUMAR ARVINDBHAI SHAH 10

3. No signature across the photo It was observed that BO's signature had not been not obtained across the photo. Illustrative list of cases is reproduced here under:- Sr.No.ASHISH CHANDRAKUMAR SHAH 3 BHANUBEN VASANTLAL SHAH 4

4. Photographs stapled and not affixed It was observed that BO's photograph were stapled & not affixed as per CDSL guidelines. Illustrative list of cases is reproduced here under:- ANITABEN NAYHALCHAND SHAH 2 MANEPALLI SURYAMANIKYAM 8 PERUMALLA PURNACHANDRA RAO 10

5. BOs' account opened with Xerox copy of NSDL account opening forms It was observed that copy of NSDL DP account opening form was used to open an account with CDSL instead of using CDSL account opening form. Illustrative list of cases is reproduced here under:- Sr.No.

6. Second holder of account is IL&FS It was observed that major accounts were opened with the IL&FS as second holder. Illustrative list of cases is reproduced here under:- Sr.No.

7. BOs account name differ in Account opening form and system.

There is discrepancy between the name of the BO as given in the account opening form and as entered in the depository system. Though the DP may claim that these are minor data entry errors, it proves the lack of MAKER CHECKER concept at DP's end. Illustrative list of cases is reproduced here under:- Sr.No. 8. Proof of address not latest / mismatch of address It was observed that in some cases that cancelled passports had been accepted as a proof of identity and address. Illustrative list of cases is reproduced here under:- Sr.No. PROOF OF ADDRESS NOT LATEST 2 INDRAKUMARMITHALAL RAWAL PROOF OF ADDRESS NOT LATEST 5 PROOF OF ADDRESS NOT LATEST 6 PROOF OF ADDRESS NOT LATEST 7 Cancelled Passport submitted 8 Cancelled Passport submitted 9. Discrepancies in Agreement It was observed that the space for execution dates had been left blank and dates were not mentioned on the agreement. Illustrative list of cases is reproduced here under:- Sr.No. Execution dates are left blank and dates are not mentioned on agreement.

JAYANTILALCHIMANLAL ADANI Execution dates are left blank and dates are not mentioned on agreement 3 Execution dates are left blank and dates are not mentioned on agreement 4 Execution dates are left blank and dates are not mentioned on agreement 5 DIVYAKANTINDRAVADAN SHAH Execution dates are left blank and dates are not mentioned on agreement 6 ANILRAJ PROMOTERS & FINCON PVT LTD. Copy of Agreement between BO & Member not found 10. BOs signature not scanned in CDAS System It was observed that BO's signatures were not scanned in CDAS system. In case of joint Accounts, signatures of first holder were not scanned. In cases where IL&FS is the

second holder, only signature of IL&FS is scanned and signature of BO i.e. first holder is not scanned. Illustrative list of cases is reproduced here under:- NEERAJ RAJKRISHNA KAPOOR 2 PRASAD VENKATESH MAHULI 8 11. Account Closure request form signed by POA It was observed that in some cases that ILFS as POA holder has signed the Account closure form on behalf of the first holder and the second holder. Illustrative list of cases is reproduced here under:- SKCS FINVEST PRIVATE LTD.7 PARADISE MERCHANTS PRIVATE LTD. 12. Proof of Address & identity not submitted It was observed that the DP had not obtained POI and POA from the BOs. Instances of the same are given below:- Sr.No.1. Certificate of Incorporation does not bear the Seal of Registrar of Companies & hence not valid proof of identity. 2."Verified with original"stamp not affixed on Memorandum & Article of Association 3 EXIM SCRIPS DEALERS PVT LTD 1.CertificateofIncorporationnot Submitted. 2.Memorandum&ArticleOf Association not submitted.

13. Large Number of Accounts opened on one single day Month wise analysis of the accounts opened By ILFS DP during the period from April 2004 to January 2006 is given below: Sr.No. 2 3 4 5 6 7 Abnormally large no of Accounts Opened 8 9 10 11 12 13 14 15 16 17 18 Suzlon Energy Ltd. Issue opened on 23/9/05, closed on 29/09/05. No. of Accounts opened on 9/09/05 - 1452 ./p 19 20 21 22 From the above it can be seen that large number of demat accounts were opened by ILFS DP during the period of major IPOs. This abnormal increase in the number of dematerialized accounts should have alerted the DP to exercise due care and diligence.

14. Similar style of BO's signature in various account opening forms It appears that the same persons have signed many Account opening forms which are evident from the similarity in style of hand writing. Illustrative list of cases is reproduced here under:- Sr.No.GAUTAMCHAND NEMICHAND CHORADIA 2 NEMICHAND BHAGWANHAND CHORDIYA 3 RAJENDRAKUMAR KANTILAL SHAH 3 15. List of Documents not provided by IL &FS Following Account Opening forms not available with DP Sr.No.SHAH ARCHANA JIGNESHKUMAR Following Account closure forms not available with DP. Sr.No.PALLASSANA NARAYAN DOROVSWAMY 2 DHANSUKHLAL AMRITLAL PAREKH 16. Multiple agreements

signed by same witness without mentioning name & address It was observed that BOs' witness signatures were similar in many cases and name & address of BOs' witness were not mentioned.

Illustrative list of cases is reproduced here under:- Sr.No.ARVINDKUMAR SHESHMAL SHAH 2 ARVINDKUMAR JASRAJBHAI SHAH 3 MEHULKUMAR CHANDRAKANT SHAH 5 BHARATKUMAR PRATAPCHAND SHAH 6 MITTALKUMAR KANHIYALAL SHAH 8 MAHENDRAKUMAR MAFATLAL SHAH 9 SANDIPBHAIJASVANTLAL PATEL 11 GAUTAMCHAND NEMICHAND JAIN 12 HASUMATIBEN DHIRAJLAL SHAH 17. Monthly Statements of Accounts not send to BOs It was observed that monthly statements of Accounts are not send to any of the BO's. Illustrative list of cases is reproduced here under:- 18. Summary of the findings of the inspection of ILFS DP by the CA firm engaged by CDSL A summary of the findings of the inspection of ILFS DP by the CA firm engaged by CDSL is given below

- o Maker Checker Concept not fully implemented
- o BO's details not entered in CDAS system
- o PODs of Account Opening / Closing intimation not available and hence it appears that the same ha ve not been sent to BO's.

- o Data Entry Errors
- o Account closure forms signed by POA i.e. IL&FS
- o Signature of IL&FS Officials Scanned instead of BO's signature
- o Monthly Statement of Accounts not sent to BOs
- o In many demat accounts IL&FS DP is the second holder
- o Proof of Identity & Address not obtained in few cases
- o All Securities Allotted in IPO transferred to other account by way of Off Market / Inter Depository transfer
- o Large No of Accounts Opened on last day of Closure of Big IPO (e.g. Suzlon Energy Ltd)
- o Some of the Account Opening Forms & Account Closure Forms were not available for verification.

13. Examination of the Role, Activities and Demat account related documents of Karvy-DP

13.1. Karvy-DP is depository participant of National Securities Depository Limited (NSDL) and Central Depositories Securities Ltd.(CDSL). Karvy-DP is registered with SEBI as depository participant under the category of Registrar. The registered office of the Depository Participant is located at 21, Avenu 4, Street No 1, Banjara Hills, Hyderabad 500 034. Karvy group of companies are engaged in various activities relating to securities market like stock

broking, registrar, DP etc.

13.2. In the cases of Yes Bank and IDFC IPOs, it was found that there were large numbers of off market transfers from thousands of demat accounts into a few accounts just before the listing of the scrip and subsequently sold in the market at huge gain. The above findings in the said two cases raised concern about the possibility of existence of fictitious / benami demat accounts with Karvy-DP which were being used only for the purpose of IPO on both the depositories. In view of the above, the role of depository participant and the compliance level of account opening formalities prescribed by SEBI were examined through the scrutiny of documents relating to the demat accounts opened with Karvy-DP, on a sample and test check basis. Further, SEBI had inspected the operations, systems and procedures of Karvy group at Hyderabad.

Examinations of refunds made by Karvy RTI in Yes Bank and IDFC IPOs, as narrated in detail in later paragraphs, shows that in the IPO of Yes Bank, Karvy RTI had issued a single refund order number 400002 favouring BHOB for Rs.53.89 crores in respect of 12,676 IPO applicants and in the IPO of IDFC, Karvy RTI had issued single refund order no.

610003 for Rs.27.35 crores favouring BHOB in respect of 6878 IPO applicants.. The findings emerging from the scrutiny of documents relating to the demat accounts held with Karvy-DP, as detailed in the succeeding paragraphs, when taken together with the findings of SEBI's inspection of Karvy group and the fact that Karvy RTI had made consolidated refund favouring Bh OB in respect of thousands of IPO applicants and Karvy group was directing the movement of funds in respect of IPO applications as well as refunds, paint a dismal picture of the standards of integrity and professional code of conduct being maintained / followed by Kavy group in its various operations relating to securities market as SEBI registered intermediary. The lucubrations of the lugubrious state of affairs in the prolixity of details are apt to discredit the operations of Karvy group in what appears to be a prime mover lead in crass deviousness.

13.3. Arrangement between Karvy-DP and Bh OB 13.4. It was found during the course of investigation that Chairman, Bh OB had on December 19, 2005 directed

an internal comprehensive investigation in the IPO financing undertaken by the Bank. The internal report submitted by the concerned Bh OB official covering the aspects relating to compliance, control and corrective steps was obtained and the same was perused. The following insights are available therefrom: 13.5. During the year 2003, there were many public issues / Initial Public Offer of equity shares by premier companies in the public sector such as Maruti Udyog Ltd, UCO Bank, Vijaya Bank and others. This is apart from, other blue chip companies raising capital by issuance of shares in the primary market.

13.6. In order to enlarge client base, expand low cost deposit base, extend self-liquidating short term loans and augment revenue on the personal banking area, Bh OB, in June 2003, came up with a referral with Karvy Investor Services Ltd. (Karvy) who were to direct to Bh OB their DP clients/ other individuals who were interested in participating in public offer of shares by Maruti Udyog Ltd., which IPO opened on June 12, 2003.

13.7. Karvy presented an idea paper and a process flow. As per the process flow, the IPO applications would be filled in by the investor and a cheque/DD in favour of the Bank towards the margin amount shall be deposited. The investor would need to open the D-mat account with Karvy who would place a lien on the shares deposited into the investor's account until the investor clears the loan with the Bank.

The client would deposit the payment instrument and bid form with the Bank along with the account opening document and documents for the loan. The Bank would ensure that the Savings Bank (SB) account opened by the Bank is mentioned in the relevant column in the bid form as the Bank account to which the refund is to be sent. The Bank would issue Pay order for the amount of the application by debiting loan account and margin money of the respective applicants. If the investor is not allotted shares against the IPO application, refunds are made to investor by the registrar through the Bank and the refund order credited to the account, after liquidating the loan. In case of allotment, the investor is required to bring in the required amount if there is shortfall and fulfill the obligation with the Bank along with the interest after which the lien is released by the Bank and

informed to the DP for release of Bank's lien on the demat account.

13.8. Thus it appears that the idea presented by Karvy to Bh OB started as a practicable business proposition but contained potential ingredients for future mischief, as it turned out in the final denouement.

13.9. The said process flow presented by Karvy also contained a clause that there were no chances for cases such as benami applications, multiple applications, fraudulent investors etc. These aspects did give solace to the Bank to venture into this segment. A beginning was made with the financing of IPO relating to Maruti Udyog Ltd. and an allocation of amount was advised to various branches of Bh OB.13.10. The above was communicated to the branches along with other RBI stipulations to the effect that maximum permissible individual finance for an individual is only upto Rs.10 lacs and the minimum margin is to be maintained at 40% (subsequently revised to 50%).

13.11. The Branch Managers in charge of the branches were to sanction loans under their discretionary powers called MDP i.e. Manager's Discretionary Powers by receiving, processing, sanctioning; disbursing, servicing, monitoring and finally recovering the loans within the overall ceiling fixed for the branch. A check list of terms and conditions to be complied with was made available by Bh OB to its individual branches with instructions to report compliance.

13.12. While the Bank made foray into this business due to the attractive returns offered, it subsequently transpired that there were violation of KYC norms and Customer Due Diligence at a few of the Branches, as an overarching business ambition gave short shrift to such checks and balances, while early successes in smaller multiple accounts gave way to a grandiose design of building up an elaborate edifice of make-believe with myriads of such fictitious/benami accounts in intractable moves of deceit and deprecations on confidence carefully beguiled in seemingly acceptable constructs that made the bank to drop the guard, while key operators and financiers found the coast clear to shore up their gameplan of opening multiple accounts and making off-market transfers amongst such accounts in a guided move for cornering the IPO shares.

13.13. As per Bh OB, it was because of the presence of Karvy, the branches took it for granted that existence of a demat account with Karvy - DP pre-supposes compliance with the Know Your Client (KYC) norms. This finding of the internal investigation done by Bh OB gives rise to the inference that the demat accounts were opened first before the opening of bank accounts and providing of IPO finance by Bh OB. This inference duly supported by various other findings relating to the operations of Karvy DP as discussed in the later paragraphs gives lie to the possible claim of Karvy DP that it had obtained letters issued by Bh OB towards proof of identity and proof of address before opening demat accounts.

13.14. This comfort led to a blind trust on the part of the branches in particular where IPO financing was allocated and they became the dupe of a strange delusion.. The branches also became permissive and lax on account of Karvy's presence in the entire portfolio. In fact, even as per the AML (Anti-Money Laundering) Policy of the Reserve Bank of India, considerable onus is cast on the intermediaries for compliance of KYC norms and Customer Due Diligence. It was gathered during the course of internal investigation by Bh OB that all the branches viz., Worli, Goregaon and Ahmedabad had representatives of Karvy Consultants coming in, which led to the Managers/Officers/staff members drawing total comfort from them. In short, the presence of Karvy Consultants, their representatives, their sourcing of applications, their stamps on the Bid-cum-Application Forms, their demat accounts - all contributed to a blastate of easy acceptance without questioning, besides presupposing compliance with Customer Due Diligence and KYC norms. This needless to say, proved to be quite fatal. Also, having floated the Idea Paper, Karvy has made it work, was in full control of its implementation in a conducive environment wherein the Bank meekly came under the leading strings of Karvy and in due course, a part of the manipulative assemblage and this continued so long as the Bank got its margins and revenues without any risk, while the risk of exposure to scrutiny was lost sight of in the burgeoning volume of business in several IPOs.

13.15. A careful perusal of the process flow envisaged for IPO funding as spelt out by Karvy reveals that there was a specific assuring clause to the effect that there were no chances for cases such as benami applications, multiple applications,

fraudulent investors etc., While it added to the comfort level of the Bank, virtually lulling them into a sense of complacency, what actually transpired was that there were indeed several cases of multiple applications with dubious entities mustering in at some of the branches with ease by faking identities.

13.16. Though the Retail Banking Division (RBD) fixed exposure limit for each issue of IPO funding at various branches, in a few cases it was observed that the branches breached the exposure limit and no ratification was sought from Head Office of Bh OB for e.g., Worli branch exceeded exposure limit for IDFC & ILFS by Rs.42 lacs and Rs.45.50 lacs respectively.

13.17. The Asst. General Manager, RBD, requested the then Territory Head - Mumbai to examine the procedure followed by Ahmedabad Branch in respect of IPO funding. The Territory Head after investigation replied that the branch was opening various joint accounts with 25 to 30 joint holders and that on the date of loan, respective SB account was debited for the margin money and on receipt of the refund orders the proceeds of the instruments were credited to the respective SB account.

13.18. The Territory Head, Mumbai of Bh OB informed RBD that Ahmedabad branch as well as Worli and Goregaon branches were following different procedures while adding that group accounts/group investors were opening accounts and sought guidance. However, the RBD despite acknowledging did not react to the changed procedure being followed at the branches. The routineness attributed to this mail was indicative of laxity. A random check could have been initiated by deputing the official handling the IPO financing to at least one of the branches, which had considerable exposure in the segment.

13.19. As regards Ahmedabad branch, an inspection/audit on IPO financing was carried out by the Senior Manager, Fort Branch, Mumbai and the Territory Head. The report mentioned a few irregularities in IPO financing including opening of group accounts of the depositors at the branch.

13.20. The Inspection report on Worli branch of Bh OB brought out the following aspects of non-compliance: 1. When the conditions laid down by Bh OB stipulated

that Savings Bank account was to be opened by producing proof of identity and photograph by following KYC norms on customer identification, actually the individual accounts in the names of borrowers were not opened by the branch (barring very few).

2. Applicants were required to submit documents as detailed in individual sanction letters such as request letter, promissory note, letter of authority etc. but it was found that complete set of blank documents were obtained and kept as such. The documents were obtained through share brokers and mailed to Worli branch of Bh OB by courier. On scrutiny of documents, it was observed that the address of the borrowers given in the application forms was either blank or was bearing common address of that of the share broker. The signatures in the documents were of the same flow and seemed to have been executed by a single person. It is understood that the investors did not call at the branch while opening SB accounts or while signing documents to avail the loan.

3. Initially a Bh OB guideline had stipulated individual demand loan account for each of the borrower. Subsequently a single loan account with the title of "loan account-IPO concerned" was permitted to be opened with individual loan account to be opened manually in a separate register. The Worli branch of Bh OB opened only one account for the total quantum of loan for all applicants per issue without complying with the direction to maintain individual loan account manually. Thus if the client seeks a statement of loan account for the documents executed, no statement of account is possible to be given as per Banker's Book of Evidence Act.

4. As per the extant guidelines, the branch is required to prepare a pay order for demand loan plus margin amount (by debiting the demand loan account and the applicant's Savings Bank account respectively).

The branch after receiving the application to be financed, was receiving the margin money for the entire loan accounts through a few accounts of share brokers. Both the loan proceeds and margin money were credited to Current Account opened for the purpose with the title such as NTPC - IPO and pay orders were issued to the debit of such current accounts. The pay orders along with bid forms were handed

over to representative of Karvy. It was also observed that in due course of time, the Worli branch of Bh OB dispensed with opening of SB account of the investor but nevertheless extended finance to investors based on margin provided by a share broker.

5. As against the guidelines that when a refund order is received, the applicant's SB account should be credited and then SB account should be debited and the amount transferred to close the Demand Loan account, the refund orders were received in the form of individual payment or collectively through one General Account. The refunds were credited to the Current Account, which was already opened with the title such as NTPC-IPO etc. Subsequently, the refunds of margin money were credited to various accounts maintained by the share broker and other associates with other branches.

6. On September 20, 2005, Panchal brought to Worli branch, 25,094 refund instruments for Rs.74,65,74,000 in different names. The branch sent a letter to the ICICI Bank seeking payment over the counter for 25,094 instruments and ICICI Bank remitted the amount through Real-time Gross Settlement System (RTGS) and the entire amount was credited to the account of Panchal, thereby exposing the Bank to various risks and losing protection under NI Act. As per the instructions of the account holder an amount of Rs.42,11,00,000 was remitted to Standard Chartered Bank, Ahmedabad for credit of Panchal's account and Rs.29.89 crores was remitted to Karvy at Hyderabad for credit of their account with HDFC Bank.

7. In Worli branch of Bh OB, large sums of money from the account of Panchal was used as Margin money for all the accounts. On receipt of refund amount, after liquidating the loan, the balance amount was credited back to the account of Panchal, which was subsequently withdrawn on the same day by cheques. The above go to show that in the transactions under examination, Roopalben Panchal was the only genuine entity, with others being just names. Also the DP and the bank branches knew it to be so.

8. It may be pertinent to mention that while the Manager at Ahmedabad branch of Bh OB authorized the opening of Panchal group of accounts for IPO financing, on

his transfer to Worli branch the same group of accounts was permitted to open the accounts at Worli branch of Bh OB. It appears certain that the same group of depositors would have availed the facilities for availing IPO financing at both the branches thereby making multiple applications for share allotments to take benefit of retail investors quota.

13.21. SEBI obtained from Bh OB Head Office, the details of IPO financing done by Bh OB pursuant to the above arrangement with Karvy.

The details of IPO financing done by Bh OB in various IPOs is given below:

Table 13.21 IPOs financed by BHOB (Rs. In Lakhs)	
Maruti Udyog	Funding in Lacs
Ahmedabad	132.83 182.62 1.04
Rajkot	8.64 6.77
Chennai Main	17.64 180.86
Goregaon	3.97 9.65 0.68 2.76
Kukatpally	Surat Indore 1.20
Pune Nasik	Chandigarh 11.66
Total No. of applications relating to suspect entities 725	
Jet Airways	Ahmedabad
Goregaon	745.42
Baroda	0.15
Rajkot	2.94
Bangalore	Chennai Main NA 97.92
745.50	842.28
Visakhapatnam	0.57
Aurangabad	Hyderabad 7.09
Kukatpally	Surat Indore
Pune Nasik	Chandigarh Connaught Place
Total No. of applications relating to suspect entities 3084	

13.22. From the above table, it is seen that the highest amount financed by Bh OB was in the IPO of Sasken (Rs.39.77 crores) followed by NTPC (Rs.31.20 crores). Further it is noticed that in respect of many of the above IPOs that were financed by Bh OB, Roopalben Panchal has made numerous multiple applications as detailed in an earlier paragraph. It appears that while IPO financing to the extent of 50% was provided by Bh OB to Roopalben Panchal, the balance 50% was provided by the financiers. It appears that the same set of financiers as identified in the SEBI orders in the cases of Yes Bank and IDFC may have financed Roopalben Panchal in respect of other IPOs also. The examination of the bank records of the financiers as discussed in later paragraphs also supports this finding. The details of off market transfers made by Roopalben Panchal in various IPOs have already been elaborated in the earlier paragraphs and the same also supports the above findings.

13.23. Statement of Chairman of Karvy group 13.24. The statement of Shri C Parthasarathy, Chairman, Karvy Group was recorded by SEBI on 3rd February 2006 at his office 'Karvy Centre' Road No. 10, Banjara Hills, Hyderabad 500 034.

The salient questions and his replies are extracted below: 2. Which are the companies in the Karvy Group and also give details of the businesses they undertake? The Karvy Group comprises of -Karvy Stock Broking Limited, Karvy Computershare Private Limited., Karvy Commodities Broking Limited, Karvy Insurance Broking Limited, Karvy Investor Services Limited, Karvy Global Services Ltd, Karvy Consultants Limited, and Karvy Inc.

Karvy Computershare Pvt. Ltd. (KCPL) is a Category I Registrar to Issues and Share Transfer Agent. This company is a 50:50 JV between KCL and Computershare of Australia. KCPL has handled as registrars to issue for over 800 offerings comprising of IPOs, Offer for Sale, Rights, Buybacks, open offer, New fund Offers etc.. KCPL services over 250 corporate who comprise of the who's who of the Indian Industry and also services various prominent AMCs as registrars to Mutual Fund. The registry business was the first business in the capital market arena commenced by Karvy and it has over 20 years of experience in this business.

Karvy Stock Broking Ltd.(KSBL) is a member of NSE, BSE and HSE and offers trading on both the cash and derivative segments. It is also a member of the WDM segment of the NSE. The broking services are provided across over 480 branches spread across over 300 cities and towns through an owned network of branches. We also have a few registered sub-brokers at various locations. In the capital market segment, we have over 280000 registered customers and on any average trading day put through over 160000 trades. Over 25000 investors trade through our network everyday. In terms of the daily turn over, we do approx Rs. 800 crs per day. In the NSE cash segment we have over 4.5% market share. The broking business caters largely to the retail and the mass affluent segment of investors. KSBL is a depository participant with both NSDL and CDSL and has over 7.20 lacs account holders who are serviced through our network of branches. Karvy also markets various equity IPOs, bonds, Mutual Funds and other financial products. As a distributor for IPOs, Karvy has been consistently ranked among the top distributors primarily due to the large volume of retail participation that happens through our network. As a distributor of equity IPOs and MFs. we service over 500000 investors.

Karvy Commodities Broking Ltd. is a member of both NCDEX and MCX and offers trading in commodities on both the exchanges through this network.

Karvy Insurance Broking Pvt. Ltd. is an IRDA approved direct Insurance Broker and markets both life and non life products specifically focusing on the retail segment.

Karvy Investor Services Ltd. is a category I Merchant Banker and has been ranked amongst the top 10 merchant bankers by PRIME for the last financial year. .

Karvy Global Services Ltd. is a newly incorporated Company which will focus on the international business process outsourcing.

Karvy Consultants Ltd. (KCL), the first company in the group which used to undertake registry services (now undertaken by KCPL), depository services (now undertaken by KSBL) and NBFC activities (to be undertaken by KFSL). Currently, it is a quasi holding company and also undertake some domestic BPO activities.

Karvy Financial Services Ltd. (KFSI) is a company incorporated for carrying on the business of NBFC. The company has applied for the NBFC license and awaiting approval'.

Karvy Inc is a company incorporated in the USA and is a registered member of NASDAQ. The total number of employees in Karvy across all businesses and across the network of over 480 branches number over 6300.

3. What is the position that you hold in each of these entities? I am one of the founder promoters of the Karvy group and I am on the board of all the companies mentioned above. Specifically, the details of my directorships in these companies are KCL - Chairman KISL - Managing Director KCPL - Managing Director KCBL - Director Karvy Global - Director 4. Who are the other directors on the Board of various companies? Mr. M. Yugandhar and Mr .M.S. Ramakrishna are on the board of all the companies mentioned above. Mr. Prasad V. Potluri is a Director in KCL. Mr. Stuart Crosby, Mr. Chandra Balaraman and Mr. Mark Davis are nominee Directors of Computershare on the board of KCPL. Mr.

Akash Mehta and Mr. Sam Sung Cheung are nominee directors of the Pacific Century group on the board of KSBL. Mr. GG Krishnamacharyulu is in the board of KFSL where I am not a director.

13.25. Inspection of Karvy-DP by SEBI 13.26. As mentioned earlier SEBI conducted a limited purpose inspection of books of accounts, documents and other records of M/s. Karvy Stock Broking Limited, (hereinafter referred to as "entity" or "DP" or "participant" or "KSBL") and Karvy Computerhare private Limited (KCPL) pursuant to the SEBI orders in the matter of Yes Bank and IDFC. The inspection team examined the various findings relating to Karvy group contained in the interim orders in the cases of Yes Bank and IDFC. 13.27. During January - February 2006 a team of SEBI officials carried out inspection of Karvy DP. The inspection was carried out on the basis of books of accounts, records, documents and various other records maintained and furnished by Karvy. The inspection team followed the sample and random test check method for inspecting the books of account and other records of the entity. The inspection team has verified documents such as Account opening Forms (AOF), client agreements, issuance and processing of Delivery Instruction Slips (DIS) IPO applications, allotment/refund records, weeding out procedure of multiple and invalid applications, reports and certificates related to the public issues etc. The various operations of the entity were also discussed with the management of the entity. A summary of the findings of the inspection conducted by SEBI is given below: 13.28. Inspection findings relating to Accounts opening- Karvy-DP 13.29. The inspection team verified the account opening module of the DPM (the Depository Participant Module which is the record of all depository transactions) and observed that there were mandatory fields such as name, address, bank name, account number and signature.

However, the system does not check the compliance of documentary requirements such as identity proof; address proof, agreement date etc.

Further, it was observed that the physical account opening forms did not bear the signature of the official verifying and approving the opening of the account. However, there are initials of officials verifying the proof of identity and address

with the original documents.

13.30. Besides the groups identified by SEBI in its order, the inspection identified another 147 sets of addresses on NSDL and 37 sets of addresses on CDSL having more than 20 clients. Major observations in respect of such accounts are as under: 13.31. 798 BO account holders were having common addresses as 23, Payal Complex, Sayaji Gunj, and Baroda. 792 out of 798 accounts were closed and the remaining 6 are under freeze. On random sample check basis of KYC's it was observed that all the account holders have their bank account with TamilNad Mercantile Bank Limited. The address proof given in all cases is a photocopy of the bank passbook. The bank accounts were opened in the joint names of five persons with one Biren Kantilal Shah as the first holder which was common to all the bank accounts.

Photocopy of Voter ID/ Driving license is taken as the identity proof.

These accounts were mainly opened during the month July 2005.

Apparently, these accounts are connected to Biren Kantilal Shah.

Analysis of these accounts shows that the account of Shri Biren Kantilal Shah (Client ID 15530980 with KSBL DP) served as the central point for all other accounts which showed IPO transactions.

13.32. 300 account holders were having common addresses as C/o ABS10 Shriniketan Society Shantinagar Vadaj Ahmedabad. All the accounts have been closed. On random sample check basis of KYC's it was observed that all the account holders have their bank account with Ambavadi Branch of Vijaya Bank at, Ahmedabad. The address proof in these accounts was through a bank letter signed by one Shri S.R. Bhandari, Bank Manager.

The POI and POA submitted by these account holders were the banker's certification obtained from Vijaya Bank. All these banker's certificate were dated mainly on November 20, 2003. The banker's certificate however does not have the photograph of the BO account holder. The photograph is instead pasted on the account opening form and a stamp of Vijaya Bank on the photograph as

attestation is given. These accounts were mainly opened during the month of November 2003. Analysis of these accounts shows that they served mainly as conduits for IPO allotments which were finally credited to the account of Kamal P Zhaveri (apparently related to Parag P Zhaveri) account no. 10004626.

13.33. 198 accounts were opened by Shri Parag Jhaveri and his associates and having common address as A/3 Embassy Apartment Dr V S Road Ambawadi Ahmedabad. 193 accounts have been closed while the remaining 5 have been suspended. On random sample check basis of KYC's it was observed that all the account holders have their bank account with Vijaya Bank at, Ahmedabad. Apparently these 198 accounts belong to Parag Jhaveri and his family members.

13.34. Approximately 76 accounts were having common addresses as Shop No 8 Ratan Palace Pushpa Vihar Hotel Garodia Nagar Ghatkopar (E) Mumbai. All these accounts have been closed by Karvy. On verification of KYC on sample basis it was noticed that the address proof for the permanent address was given as the copy of ration card, while for the correspondence address there was neither a proof nor any letter by the client intimating that they want correspondence at the address other than that of permanent address. The sample KYCs which were verified by the inspection teams were submitted to Karvy DP in August 2004.

13.35. Approximately 185 accounts were having common addresses as Tower Kailas, A Wing Flat A-105, Opposite Odeon Shopping Centre, Ghatkopar (East) Mumbai. All these accounts have been closed by Karvy DP. On verification of KYC on sample basis it was noticed that copies of ration card/driving license had been submitted towards address proof for the permanent address. It was seen that no proof had been submitted evidencing the correspondence address and there were no letters by the clients intimating Karvy DP that they wanted correspondence at the address other than the permanent address.

13.36. Apparently majority of these above mentioned BO accounts at the depositories were brought in by the IPO sub-brokers of the Karvy's IPO distribution arm. Further it was revealed that the correspondence addresses in such accounts were those of these IPO sub-brokers.

13.37. In case of the accounts opened at the address Shop No 8 Ratan Palace Pushpa Vihar Hotel Garodia Nagar Ghatkopar (E) Mumbai, Karvy DP had accepted for the proof of identity the identity card issued by the railways for railway pass which is not a valid proof of identity and hence DP had violated SEBI circular number SMDRP/POLICY/CIR- 36/2000 dated August 4, 2000.

13.38. The observations on the account opening procedures shows that the KSBL as a DP had not exercised proper care and not acted diligently, as warranted under Regulation 20A of SEBI (depositories & Participant) Regulations 1996, while opening of the BO's accounts.

KSBL's enquiry report on the area of account opening had also emphasized on being more diligent in future.

13.39. Inspection findings relating to Delivery Instruction Slips - Karvy-DP 13.40. It was found during the inspection that the issuance of welcome Kit which contains the DIS was decentralized and the Regional Managers were the authorized signatories for issuing the Welcome Kit to the investors. It was noticed that the welcome kit for IPO clients who were referred through the IPO sub-brokers of Karvy contained only single leaf DIS booklets along with the DIS booklet requisition slip. The correspondence addresses in respect of the accounts referred through IPO sub-brokers were those of the IPO sub-brokers. The Welcome Kit were sent to the correspondence address of demat clients and hence went to the IPO sub-brokers.

13.41. It was found during the course of inspection that the DIS issued to various BOs, who had opened the accounts introduced by the sub-brokers under the IPO scheme, were in continuous serial numbers.

13.42. It was seen that these DIS were pre-printed and contained all the material details such as ISIN number, company name, name of the BO, quantity, execution date etc. The verification of DIS revealed that the one person had signed on behalf of the BOs.

13.43. Some transactions were executed where the DIS was not signed by the BO but the DP rectified the same during SEBI inspection. Further, in some cases the signature on DIS and the signature captured in DPM did not match. Hence it appears that the depository participant had not exercised proper care and precautions while processing the DIS.13.44. The above observations show that Karvy DP had not exercised proper care and diligence, as warranted under Regulation 20A of SEBI (Depositories & Participants) Regulations 1996 while executing the DIS.13.45. Inspection findings relating to consolidated payment for various accounts - Karvy-DP 13.46. The inspection of Karvy DP revealed that the DP had accepted third party cheques for dues payable by various BOs. In case of 225 accounts, Karvy DP had accepted a single cheque (Cheque Number 273329 issued by HDFC Bank Navranpura, Ahmedabad) towards their dues.

Similarly in case of 1276 accounts a single cheque (Cheque Number 699328 issued by HDFC Bank, Navrangpura, Ahmedabad) was accepted by Karvy DP. It was further observed that the DP had issued a single receipt in case of the amount paid on behalf of various accounts.

Similarly in various accounts of Panchal Family/group a single consolidated cheque had been deposited by a third party on behalf of these account holders to settle the outstanding dues. Such practices are at variance with the prescribed ones and clearly demonstrate that Karvy DP knew for certain that it was only dealing with Roopalben Panchal or other key operators while purporting to deal with others on paper. Karvy DP knew that the various BO account holders were fake as otherwise they would be facing questions while accepting payment from third parties or their agents or refunding to third party accounts without reference to the account holders, had such account holders been genuine .

13.47. It was further observed that in certain BO's which were having common addresses, the account opening and transaction charges were received in cash. Therefore, it is difficult to determine whether a single entity/person has made the consolidated payments for such accounts having common addresses.

13.48. Inspection findings relating to Special treatment to the accounts referred by IPO sub-brokers 13.49. The DP was encouraging the investors to open more and

more BO accounts especially for the IPO purposes. The charges for these kind of the accounts were very minimal and further the charges on the BO's accounts which were being referred to Karvy by its IPO sub-brokers was very less as compared to the investor who comes directly to open the BO account mainly under the IPO scheme.

13.50. The above findings of inspection by SEBI establishes failure on the part of Karvy DP Ahmedabad and Mumbai branches in exercising due care and diligence in account opening and issuance and processing of DIS. While Karvy DP seemingly complied with the guidelines pertaining to proof of address and identity, exercise of caution while processing the forms would have alerted the DP to the wrong doing on the part of the demat account holders. This has facilitated Roopalben Panchal, Purshottam Budhwani, Manojdev Seksaria and others in opening large number of DP accounts in various names for the purpose of cornering of shares and misusing IPO allotment process.

13.51. The question is whether it is a failure simpliciter or an intelligent feint being in the lead of its own gameplan of chicanery.

13.52. Verification of demat account opening documents of Karvy-DP 13.53. The above inspection findings raised a doubt as to whether Karvy DP really failed to get alerted to the abuse of its systems by Roopalben Panchal and others or whether there was active collusion by Karvy with its clients for abusing the IPO process and for sharing the gains arising from the same. As may be seen from the discussions in the following paragraphs, it appears that Karvy DP having strategised the business plan for wrenching the IPO market, aided, abetted and actively colluded with Roopalben Panchal and other clients by not only opening thousands of dematerialized accounts in fictitious / benami names in gross disregard of KYC norms and providing / arranging IPO finance to these benami / fictitious entities but also by indulging in fabrication of documents to cover the tracks.

13.54. SEBI guidelines relating to opening of demat accounts 13.55. SEBI vide circular dated SMDRP/Policy/CIR- 36/2000 dated August 4, 2000, has prescribed detailed procedure to be followed by all depository participants at the time of

opening beneficiary account. The said circular prescribed the documents which can be accepted by the DPs for the purpose of proof of identity and proof of address. In respect of proof of identity the documents prescribed are PAN Id, Voter Id, Ration Card, Passport etc and for proof of address the documents prescribed are Telephone Bill, Electricity bill etc. Subsequently, vide circular ref: MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004 SEBI stipulated that an identity card / document issued by Scheduled Commercial Banks containing the applicant's photo / address may be accepted as POI and POA. The circular further clarified that "the aforesaid documents are the minimum requirement for opening a BO Account. The Depository Participants (DPs) must verify the copy of the document with the original before accepting the same as valid. While opening a BO Account, the DPs are required to exercise due diligence while establishing the identity of the person to ensure the safety and integrity of the depository system."

13.56. All depository participants are required to comply with procedures prescribed in the said circular while opening any client account to ensure that none of the accounts are opened without obtaining valid proof of identity and proof of address. Thus, the primary documents essential for opening client account with depository participant are proof of identity and proof of address. Therefore, every depository participant should exercise utmost care, due diligence while opening beneficiary accounts in terms of compliance of the circular to ensure that benami accounts are not opened. All the documents submitted by the applicants should be verified with the original documents and only upon satisfaction of the authenticity of the documents submitted that depository participant should proceed with opening clients account.

13.57. Approaches to opening of demat accounts by DPs 13.58. Depository Participant generally adopts any of the two approaches stated below for processing accounting opening form.

1. Centralization of account opening 2. Decentralization of account opening.

13.59. In the centralized approach, all the account opening forms are collected at various branches termed as "collection centres". The collection centres receives the applications forms and verifies for the proof of identity and address along with

the original documents and affixes the stamp "Verified with Original" on the photocopies attached with the account opening forms. Thereafter, collection centers after satisfying with the requirements of the account opening forms, gives acknowledgment to the applicants across the counter.

13.60. Subsequently, the applications are entered in their back office system which is integrated with the Head Office and all the data entered are electronically transferred to the HO. Thereafter, physical applications forms are sent to the HO for verification and opening of client account. HO re-verifies (Maker - Checker) the documents with the data received through back office and then uploads / enters the data in the DPM (Depository Participant Module) which is live terminal having direct connectivity with the depository system. The data is uploaded in the depository system for generation / activation of the client account number.

13.61. Thereafter, Depository Participant dispatches the account opening kit along with the Delivery Instruction Slip (which is similar to cheque book in Bank terminology) and delivers at the address mentioned in the account opening form or hands over personally to account holder.

13.62. In the decentralized approach The procedure followed would be exactly similar to centralized processing of account opening form except that all the accounts are verified and uploaded at the DPM ((Depository Participant Module) available at the branch itself. In other words, decentralization would mean processing of application at branch of the depository participant which has separate DPM set up by the depository. In order to have a DPM, permission of Depository is required. The client account opening forms are either kept at respective branches or sent to the Head Office.

13.63. It is observed that Karvy DP follows both decentralized and centralized processing of account opening - Decentralized processing in respect of NSDL and centralized processing in respect of CDSL.

13.64. The compliance of the account opening formalities prescribed by SEBI shall be effective only when the person who receives the applications at the collection centre is well versed with the requirements of account opening formalities.

However, in cases where persons handling the account opening are not conversant with the DP operations (which is possible if the personnel of broking or other activities are used for the purpose of DP operations), there is always a possibility of laxity in supervision, control etc with the concomitant incidence of brazen non-compliance. Therefore, in order to make the depository participants responsible, Regulations 46 of DP Regulations provided that every participant shall have adequate mechanism for the purposes of reviewing, monitoring and evaluating the participant's internal accounting controls and systems.

13.65. Examination of documents relating to demat accounts opened by Karvy DP

13.66. Based on the information obtained from the depositories it is seen that Karvy DP has opened demat accounts in large numbers on a few days and the details are as below:

Sr. No.	Date of opening	Address	Number of demat accounts opened in CDSL	Number of demat accounts opened in NSDL
1	April 20, 2004	803, Abhijeet I Mithakhali Circle, Ellisbridge, Ahmedabad (same as Sugandh Estates)	402	403
2	October 15 - 25, 2004	403, Shashwat, Opp Gujarat College, Ellisbridge, Ahmedabad - 380006 (same as Roopal Panchal)	2,385	C/o. SEIPL, G-1, Devpath Complex B/h. Lal Bunglow, Ahmedabad. (same as Sugandh Estates)
3	October 15 - 25, 2004	C/o. SEIPL, G-1, Devpath Complex B/h. Lal Bunglow, Ahmedabad. (same as Sugandh Estates)	4,241	Office No 403, Shashwat Bldg nr. Hotel Kanak Ellisbridge Ahmedabad (same as Roopal Panchal)
4		307, Shashwat Opp Gujarat College, Ellisbridge, Ahmedabad (same as Roopal Panchal)	5,000	406, Shashwat Opp Gujarat College, Ellisbridge, Ahmedabad (same as Roopal Panchal)
5		403, Shashwat, Opp Gujarat College, Ellisbridge, Ahmedabad- 380006 (same as Roopal Panchal)	402	403, Shashwat, Opp Gujarat College, Ellisbridge, Ahmedabad- 380006 (same as Roopal Panchal)
6		403, Shashwat, Opp Gujarat College, Ellisbridge, Ahmedabad- 380006 (same as Roopal Panchal)	402	403, Shashwat, Opp Gujarat College, Ellisbridge, Ahmedabad- 380006 (same as Roopal Panchal)
7		B/2 Himalaya Asalaya Ghatkopar, W, Mumbai. (same as Purshottam Bhudhwani)		
8		Niketan Maheshwar, 33, Peddar Road, 5B (same as Manoj Sekseria)	1,025	
9	August 5, 2005	68, Samashta B Society Opp Pinakin Soc Paldi, Ahmedabad (same as Ketan Atul bhai Doshi)	3	
10		Payal Complex, Sayajigunj, Paldi, Baroda, 3900053 (same as Biren Kantilal Shah)	387	B/2 Himalaya Asalaya Ghatkopar, W, Mumbai. (same as Purshottam Bhudhwani)
11		C/o. SEIPL, G-1, Devpath Complex B/h. Lal		

Bungalow, Ahmedabad. (same as Sugandh Estates) Office No 402, Shashwat Bldg, Nr. Hotel Kanak Ellisbridge, Ahmedabad (same as Roopal Panchal) 10,000** Total 37,105 ** - accounts opened but not activated. Probably were meant to be used later In respect of the above stated accounts, it is seen that 18,347 accounts have been opened on CDSL on only 4 days during the period of July 15, 2005 to July 22, 2005.

13.67. It is seen that many dematerialized account-holders of Karvy DP share a few common bank accounts. A bank-wise breakup of the accounts held by the demat clients of Karvy DP is given below: Sr.No Number of Karvy DP clients Bank account held with Number of Bank Accounts 1 819 Karvy DP clients on NSDL Sr.No Number of Karvy DP clients Name of the Bank Tamilnadu Mercantile Bank 51 390 13.68. From the above it is seen that numerous demat clients of Karvy DP were sharing a few common bank accounts.

13.69. As advised by SEBI, CDSL and NSDL submitted the account opening documents collected by them during the course of their inspection of Karvy DP. CDSL submitted 204 account opening forms and NSDL submitted 11 account opening forms. Based on the scrutiny of the account opening forms it is seen that majority of the account opening forms have only one enclosure for the purpose of proof of identity and address i.e.

letter from Bharat Overseas Bank, Vijaya Bank or HDFC Bank with name, address, account number and photograph of the client attested by a bank official 13.70. In order to verify the authenticity of the bank letters, SEBI officials visited Bharat Overseas Bank Ltd, Goregaon Branch and Worli Branch on February 16, 2006 and March 4, 2006 respectively and the statement of the branch incharge of these branches were recorded. Shri R Srinivasan, Officiating manager, Bh OB, Goregaon Branch, in his statement to SEBI on February 13, 2006 inter alia replied as below: 9. You are now shown the demat account opening form of Karvy consultants Ltd.of AB Mehta (271026), A lalitha Kumari (32611), Babu Nanji Patel (227029) wherein one of the documents enclosed i.e.

letter dated July 18, 2005, February 8, 2004, July 18, 2005 respectively were signed by your branch letter head. Kindly comment the authenticity of these

letters? Ans: The letters are not issued by our branch nor there is any official in the name of the signatory i.e. Deshmukh. Besides, it is not in our standard letterhead. The copy of the sample letter head is submitted for information.

10. I am showing you a list of few demat account holders, holding their respective demat accounts with DP Karvy. All these account holders have indicated that their bank accounts are held with your branch. I am showing you the bank accounts numbers purportedly held with your branch. Please Confirm? Ans: We have checked the sample accounts and found that some of them do not exist, whereas others that exist have photographs, address and signature (that) differs from the one shown to us. It was observed that the accounts which are existing have been ...

introduced by Karvy Consultants.

13.71. Thus it is seen that the bank official has denied having issued the letters that had been accepted by Karvy DP towards POI and POA for opening of demat accounts. Besides the bank official has pointed out various discrepancies and stated that the stationery of their banks is totally different and also submitted a specimen copy of their Bank letter head. It is further seen that some of the bank accounts indicated against the demat accounts held with Karvy did not exist and in some cases where they existed the bank accounts had been introduced by Karvy Consultants. Thus, it is clear that the bank letters that had been accepted by Karvy DP towards POI and POA for opening of demat accounts are fabricated documents.

13.72. It is significant that in respect of those account holders who had their bank accounts with Bh OB, the photographs on the bank account opening forms are different from that affixed on the bank letter head that was accepted by Karvy DP for opening demat accounts. This indicates possible fraud or misuse of photographs at the end of either the DP or the Bank. Examination of the documents such as ration card, election card that are enclosed to the bank account opening forms shows that the photographs affixed on the ration card, election card which were accepted by the bank towards POI matches with the photographs affixed on the bank account opening forms thereby indicating that the

documents with the bank are in order thereby casting a doubt on the genuineness of the documents with Karvy DP, purported to have been submitted by the said branch.

13.73. On March 4, 2006 SEBI recorded the statement of Shri S V Rajan, erstwhile branch manager of Bh OB, Worli branch. He inter alia stated as below: 5. During your tenure, please state briefly how these groups (Roopalben Panchal group, Kantibhai group, Mukesh Popat group, Parag Jhaveri group) were introduced to your branch and which was the first group which availed IPO finance? All the groups stated above are introduced by Karvy. In respect of Mukesh Popat Group, they have approx 200 savings accounts in the Worli branch, all of which have been introduced by Karvy including the related documents for complying KYC norms of the bank. In respect of Roopal Panchal Group, Kantibhai Group, Parag Jhaveri Group savings accounts were already being maintained at our Ahmedabad Branch introduced by Karvy (along with documents for compliance of KYC norms) during my tenure as branch manager of Ahmedabad Branch.

6. Please provide details of the accounts number of these groups along with the account opening forms available at Worli branch? AOF of these groups are being submitted. The details of the accounts are as follows.

Name of the account holder Account number
Roopal Panchal and Devengi Panchal 8.100.17394
Parag B Jhaveri and Kamal Jhaveri 8.100.19883
Kirit Jhaveri and Shripal Manubhai Jhaveri 8.100.19904
Kamal P Jhaveri and Parag Jhaveri 8.100.19890
200 account (already submitted)

7. What is the process / methodology for any client who wish to avail IPO finance from your branch and also explain the guidelines if any prescribed by your Head Office? As per HO instructions, we are permitted to finance persons who are having Demat accounts with Karvy. The first IPO financed by worli branch was indraprastha Gas Ltd.on December 3, 2003. For IPO Financing, we do not entertain any clients directly other than through Karvy consultants. For each and every IPO Funding, HO issues sanction letters; copies may be obtained from the branch.

For IPO financing, the funds are allocated for each issue branch wise by Head Office in consultation with Karvy based on which Karvy provides the loan applications . Thereafter after ensuring that the margin money has been provided for each applicant in the pooling account, single loan comprising of number of applications multiplied by the amount financed is also credited to the pooling account. The details of individual applicants are given in the form of email or floppy by the respective groups. The details include, serial number, share applications number, name of the party, demat account number, no of shares applied, margin money provided, loan amount requested and the banker cheque number. Thereafter, individual pay order are prepared to the debit of the pool account and handed over to the representative of Karvy.

After complying with the terms and conditions of sanction, the list of applicants financed are used to be sent to HO and to Karvy by way of email to mark our lien.

As regards refund of IPO, HO gets the refund for all branches and then transfers the funds pertaining to individual branches with instruction to recover the loan dues from the same.

8. Have you followed the above procedure in respect of IPO, yes Bank and IDFC Ltd. 9. As per the instructions of HO vide letter dated June 13, 2005, it was noted that every branch should verify that the bank details are properly mentioned in the application form, applicants SB account with BOBL must be mentioned, address should be of Bharat Overseas Ltd. Likewise other detailed procedures have been prescribed. Kindly confirm whether you have followed the same and physically verified the applications form.? Since the share applications are handled by Karvy and (due to) volume nature of transactions, inadequacy of staff and considering the pressure involved in completing the entire process within a day or so, the physical verification of individual share applications / documents could not be carried out and relied on Karvy for correctness of the documents provided. Further, we are also not trained and conversant with the procedures to be followed for demat related transactions.

10. Please state whether Roopal panchal and other groups have directly approached your branch to avail the finance. In case they have not approached,

please explain how your branch financed them.

It has been observed that in respect of Yes Bank and IDFC Ltd, your branch has sanctioned around Rs. 23 crores and Rs 7.45 crores respectively and margin money towards the loan sanctioned was brought by Roopal Panchal, Mukesh Popat and Jhaveri implying that loan is being availed only by these entities. However, it was observed that you have issued 9735 individual pay orders in case of Yes Bank and 3539 individual pay order in case of IDFC. Please explain the due diligences exercised by you while issuing so many pay orders and handed over the to representative of Karvy especially when it was observed that you have not complied with the instructions of HO regarding the processing of IPO financing as replied above.

The branch has not sent any request for sanctioning loan for IPO financing. Branch was also not in the know how of basis / level of exposure the Bank was taking and the details of branches and the basis on which allocation was being done. The branch used to receive only the amounts of funds allocated for a particular IPO issue from the HO. Copy of the sanction letter from HO, may be obtained from the branch from which you will find that HO has not clearly mentioned the individual applicants to whom the branch should lend.

The practice was and which was being followed in earlier years with which the branch was comfortable right from identifying the applicant till the closure of the loan account from the past dealing that the branch will entertain the applicants sponsored by Karvy purely based on the fact that the applicants were maintaining demat accounts with them.

In this case, Roopal panchal and other applicants had individual demat account with Karvy as per the details of applicants furnished to branch as an attachment to the email from respective groups.

The branch after satisfying that the applicant have a demat account with Karvy extended the IPO finance to these groups. We have obtained individual loan application, demand promissory notes for the loan amount, lien authorization and letter to karvy for marking lien and sale of shares to recover the outstanding if any.

However, only one loan account was opened for administrative and other reasons mentioned elsewhere in this statement. In this way I have ensured due diligence.

11. You have replied in the above question that you have ensured that the group entities have opened demat account with Karvy. Please confirm how you were able to confirm the same, when the list forwarded to you by group only contained only details of the clients account no and the DP ID. e.g IN300094 14352341 and 1301440000040399 and does not have mention about the depository participants? From our past experience having handled more than 5 IPO with through karvy with average funds outlay of Rs 4 to 5 crores from the DP ID, we could know that it has emanated from Karvy.

12. You are now shown the demat account opening form of Karvy consultants Ltd.of A Jitendra Mehta, J Rasmikant Doshi, B Haresh Doshi, B Dhomi Patel wherein one of the documents enclosed i.e.

letter dated July 18, 2005 respectively were signed by your branch letter head. Kindly comment on the authenticity of these letters? The letter shown is not in our branch letter head. There is no authorized signatory in the name of B R Deshmukh in the bank rolls.

13. You are now shown the few demat accounts, holding their respective demat accounts with DP Karvy. All these accounts holders have indicted that their bank accounts are held with your branch. I am showing you the bank account numbers purportedly held with your branch. Please Confirm I have checked the sample accounts and found the account number in the demat account opening form are maintained with the branch ie 16088, 16628, 16569, 16590, whereas photographs maintained in the branch records and that is affixed in the demat account do not match.

13.74. From the above statement of the official of BHOB it is seen that Karvy DP had played a central role by introducing bank accounts to BHOB, opening demat accounts and arranging IPO finance for the fictitious/benami entities. Admittedly no independent verification was done by BHOB and it had relied on Karvy DP for this purpose.

13.75. Based on the information obtained from BHOB Worli and Goregaon branches, it is seen that there were various groups like Roopal panchal group, Mukesh group, Jhaveri Group, at Worli branch which represented various clients. Similarly, Dharmesh Mehta and Dhaval Katakia groups represent for various clients at Goregaon branch. It appears that many of the clients represented by the above groups are not genuine, although claimed to be 'friends and relatives' of the key operators. For the sake of convenience the clients have been categorized as groups.

These groups have introduced various bank accounts primarily for the purpose of availing IPO finance. Further, all mandatory documents for the purpose of opening savings and beneficiary accounts have also been routed through the key operators. Besides, the margin money for the purpose of IPO finance for the clients they represent has also been arranged by the key operators. Thus, they had control over the savings bank accounts and demat accounts introduced by them. A summary of savings and beneficiary accounts of the clients represented by these groups is given below.

No of savings accounts (approx) Noofdemat accounts (approx) Mukesh Group (BHOB Worli Branch) 180 Dharmesh Katakia Group (BHOB Goregaon Branch) 175 Dharmesh Mehta Group (BHOB Goregaon Branch) 400 13.76. In order to ascertain whether Karvy had indeed introduced the savings account to BHOB Worli and Goregaon branches, SEBI recorded the statement of Shri Avinish Shukla, Deputy General Manager, Karvy Stock Broking Ltd, Mumbai office on March 7, 2006. He inter alia stated as below: 4. Please state whether you have dealt with Bharat Overseas Bank Ltd, Goregaon Branch and Worli Branch in the Past. If so reasons thereof? Ans: Yes, we have dealt with BHOB Goregaon and Worli Branch. Since all the clients were having demat accounts with Karvy, we were told to introduce savings accounts for the said clients of sub brokers.

Therefore, we introduced all the saving bank accounts with the Karvy Stock Broking Pvt. Ltd, stamp, as per bank instructions.

13.77. Thus it is clear that Karvy DP had indeed introduced the savings account of its demat clients to BHOB Worli and Goregaon branches.

13.78. From the above statement of the official of Karvy DP, it is seen that there was a tweak in the sequence of account opening. Normally the opening of bank account precedes the opening of demat accounts where the bank has provided letters towards POI and POA for opening demat accounts. The official Karvy DP has claimed that Karvy introduced the savings bank account since the demat accounts existed with them. This leads to the inference that the bank accounts did not exist at the time of opening of demat accounts. Thus it follows that the bank letters purportedly accepted by Karvy DP towards POI and POA for opening demat accounts could not have existed at the time of opening of demat accounts. This twist in the sequencing carries its ominous portents regarding the role of Karvy DP in the thickening plot.

13.79. SEBI also examined some of the major clients who had been given IPO finance by Bh OB Worli and Goregaon branches. Accordingly SEBI on March 27, 2006 recorded the statement of Shri Dharmesh B Mehta who alongwith his 'friends and relatives' had 400 bank accounts with Bh OB Goregaon branch and 875 demat account with Karvy DP. He inter alia stated as below: 4. Please provide the list of documents given by you for the purpose of opening th above said bank accounts and also comment your relationship with Karvy.

In 2003-04, being a sub-broker, Karvy marketing people approached me and my friends for opening demat account with them. They have also informed that they can arrange IPO finance with some of the banks know to them. Keeping our future requirement of IPO applications and IPO finance, we have given them given all document with respect to opening demat account and bank account with BHOB to Karvy's personnel and bank personnel. Some of the bank account opening forms were directly delivered by some of our group members to the BHOB Goregaon branch. The Karvy Personnel got opened for all of us demat account with NSDL / CDSL. Bank account with BHOB Goregaon Branch were opened simultaneously. In 2005, we used these accounts for the purpose of making IPO application the issue of Yes Bank and IDFC. These savings accounts / current accounts have been opened mainly for the purpose of availing finance for IPO applications. As regards the documents for opening these savings / current accounts such as PAN card copy, Ration Card copy and photographs required for the purpose of opening

accounts have been submitted to Karvy and also to Bh OB. 6. You are now shown the demat account form of some of your friends / relatives stated above bearing account no. 1301440000030821 (Ahire Y L), 1301440000032911 (Ahire Yogesh Kumar L), 1301440000032611 (A Lalitha Kumari), 1301440000040327 (A A Shiek) of CDSL. Please confirm whether the photograph attached in the applications and the name stated in the application are of the same person. Further, please confirm whether you have submitted the bank certificate enclosed with the said demat application forms.

I have seen the above stated demat application forms and to the best of my knowledge and belief that the photographs attached in the demat account opening forms are not of the persons (who are my relatives / friends) named in the application. The actual photographs of the persons mentioned in the demat application form are available in the bank account opening form with BHOB Goregaon (which was submitted by us). As regards the bank certificate of BHOB enclosed along with the demat opening forms are not submitted by us while opening of the demat account. Further, no such request for issue of such letters shown to me from the BHOB Goregaon branch was made by us at any point of time.

...

8. What is your relationship with M/S. Welvet Financial Advisors Ltd. and transactions with them.

M/s. Welvet Financial Advisors Ltd. have approached us for lending us money in subscribing for IPO. They have lent me Rs.78 lakhs for the purpose of making margin for retail application to my group.

After getting allotment of IDFC, we have transferred 43,000 equity shares of IDFC as per their instruction and balance amount of Rs.64 lakhs returned by cheque payment.

...

11. Please confirm whether you are registered primary market sub-broker of Karvy. Do you have any other relationship with Karvy in secondary market operations.

Yes, one of us are registered with Karvy as sub broker for the purpose of primary market issues.

13.80. The above statements of Shri Dharmesh B Mehta further confirms that the bank letters accepted by Karvy DP towards POI and POA for opening demat accounts were fabricated and were apparently not submitted by the clients.

13.81. Also Shri Dharmesh Mehta has stated that the photographs on the bank letters are not that of the persons named in the letters. This is not possible if the bank had indeed introduced the demat clients.

13.82. Shri Dharmesh Mehta has also stated that Karvy personnel approached him for opening demat accounts and bank accounts and the personnel took the relevant documents from him. This leads to the possible inference that the documents may have been fabricated by the DP itself after opening of demat account merely to show seeming compliance with the KYC requirements prescribed by SEBI. The examinations in the later part of the order revealed that this was indeed the case.

13.83. Also it may be noted that in the earlier part of this order Dharmesh Mehta and Velvet Financial Advisers Pvt. Ltd. have been identified as one of the master account holders and a financier of the master account holders respectively.

13.84. The statement of Dhaval Katakia who represents 175 bank accounts with BHOB, Goregaon Branch and 675 demat accounts with Karvy DP was recorded by SEBI on March 27, 2006. He inter alia stated as below: 4. Please provide the list of documents given by you for the purpose of opening the above said bank accounts and also comment your relationship with Karvy.

In 2004, Karvy marketing people approached me and my friends for opening demat account with them. They have also informed that they can arrange IPO finance with some of the banks know to them. Keeping our future requirement of

IPO applications and IPO finance, we have given them given all document with respect to opening demat account and bank account with BHOB to Karvy's personnel and bank personnel.

Some of the bank account opening forms were directly delivered by some of our group members to the BHOB Goregaon branch. The Karvy Personnel got opened for all of us demat account with NSDL / CDSL.

Bank account with BHOB Goregaon Branch. In 2005, we used these accounts for the purpose of making IPO application the issue of Yes Bank and IDFC. In order to reduce our cost of applications we had requested Karvy to make one of our group members as a sub-broker and take the brokerage for the allotment made to our group.

These saving accounts / current accounts have been opened mainly for the purpose of making IPO applications. As regards the documents for openig these savings / current accounts such as PAN card copy, Ration Card copy and photographs required for the purpose of opening accounts have been submitted to Karvy and also to BHOB. ...

6. You are now show the demat account form of some of your friends / relatives stated above bearing account no. 1301440000507106 (Hari Jaiswar), 1301440000036502 (Dange V D), 130440000040399 (J R Rathod), 1301440000271877 (B Z Khan), 1301440000506267 (Hari G Jaiswar) 1301440000271026 (A M Ghosaliya) of CDSL. Please confirm whether the photograph attached in the applications and the name stated in the applications are of the same person. Further, please confirm whether you have submitted the bank certificate enclosed with the said demat application forms.

I have seen the above stated demat application forms and to the best of my knowledge and belief that the photographs attached in the demat account opening form are not of the persons (who are my relatives / friend) named in the application. The actual photographs of the persons mentioned in the demat application form are available in the bank account opening form with BHOB Goregaon (which was submitted by us). As regards the bank certificate of BHOB

enclosed along with the demat opening forms are not submitted by us while opening of the demat account. Further, no such request for issue of such letters shown to me from the BHOB Goregaon branch was made by us at any point of time.

13.85. Thus it is seen that the statement of Shri Dhaval Katakia is similar to the claims made by Shri Dharmesh Mehta and confirms the complicity of Karvy in the entire scheme of things.

13.86. SEBI recorded the statement of Alpesh Lakhani who represents for 180 banks accounts with BHOB Worli branch and 400 demat accounts with Karvy DP. He inter alia was stated under.

6: You are now show the demat account form of some of your friends / relatives stated above bearing account no 1301440000243387 (B Haresh Doshi), 1301440000243431 (A Jitendra Mehta), 1301440000244021 (J Rasmikant Doshi), 1301440000243923 (B Danji Patel), 13014400000246485 (B Chimanlal Sanghavi), 13014400000246029 (B S Mandaliya), 13014400006245992 (A Hiralal Mehta), 1301440000244454 (J Pravin Chandra Shah), 1301440000244868 (J Sohanlal Jain), 1301440000244129 (C Chimanlal Lakhani) of CDSL. Please confirm whether the photograph affixed in the demat applications and the name stated in the application are of the same person and also comment on the bank certificate issued by BHOB Worli which is enclosed with the above stated demat application forms? I have seen the above stated demat application form and to the best of my knowledge and belief that the photograph's attached are not of the persons (who are my relatives) named in the application. The actual Photographs of the persons mentioned in the application form are available in the bank account opening form with BHOB worli (which was submitted by us) As regards the bank certificate of BHOB enclosed to the demat opening forms are not submitted by us while opening the demat account nor any such request for issue of such letters from BHOB Worli was made by us at any point of time.

13.87. From the above, it is apparent that bank letters accepted by Karvy DP for POI and POA were not submitted by the clients at the time of opening the demat

account with Karvy DP. Further, the Bank has also denied having issued any such letter. Therefore, in light of the denial by the clients regarding the submission of bank letter as proof of identity / address while opening demat accounts and also the denial by the bank of having issued such letter, the most likely inference is that the bank letters may have been fabricated at the end of the DP.13.88. In order to further ascertain the factual position in what was becoming a tangled skein, the documents relating to various demat accounts of Karvy DP wherein bank letters had been accepted as POI and POA were taken up for further scrutiny.

13.89. Based on the contents of the bank letters accepted by Karvy DP towards POI and POA, it is seen that these bank letters contained details such as name of the account holder, bank account number, address of the account holder etc on the Bank letter head and the letters were purportedly signed by a bank official. The details of the name and address as mentioned in the bank letter heads were compared with the data as available on the bank saving account opening form of clients wherever such details were submitted by the bank. It is seen that the address as mentioned in the bank application does not exactly match with the details in the bank letter. For example the saving bank account number 23.100.66707 is held on the name of Harilal Bhai G Jaiswar and address available on bank records, is Kailash Plaza Bldg, No 126, Near Kar Ke Ras Hotel Above ICICI Bank, Ghatkopar (e), Mumbai - 400 075. However, the name as mentioned in the bank letter dated August 26, 2005 enclosed with the demat account opening form (1301440000507106) is HARI JAISWAR and the address that is mentioned is PAHELA MALA, ROOM NO.10/5 WING-A,RAMNARAYAN NARKAR ROAD GHATKOPAR EAST MUMBAI 400075. The savings bank account number of the demat account holder is mentioned as 2310066707. Thus, it is seen that the address of the applicant as per bank records is different from what is mentioned on the bank letter. There are several such instances of mismatch.

13.90. Normally when a customer requests a bank to issue verification letter the bank would issue the letter with details of name, address and other details as per their records. However, as mentioned above the address of the client on the forged bank letterhead and the address as per bank records are different. This further shows that the letter accepted by Karvy DP for POI and POA were not

issued by the bank.

13.91. With a view to further exploring the arcane details in the esoterics of Karvy's elaborate design effectively camouflaged to pass muster, SEBI compared the details as mentioned in the fabricated bank letter with the data as appearing in the depository system. It is seen that all the details like name , address and bank account number in the fabricated bank letter exactly matches with the data available on the depository system, including minutiae like capital letter, space, comma, full stop etc. For instance the name of a client as appearing in depository system is HARI JAISWAR. This exactly matches with the name appearing on the bank letter. It is significant to note that even the full stop which is appearing after Jaiswar also matches and name is also in capital letter just as entered in the depository system. Fur ther the address also matches including comma, space etc. For example one "ROOM NO.10/5 WING-A, RAMNARAYAN" appearing in the depository system has full stop after NO with no space; similarly there is no space between WING-A, RAMNARAYAN. The address mentioned in the bank letter is also exactly in the same format, with the same characteristics in terms of minutiae making it appear like a carbon copy.

13.92. From the above it can safely be concluded that the bank letter has been generated after the demat account has been opened because unless the data is entered in the depository system, it would not have been possible to download the said details for generating the fabricated documents containing details of account holders that matches exactly with that of the depository system in a carbon copy fashion.

The said observation is corroborated by the fact that Karvy DP had downloaded the details of the BO holders from the depository (which would have served as the basis for generation of the fabricated documents) many times around the time when large number of demat accounts were opened by Karvy DP and the details thereof are discussed in the succeeding paragraphs.

Downloading of data from the depository system by Karvy DP 13.93. In NSDL the data resides in the nodes / terminals of DPs, and hence is directly accessible to the DPs. In the depository system of CDSL, wherein the depository data is stored

in a central server maintained by CDSL, there is a provision for Depository Participant to set up request to download the data of BO holders for any specified period. The report thus set up is called DAP5 report. It has been observed that Karvy has set up this report 5 times in the month of July 2005, which is the same period when maximum number of accounts were opened. The details of the CDSL demat accounts opened by Karvy DP during July 2005 where BHOB is the banker is as follows.

TABLE 13.93 Karvy DP CDSL demat accounts with BHOB as Banker Name of Bank Date of account opening No. of account opened
Bharat Overseas Bank Ltd Ahmedabad (AMB) 17,017
Bharat Overseas Bank Ltd Ahmedabad (AMB) 13.94
Bharat Overseas Bank Ltd Goregaon (GON) 13.94
Bharat Overseas Bank Ltd Worli (WLI) 13.94
Bharat Overseas Bank Ltd Ahmedabad (AMB) 13.94
Total 17,017 13.94. From the above, it is seen that Karvy has opened 17,017 accounts in the month of July 2005.

13.95. The details of the report DAP5 set up by Karvy DP during the above period, as provided by CDSL, is given below.

Report Name 13.96. It may be mentioned that mere downloading of data from the depository system, which can also be for routine purposes, cannot be faulted. However in view of the existence of a host of material circumstances corroborating that such fake letters have not emanated either from the bank or the parties, and approvingly accepted by Karvy DP, it stands to reason that Karvy DP has downloaded the account holder data from the depository system to facilitate fabrication of bank letters. This view is supported by the fact that the Bank address as appearing on the bank letter head exactly matches with the data available on the depository system, including several of the minutiae.

13.97. As per the existing system in CDSL, the depository system automatically picks up the address of the bank based on the MICR details entered in depository system by the depository participant.

Thus this information is not entered by the DP. It is seen that in respect of various BO IDs such as 1301440000227086, 1301440000247121, 1301440000271877,

1301440000040327, 1301440000271026, 1301440000040399,
1301440000032911, 1301440000030821, 1301440000503901,
1301440000507106, 1301440000506267, 1301440000036502,
1301440000227029, 1301440000271653, 1301440000032611 and numerous
other BO IDs which have been detailed in later paragraphs, the address of the
Bank as mentioned in the forged letterhead matches exactly with that in the
depository system as picked up from the MICR details which confirms that the
data of bank address given in the forged letterhead has been picked up from the
depository system. Further, the perfect matching of the bank details including
minutiae between that in the depository system and as mentioned in the forged
bank letter shows that the bank letters could not have existed at the time of
opening of demat accounts as the details in the depository system including the
bank MICR details can be picked up only after the opening of demat account. This
further shows that the bank letters were an after thought for documenting the DP
account and make a false appearance of having complied with the KYC norms
prescribed by SEBI for opening of demat accounts.

13.98. Since there is exact matching of data mentioned in the fabricated letter including comma and spelling mistake etc, with the data in the depository system including the address of the bank, it can be concluded that the fabrication has happened at the end of depository participant for the reason that the data entered in the depository system is available only to the depository or the depository participant. In my view, the depositories in the process have allowed themselves to be used in active manipulation of data by the DP and none of their inspections on DPs have shed any light on the same, thereby making them a party to the whole episode. Further, the depositories and DPs share an agent - principal relationship and the depositories cannot escape responsibility for the acts of the DPs .

13.99. Based on the scrutiny of the 25 sample demat accounts which have saving accounts of BHOB Goregaon (15) and Worli branch (10), it was observed that all of the demat account opening forms had bank letters (which is fraudulent) as enclosure and also had photographs different to the photographs on the saving account. Thus, it appears that the various demat accounts opened with bank letters from BHOB, Worli and Goregaon as proof of identity and address would

have photographs different from the photographs affixed on the savings accounts. The details of the no. of savings accounts of BHOB Goregaon and Worli branch, which have been used for the purpose of opening multiple demat accounts are mentioned in the table below.

Remarks No of saving account No of demat account approx NSDL 13.100. Since the photographs on the fabricated bank letter heads is different from the photographs on the bank's savings account documents, it appears that the demat account opening forms originally did not carry photographs of the clients when the accounts were opened by Karvy DP. Subsequently in order to seemingly comply with the KYC norms laid down by SEBI, it appears that the bank letter heads were forged and the photographs were affixed on both the bank letters and the demat application forms. Thus, it appears that Karvy DP has done post-event documentation as an afterthought, perhaps in the wake of SEBI enquiry, to set the records straight for a possible scrutiny.

13.101. While Karvy DP can possibly claim that its clients had submitted the forged bank letters at the time of opening of the demat accounts, such claim cannot be accepted since the demat client information (including the address of the bank as per MICR data) mentioned in the fabricated bank letters matches exactly with the data in the depository system while the data in the depository system is available only to the DP and the depository. It follows that the fabrication could have happened only at the end of the DP with the connivance of depository.

13.102. It appears that Karvy DP in connivance with Roopal Panchal and other groups had managed to arrange the photographs which was affixed on the demat application form and the forged bank letter. In this context it is noted that as per press release of CBI on February 22, 2006, "CBI has found that the main accused persons created fictitious accounts by procuring photographs of a large number of people. For example, Ms. Roopalben Panchal had inserted advertisements offering to photograph people free of cost. She used these photographs and false names to open bank accounts and D-mat accounts." 13.103. In this context I note that a Karvy group company is also a registrar (RTI) located at the same address as that of Karvy DP. RTIs normally have the necessary software / infrastructure to

cull out information from any database and also print the letters as registrar employs the same technique to weed-out invalid applications in IPOs and to print refund orders. Further it is seen that Karvy has given special treatment / privileges to the these groups as could be observed from the issue of loose slips to Roopal Panchal / Purshottam Bhudwani / Manoj Seksaria on behalf of the various clients they represent thereby facilitating the execution of the off market transfers from the demat accounts of these benami / fictitious entities to the master account holders. Further as detailed in later paragraphs, as per the bank account statements, there is a credit of Rs 1.19 crores from the account of Sugandh Estates and Rs 29 crores from the account of Roopal Panchal into the account of Karvy DP. Also as detailed in later paragraphs, in respect of various fictitious / benami account holders who had their bank accounts with BHOB Worli and Goregaon, based on the bank transaction statement, it appears that margin funding was done by Karvy, for certain clients.

13.104. Karvy DP clients - BHOB GOREGAON BRANCH 13.105. It is seen that Karvy DP has introduced about 1430 savings accounts with Bh OB Goregaon branch. A random sample of 15 demat account opening forms where the dematerialized account-holders had their bank accounts with BHOB Goregoan were taken up for detailed scrutiny and the following observations emerge therefrom: Sr. No.Saving account does not exist with bank.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

2 Photograph affixed on bank account and demat account are different.

Signatures on both bank and demat account are same.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Saving account exists and was introduced by Karvy Stock Broking Careful Examination of the contents of the

letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, smallletter / capital 3 Saving account does not exist with bank.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

4 Saving account does not exist with bank.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

5 Saving account does not exist with bank.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available Demat account opened based on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

6 Photograph affixed on bank account and demat account are different.

Signatures on both bank and demat account are same.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Saving account exists and was introduced by Karvy Stock Broking Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling

mistake, small letter / capital letter.

7 Saving account does not exist with bank.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

8 Photograph affixed on bank account and demat account are different.

Signatures on both bank and demat account are same.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Saving account exists and was introduced by Karvy Stock Broking Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

9 Saving account does not exist with bank.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

10 Photograph affixed on bank account and demat account are different.

Signatures on both bank and demat account are same.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Saving account exists and was introduced by Karvy Stock Broking Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches

with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

11 Photograph affixed on bank account and demat account are different.

Signatures on both bank and demat account are same.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent Saving account exists and was introduced by Karvy Stock Broking Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

12 Photograph affixed on bank account and demat account are different.

Signatures on both bank and demat account are same.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent Saving account exists and was introduced by Karvy Stock Broking Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

13 Saving account does not exist with bank.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

14 Saving account does not exist with bank.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the

contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

15 Saving account does not exist with bank.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

13.106. Karvy DP clients - BHOB WORLI BRANCH 13.107. Karvy DP had introduced about 200 saving accounts to BHOB Worli Branch A random sample of 10 demat account opening forms where the bank details were mentioned as BHOB Worli were taken up for detailed scrutiny and the observations thereon are given below: Sr.No Photographs and signatures on saving account and demat account differs.

Saving account exists and was introduced by Karvy Stock Broking.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

2 Photographs affixed on saving account and demat account differs.

Signatures put across the photographs on demat account and the signature put on savings account are same.

Saving account exists and was introduced by Karvy Stock Broking.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent 3 Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter

exactly matches with the data available on the depositories including comma, full stop, spelling mistake, smallletter/capital letter. Saving account does not exist with bank.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) 4 Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, smallletter/capital letter. Saving account does not exist with BHOB. Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) 5 Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter. Photographs and signature on saving account and demat account differs. Saving account exists and was introduced by Karvy Stock Broking.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

6 Photographs and signatures on saving account and demat account differs.

Saving account exists and was introduced by Karvy Stock Broking.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent 7 Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, smallletter/capital letter. Photographs affixed on saving account and demat account differs.

Signatures put across the photographs on demat account and the signature put on savings account are same.

Saving account exists and was introduced by Karvy Stock Broking.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, smallletter/capital letter. Saving account does not exist with BHOB. Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

9 Saving account does not exist with BHOB. Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent) Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

10 Photographs and signature on saving account and demat account differs.

Saving account exists and was introduced by Kavy Stock Broking.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent).

Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

13.108. Karvy DP clients - BHOB AHMEDABAD BRANCH 13.109. In respect of BHOB Ahmedabad Branch, the saving account number mentioned in the Karvy DP demat account opening forms does not exist as confirmed by BHOB Ahmedabad Branch. However, all the demat account opening forms had bank letters along with the photograph affixed and signed purportedly by a bank official. BHOB Ahmedabad Branch has denied having issued any such Bank letter as enclosed with the demat account opening forms. The observations on a random sample of 39 such demat accounts is given below: Sr. No 1301440000104534 Garvil Ranka 9550-14825 Bank account does not exist with BHOB as per email confirmation.

Demat account opened based on the letter from BHOB with photograph affixed and signed by the bank official (which is fraudulent).

Careful Examination of the contents of the letter of BHOB enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

2 Bank account does not exist with BHOB as per email confirmation.

3 13.110. Karvy DP clients - VIJAYA BANK AHMEDABAD BRANCH 13.111. The observations with respect to the scrutiny of the sample demat account opening forms where Vijaya bank was the banker and letters from Vijaya Bank were enclosed as proof of identity and address, are given below: Sr. No 1301440000389178 Harendra M Vakil 2055/154 Bank account does not exist with Vijaya Bank as per email confirmation.

Demat account opened based on the letter from Vijaya Bank with photograph affixed and signed by the bank official (which is fraudulent).

Careful Examination of the contents of the letter of Vijaya Bank enclosed indicates that the contents of the letter exactly matches with the data available on the depositories including comma, full stop, spelling mistake, small letter / capital letter.

2 13.112. From the above it is seen that Vijaya bank, Ahmedabad accounts of the demat clients of Karvy DP did not exist. The branch manager of Vijaya Bank, Ahmedabad has also confirmed that the said bank accounts do not exist with the bank. Hence, it logically follows that the bank could not have given any letter towards POI and POA to be used for opening of demat accounts with Karvy DP. Therefore this is an exercise in afterthought by Karvy DP to cover up the tracks in the wake of SEBI enquiry.

13.113. Observations regarding CDSL demat clients of Karvy DP 13.114. The demat account documents pertaining to various clients of Karvy DP that had served as conduits for Roopalben Panchal and SEIPL were taken up for detailed scrutiny and the observations emanating from the scrutiny are summarized below:
Sr. No 1301440000398826 (pertaining to sugandh Group) Dharji Amosh M On the application form it is mentioned as Vijaya Bank which is hand written. Similiary on the bank letter of Vijaya Bank, the account number 1301440000398826 is mentioned with pen 1301440000390669 (pertaining to sugandh Group) Darji Trikal A On the application form it is mentioned as Vijaya Bank which is hand written. Similiary on the bank letter of Vijaya Bank, the account number 1301440000390669 is mentioned with pen 1301440000056681 (pertaining to Roopal Group) Aarti Zala The bank letter of BHOB Ahmedabad Branch, the account number 1301440000390669 is mentioned with pen The stamp of Karvy ^verified with Orginal" also affixed The Ref No. 10040 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000122049 (pertaining to Roopal Group) Karina Desai The bank letter of BHOB Ahmedabad Branch, the account number 1301440000122049 is mentioned with pen The Ref No. 1576 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000145379 (pertaining to Roopal Group) Darni Verma The bank letter of BHOB Ahmedabad Branch, the account number 1301440000145379 is mentioned with pen The Ref No.3909 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000177937 (pertaining to Roopal Group) Bhadhresh Vala The Ref No.7165 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000187451 (pertaining to Roopal Group) Agat Pathak The Ref No.8117 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000106487 (pertaining to Roopal Group) Aanshi Pandhya The Ref No.20 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000126480 (pertaining to Roopal Group) Aanshi Rathi The Ref No.2020 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000056681 (pertaining to Roopal Group) Aarti Zala The Ref No.7165 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000117936 (pertaining to Roopal Group) Bhadhresh Desai The Ref No. 1165 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000127938 (pertaining to Roopal Group) Bhadhresh Rathi The Ref No.2165 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000198501 (pertaining to Roopal Group) AksharBhatt The Ref No.9222 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000095869 (pertaining to Roopal Group) Bablu Patil The Ref No. 13958 mentioned in the fabricated bank letter corresponds with the bank account of the client. The stamp of Karvy "verified with Original" also affixed 1301440000187656 (pertaining to Roopal Group) Agni Pathak The Ref No.8137 mentioned in the

fabricated bank letter corresponds with the bank account of the client.

1301440000176141 (pertaining to Roopal Group) Badren Barot The Ref No.6986 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000195861 (pertaining to Roopal Group) Bablu Pathak The Ref No.8958 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000136385 (pertaining to Roopal Group) AaKash Verma The Ref No.3010 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000117064 (pertaining to Roopal Group) Abhishek Desai The Ref No.1078 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000127066 (pertaining to Roopal Group) Abhishek Rathi The Ref No.2078 mentioned in the fabricated bank letter corresponds with the bank account of the client.

1301440000078034 (pertaining to Roopal Group) Bharyesh Vanja The Ref No. 12175 mentioned in the fabricated bank letter corresponds with the bank account of the client.

13014400000126968 (pertaining to Roopal Group) Abhilash Rathi The Ref No.2068 mentioned in the fabricated bank letter corresponds with the bank account of the client.

13014400000116966 (pertaining to Roopal Group) Abhilash Desai The Ref No. 1068 mentioned in the fabricated bank letter corresponds with the bank account of the client.

13.115. The above shows that the Reference Number appearing in the so-called bank letters has been mechanically reproduced to represent the non-existent bank account number, while the findings of the same pattern in two different banks

clearly indicate a common source of control.

13.116. Based on the scrutiny of sample account opening forms of CDSL demat clients of Karvy DP it is seen that in respect of the following accounts it was noticed that the photograph affixed was the same for different accounts.

Client ID	130144000078034	1301440000126968	1301440000116966
	1301440000195861	1301440000136385	1301440000127066
	1301440000117064	1301440000145372	1301440000122049
	1301440000056681	1301440000117936	

13.117. This also smacks of after-thought.

13.118. In this context, it may be mentioned that pursuant to the findings of SEBI in the case of Yes Bank IPO, CDSL had conducted an inspection of Karvy DP during the period December 23-29, 2005 and the summary of the findings is given below: 13.119. It was noticed from BHOB letters that multiple bank accounts had been opened by same persons (same photographs) with different names and having the same address. In many of the cases, the date of opening of BO account was earlier than the date of issue of bank letters.

Signatures of different BOs were found to match with each other. The inspection of Karvy DP by CDSL stated as below in its conclusion: i. The depository participant has opened the accounts of the investors by obtaining the supporting documents mechanically and has not taken proper precautions to ascertain the identity or genuineness of the persons and execution of the DP - BO agreements.

ii. The depository participant has entirely relied upon the documents issued by the Scheduled Commercial Bank submitted by the investors as documents in support of "Proof of Identity" and "Proof of Address", even though the same persons open(ed) BO accounts in different names.

iii. The depository participant has not exercised proper care and precautions while processing of the Delivery Instruction slips for transfer of securities.

iv. Such slackness and deficiencies in procedures and manner of conducting the depository participant operations are not in conformity with the procedures prescribed by SEBI and CDSL and also the code of conduct stipulated for the

depository participants and not in the interest of the investors.

13.120. From the above findings of inspection by CDSL, it is seen that same persons (same photographs) had opened multiple demat accounts with different names. Various other irregularities were also found during the inspection by CDSL.

It is seen that the findings of inspection by CDSL corroborates the findings of SEBI as given in the earlier paragraphs.

13.121. Observations on NSDL demat clients of Karvy DP 13.122. As mentioned earlier, SEBI obtained from NSDL copies of sample account opening documents collected by NSDL during the course of its inspection of karvy DP. The observations emerging from the same are summarized below: Photographs on the Bank letter and the photograph on the application form different.

Photographs on the Bank letter and the photograph on the application form different.

The Photographs for all the BO are apparently same 4 13.123. In the context of the above observations, it may be mentioned that SEBI, in its interim order dated December 15, 2005 in the case of Yes Bank, had directed NSDL to conduct comprehensive inspection of Karvy DP and submit a report to SEBI regarding its findings.

Accordingly, NSDL had submitted the report of its inspection of Karvy DP and some of the relevant findings are extracted below: 4.1. These 7630 accounts (that served as conduits for Roopalben Panchal and SEIPL in the Yes Bank IPO) have been opened on different dates from June 27, 2003 to October 27, 2004. Bulk of the accounts (more than 80%) have been activated in five days which are August 16, 2004 (3012), February 16, 2004 (1059), January 05, 2004 (771), January 06, 2004 (762) and December 17, 2003 (542).

4.2. All the accounts have been opened through Ahmedabad branch of the KSBL. None of the accounts has a joint holding. None of the accounts has nominee. In all these cases, the address of the client was stamped and not hand written.

4.3. All accounts have taken 'Bank certificate/attestation' as a proof of identity and proof of address. The banks who have given the certificate are Bharat Overseas Bank Ltd. and Vijaya Bank. In all cases, the bank account details are of these two banks only. For the accounts opened prior to August 2004, the bank certificate/attestation do not have photograph of the account holder. However, in most of these cases, there is a stamp and signature of the bank officials across the photograph which is also present on the account opening form. In most of the cases, there is no employee code of the bank manager. In some cases, there is no name of the bank manager mentioned on the certificate. The signatures of bank managers are just initials.

4.4. The DP-client agreements for all accounts with the address as 402-403, Shashwat, Opp Gujarat College, Ellisbridge, Ahmedabad - 380006 have been witnessed by one Mr. Arjav Panchal.

4.5. While reviewing the records, it was observed that about 109 cases (consisting of 265 forms) had apparently identical photographs.

These accounts have been opened during the period June 27, 2003 to October 24, 2004.

4.6. In some cases, apparently name of the client is that of a male but the photograph affixed is that of a female or vice versa.

4.7. In a few cases, a common bank account number has been captured for various accounts. These have been out of those cases where address is '34 Khetan Tower, Camp Road, Shahibaug, Ahmedabad - 380004.

4.8. Surname of the client is common across substantial number of forms. The name mentioned in the column 'father/husband' is common at a stretch in around 15-20 accounts.

4.9. In a few cases, the address mentioned in the account opening form is '402, Shashwat, Opp Gujarat College, Ellisbridge, Ahmedabad - 380006,' but bank certificate has been issued with the address as '402-403, Shashwat, Opp Gujarat College, Ellisbridge, Ahmedabad - 380006' In DPM also, 402-403... has been

captured.

4.10 In a few cases, clients have signed in Gujarati as well as in the English in application form and both the signatures have been captured in DPM. However, clients have signed in either Gujarati or English in DP Client agreement.

4.11 In a few applications, "PCS appli. No. -----"(7 digit numeric) has been printed on the bank certificate. This number is printed on account opening forms also. It appears that these applications were meant for Patni Computers (PCS) IPO and the application number may be the IPO application number. The signature of the bank manager is merely an initial. The name of the bank manager, date of certificate, employee code of the manager is not there on the certificate. In most of these cases, the bank certificate is not on the letterhead of the bank.

4.12 In a few cases, the address mentioned in the account opening form is 34Khetan Tower, Camp Road, Shahibaug, Ahmedabad. However, the bank certificate gives the address as "402-403 Shashwat, Opp.

Gujrat College, Ellisbridge, Ahmedabad 380 006".

4.13 Mismatch in signature of client have been observed. (e. g.

signature on the account opening form is in English while that on the DP-client agreement is in Gujarati).

13.124. It is seen that inspection findings of NSDL and CDSL have various common features and these findings are in sync with the findings of SEBI with regard to the abysmal failure of Karvy DP in complying with the KYC norms prescribed by SEBI. Delivery Instruction Slips (DIS) 13.125. Delivery Instructions Slips booklet is issued to the client after the demat account is opened. DIS is an important document issued to the clients for the purpose of transferring the securities from one demat account to another account. Before issuing a DIS booklet to the client, the DP normally makes an entry in their back office system with the details of the starting serial number and the ending serial number of the DIS booklet allotted to each client so as to ensure that no DIS is misused by any unauthorized person while unauthorized use can be easily traced when presented

by any client other than to whom the DIS has been allotted.

13.126. Extant directions provide that DP should strictly ensure that the loose slips are issued to the clients only after being satisfied with regard to the identity of the client.

13.127. The following information contained in the website of Karvy (www.karvy.com), at the location <http://www.karvy.com/jurix/jurix13.htm>, shows that Karvy DP had a clear understanding of the rationale for the above directions : What are the precautions needed to be observed with respect to Delivery Instruction Slips (DIS) The Delivery Instruction Slips are to be treated like books issued by banks. Depository account holders may need to take the following precautions to prevent misuse of these slips:-

- o Ensure and insist on DP to issue DIS book; loose slips should not be accepted.

- o Ensure that each form is serially numbered (pre-printed).

- o Ensure that your account number (client id) is pre-stamped.

- o All details and target account should be filled in by the account holder.

- o If only one or a few entries are made in the instruction slip, strike out the remaining space to prevent its misuse by any one.

- o Do not leave signed blank DIS with any one.

- o Keep the DIS book under lock and key, like a cheque book.

- o If your account is a joint account, all the joint holders have to sign in the instruction slips. Instruction cannot be executed if all joint holders have not signed.

13.128. The above advisory of Karvy DP shows that it was aware that loose DIS slips should be treated with the same care as a cheque book as they are liable to be misused. However, they threw the said caution to the wind while issuing loose slips freely to their demat clients.

13.129. Procedure adopted by DP while Processing DIS 13.130. When a client desires to transfer the securities from his account, he presents the leaflet of the DIS booklet issued to him with duly filed details of the ISIN number, date of the execution, type of transactions, number of shares and then presents the same at the counter of the DP for verification of the signature etc 13.131. DIS is used for the purpose of transferring the securities to another account for the following purposes.

2. Off Market Transaction 3. Inter depository Transactions 13.132. Based on the data submitted by CDSL relating to the IPOs of Yes Bank and IDFC, the off market transfers by the clients of Karvy DP were examined and the data is summarized below: 13.133. A sample of physical DIS which was made available by CDSL is mentioned in the following table. Prima-facie, it is observed that these DIS are computer generated with columns like Bo account number, First holder, ISIN, security name, Qty, Target client number being pre-printed.

Table 13.131 - KARVYDP - CDSL OFF MARKET TRANSACTIONS IN IDFC Date of execution Name of the Target BO id No of shares * -Two DIS slips have been used for executing the same transaction. It is seen that while the first DIS slip is not signed by the account holder the second one is signed.

13.134. The observation with respect to the above DIS is as follows: o The DIS serial numbers issued to clients of various groups are in continuous serial numbers. This is possible only if loose DIS of one booklet are issued to various clients. Even in such a scenario it is highly unlikely that the DIS executed by various persons making off-market transfers to one entity will have continuous serial number. This is possible only if DIS slips had been issued by the DP to one or few persons controlling the alleged group.

It is seen that hundreds of the DIS submitted by each of the following groups are in continuous serial numbers thereby showing that Karvy DP had issued the DIS slips pertaining to hundreds of benami / fictitious dematerialized account-holders to a few purporting to represent the group and the details are as below: Sr. No DIS Serial no. From and To.

No. of DIS.Total 13.135. The above table manifestly demonstrates that the key operators as mentioned above were the only persons who were instrumental for the off-market transfers.

13.136. When SEBI examined Shri Dharmesh Mehta, one of the Karvy DP clients mentioned above, he was inter alia queried regarding the DIS booklet issued by Karvy DP. He inter alia stated as below: Yes, initially, Karvy had issued Delivery Instruction book to all of us after opening the demat accounts. Whenever we are in need of extra instruction books, we were also supplied loose delivery instruction slips instead of DIS Booklet on oral request.

13.137. It may noted that in respect of any offmarket transfer, depository system automatically generates the debit transaction number which is updated on the physical Delivery Instruction Slip which is used for debiting the demat account. The same is used for the purpose of reference and cross check with the depository system. Similarly, in respect of the BO account which receives the credit, depository system automatically generates the credit transaction number and the same are included in the transaction statement of the credit BO account. Thus, for each off-market transfer, there is a common trade ID and two transaction IDs, one for the debit transaction and another for the credit transaction. The transaction number is also reflected in the transaction statement of the respective demat Accounts.

13.138.

13.139. For each off-market transaction in the depository system, the system generates a distinct debit transaction number and also a distinct credit transaction number. The DP executing the DIS mentions the debit transaction number on the DIS. The DP executing the DIS normally does not have access to the credit transaction number and credit transaction number would appear only on the transaction statement of the receiving dematerialized account-holder.

13.140. In respect of transaction numbers mentioned in Table B above, it is seen that transaction number mentioned on the DIS is the credit transaction number and is not the debit transaction number, as is the normal case. It is significant to

note that credit transaction number is not available with the DP at the time of entering the DIS in the system as the details are only available in the target client account.

Incidentally in this case target client account was also with the same DP ie. Karvy DP and therefore it was possible for the DP to have the details of the credit transaction ID. The BO account no.

1301440000307503 which received the credit belongs to Roopal Panchal.

It appears that details of the credit transaction have been entered on the DIS leaflets based on the transaction statement of the credit BO holder i.e. Roopal Panchal.

13.141. In this context it is noted that in respect of the off-market transactions mentioned in the table above, many demat accounts were debited and a single demat account was credited. Since it is easier to obtain credit transaction number from the demat account statement of Roopalben Panchal, it appears that the DP has conveniently used the credit transaction number on the DIS used for debiting various demat accounts. This is highly unusual. It passes one's credence as to how Credit Instruction Number (CIN) could figure in DIS which are used for debiting the demat account. The very fact that it is so clearly indicates that the DP had no debit instruction from the afferent account holders and DIS had been generated post-facto to make up the records by conveniently using the CIN available from one account thereby dispensing with the rigmarole of wading through thousands of afferent account statements which is cumbersome and laborious. Further it shows the constructive knowledge and involvement of the DP in the modus operandi employed by Roopalben Panchal and others and the same is consistent with the DP's lead role in the entire scheme .

13.142. Bank Transaction Statement of Karvy Consultants 13.143. The transaction statement of Karvy Consultants Ltd., an associate of Karvy DP and also the introducer of bank accounts to Bh OB of various afferent dematerialized account-holders of Roopalben Panchal, was obtained from HDFC Bank. The major transactions in the account number 0210330002047 held in the name of Karvy

Consultants Ltd, Karvy House, 46, Avenue 4, Street No 1, Banjara Hills, Hyderabad - 500034 are given in the table below.

Transaction date	1,19,00,000	1,12,80,000	98,00,000	59,00,00,000	44,00,000		
28.07.05	28.07.05	28.07.05	28.07.05	28.07.05	28.07.05	28.07.05	28.07.05
28.07.05	28.07.05	28.07.05	30.07.05	1,94,51,250	1,90,40,000	1,90,40,000	
23,60,960	19,04,000	19,04,000	15,23,200	3,90,32,000	1,90,40,000	1,90,40,000	
22,84,800	Karvy Stock Broking Ltd		1,45,00,000	17.08.05	Karvy Stock Broking Ltd		
26,00,00,000	22.08.05	22.08.05	22.08.05	22.08.05	22.08.05	22.08.05	05.09.05
16,78,950	12,83,950	10,64,700	10,23,750	28.09.05	1,90,00,000	1,90,00,000	
1,06,00,000	5,00,00,000	05.10.05	05.10.05	05.10.05	18.10.05	13,85,000	
13,12,000	12,70,000	12,65,000	10,25,000	12,22,000	11,86,000	11,50,000	
11,46,000	11,12,000	10,75,000	10,74,000	10,64,000	10,60,000	10,32,000	
10,26,000	10,25,000	10,24,000	10,20,000	10,20,000	10,20,000	10,20,000	
10,20,000	10,20,000	10,20,000	10,20,000	10,20,000	10,20,000	10,20,000	
10,20,000	Total 13.144. From the above, it is seen that Rs 1.19 crores was transferred by SEIPL (Jhaveri group) on July 21, 2005 to the account of Karvy Consultants. Similary on September 22, 2005 Roopal Panchal had transferred Rs 29 crores through RTGS to the account of Karvy Consultant (account no. 0210330002047).						

13.145. Further similar such fund transfers were also observed to / from various accounts like Purshottam Bhudwani, Manoj Seksaria, Dharmesh Mehta, Dhaval Katakia etc who are amongst the key operators having large number of demat accounts under their control.

13.146. It appears that Karvy Consultants had provided IPO finance (margin funding) for Roopalben Panchal, SEIPL and others. The above transfer of funds between Karvy Consultants and Roopalben Panchal and others probably represents the repayment of the margin money. Thus it appears that as per the arrangement between Karvy and BHOB while 50% of the IPO finance was provided by BHOB the balance (representing the margin money) was funded for Roopalben Panchal and others by Karvy Consultants. Thus it is seen that the arrangement between Karvy and BHOB has served as a convenient camouflage

for Karvy DP to deploy its funds using the names of fictitious/benami entities for applying in the retail category of the many of the IPOs wherein various Karvy Group companies were involved in various roles as broker to the IPO, Registrar to the Issue etc.

13.147. It is observed that in the IPO of Yes Bank, BHOB Worli branch had issued around 9,374 pay orders to Roopal Panchal Group and the cheques were handed over to Karvy, which had attached the same with the respective application forms before such applications were made in the IPO. Thus, it is clear that Karvy had even coordinated the IPO applications besides the banks, as it was required as per the arrangement between BHOB and Karvy to coordinate with the bank.

13.148. Thus it appears that Karvy was the hub of activity having control over the whole process from generation of idea paper to the final execution involving the intricate web of transfers and retransfers through the key operators in conjunction with afferent accounts. Karvy had opened demat account, introduced the bank account, , arranged for finance from BHOB, received pay order from the BHOB, attached the payorder to the application forms of the various groups and seamlessly perfected the whole scheme of operations involving minute details in a jig-saw puzzle fit with great finesse, aplomb and mastery which comes from meticulous planning of the 'business model' with an uncanny eye that speaks volumes about their direct and intimate involvement in the show of make-believe with a conjuror's touch.

13.149. The involvement of Karvy group of companies in the whole scheme of affairs is stark considering that companies belonging to Karvy group were acting as DP, RTI as well as IPO broker for the above transactions. Having steered the course of the scheme in all its twists and turns, Karvy knew all the strands of the scheme in their true colours, while the make-believe thrown in good measure was always meant to impart a verisimilitude to the crass effort of deceit and deception.

13.150. Summary of Observations emerging from examination of role, activities and demat account opening document of Karvy DP 13.151. Based on the above observations, it appears that Karvy DP as a depository participant had given short shrift to the highest standards of integrity and professional conduct which is

expected of market intermediaries. In view of common directors, employees etc., there appear to be a palpable interlacing and interlocking amongst its various activities as DP, RTI, broker to the issue, provider of IPO finance and arrangement of IPO finance from BHOB etc. Karvy has gone the whole hog by being associated in the complete cycle of IPO starting from procuring application forms, extending finance to these groups, opening savings /demat account for these accounts, collecting refund orders for these groups, putting through offmarket transfers etc.

13.152. Opening of demat account was the first and essential requirement for making applications (presently, all allotment in IPO should be made in demat form in all book built issues) and it is observed that Karvy had abjectly failed to comply with the account opening formalities prescribed by SEBI while straying to the extent of fabrication of documents / falsification of records to make its account opening procedure seem seemingly compliant with the regulatory requirements prescribed by SEBI.13.153. Thus, it can be concluded that Karvy was instrumental at the root of creating rootless wonders by opening demat accounts in thousand of benami / fictitious names. The various groups of key operators were the necessary adjuncts in the entire gamut of machinations. Karvy group of companies which were acting as DP, introducer of bank account, provider of margin finance, arrangement of IPO finance through tie up with Bh OB besides being broker to the issue and registrar to the issue made the cause, besides making common cause with the other like minded intermediaries looking for such unfair gains at the cost of retail investors .

13.154. In view of the above, Karvy is guilty of violation of Regulation 42(2), 42(3), 43, 46 and 52 of SEBI (Depositories and Participants) Regulations, 1996 and clauses 3, 9, 12, 16, 19, 20 and 22 of Code of Conduct as specified in Regulation 20 (a) of SEBI (Depositories and Participants) Regulations, 1996 and also guilty of violation of Regulation 3 and 4(2) (p) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003.

13.155. Examination of Refunds made by Karvy-RTI in Yes Bank and IDFC IPOs

13.156. SEBI sought and obtained information from Karvy-RTI regarding details of refunds in respect of applications for an amount of Rs. 50,000/-or less in the IPO

of Yes Bank and in respect of the applications for an amount of Rs. 1,00,000/-or less in the IPO of IDFC.From the replies furnished by Karvy-RTI it is seen that Karvy-RTI has issued consolidated refund orders favouring banks / financial institutions in respect of the applications that were financed by the banks / financial institutions. The details are as below: Sl. No Average amount of each refund(Rs)

a) BHARAT OVERSEAS BANK LTD 231336.00 BHARAT OVERSEAS BANK LTD 38556.00 BHARAT OVERSEAS BANK LTD 273523608.00 INDIAN OVERSEAS BANK LTD 80248104.00 INDIAN OVERSEAS BANK LTD 13600.00 INDIAN OVERSEAS BANK LTD 612418854.00 INDIAN OVERSEAS BANK LTD 5206590.00 INDIAN OVERSEAS BANK LTD 776832.00 INDIAN OVERSEAS BANK LTD 2950452.00 INFRASTRUCTURE LEASING & FINANCIAL SERVICES LTD 2420020108.00 INFRASTRUCTURE LEASING & FINANCIAL SERVICES LTD 1958091076.00 INFRASTRUCTURE LEASING & FINANCIAL SERVICES LTD 6032849704.00 INFRASTRUCTURE LEASING & FINANCIAL SERVICES LTD 1454554204.00 INFRASTRUCTURE LEASING & FINANCIAL SERVICES LTD 1482875932.00 INFRASTRUCTURE LEASING & FINANCIAL SERVICES LTD 2808939546.00 ICICI WEB TRADE LIMITED 1337057700 BHARAT OVERSEAS BANK LTD 5303250.00 BHARAT OVERSEAS BANK LTD 538913250.00 ICICI WEB TRADE LIMITED 761602845 13.157. From the above table, it is seen that Karvy -RTI has issued a single refund order (RO No. 610003) payable to Bharat Overseas Bank in respect of 6878 IPO applicants. Similarly, Karvy-RTI has issued consolidated refund orders favoring Centurion Bank Limited, IDBI Limited, Indian Overseas Bank, Infrastructure Leasing & Financial Services Ltd, Kotak Street.com and ICICI Web Trade Limited in respect of thousands of IPO applicants.

13.158. Examination of details of the sub-brokers of Karvy-DP who procured large number of demat applications 13.159. SEBI vide e-mail dated February 11, 2006 sought information from Karvy-DP regarding the details of the sub brokers through whom Karvy-DP had procured the demat accounts from the period January 2004 to December 2005 along with month-wise number of applications received through each of these sub brokers. The details of top five sub-brokers of Karvy-DP in terms of number of applications procured during 2004 and 2005 is given below: GRACE CONSULTANCY,C\O DIPAK J PANCHAL, 402/403, SHASHWAT OPP

GUJARAT COLLEGE, ELLISBRIDGE AHMEDABAD 380006 26858 ARTH REALTY PRIVATE LIMITED,803, ABHIJEET - 1 MITHAKHALI CIRCLE, NAVRANGPURA AHMEDABAD -380009 15511 PURSHOTTAM BUDHWANI, MUMBAI 7137 MANOJ SEKSARIA,5 B PEDDER ROAD, 33 MAHSEHWAR NIKETAN MUMBAI -400026 5474 H R BAID,21-2-131/3, BHAGYALAXMI COMML. COMPLEX 2ND FLOOR, CHARKAMAN CHARMINAR, HYDERABAD-500002 670 13.160. From the above table, it is seen that Grace Cons ultancy- C\O Dipak J Panchal, Arth Realty Private Limited (which has the address same as SEIPL), Purshottam Budhwani and Manoj Seksaria are the top four sub-brokers of Karvy-DP in terms of number of applications for demat accounts procured who are apparently the same as or related to the key operators of the irregularities identified by SEBI in the cases of IPOs of Yes Bank and IDFC.13.161. Demat Accounts closed by Karvy-DP in the context of verification of genuineness of Account Holders: 13.162. In the ex parte ad interim order dated January 12, 2006 in the case of IDFC, SEBI had directed Karvy-DP as below: 12.5. I note that Karvy-DP has already been directed by the depositories to verify the genuineness of the dematerialized account-holders and to close those dematerialized accounts where it is unable to verify the genuineness of identity and address of the dematerialized account-holders. The depositories have prohibited Karvy-DP from opening new dematerialized accounts till the above process has been completed. I hereby direct Karvy-DP and Pratik-DP to complete the process of verifying the identity and address of dematerialized account-holders and to close / freeze the dematerialized accounts where they are unable to do the verification not later than January 31, 2006. Further, Karvy-DP and Pratik-DP shall put in place systems and procedures to ensure that in future no non-genuine dematerialized accounts are opened by them. Karvy-DP and Pratik-DP shall submit a detailed report to SEBI narrating the actions taken by them in this regard and also give an undertaking that the SEBI's above directions have been fully complied with. I further direct that Karvy-DP and Pratik-DP shall not open new dematerialized accounts till the submission of above report and undertaking to SEBI and obtaining a no-objection from SEBI for accepting fresh business as a DP.13.163. Further to the same, as sought by SEBI, Karvy-DP vide e-mail dated January 30, 2006 furnished the details of accounts closed by Karvy-DP where 20 or more dematerialized account-

holders share common addresses. Upon perusal of the information it is seen that Karvy-DP has closed 38,409 accounts held with CDSL and 30,221 accounts held with NSDL. Prior to these closures Karvy-DP had 43,327 BO accounts with CDSL and 7,56,886 BO accounts with NSDL. Thus, it is seen that about 90% of the CDSL accounts held with Karvy-DP have been closed in the course of verification of genuineness of account-holders. Upon examining the details of the dematerialized accounts closed by Karvy-DP (taking address 1 as the basis for analysis), the following observations emerge: No. of dematerialized account-holders sharing the address Name of the Depository C O SEIPL, 804 ABHIJEET I, MITHAKHALI CIRCLE, AHMEDABAD - 380009 5793 This address is same as that of SEIPL 2 402 403 SHASWAT, OPP GUJARAT COLLEGE, ELLISBRIDGE, AHMEDABAD - 380006 5492 This address is same as that of the Panchals 3 402 403 SHASHWAT, OPP GUJARAT COLLEGE, ELLISBRIDGE, AHMEDABAD - 380006 3180 This address is same as that of the Panchals 4 402-403 SHASHWAT, OPP GUJARAT COLLEGE, ELLISBRIDGE, AHMEDABAD - 380006 1710 This address is same as that of the Panchals 5 C/O SEIPL, 804 ABHIJEET I, MITHAKHALI CIRCLE ELLISBRIDGE, AHMEDABAD -380006 This address is same as that of SEIPL 6 402 403 SHASHWAT, OPP GUJARAT COLLEGE, ELLISBRIDGE, AHMEDABAD - 380006 1415 This address is same as that of the Panchals 7 68 SAMSHTA B SOCIETY, OPP PINAKIN SOCIETY, PALDI, AHMEDAB AD -380007 1293 This address is same as that of Kelan Atulbhai Doshi 8 C/O SEIPL, 804 ABHIJEET I, MITHAKHALI CIRCLE, ELLISBRIDGE AHMEDAB AD- 380006 This address is same as that of SEIPL 9 803 ABHIJIT, MITHAKHALI CIRCLE, ELLISBRIDGE, AHMEDAB AD -380006 1099 This address is same as that of SEIPL 10 406, SHASHWAT, OPP. GUJARAT COLLEGE, ELLISBRIDGE, AHMEDABAD, 380006 4998 This address is same as that of the Panchals 11 307, SHASHWAT, OPP. GUJARAT COLLEGE, ELLISBRIDGE, AHMEDABAD, 380006 4975 This address is same as that of the Panchals 12 OFFICE NO.403, SHASHWAT BLDG., NR. HOTEL KANAK, ELLISBRIDGE, AHMEDABAD, 380006 This address is same as that of the Panchals 13 HIMALAYA B-2, ASALFA,GHATKOPAR W, MUMBAI - 400084 3814 This address is same as that of Budhwani 14 C/o. SEIPL, G-1, Devpath Complex, B/h. Lal Bungalow, Navrangpura, Ahmedabad, 380009 This address is same as

that of SEIPL 15 NIKETAN MAHESHWAR 33, PEDDAR ROAD 5B, MUMBAI - 400026 1120 This address is same as that of Seksaria 16 MAHESHWAR NIKETAN 33,PEDD, MUMBAI, 400026 822 This address is same as that of Seksaria 13.164. From the above table relating to demat accounts closed by Karvy DP, it is seen that Karvy DP had opened numerous (running into many hundreds) demat accounts with common addresses, the common addresses being that of Karvy DP's sub-brokers namely Grace Consultancy, C/o Dipak Panchal, who is the husband of Devangi Panchal and the brother-in-law of Roopalben Panchal, Arth Realty Pvt. Ltd.(related to SEIPL), Purshottam Budhwani and Manojdev Seksaria.

14. Verifications done at Ahmedabad 14.1. In connection with the on going investigations in the cases of Yes Bank Ltd. and IDFC Ltd., SEBI visited Ahmedabad for conducting physical verification at the various addresses indicated by the thousands of demat account holders who are sharing common addresses.

14.2. It was found that 307, Shashwat Opp. Gujarat College Ellisbridge, Ahmedabad 380006 is occupied by a company by name 'Salesworth India Pvt. Ltd.' The office staff of Salesworth provided a copy of the Leave and License agreement dated April 30, 2004 between Deepakbhai J Panchal HUF (licensor), having its address as 402403, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad and Salesworth India Pvt. Ltd. (licensee), 713, Syndicate bank road, Indira Nagar, First Stage, Bangalore560038. None of the 4946 entities who had made off market transfers of IDFC IPO shares to Roopalben Panchal during the period prior to listing and who had indicated 307, Shashwat Opp. Gujarat College Ellisbridge, Ahmedabad -380006 as their address in their respective demat account details, were found there. Flat no. 402-403, Shashwat Opp. Gujarat College Ellisbridge, Ahmedabad-380006 was locked and it was gathered that it was used by Deepak Panchal as an office.

Physical verification by SEBI at Abhijeet 1, Mithakali circle, Ahmedabad revealed that Flat No.804 is occupied by SEIPL. None of the 10181 entities who had made off market transfers of IDFC IPO shares to SEIPL during the pre listing period and who had in their respective demat account details indicated various flats at

Abhijeet 1, Mithakali circle, Ahmedabad as their address were found. When Shri Jhaveri, Director of SEIPL was queried regarding the above, he stated that the address of SEIPL was given in the dematerialized account particulars of the above entities for administrative and control purposes, which peter out to be a proforma compliance without a grain of truth.

14.3. During the course of the above verification by SEBI, the statements of the branch managers of Bh OB Ahmedabad branch and Vijaya bank, Ambawadi branch were recorded. The Statement of the Branch Manager of Bharat Overseas Bank Ltd., CG Road, Ahmedabad branch was recorded on February 2, 2006 and he interalia stated as below: 14.4. The branch has about 2000 Savings bank accounts and about 450 current accounts and also about 100 loan accounts. When queried about the IPO financing done by the branch for its customers during the last one year he stated that they have financed 8 IPOs namely Jet Airways (90 applications). Jaiprakash Hydro(145 applications) Yes Bank(41 applications) SPL (820 applications), ILFS (7622 applications), Sasken Communications (7200 applications), Prithvi Infosystem (12 applications} and Pyramid Retail (16 applications). When asked about how the branch provided finance for more than 7000 IPO applicants when it has only 2000 savings bank accounts, he stated that for operative convenience, instead of opening individual savings bank account, number of individual names were added to a single account. These additions were done to about 15 to 20 accounts. Specific letter of authority was obtained from Smt. Roopal Panchal for debiting her account number 15.100.900 towards the margin money for about 7620 applicants.

14.5. With regard to the 12257 demat account holders that were holding their respective demat accounts with DP Karvy Stock Broking Ltd. (Karvy DP) and bank accounts with Bh OB Ahmedabad branch and who had made off market transfers of IDFC shares to Roopalben Panchal prior to the date of listing, he stated that except for 4 or 5 accounts, none of the other bank accounts were held with the branch.

14.6. When asked to explain the methodology for IPO financing done by the branch he stated that they have been doing IPO financing only through Karvy

Consultants Ltd. in terms of corporate tie up with them.

The financing were carried out in terms of guidelines issued by their head office. The branches were given individual target for each IPO. The first IPO financing was done by Bh OB for Maruti Udyog Ltd. IPO and all the accounts were introduced by Karvy Consultants. These accounts were opened only for the purpose of Maruti IPO finance and were closed subsequently during the period October 2003. He observed that the list of 12257 bank account details mentioned above included the aforesaid closed account numbers also.

14.7. When asked to confirm whether in respect of IPOs where Bh OB had provided finance, lien was noted in favour of bank the bank and whether the bank advised the Registrar to release bank's lien after recovering the amount due, he confirmed that lien was noted in favor of the branch in all the IPOs, where the bank had provided financing and the same has been confirmed in writing by Karvy. He further stated that other than Maruti IPO, the branch has not issued any letter to the Registrar advising lifting of lien. In view of the above statements of the branch manager of Bh OB, it appears that Karvy RTI has released the lien noted in favor of the bank without obtaining any advice from the bank.

14.8. Copies of demat account opening application forms of Karvy Consultants Ltd. in respect of Shreya Chandulal Patel(client id 14598929), Bashidhar Shroff(client id 13147630) Dhruv Mistri (client id 13140222), Jayesh J Shah (client id 14598874) and Dimesh J Shah(client id 14598899) wherein Bh OB, Ahmedabad branch had purportedly issued letters in proof of identity and address were shown to him. He denied that the branch had issued these letters and stated that there were glaring discrepancies in terms of mismatch of bank's letterhead, logo, manager's signature etc. The above statement of the branch manager of Bh OB raises serious doubts as to the genuineness of the bank letters received by Karvy DP towards proof of identity and proof of address for the purpose of opening demat accounts.

14.9.

14.10. He also provided a copy of the letter bearing the subject "IPO of IDFC issue" dated August 8, 2005 from Bh OB Hyderabad branch addressed to Bh OB Ahmedabad wherein it is mentioned that "We have been advised by M/s Karvy Consultants Ltd. that they have funded the IPO application of the enclosed list of parties who are your branch customers.

A consolidated refund order has been received at our end for the crediting the refund amount to the parties account. We understand (that) the customers have given an authority to debit their account with your branch and credit KCL for the loan granted for the purpose of the subject IPO funding. To avoid delay we have refunded the amount payable to KCL from our end out of the consolidated refund received." When asked to indicate the source of funds for the applications in the IDFC IPO, the branch manager of Bh OB, Ahmedabad branch stated that the major payment to the tune of 14.28 crores came from the account of Smt Roopal N. Panchal for which credits were received from the refund of ILFS public issue. The financing for ILFS IPO had been done by the branch for which the margin money had come from the refund of Yes Bank refund from Bh OB's Worli branch.

The statement of the Branch Manager of Vijaya Bank, Ambawadi Branch, Ahmedabad was recorded by SEBI on February 1, 2006 and he interalia stated as below: Sugandh Estates & Investments P Ltd.(SEIPL) has a current account with the branch since August 02, 2004 and the directors of SEIPL have opened around 50 current accounts. With regard to the 10181 demat account holders that were holding their respective demat accounts with DP Karvy Stock Broking Ltd. (Karvy DP) and bank accounts with Vijaya bank, Ahmedabad branch and who had made off market transfers of IDFC shares to SEIPL prior to the date of listing, he stated that as the total number of current accounts in the branch was not more than one thousand, the question of having the said 10181 current accounts in the branch did not arise. He confirmed that the branch did not have any of the account numbers indicated by the 10181 demat account holders as the current accounts at the branch were four digit numbers where as the above 10181 demat account holders had indicated seven digit numbers.

When asked to confirm whether any letter was issued by the branch to the above said entities certifying their identity for the purpose of opening demat account with Karvy DP, he stated that there were no records available at the branch indicating issuance of any letter as above.

From the above statement of the Branch manager of Vijaya Bank, Ahmedabad it is seen that none of the bank accounts of the Karvy DP clients, who had made off-market transfer of IDFC shares to SEIPL, existed. From the earlier discussions, it is seen that Karvy DP had opened demat accounts of the above clients accepting letters from Vijaya Bank towards POI and POA. Since the bank accounts did not exist with the bank it follows that the bank would not have issued the above letters.

During a subsequent visit to Ahmedabad branch, the officials of SEBI conducted further verifications and the findings of the same are given below: 1. Indian Overseas Bank (IOB): In the Ahmedabad region, two branches of IOB had provided finance to Roopalben Panchal group and Kelan Doshi group in IDFC IPO. IOB, Stadium Road Branch: a) Roopalben Panchal group: The branch had provided IPO finance of Rs. 23800/-each to 12008 applicants aggregating Rs. 28.57 crores in the IDFC IPO. b) Kelan Doshi group: The branch had provided IPO finance of Rs. 23800/-each to 2000 applicants aggregating Rs. 3.41 crores in the IDFC IPO. c) It was seen that Roopalben Panchal group had opened savings accounts and in each savings account, 50 additional names were added by enclosing a list with the account opening form.

d) The refund was received directly from their Central Office, Chennai who had received the same from Karvy Consultants Ltd. e) The previous branch manager had surrendered the original loan documents to the above persons who had availed IPO finance.

IOB, Thaltej Branch: a) Roopalben Panchal group: The branch had provided IPO finance of Rs. 23800/-each to 3118 applicants aggregating Rs. 7.42 crores in the IDFC IPO. b) It was seen that Roopalben Panchal group had opened savings accounts and in the each savings account, 50 additional names were added by enclosing a list with the account opening form. These 50 names were introduced by Karvy Stock Broking Ltd. by putting their seal on the list.

c) The refund was received directly from their Central Office, Chennai who had received the same from Karvy Consultants Ltd. d) It is seen that from the original loan documents that Karvy Consultants Ltd. had certified that the persons, who had applied for IPO finance to IOB, had demat accounts with Karvy DP and the DP also certified their signature.

e) From the account opening forms, it is seen that Karvy Stock Broking Ltd. had introduced some of the savings accounts.

2. Bharat Overseas Bank Ltd. During the visit to Bh OB, Ahmedabad branch, the branch vide letter dated February 18, 2006, provided the following information i. 6315 entities in the Yes bank IPO: In the case of Yes bank IPO, it was found that 6315 entities, who had transferred 150 Yes Bank shares each to Roopalben Panchal through off-market transactions, had mentioned in the NSDL records that they had bank accounts with Bh OB, Ahmedabad branch. On verification with Bh OB, Ahmedabad branch, it was found that the said entities do not hold bank accounts with the bank. The details of some of these accounts taken on sample basis are given below: Account number as mentioned in the NSDL system. (New bank account number as per the computer system of the branch) No. of persons who have quoted the said account no. in the NSDL system.

As per records of the bank, (i.e. account opening form), account is held in the name of following person.

Date of account opening	Present status of the account	Name of the person
1	Kalan (Doshi Kelan Atulbhai)	3/8/2004 No account bearing such number in the system - Dipakbhai Devangi Panchal group (Devangi Dipakbhai Panchal group)
4	Kantilal J Shah (Kantilal J Shah)	18/3/2004 No account bearing such number in the system - Devangiben Dipakbhai (Devangi Dipakbhai Panchal and Dipak Jashvantlal Panchal) Dipak Jashvantlal Panchal and Devangi Dipakbhai Panchal
14/7/2003	No account bearing such number in the system - Dipakbhai Devangi Panchal group (Devangi Dipakbhai Panchal group)	4/12/2003 Closed on April 27, 2004
10	Kantilal J Shah group (Kantilal J Shah group)	4/12/2003 Arjav N. Panchal and Devangiben Dipakbhai Panchal (Arjav N. Panchal and Devangiben D Panchal) Series ranging between 895820 to 967773
140	No	

account bearing such numbers in the system - The branch further informed as below:

- o The above accounts were held in the name of the persons as indicated at column no. 4 of the above table and not as per the number of afferent account holders in column 3 wo cited the same bank account number.

- o The branch provided a copy of the account opening form of the account number 55045 (15.100.8185) held in the name of Arjav Panchal (shown under sr. no. 11 of the above table), which contains a list of 50 names. However, these 50 names are not appearing in the computer system of the branch.

- o As regards, account number 50795 under sr. no. 12 above, the branch stated that the account was exclusively opened for the purpose of financing of IPO of Maruti Udyog Ltd.in the year 2003.

Though the account was opened in the name of Maruti SB in the computer system, there were 153 number of Savings bank (SB) applications attached to this account manually. Each SB application carried one common name and 2 to 3 additional different names. All the accounts were introduced by Karvy Investors Services Ltd. (Ahmedabad Branch) and Karvy Securities Ltd. The branch also stated that even though the said account was closed on October 27, 2003 after the said issue, the same account numbers had been used for the subsequent issues during the year 2004/2005 including Yes Bank issue.

- o As per the records of NSDL, 140 entities were having their bank accounts with Bh OB, Ahmedabad branch in the series ranging between 895820 to 967773. The branch informed that there were no such bank accounts held with them.

14807 entities in IDFC IPO: In the case of IDFC IPO, it was found that 14807 entities, who had transferred IDFC shares to Roopalben Panchal through off-market transactions, had mentioned in the CDSL records that they had bank accounts with Bh OB, Ahmedabad branch. On verification with Bh OB, Ahmedabad branch, it was found that the said bank accounts were not held with the bank.

c. BhoB Ahmedabad branch confirmed that they had not funded the IDFC IPO. However, it was seen that Roopal Panchal (through her bank account no. 15.100.9000 maintained with the branch) transferred an amount of around Rs. 14.28 crores on July 26, 2005 for the said issue. The refund for the same was received from Karvy Consultants Ltd.(KCL) through BhoB, Hyderabad branch. KCL., vide letter dated August 8, 2005 addressed to the BhoB, Hyderabad branch, enclosed a Bankers Cheque no 103594 dated 5/8/2005 drawn on ICICI Bank Ltd. for Rs.28.17 crores towards the refund of excess application money of IDFC issue and provided the list of account holders to whom credit of this amount was to be done. As per the said letter, KCL had funded these applications and had received a mandate letter from the customers for collecting the refunds as well as adjusting the same against the loan. KCL requested Bh OB, Hyderabad Branch to debit Rs.26.08 crores to the customers' account and pay the same in favor of Karvy Consultants Ltd. As per the list attached by KCL, refund amount for account no. 9550 in the name of Devangi Panchal was Rs.20.04 crores out of which Rs.18.56 crores was to be paid to KCL.

d. It was found that the following bank accounts of the Roopal Panchal group maintained with Bh OB, Ahmedabad branch were introduced by Karvy Securities Ltd. and Karvy Investor Services Ltd. Sr. No.Name of the account holder Introduced by Karvy Investor Services Ltd. 2 Devangi Dipakbhai Panchal Karvy Securities Ltd. During the visit to Vijaya Bank, Ahmedabad branch, the branch vide letter dated February 15, 2006, provided the following information a. As per the finding in the case of Yes Bank, Parag Jhaveri group entity viz. Sugandh Estates and Investments Pvt. Ltd.had received Yes Bank shares from 1315 entities through off-market transfers during the prelisting period. As per the demat records, these 1315 entities were having their bank accounts with Vijaya Bank, Ambawadi branch. On verification with the branch, it was informed that these 1315 entities did not maintain accounts with the bank and 43 bank account numbers as below in fact belonged to the directors of Sugandh Estates and Investments Pvt. Ltd. maintained with Vijaya Bank, Ambawadi branch: Primary bank account number Sr. No.Primary bank account number b. The branch informed that around 10 names were added as joint holders to each of the above primary accounts.

c. It was found that in Yes Bank IPO, Parag Jhaveri had deposited refund instruments in the name of 200 different persons into one account. There were many such deposits into various accounts and the details are as given below: Sl. No. Name of the account holder No of persons Refund instruments deposited of Amount of each refund instrument Total amount deposited The aforesaid 10 Over Draft accounts were introduced by Tushar Shah, director of Sugandh Estates.

4. Data collected from Registrar of Companies, Ahmedabad: SEBI officials visited the office of ROC, Gujarat and the details of following companies were obtained from their filings to the ROC: (I) Address of Registered office: a. Sugandh Estates & Investment Pvt.Ltd.: 1st Floor, Urja House, Swastik Char Rasta, Navrangpura, Ahmedabad 380009.

b. Zenet Software Ltd.: 303, Anand Chambers, Near Old High Court, Near Railway Crossing, Navrangpura, Ahmedabad, 380009.

c. Taurus Infosys Ltd: 3rd Floor, HN House, Near Old High Court Railway Crossing, Navrangpura, Ahmedabad, 380009 d. Excel Mutitech Limited: 303, Anand Chambers, Near Old High Court, Near Railway Crossing, Navrangpura, Ahmedabad, 380009 e. Arth Stock Broking Pvt. Ltd.:: 804, Abhijeet -1, Mithakali Circle, Ahmedabad 380009 f. Sujal Leasing & Finance Ltd: H N House, Near Old High Court Railway Crossing, Navrangpura, Ahmedabad, 380009.

g. Seer Finlease Pvt.Ltd: H N House, Near Old High Court Railway Crossing, Navrangpura, Ahmedabad, 380009 The names of directors and shareholders of the above companies are given as below a. Company Name: Sugandh Estates & Investment Pvt.Ltd. The company has mentioned following details in the Annual Return dated 30/9/2005 filed with ROC: Registered office: 1st Floor, Urja House, Swastik Char Rasta, Navrangpura, Ahmedabad 380009. Total issued number of shares: 10000 of Rs. 10/ each.

Name Directors Jhaveri Parag Priyakant A/3 Embassy Apartment, Dr. V S Road, Ambawadi, Ahmedabad-15 5 Rajhans Mukund M D-53 Premdan, Hudco, Ahmednagar-414003 - Jadhav Jayant E 63/3, Tambatkar Mala, opp. Mamta Gas, Gulmohar Road, Ahmednagar, 414003 - B-9, Shubh Apartment, Nr. Avishkar

Road House, Bopal, Ahmedabad, 380015 Shah Tushar H 8, Nalkunj Society, Camp Road, Shahibaug, Ahmedabad, 380004 - B/3 Embassy Apartment, Dr. V S Road, Ambawadi, Ahmedabad-15 5 Iris Growell Pvt. Ltd. Bhavnav Apartment 1&2, Dr. Shirgaorkar Road, Panjim, Goa 2500 Greenwood Agrofarm Pvt. Ltd. Bhavnav Apartment 1&2, Dr. Shirgaorkar Road, Panjim, Goa 2500 Greensward Agrofarm Pvt. Ltd. 1st floor, Urja House, Navrangpura, Ahmedabad, 380009 2490 b. Company Name: Zenet Software Ltd.. The company has mentioned following details in the Annual Return dated 30/9/2005 filed with ROC: Registered office: 303, Anand Chambers, Near Old High Court, Near Railway Crossing, Navrangpura, Ahmedabad, 380009. Total issued Capital (number of shares): 75,25,000 of Rs. 10/ each.

Name Rajeshkumar Vithabhai Patel 5, Shivam Satellite Society, B/h Kadamb Bunglow, Bodakdev, Vastrapur, Ahmedabad, 380015 Kirtiben Rajesh Patel 5, Shivam Satellite Society, B/h Kadamb Bunglow, Bodakdev, Vastrapur, Ahmedabad, 380015 Saryuben H. Vora 20, Basant Bahar Bunglow, Nr. Purshottam Nagar Bus Stop, Bopal, Ahmedabad, 380058 Rakesh Sureshchandra Shah M-5, Room no.3, Bhadra Nagar, Malad (W), Mumbai, 400064 - Bhupendra T Joshi Flat no-19, Shankar Krupa Building, Dindayal Road, Dombivli (W), Thane, Maharastra 20, Avntika Park, Opp. Vaibhav Buglows, B/h Sun N Step Club, Memnagar, Ahmedabad, 380052 Kamalesh Mahendrabhai Shah 6, Avantika Park, Khanpur, Ahmedabad, 380001 100 Dharmesh B Patel 22/b, Suryavan Appartment, Nr. Judges Bunglow, Bdakdev, Ahmedabad, 380015 Amar P Shah 26 D, Hari Park Society, Nr. Ankur Bus Stop, Naranpura, Ahmedabad, 380013 Mahendra K Sutaria Keshavpura, Nr, Rajur Tolnaka, Gomtipur, Ahmedabad 100 Dynacons Systems & Solutions Ltd. 78, Ratnajyot Industrial Estate, la Lane, Ville Parle(W), Mumbai, 400056 Babubhai R. Patel Darshak, 14/A, Swastik Society, Punjabi Hall Lane, Navrangpura, Ahmedabad, 380009 c. Company Name: Taurus Infosys Ltd. The company has mentioned following details in the Annual Return dated 30/9/2005 filed with ROC: Registered office: 3rd Floor, HN House, Near Old High Court Railway Crossing, Navrangpura, Ahmedabad, 380009. Total issued Capital (number of shares): 72,50,000 of Rs. 10/ each.

Name Rajeshkumar Vithabhai Patel 5, Shivam Satellite Society, B/h Kadamb Bungalow, Bodakdev, Vastrapur, Ahmedabad, 380015 Kirtiben Rajesh Patel 5, Shivam Satellite Society, B/h Kadamb Bungalow, Bodakdev, Vastrapur, Ahmedabad, 380015 Saryuben H. Vora 20, Basant Bahar Bungalow, Nr. Purshottam Nagar Bus Stop, Bopal, Ahmedabad, 380058 Nilesh Ramanlal Shah 305-B, Kadamgiri, AshokRoad, Kandivali (E), Mumbai, 400101 - 20, Avntika Park, Opp. Vaibhav Buglows, B/h Sun N Step Club, Memnagar, Ahmedabad, 380052 Kamalesh Mahendrabhai Shah 6, Avantika Park, Khanpur, Ahmedabad, 380001 100 Ramanlal Maganlal Patel Dolly Chambers, Upper Ground Floor, Stadium Circle, Navrangpura, Ahmedabad, 380009 Harshal Utpal Pandya A/1, Balaji Krupa Appt., Nr. SBI, Memnagar, Ahmedabad, 380052 100 Mahendra Khemchand Sutaria Keshavpura, Nr, Rajur Tolnaka, Gomtipur, Ahmedabad 100 Dynacons Systems & Solutions Ltd. 78, Ratnajyot Industrial Estate, Irla Lane, Ville Parle(W), Mumbai, 400056 Babubhai Ramanbhai Patel Darshak, 14/A, Swastik Society, Punjabi Hall Lane, Navrangpura, Ahmedabad, 380009 d. Company Name: Excel Mutitech Limited. The company has mentioned following details in the Annual Return dated 30/9/2005 filed with ROC: Registered office: 303, Anand Chambers, Near Old High Court, Near Railway Crossing, Navrangpura, Ahmedabad, 380009. Total issued Capital (number of shares): 74,45,000 of Rs. 10/ each.

Name Rajeshkumar Vithabhai Patel 5, Shivam Satellite Society, B/h Kadamb Bungalow, Bodakdev, Vastrapur, Ahmedabad, 380015 Kirtiben Rajesh Patel 5, Shivam Satellite Society, B/h Kadamb Bungalow, Bodakdev, Vastrapur, Ahmedabad, 380015 Saryuben H. Vora 20, Basant Bahar Bungalow, Nr. Purshottam Nagar Bus Stop, Bopal, Ahmedabad, 380058 Rakesh Sureshchandra Shah M-5, Room no-3, Bhadra Nagar, Malad (W), Mumbai, 400064 - 20, Avantika Park, Opp. Vaibhav Buglows, B/h Sun N Step Club, Memnagar, Ahmedabad, 380052 Kamalesh Mahendrabhai Shah 6, Avantika Park, Khanpur, Ahmedabad, 380001 100 Paresh Rasiklal Patel Dolly Chambers, Upper Ground Floor, Stadium Circle, Navrangpura, Ahmedabad, 380009 Biren Mahendra Desai 24, New Sharad Society, Nr, Vijaynagar Char Rasta, Naranpura, Ahmedabad, 380013 Mahendra Khemchand Sutaria Keshavpura, Nr, Rajur Tolnaka, Gomtipur, Ahmedabad 100 Dynacons Systems & Solutions Ltd. 78, Ratnajyot Industrial Estate, la Lane, Ville Parle(W), Mumbai, 400056 Babubhai Ramanbhai Patel Darshak, 14/A, Swastik

Society, Punjabi Hall Lane, Navrangpura, Ahmedabad, 380009 e. Company Name: Arth Stock Broking Pvt. Ltd. The company has mentioned following details in the Annual Return dated 30/9/2005 filed with ROC: Registered office: 804, Abhijeet -1, Mithakali Circle, Ahmedabad 380009. Total issued Capital (number of shares): 4,00,000 of Rs. 10/ each.

Name Shah Dineshchandra Nimesh A/2, Labdhi Apt., 24-Champaner Society, Usmanpura, Ahmedabad, 380013 - Shah Ajitbhai Ilesh 10, Shri Niketan Society, Shantinagar, Vadaj, Ahmedabad, 380013 - Jhaveri Priyakant Kamal A/3, Embassy Apartment, Dr. V S Road, Ambawadi, Ahmedabad, 380015 - Panchal Jashwantlal Dipak 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 99600 Panchal Ranchodlal Bhargav 15-Suryadeep Society, Nr. Takshashila Apartment, Vastapur, Ahmedabad, 380015 Shareholders 803, Abhijeet-1, Mithakali Circle, Navrangpura, Ahmedabad, 380009 200000 Panchal Dipak Devangi 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 100000 Panchal Jashwantlal Bharti 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 10 Panchal Jashwantlal Dina 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 10 Panchal Jashwantlal Uma 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 10 Panchal Jashwantlal Nila 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 10 (II) Physical verification of addresses of following entities was carried out by SEBI: a. Sugandh Estates & Investment Pvt.Ltd. at 1st Floor, Urja House, Swastik Char Rasta, Navrangpura, Ahmedabad 380009: It was found that the office at the said address was closed and was earlier occupied by Videocon Appliances Ltd. and Videocon Industries Ltd. b. Excel Mutitech Limited and Zenet Software Ltd. located at 303, Anand Chambers, Near Old High Court, Near Railway Crossing, Navrangpura, Ahmedabad, 380009. It was found that the Anand Chambers was located next to H N House. No office staff was found at the said office no. 303. The security guard of the office, who was the only person present at the office, stated that the office no. 303 belongs to H. Nyalchand.

(III) It was also seen from Return of Allotment filed by Sujal Leasing & Finance Ltd.(Sujal) (one of the financiers identified in this order) with the ROC that the company had allotted 50000 shares of Sujal to Shri Bahubali Shantilal Shah

(Address: Gujarat Samachar Bhavan, Khanpur, Ahmedabad-380 001) on March 20, 2005. In this context it may be mentioned that during the course of preliminary scrutiny in the case of IDFC it was found that Zenet Software, one of the financiers identified in this order had made off-market transfer of 55,860 shares on August 10, 2005 to Bahubali Shantilal Shah.

(IV) Annual Return filed by Arth Stock Broking Ltd, having its address at 804, Abhijeet 1, Mithakali Circle, Ahmedabad 380009, has following directors and shareholders: Name Shah Dineshchandra Nimesh A/2, Labdhi Apt., 24-Champaner Society, Usmanpura, Ahmedabad, 380013 Shah Ajitbhai Ilesh 10, Shri Niketan Society, Shantinagar, Vadaj, Ahmedabad, 380013 Jhaveri Priyakant Kamal A/3, Embassy Apartment, Dr. V S Road, Ambawadi, Ahmedabad, 380015 Panchal Jashwantlal Dipak 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 99600 Panchal Ranchodlal Bhargav 15-Suryadeep Society, Nr. Takshashila Apartment, Vastapur, Ahmedabad, 380015 Shareholders 803, Abhijeet-1, Mithakali Circle, Navrangpura, Ahmedabad, 380009 200000 Panchal Dipak Devangi 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 100000 Panchal Jashwantlal Bharti 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 10 Panchal Jashwantlal Dina 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 10 Panchal Jashwantlal Uma 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 10 Panchal Jashwantlal Nila 402, Shashwat, Opp. Gujarat College, Ellisbridge, Ahmedabad, 380006 10 It may be seen that Dipak Panchal and Kamal Priyakant Jhaveri (brother of Parag P. Jhaveri) are directors.

15. Examination of Role of Depositories In view of the inspection findings relating to DPs during the course of which significant non-compliances with the regulatory requirements laid down by SEBI were noticed and keeping in view the finding that Karvy DP had not only failed to exercise due diligence while opening dematerialized accounts in fictitious/benami names and providing/arranging finance for these fictitious/benami but also indulged in fabrication of documents to cover its tracks besides seeking to place them beyond the pale of scrutiny, SEBI examined in detail the role of Depositories in monitoring their DPs and their responsibilities in terms of compliances with the Depositories Act, 1996 and SEBI

(Depositories and Participants) Regulations, 1996. Before proceeding to the findings of the examination, it may be pertinent to mention that the depositories have introduced in the depository system separate fields for capturing permanent address and correspondence address. Apparently, the permanent address field was not a mandatory field. Vide circular ref:CDS/OPS/DP/588 dated October 20, 2005, CDSL stated that "Since capturing Permanent Address is optional, sometimes the same is not captured in the system....

...changes in the software to make the entry of Permanent Address mandatory while opening a demat account, have been incorporated by CDSL in the on-line account set up as well as in the BO setup through Upload procedure." It may be mentioned that the existence of the field of correspondence address in the depository system and the non-mandatory nature of the permanent address field had assisted the key perpetrators and their associates to perpetrate the mischief of opening demat accounts in fictitious/benami names for cornering retail portion of the IPO. The periodical inspection of the DPs by the depositories failed to reveal the irregularities in the opening of demat accounts by the DPs.

In terms of Section 4(1) of The Depositories Act, 1996, "A depository shall enter into an agreement with one or more participants as its agent." Thus, it is clear that the depositories and DPs share a principal - agent relationship. In any principal - agent relationship, the principal is liable for the acts of omission and commission of the agents. Hence, it follows that the depositories are liable for the acts of the DPs. In the above background, SEBI examined the role of depositories in relation to the opening of demat accounts in fictitious/benami names and the consequent irregularities in various IPOs.

Background and functions of Depositories The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security. It does so by (a) making securities of public limited companies freely transferable subject to certain exceptions; (b) dematerialising the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form. In order to streamline both the stages of settlement process, the Act envisages transfer of

ownership of securities electronically by book entry without making the securities move from person to person. The Act has made the securities of all public limited companies freely transferable, restricting the company's right to use discretion in effecting the transfer of securities, and the transfer deed and other procedural requirements under the Companies Act have been dispensed with. Two depositories, viz., NSDL and CDSL, have come up to provide instantaneous electronic transfer of securities.

The depositories are important intermediaries in the securities market.

In India, the Depositories Act defines a depository to mean "a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under Sub-section (IA) of Section 12 of the Securities and Exchange Board of India Act, 1992." The principal function of a depository is to dematerialize securities and enable their transactions in book-entry form.

Dematerialisation of securities occurs when securities, issued in physical form, are destroyed and an equivalent number of securities are credited into the beneficiary owner's account. In a depository system, the investors stand to gain by way of lower costs and lower risks of theft or forgery, etc. They also benefit in terms of efficiency of the process. But the implementation of the system has to be secure and well governed. All the participants have to be conversant with the rules and regulations as well as with the technology for processing. The intermediaries in this system have to strictly abide by the rules.

A depository established under the Depositories Act can provide any service connected with recording of allotment of securities or transfer of ownership of securities in the record of a depository. A depository cannot directly open accounts and provide services to clients. Any person willing to avail of the services of the depository can do so by entering into an agreement with the depository through any of its Depository Participants.

The services, functions, rights and obligations of depositories, are defined in The Depositories Act, 1996. The principal function of a depository is to dematerialise securities and enable their transactions in book-entry form. The securities are

transferred by debiting the transferor's depository account and crediting the transferee's depository account.

Every depository must have adequate mechanisms for reviewing, monitoring and evaluating the depository's controls, systems, procedures and safeguards. It should conduct an annual inspection of these procedures and forward a copy of the inspection report to SEBI. The depository is also required to ensure that the integrity of the automatic data processing systems is maintained at all times and take all precautions necessary to ensure that the records are not lost, destroyed or tampered with. In the event of loss or destruction, sufficient back up of records should be available at a different place.

Adequate measures should be taken, including insurance, to protect the interests of the beneficial owners against any risks.

Inspection, Accounting and Internal Audit by Depositories NSDL obtains audited financial reports from all its DPs once every year. NSDL also carries out periodic visits to the offices of its constituents - R&T agents, DPs and clearing corporations - to review the operating procedures, systems maintenance and compliance with the bye-laws, business rules and SEBI Regulations. Additionally, DPs are required to submit to NSDL internal audit reports every quarter.

Internal audit has to be conducted by a chartered accountant or a company secretary in practice.

The Board of Directors of NSDL appoints a Disciplinary Action Committee (DAC) to deal with any matter relating to DPs clients, issuers and R&T agents. The DAC is empowered to suspend or expel a DP, declare a security as ineligible on the NSDL, freeze a DP account and conduct inspection or call for records and issue notices.

If a DP is aggrieved by the action of the DAC, it has the right to appeal to the Executive Committee (EC) against the action of the DAC. This has to be done within 30 days of the action by DAC. The EC has to hear the appeal within two months from the date of filing the appeal.

The EC has the power to stay the operation of the orders passed by the DAC. The information on all such actions has to be furnished to SEBI. Settlement of Disputes in Depository System All disputes, differences and claims arising out of any dealings on the NSDL, irrespective of whether NSDL is a party to it or not, have to be settled under the Arbitration and Conciliation Act 1996.

Termination by Depository - Besides these regulatory provisions, each depository may have its own bye-laws for termination or suspension of its DPs. NSDL's bye-laws provide 15 conditions under which it may terminate the operations of a DPs.

Examination of functioning of Depositories In the light of the irregularities found in the IPOs of Yes Bank and IDFC wherein large number of demat accounts (running into thousands) was opened by few people to corner the retail portion of the IPO allotment, SEBI examined the role of depositories. SEBI also looked into the inspections of the Depository Participants conducted by NSDL & CDSL. Further SEBI verified whether the functioning of the depositories is in a manner which is in the interest of the investors and the securities market.

For the purpose of the examination, SEBI obtained from NSDL and CDSL all the inspection reports pertaining to seven DPs viz. Karvy Stock Broking, HDFC Bank, Pratik Stock Vision Pvt. Ltd, IL& FS, Centurio n Bank, Wellworth Share & Stock Broking and Dindayal Biyani Stock Brokers Ltd. These DPs were shortlisted on the basis of the occurrence of large number of multiple accounts with same addresses with these DPs found during the course of verifications done by CDSL. The follow up action regarding action taken by disciplinary committee and penalties were also obtained from the depositories. Information was also called for regarding waiver of penalties if any. The operation Inspection reports and the observation in sign-off reports were analysed to find out the nature of inspection and the effectiveness of them in serving the purpose it was actua lly intended for.

Procedure followed by NSDL with respect to inspection of DPs Bye-laws of NSDL provides for inspection of DP wherein it is mentioned that where the Executive Committee deems it necessary, it may appoint one or more persons as inspecting authority to undertake the inspection of books of accounts, other records and documents of the Participant to the extent they pertain to Depository operations.

The inspecting authority appointed by Executive Committee under the bye law may be either its own officials or outside professional.

On examination of the inspection report of seven DPs called for from NSDL it is seen that the inspection of DPs is being carried out by NSDL on half yearly basis. Inspection by NSDL covers the areas related to Operations and Systems of the DP. All the inspections have been carried out by the officials of NSDL. It has been observed that most of the inspections have been completed in a day's time. It is seen that NSDL calls these "inspections" as "visits". Inspections are referred to by NSDL as "visits" in all formal communications and not as "inspections" though byelaws use the term "inspections". The use of term "visits" instead of "inspections" and not quoting of byelaws under which inspection is carried out in inspection notice may become a legal hurdle if as a result of inspection, penal action is required to be taken. Further a visit has its own ring of informality, besides lacking the seriousness of purpose.

Major observations are communicated to DP by way of 'sign off' report.

Sign-off Report is the list of violations observed and communicated to the DP in writing signed by inspection team and DP officer on the conclusion of the inspection. It was also observed that DPs subsequently file a compliance status with NSDL based on the sign-off report. Thereafter, NSDL issues a formal letter to DP communicating uncomplied observations.

Further, from the inspection report it was observed that the sampling techniques used by NSDL are not clear. for instance for the inspection of HDFC Bank carried out by NSDL Officials in January 03, the number of sample checked for account opening -20, Account Transfer - 71; IDT-14; Pledge - 12 and miscellaneous - 94 when the number of active accounts were 73072 and 62 new accounts were opened in the last six months. It was noticed that the sample size taken by the NSDL inspection team was not adequate and the findings did not reflect the true picture on the ground. Hence, it is likely that the violations brought out by the NSDL inspecting team are not indicative of the prevailing ground reality as the sample size is very small.

Upon perusal of the inspection reports of the said seven DPs called for from NSDL and CDSL the following were observed: Inspection of HDFC Bank by NSDL a. In the inspection report for the period January 2003 the sample size under the head account opening was 20 where as the total errors observed are 39.

b. In the inspection report for the period July 2003, the number of active accounts was indicated as 0, however later the figure was hand written and so was the number of sample checked.

c. In the inspection report of January 2004 the points covered under the head "account opening" are only 10 as against 40 in other reports. The sample size was also not indicated. Further, from the findings of the inspection team it is observed that there were around 13 observations under the head account opening and 3 under the head account opening forms verified. However from the tabular report for operational inspection it is observed that they have indicated only 3 cases where address changed without obtaining any adequate proof. It is further seen that no new accounts were opened in the last 6 months therefore it is not clear which new account opening forms were verified by the inspection team and for which period.

d. In the inspection report of July 2004, the number of active accounts increased from 65,042 in January 2004 to 6,11,030 in July 2004 an increase of 5,45, 988 active accounts. Further, 1,83, 264 new accounts were opened in July 04 as compared to no new accounts in July 2003 and January 04 however, as compared to the increase in number of active accounts and number of new accounts the sample size was very low at around 40. The inspection team did not observe any error in the account opening procedure and have not commented on the increase of new accounts from 0 to 183264.

e. In the inspection report of January 2005 it is observed that under the head "miscellaneous " at bullet no. 3 the list of errors mentioned therein continue to exist even after the same were observed time and again by the inspecting team in the last 4 inspections. Each time the team pointed out an error in a particular account the DP merely rectified the same and sent a compliance report. There is a possibility that in cases which did not form a part of the sample size the error

continued to exist till such time it was pointed out to them. This indicates lack of due diligence on the part of the DP as well as depositories, as the Depositories check for compliance of errors pointed out by the inspecting team in the last inspection. The depositories also had not taken any action on the repetitive nature of defaults by the DPs.

f. In the inspection report of July 2005 it is observed that the DPs continue to use documents for proof of address even after being pointed out as not fit by the inspection team in every visit. The same fact is not being brought out in the inspection report and the DP is also not being penalized for continuing to use the same documents for proof of address which have been pointed out by the inspection team as not fit for being used as proof of address. In the same report it has been observed that some of the errors pointed out in the previous inspection continue to remain at the time of next inspection and no action has been initiated by the depository for continuance of such errors.

Inspection of Pratik Stock Vision Pvt. Ltd. by NSDL a. In the inspection report of January 2003 it was observed that the points covered under the head "account opening" are 49 as against 40 points in the all other reports.

b. In the inspection report of January 2004 the sample size taken for account opening is 18 and the number of active account was 2985 as against 57 sample size when the number of active account was 746.

It may be seen that sample size chosen by the officials of NSDL in their inspections is woefully inadequate and have no correlation to the number of demat accounts held with a DP. Inspection of IL& FS by NSDL a. In case of inspection of IL&FS during May 2003, the deficiencies of the previous visit were still found unrectified. The visit of November 2003 also shows the deficiencies being repeated from previous visits without being corrected. In case of November 2004 visit also, the non-compliances in previous report were observed.

The observations made in writing are not captured in the tabular format used in the inspection report. Though there are 13 observations relating to account opening in the written observations, the format shows only 10 errors involving 10 accounts.

b. In case of the inspection of May 2005 also similar observations were made. 16 written observations found on account opening, but the tabular form only shows 10 errors involving 8 accounts. Previous deficiencies relating to account opening are also found in the inspection reports of May 2005 and November 2005.

4 Inspection of Karvy-DP Hyderabad by NSDL a. In the Karvy Hyderabad inspection of May 2003, it is observed that NSDL have stated "that dummy accounts were observed without having supporting documents. This was observed during last visit also". Though these dummy accounts were found, no stringent action was taken. NSDL provides more stress on getting NCFM certification and Hardware and software from vendors approved by NSDL.

b. Karvy-DP replied to NSDL stating that all deficiencies have been complied with. Subsequently, the same deficiencies relating account opening were observed in the report of November 2003 also when about 5483 accounts were observed in registered status where DP in practice was generating client ID entering only client name and other details later which was observed in earlier visit too. No action was taken or penalty imposed on the DP by NSDL.

c. In the inspection which is called "visit" by NSDL, of May 2004, the same errors relating to account opening were found. It is seen that out of a sample of 48 accounts inspected for A/c opening, 21 accounts showed errors, which is about 40% of the sample size, despite which NSDL did not take any action or impose penalty.

d. In the inspection of November 2004 also, the errors relating to account opening persisted. It is found that out of a sample of 53 accounts inspected for A/c opening, 21 accounts showed errors, which is about 39% of the sample size, despite which no action was taken or penalty imposed. On the observations of the previous visit when checked for compliance, the report states that many of the same deficiencies continue in present visit also despite reports from Karvy that they have complied with the observations.

e. In the inspection of May 2005, the errors relating to account opening persisted. It is seen that out of a sample of 60 accounts inspected for A/c opening, 30

accounts i.e. 50% of the sample size showed errors, despite which no action was taken or penalty imposed. On the observations of the previous visit when checked for compliance, the report states that many of the same deficiencies continue in present visit also despite reports from Karvy that they have complied with the observations.

f. In the inspection of November 2005, the errors relating to account opening persisted. It is seen that out of a sample of 96 accounts inspected for A/c opening. 22 accounts showed errors, which is about 22% of the sample size and no action was taken or penalty imposed by NSDL. On the observations of the previous visit when checked for compliance, the report states that many of the same deficiencies continue in present visit also despite reports from Karvy that they have complied with the observations.

Inspection of Karvy-DP Mumbai by NSDL In case of Karvy Mumbai, during July 2003, there is a note about serious and recurring errors but they do not appear in the tabular report. The tabular report shows 2 errors/deficiency, but the sample accounts showing errors show 17 accounts. It means that these errors are not captured in the inspection report.

The following table shows the summary of inspection reports and findings relating to account opening errors during 2003-2006.

Karvy Mumbai ACCOUNTS INVOLVING ERRORS	17	%	accounts having errors	94.4444		
KARVY HYDERABAD ACCOUNTS INVOLVING ERRORS	2	21	%	accounts having errors	33.3333	
IL&FS ACCOUNTS INVOLVING ERRORS	0	%	accounts having errors	0		
Centurion Bank ACCOUNTS INVOLVING ERRORS	0	%	accounts having errors	0		
Pratik 57	7.64075	ACCOUNTS INVOLVING ERRORS	not legible	%	accounts having errors	66.6667
HDFC BANK ACCOUNTS INVOLVING ERRORS	6	%	accounts having errors	15.3846		
866.667	64.7059	a.				

From the above table, it is observed that the sample used for observations are pathetically low, always less than 1% and mostly less than 0.1% in these inspections. Further it is interesting to note that though the numbers of accounts have increased (doubled) during the year, the sample size remained the same.

b. It can be also observed that in case of new accounts opened, the errors are quite high i.e. about 50% of the accounts inspected have errors. In some case it is 100 % i.e. all the accounts inspected have errors. The range of the errors is also very wide from 6% to 100 %. It further shows that the reliability of these inspections is very low over a period of time. In some inspections, the numbers of errors found are large, while in the next one it drops drastically.

The time allowed for these inspections also casts doubts on the reliability of these inspections.

c. Further it is also observed that the table format which shows the errors and their number do not correspond with the actual errors and their number found in the annexure which details the number of the account and the deficiency found. As a result some instances are found where the accounts involved in errors are more than 100%. This has happened because the report shows fewer errors like in case of Karvy Hyderabad inspection of November 2005, it is found that the table shows 22 errors in total, but the annexure shows 26 accounts which have account opening errors. This is not possible because one account should have at least one error. Hence there are errors in the inspection report itself.

d. There is recurrence of same errors in account opening repeatedly in inspection after inspection. NSDL makes comments of them in their reports. The DPs send confirmation letter stating that they have rectified all deficiencies. In the next inspection, the same error recurs, and the cycle goes on. Penalty is hardly levied for these deficiencies, while penalties are levied for employees of DPs not having NCFM certification. The DPs are aware that account opening errors are not seriously taken by NSDL and hence do not take steps to prevent these errors from recurring. This seems to have been a regular practice over the years which have made non-compliance while account opening a regular feature. The depository turns a blind eye to these deficiencies which has led to its recurrence again and again.

An analysis of the penalties imposed by NSDL for various non-compliances in respect of five DPs is tabulated below: karvy non-compliance % to total penalty(in rupees terms) Qualified personnel not appointed as per NSDL requirement 5

Quarterly Internal Audit Report not submitted (by stipulated time).

17 No/inadequate control over issuance and/or acceptance of instruction slips.

Not taking back up daily and/or deviation in procedure of taking backup 5 Account closure/ freezing/ unfreezing /transmission not done as per NSDL requirements.

Account opened without obtaining adequate proof of identity and/or proof of address and no adequate proof of address collected for change of address.

Account opened without obtaining adequate proof of identity and/or proof of address and no adequate proof of address collected for change of address. (observed in two consecutive inspections) 1 Client account debited without receiving proper authorisation from clients.

Data entry errors/ommission which may cause inconvenience and/or loss to the client / system / DP / NSDL 1 Delay in processing of demat requests beyond 7 working days after receipt No/inadequate control over issuance and/or acceptance of instruction slips. (observed in two consecutive inspections) 1 178800 Centurion Bank Limited No/inadequate control over issuance and/or acceptance of instruction slips.

Not taking back up daily and/or deviation in procedure of taking backup 1 Qualified personnel not appointed as per NSDL requirements 1 17000 Infrastructure Leasing & Financial Services Limited Account opened without obtaining adequate proof of identity and/or proof of address and no adequate proof of address collected for change of address.

Quarterly Internal Audit Report not submitted (by stipulated time).

1 Not taking back up daily and/or deviation in procedure of taking backup 1 Client account debited without receiving proper authorisation from clients.

Qualified personnel not appointed as per NSDL requirement 4 46650 HDFC Bank Limited Qualified personnel not appointed as per NSDL requirements 8 Statement of transactions not being sent to clients as required by regulations.

754250 Pratik Stock Vision Private Limited Not taking back up daily and/or deviation in procedure of taking backup 1 It can be seen that most of the penalties are for qualified personnel not appointed as per NSDL requirements/NCFM certification.

NSDL has charged Rs. 15,000 to 7,50,000 for this non-compliance in case of HDFC bank. In case of IL &FS for account opening deficiency only Rs. 300 has been charged in one instance, whereas for qualified personnel not appointed as per NSDL requirements/NCFM certification there are 4 instances of fine ranging from Rs 3150 to Rs 10,850. In case of Karvy 40 instances of penalty being imposed were observed.

There were 17 instance where a penalty of Rs 500 to RS 2000 was imposed for Quarterly Internal Audit Report not submitted (by stipulated time). In case of account opening errors there were two instances where Rs. 600 and Rs.1100 was charged. When there was recurrence Rs.10,000 was charged. In case of qualified personnel not appointed as per NSDL requirements/NCFM certification there were five instances and penalties ranging from Rs.10,000 to Rs.50,000 were levied.

The penalties levied do not correspond to the deficiencies found during the inspection of DPs. It can be observed that though large numbers of deficiencies were noted with regard to account opening and other operational matters no penalty is levied for repetitive instances of account opening deficiencies. Instead the focus is on NCFM certification which is provided by NSE. It can be observed that in case of all five DPs, the penalties levied is more than Rs.10000 and in some cases upto Rs.7,50,000 for non -compliance with NCFM certification, which is more an internal matter between the DPs and NSDL.

In case of deficiencies found for non-compliances with statutory requirements, which were found in the inspection, they were not considered by NSDL to be fit for levying penalty.

There are also instances of waiver of penalties by NSDL. In case of the said five DPs there were 14 instances of waiver of penalty by NSDL. The following table shows the summary of penalties levied and the percentage analysis.

karvy non-compliance % to total penalty (in rupees terms) Qualified personnel not appointed as per NSDL requirement 5 Quarterly Internal Audit Report not submitted (by stipulated time).

17 No/inadequate control over issuance and/or acceptance of instruction slips.

Not taking back up daily and/or deviation in procedure of taking backup 5 Account closure/ freezing/ unfreezing /transmission not done as per NSDL requirements.

Account opened without obtaining adequate proof of identity and/or proof of address and no adequate proof of address collected for change of address.

Account opened without obtaining adequate proof of identity and/or proof of address and no adequate proof of address collected for change of address. (observed in two consecutive inspections) 1 Client account debited without receiving proper authorisation from clients.

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Not taking back up daily and/or deviation in procedure of taking backup 1 Qualified personnel not appointed as per NSDL requirements 1 17000 Infrastructure Leasing & Financial Services Limited Account opened without obtaining adequate proof of identity and/or proof of address and no adequate proof of address collected for change of address.

Quarterly Internal Audit Report not submitted (by stipulated time).

1 Not taking back up daily and/or deviation in procedure of taking backup 1 Client account debited without receiving proper authorisation from clients.

Qualified personnel not appointed as per NSDL requirement 4 46650 HDFC Bank Limited Qualified personnel not appointed as per NSDL requirements 8 Statement

of transactions not being sent to clients as required by regulations.

754250 Pratik Stock Vision Private Limited Not taking back up daily and/or deviation in procedure of taking backup 1 It is found that in most of the cases the penalty imposed for failure to obtain NCFM certification is more than 50% of all instances where penalty has been imposed. The monetary penalty levied for not obtaining NCFM certification is also very high compared to penalties for account opening deficiencies. The money levied as penalty for account opening errors has been only 0-5% whereas for NCFM certification deficiencies the money levied as penalty has been 51% to 99.46% of the total penalty levied from a DP. It was found that NSDL waives off penalties if the DP concerned rectifies the deficiencies. The observations reported by DP as complied with in its first reply after conclusion of inspection do not attract any penalty in any case. Thus NSDL does not impose penalties for violations rectified immediately after inspection, does not impose penalties harsher than monetary penalties for the remaining violations and also waives the penalties imposed if the DP reports rectification of deficiencies. This system creates no disincentive or deterrent for a DP to comply till NSDL inspects and finds the violation, since rectification after inspection assures that no penalty of any kind is imposed on DP. It was observed that regardless of the type of DP (broker, Bank etc.) and regardless of the size of the operations of the DP concerned, NSDL devotes usually only one day for inspection. Also, NSDL has allotted a fixed time for each area of DP's operation and the time allotted remains the same irrespective of the quantum of instructions processed by the DP. Failure to take Appropriate Penal Action for Repetitive Violations It was observed that NSDL had not taken appropriate penal action against DPs for repetitive violations by DPs observed by NSDL during inspections. NSDL's action has never gone beyond imposition of monetary penalties. Penalties are waived off even for serious violations like inadequate control by DPs in DIS processing and client account debit without proper authorization.

Disciplinary Action Committee The Disciplinary Action Committee of NSDL has such responsibilities and powers as are delegated to it by the NSDL Board, from time to time, which includes the following responsibilities and powers to be discharged in accordance with the provisions of these Bye Laws: i) suspension of

a Participant; ii) expulsion of a Participant; iii) declaring a security as is 'ineligible' on the Depository; iv) freezing the account of the Participant; v) powers to conduct inspection; vi) power to conduct an investigation/inquiry, call for records, to issue show cause notice to Participants for suspension/expulsion.

In spite of repeated violations by DPs (many of them serious) as brought out above, the depository has not made any reference at all to its Disciplinary Action Committee. The Disciplinary action committee (DAC) of the depository had not met since its inception.

Procedure followed by CDSL with respect to inspection of DPs Inspection reports for the seven Depository Participants were also called for from CDSL. On perusal of inspection report it was found that CDSL gets its inspection conducted by outside professionals.

The inspection reports are not indicative at all. From the inspection report it is very difficult to draw a conclusion as it is in 'Yes' and 'No' format.

The inspection reports of CDSL are of poor quality and no effort is taken by CDSL to work on the format of the inspection report.

However, the special inspection conducted by CDSL which too has been conducted by outside professionals has covered all the points in detail unlike its earlier 'Yes' and 'No' format.

Summary of Findings Relating to the Role of Depositories a. From the above it can be concluded that the depositories have carried out the inspections of Depository Participants registered with them in a casual, cursory and perfunctory manner.

b. Also there is recurrence of same errors relating to account opening as noticed in inspection after inspection and NSDL has commented on them in their reports year after year. However, the same error recurs and the cycle goes on. This has made non-compliance while account opening a regular feature.

c. NSDL imposes penalty for non compliance with NCFM employee requirement however, no penalty is levied on not meeting the statutory requirement.

d. Regardless of the type of DP (broker, Bank etc.) and regardless of the size of the operations of the DP concerned, NSDL devotes usually only one day for inspection. Also, NSDL has allotted a fixed time for each area of DP's operation and the time allotted remains the same irrespective of the quantum of instructions processed by the DP. e. The sample size chosen by NSDL in their inspections is woefully inadequate.

f. NSDL had not taken appropriate penal action against DPs for repetitive violations by DPs observed by them during inspections.

NSDL's action has never gone beyond imposition of monetary penalties.

g. Most instances of levying of penalty are for mostly non compliance with NCFM employee requirement where penalties upto Rs.3,50,000 has been imposed. In case of account opening deficiencies the penalty is only 500-1000 rupees and the instances are few.

h. The reliability of the inspection reports is very low as there are grave errors like the number of errors being shown lesser than the number of accounts involving errors.

i. Thus it can be concluded that NSDL was aware of the irregularities in connection with opening of accounts from the year 2003 which is evident from the inspection report of HDFC Bank, Karvy Stock Broking etc. They failed to take prompt action against the DPs and failed to inform SEBI of the same.

j. As for CDSL their inspection reports are not indicative at all.

From the inspection report it is very difficult to draw a conclusion as it is in 'Yes' and 'No' format.

k. From the above it can also be drawn that the Depositories were aware of the possibility of existence of accounts being opened without proper KYC Process as early as 2003 and has not put in place system to detect such accounts and take appropriate action. Thus it is felt that the depositories have turned a blind eye to these deficiencies which has led to its recurrence of error in account opening

repeatedly, in a big way later.

l. It was also observed that the procedure for inspection, periodicity of inspection and the entity chosen for inspection has not been in line with the responsibility cast on the depositories.

Further, from the format of inspection reports of the Depositories it is observed that the inspection is system specific rather than entity specific.

m. From the above it can be inferred that there is no culture of supervision/compliance and the nature of compliance is merely paper work.

n. There was no application of mind while conducting these inspections. The way in which the penalty was imposed and then again waived when the DPs submit a paper saying they have complied shows a callous attitude towards statutory requirements by the depositories especially when the account opening deficiencies recur among the large percentage of the sample collected during all inspections from 2003-2006.

o. The levying of penalties which runs into lakhs for non-compliance with NCFM certification of employees of DPs by NSDL and only penalties in range of hundreds and few thousands for account opening deficiencies shows that NSDL does not use a fair and objective criteria while levying penalty.

p. The depositories are required to have adequate controls, systems and procedure for monitoring and evaluating its compliances with statutory requirements and prevent any conduct by DPs which is detrimental to the interest of investors or the securities market.

In this respect, the depositories have failed to perform and supervise the operations of the DPs and also failed to inform SEBI of the same deficiencies. Hence the depositories have failed to conduct themselves in a manner which is in the interest of investors and the securities market.

System Audit of NSDL by iSec Services (P) Ltd. SEBI investigations in the IPOs of Yes Bank and IDFC revealed significant irregularities in opening of demat

accounts by Karvy-DP in NSDL. These findings raised concerns as to the systems and processes in place at NSDL for monitoring and preventing irregularities relating to opening of and operations in demat accounts. Hence, SEBI engaged a firm, namely iSec Services (P) Ltd. to conduct system audit of NSDL. The salient findings of the system audit report are narrated in the succeeding paragraphs.

IPO Process Demat accounts are mandatory for making IPO applications. Besides the demat account a bank account is also needed. One way multiple applications could be made are with many names (sometimes fake) sharing similar addresses. Similarly bank accounts needed to be opened with these fake names and addresses.

NSDL's systems allow accounts to be stored in the DM (Depository Module) databases with no check on the addresses and other details at the DM. There is also a provision for including correspondence address. This correspondence address has been used for sending refund orders and also intimation regarding allotment of shares to the eventual financiers.

Account opening-Karvy Stock Broking Ltd.as a DP a. Agents of Karvy opened most depository accounts having same addresses. These agents had no legal sanction. In fact SEBI (D&P) regulations as well as the agreement, which NSDL signs with DPs (Depository Participant), prohibits such work without prior permission.

b. This was never checked or reported either by the internal auditors (Haribhakti & Co) of Karvy or by external inspection teams of NSDL.

c. These agents had ready-made stamps of addresses, which were affixed on the application forms. This too has never been reflected either in the internal audit reports or the Inspections by NSDL d. These agents after collecting the papers had local data entry operators enter the data on a magnetic media. This activity went unnoticed all along. In fact the entire process of verification of addresses and identity was bypassed by this operation.

- e. This data was given to the front office of local Karvy offices in India (428 offices) along with paper work.
- f. Local offices then sent the CD containing the data to Karvy in Hyderabad.
- g. Karvy Hyderabad, uploaded this data for account opening with NSDL.
- h. NSDL's DM application never checks the data uploaded by DP. i. Due to slack internal controls and supervision these accounts came to exist. Once the accounts got opened they were ready to be used for any subsequent IPOs The system audit report made significant observations detailing the modus operandi and also possible complicity of entities involved in the process of IPO allocations i.e. NSDL and Karvy: Contributory Negligence of NSDL a. NSDL never could capture the fact that there were agents being used for opening of demat account by Karvy DP. This is in spite of the six monthly inspections conducted by NSDL at various locations of Karvy. This leads to the impression that Inspections were perfunctory besides facilitating fictitious / benami / multiple accounts b. If the DP work related to account opening is not being monitored by NSDL, then this raises a question regarding the purpose of the activity of Inspection or 'visits' by depository. In fact the inspection forms include sub sections for checking account opening.
- c. NSDL never physically verifies the DP prior to recommending the registration of DP with SEBI. This is quite serious as it may get a DP recommended without complete knowledge of where it exists.
- d. Inclusion of the field for correspondence address in the depository system was a major step in helping the financiers achieve their collateral purposes. NSDL additionally introduced correspondence address (viz, the address of Financier) in the DP system, despite SEBI refusing to accede to their request. Similarly CDSL went on its own to have correspondence address (address of Financier) without due approval of SEBI and withdraw the same on October 20, 2005 in the wake of SEBI probe. This greatly facilitated the financiers to have real time control over the transactions of afferent accounts in the DP system besides direct control on payments, refunds, credit advice etc. without having to go through the rigmarole of routing the transactions through individual afferent accounts which are time

consuming and laborious besides complicating the process of settlement of financial refunds.

This particular relaxation through the incorporation of correspondence address in DPM for afferent account holders with a preponderant size and variety with all the attendant complexities of control in operation has made it facile and easy for the financiers to hoodwink the system and perpetrate the mischief while virtually entering into direct dealings with DP / Registrar to the Issue without the necessity of having the fae of afferent account holders.

e. Integrity of Account creation dates, which are essential for maintaining integrity of any financial systems, has not been maintained in NSDL systems. All account creation dates prior to 16/4/1999 are dummy dates in DM software. There are many other fields where the junk data is entered in the DM database.

f. NSDL has never had the application code verified by any third party. While maker and checker is an established process in financial industry, this has not been followed till date by NSDL in its own systems as the DM software never verifies any data except for the fact that it came from a valid DP id.

g. Physical verification has revealed that on the mainframe that hosts the DM and database there is no evident control on creation of users and groups.

h. There is no evidence of monitoring any of the access logs on the mainframe.

i. There is no documentation to disclose the management intent to monitor or audit the logs created on mainframe.

j. NSDL till date has made no byelaws for any internal monitoring review and control of its processes as required under Section 26 (p) of Depositories Act, 1996 as well as Section 34 of SEBI (Depositories and Participants) Regulations, 1996. Auditors have pointed this out for IS (Information System) audit at different times but have never been implemented.

k. NSDLs internal auditors (Aneja & Associates) have been appointed since 1998 and do not have any agreement signed between NSDL and the auditors. The

reports are at best perfunctory and some times do not maintain temporal integrity.

l. Besides email from prospective participant in Form A and Form B, NSDL as per its process does not have any independent proof of the place where the DP is going to keep the software supplied by NSDL. Checking for connectivity etc is carried out remotely as indicated in the statement of Mr. Milind Mungale. The premises where the DPM software is to be stored is never verified by NSDL as per their statements.

n. It is difficult to accept how adequacy of infrastructure is being affirmed if there was no physical visit to the prospective participant site. In case of Karvy DP too as per the statement of Mr S Gopalan, Company Secretary, NSDL, the recommendation to SEBI was made primarily on the Form A and B filled by the participant. No physical verification was ever done.

p. In fact Karvy DP subsequently applied for more DP IDs. They currently have 4 DP ids. One each in Mumbai, Lucknow, Hyderabad and Bangalore. Existence of these additional DP IDs besides Hyderabad has never been brought to the notice of SEBI. This also is clear from the documents perused and admitted by Mr S Gopalan in his statement.

q. Agreements entered into between the depository participant and NSDL does not mention its compliance to SEBI Act 1992 and is not notarised.

a. Haribhakti & Company has been their internal auditor since beginning of 1997 when Karvy became DP as well as Share transfer agent. They have never pointed out any flaw in case of account openings with similar addresses.

b. Karvy Stock broking Ltd.(DP) and Karvy Computer Share Pvt.Ltd.(STA) have the same person, Mr. V Mahesh signing the sign off reports for inspections done by NSDL. This implies that there was only one compliance officer for two different entities. This violates the essence of regulations under Section 58(b) of SEBI (D&P) Regulations, 1996. It is surprising that the Inspection teams of NSDL did not point this out.

Inclusion of additional address in the DPM application i. NSDL had initially on August 3, 2004 through its letter NSDL/PI/SEBI/2004/PP/0784 sought SEBI's advice on the following ".

permission to capture the address of financier in the DPM system...all correspondence including refund orders will be received by the financier" ii. SEBI refused the permission vide its letter dated 30th August, 2004 No, MRD/ARR/NSDL/19297/04 iii. NSDL again wrote back on October 18, 2004, letter no.

NSDL/PI/SEBI/2004/SU/1150 again seeking permission to add financiers address iv. NSDL went ahead and added the address in the DPM software on 02/07/2005 as per their version no. 3.9 v. As of now there exist two addresses for each client. One address is the local address and the other address is correspondence address.

vi. Once the data is uploaded by the DP, DM software performs no checks and accepts the data as it was uploaded by the DP. vii. TCS in its statement confirmed that since inception the software designed for NSDL was never required to check for similar addresses and similar names. They stated that they developed this as per the requirements of NSDL.

Existence of Dummy Dates i. Account creation dates for period prior to 16/4/1999 are dummy (0001-01-01). These have been filled up after this field was added in 16/4/1999. No updating of these fields have been done till date.

ii. Account activation dates got added in release 3.9 on 2nd July 2005 , all dates prior to this date are filled with the dates of 9999-12-31 iii. In case of minor nominee the date of birth is entered in DM database as 0001-01-01 iv. TCS has confirmed that this was done as desired by NSDL Existence of agents for opening of client accounts i. In case of Karvy client accounts were opened with the help of agents. These agents also had this data entered on computer media through third party data entry operators. This has been confirmed by Mr. V Mahesh of Karvy Stock Broking Limited, Hyderabad in his statement.

ii. Client data in electronic form is sent to Hyderabad along with papers. At Hyderabad they scan the signature and upload the data for opening of the client id.

iii. These agents were not given any specific permission by NSDL and this fact was never captured in any of the inspections carried out by NSDL.

Section 26 of Depository Act: Bye-Laws Internal reviews are essential for an organisation to measure effectiveness of its controls. Depository Act, 1996 Section 26 (2) (p) exhorts any depository to draft byelaws for its internal operations. It states that ...bye-laws shall provide for ...the internal control standards including procedure for auditing, reviewing and monitoring However, in the case of NSDL there are no byelaws for internal controls standards including procedures for auditing, reviewing and monitoring.

This has been confirmed on physical verification as well as the statement of Mr S Gopalan.

Regulation 37: Manner of keeping Records Regulation 37 of SEBI (D&P) Regulations states that "Where records are kept electronically by the depository, it shall ensure the integrity of the automatic data processing systems is maintained at all times...." In this regard, the following observations emerge in respect of NSDL: a. there are dummy dates entered in the DM database in respect of the client ids created prior to 16/4/1999. These dates have numbers like 0001-01-01. This has been confirmed in the statement of Mr Dharmesh Parekh b. Similarly account activation dates prior to 2nd July 2005 are all dummies and exist in format of 9999-12-31. This too has been confirmed in the statement of Dharmesh Parekh c. In case of no minor no minee his date of birth is entered in DM database as 0001-01-01 Regulation 35 of SEBI (D&P) Regulations: External monitoring, review and evaluation of systems and controls of the depository Regulation 35 of SEBI (D&P) Regulations states that " Every depository shall cause an inspection of its controls, systems, procedures and safeguards to be carried out annually and forward a copy of the report to the board" In compliance with these provisions, in addition to the reports submitted by the internal auditor of NSDL viz. Aneja and associates there were four external audits done since 1996. These audits are a.

KPMG IS Audit as per SEBI's order dated May 24, 1999 b. Penetration testing by IIT Mumbai as per NSDL order dated August 1, 2000 c. IS audit by M/s Haribhakti & Co as per SEBI order dated August 22, 2002 d. IS audit by Moore Rowland Consulting Private Limited as per NSDL order dated September 22, 2004

Observations -Process Audit a. There is no documented process for performing or reviewing the audits. This has been admitted by Mr. C Tilak in his statement b. Aneja & Associates have been appointed vide NSDL letter dated June 24, 1998 to do operations reviews, which are done on a bi monthly basis. Their use for external reviews as per Regulation 35 of the SEBI (Depository and Participants) Regulations raises concerns of conflict of interest.

c. Period of audit has been changed without any appropriate reason.

Initially it was November to October and now it is January to December.

d. While audit reports raised serious concerns on account opening and procedures for checking of address and Identity of clients, there is no evidence of any action plan initiated by NSDL to address these observations e. Audits have observed lacunae in variable access rights not being implemented by the DPs in almost all their reports.

f. Lack of proper backup procedures is also highlighted in almost all the reports since 1999.

g. There is no evidence of the audit report being considered by the management of the NSDL prior to submission to SEBI. h. No action plan for any corrective measures as an outcome of the audit is evident.

i. Some of the Audit reports do not pertain to the period that they ought to have covered in their audit, making the audit reports loose sanctity as per the mandate defined in regulation 35 of the SEBI (Depository and Participant) Regulations.

Observations -IS Audits a. All audits by external agencies have been done in an ad hoc manner. Out of the four audits two were mandated by NSDL and two were ordered by SEBI b. There is no periodicity or standard scope for any of these audits c. In fact till date there is no specific policy for external audits, which exists

at NSDL.

d. Some of the issues raised as early as October 1999 by KPMG in their report have not been formally addressed by NSDL in form of any management response. There is no evidence of any follow up plan at least for KPMG report, which went into the details of IT controls and Business Processes.

Inspection Process -NSDL NSDL carries out inspection of depository participants once every six months. There are specific forms which get filled indicating the Operations and Systems in place at the Participant.

Observations a. Periodicity of Inspections is not as per any established document.

b. There are two sets of process documents which exist one is dated October 21st, 2002 and the other one is undated.

c. This inspection process is not defined in the bye laws. This fact is revealed in the statement of Mr. Amit Sinha.

d. In case of the inspection of Karvy Stock Broking Ltd.for its Mumbai Branch, it was revealed that the inspection reports at no point captured the fact that there existed agents of Karvy DP who went around getting the client opening forms filled and did the POA (Proof of Address) and POI (Proof of Identity) checking. This fact has been admitted by Mr. Amit Sinha in his statement as well as Mr.

S Gopalan in his statement.

e. Review of internal audit done at DP is an essential part of the inspection process as per the manual of inspections which was shown to iSec. On physical verification of the last Inspection Audit of Karvy's Mumbai office the fact that there exists no procedure or system for any fraud reporting and also the fact that maker and checker facility is almost non existent, was never noticed in the Inspection Report.

f. Opening of client ids is a major activity for the DP, at no point of time does the Inspection Team ever test verify the details by physically calling a person and looking into his documents during inspection. This fact too has been admitted by

Mr Amit Sinha in his statement.

Visit to Karvy DP by System Audit team The observations emerging from the visit by the System Audit team to the offices of Karvy in And heri Industrial Estate, Mumbai are given below: a. The back office existed in the same place where the DPM clients were located b. The Maker and Checker concept was hardly evident, with as many as 25 users in the application c. No auditing was enabled on any of the DPM client machines d. There were generic users on the DPM server e. Policy for auditing system, application and security events was not uniform f. There was no evidence of any log monitoring or any process for the same at Karvy.

Logical security as it exists on the mainframe and also the LAN was checked. NSDL has a datacenter which houses the mainframe as well as other servers. The observations regarding the mainfram are given below : a. NSDL does not have a policy for creation of groups in RACF. This has been confirmed in the statement of Mr Nityanand Phatarphod b. Logs which get generated are not monitored c. Creation and deletion of users is not monitored in a routine manner d. User with name "Dummy " exist in the RACF groups which indicates that there is little control or monitoring of users and groups which exists in RACF e. There is no time synchronisation mechanism between the DM software and the DPM application. This has been confirmed as per the statement of Dharmesh Parekh.

f. There is also no SLA between TCS and NSDL besides the contract for time and material services.

Integrity The observations on the integrity of data maintained by NSDL is given below: a. NSDL has filled the client creation date prior to 16/4/1999 with 0001-01-01 dates b. The dates for client activation prior to 2nd July 2005 have been filled with 9999-12-31 c. Date of birth for minor has been filled with 0001-01-01 d. Closure date has been filled with 0001-01-01 e. RBI App. Date has been filled with 0001-01-01 f. PAN number field has no validation and has all kind of junk entries From the above observations of the system audit report of the firm engaged by SEBI it is clear that there are numerous failures and non-compliance by NSDL with regard the systems and processes put in place by it, making the system unreliable for the integrity of the data.

16. Conclusions (Prima facie) 16.1. At the outset, it is to be mentioned that the findings in this order against the several entities are based upon an incisive examination and analysis which has become prolix due to the sheer number of details, dauntingly massive and intricate, collected from inspection reports, exchanges, depositories, banks etc., to reconstruct the sequence of events in the entire gamut of IPO allotment from 2003 - 2005 in a real time setting, so as to appraise them in the realtime continuum for getting the necessary insights into what really transpired under the veneer of copious documentation and seeming compliance. The exercise involved wading through enormous mass of details, identifying suspect transactions and entities, linking them to fund flow with specific attribution to the real persons behind it, establishing linkages amongst them for possible collusion as well as control and a host of other related incidentals in a searing search that moves from one lead to another to grapple with the issues in all its ramifications, unravel the decussating strands for getting at the tell-tale. Given the magnitude of the exercise and the constraints attendant thereon, this order seeks to capture the quintessence of the same with reference to scattered findings in a welter of non-descriptness, besides building an internally consistent logic into them to impart perspicacity and clarity. In that view the prima facie conclusions which are only a summary of the details discussed in the various headings and sub-headings of the order need to be read with them, in so far as they are relevant and that alone would enable to size up the issue in all its enormity.

16.2. In the recent past while examining off-market transactions in the IPOs of Yes Bank Ltd('YBL') and Infrastructure Development Finance Company Limited ('IDFC'), it came to the notice of SEBI that certain entities had cornered IPO shares reserved for retail applicants by making applications in the retail category through the medium of thousands of beneficiary accounts in the name of fictitious/benami entities with each of the application being of small value so as to be eligible for allotment under retail category. After the allotment, these fictitious/benami allottees transferred these shares to their principals who in turn transferred the shares to their financiers. Most of these shares were sold immediately on listing.

16.3. SEBI advised the depositories viz. NSDL and CDSL to examine the above 105 IPOs with respect to off-market transactions during the period from the date of close of respective IPO to the first day of trading on listing (both days including) for identifying master account holders that had received IPO shares from numerous afferent demat accounts. Since the pay-in / pay-out for shares listed on the stock exchanges commences two days after the date of listing on the stock exchanges, it stands to reason that off-market trades done till one day after listing would necessarily involve dealing in IPO shares..

16.4. NSDL and CDSL submitted data in respect of the IPOs during 2003-2005 regarding the above. From the data submitted by NSDL it is seen that there are a total of 1579 dematerialized account-holders that have received IPO shares from 20 or more dematerialized accounts and in the case of CDSL there were 700 such dematerialized account-holders.

16.5. The floor level of 500 or more is adopted in this order for determining the suspect multiple demat accounts in typical samples, as samples with lesser numbers may not be truly representative of the "suspect" character, especially having regard to the large incidence of multiple accounts in any IPO with genuine combinations at lower levels.

Further a sample of more than 500 multiple demat account would impart the necessary focus and direction to the whole exercise of tracking down the real culprit accounts in cornering the IPO allotment and dealing with them effectively in a demonstrative regulatory action.

Also any group / cluster activity involving 500 or more demat accounts in IPO allotment excites a genuine suspicion in the context of off-market transfers from such accounts to one account which would normally be possible, if only such afferent accounts were dummies with unity of control resting with the master account holders. Definitely, synchronized off-market transfers in large numbers to a common master account have something uncommon about them, while suggesting control exercised by that master account holder in moving those afferent accounts, which have no existence of their own.

16.6. It is seen that in the case of NSDL and CDSL there were 21 IPOs in which 24 dematerialized account-holders received off-market credit of shares from 500 or more dematerialized account-holders having certain commonalities. The details in respect of these IPOs are summarized.

2. Datamatics Technologies Ltd.
3. Dishman Pharma. & Chemicals Ltd.
4. FCS Software Solutions Ltd.
5. Gateway Disriparks Lrd
9. Infrastructue Development Finance Co. Ltd.
10. Jet Airways (India) Ltd.
12. National Thermal Power Corporation Ltd.
13. Nectar Lifesciences Ltd.
14. Patni Computer Systems Ltd.
15. Sasken Communication Technologies Ltd.
17. SPL Industries Ltd.
19. T.V.Today Network Ltd.
20. Tata Consultancy Services Ltd.

16.7. The details of the 24 key operators are given below. The figures in bracket indicate the IPO in which each key operator had adopted this modus operandi in a large scale and the number of credits received by the key operators in their demat accounts:

1. Roopalben Nareshbhai Panchal (IDFC-12258)
2. Sugandh Estates And Investments Pvt.Ltd.(IDFC-10194)
3. Dhaval A. Mehta (Suzlon Energy-3863)

4. Arjav Nareshbhai Panchal (Patni Computers-2541)
5. Parag P Jhaveri (IDFC-2083)
6. Kelan Atulbhai Doshi (IDFC-1970)
7. Ambuja Estate And Holdings Pvt.Ltd. (TCS-1665)
8. Purshottam Budhwani (IDFC-1379)
9. Dharmesh Bhupendra M (IDFC-1206)
10. Jhaveri Securities Pvt. Ltd. (Suzlon Energy-1225)
11. Biren Kantilal Shah & Shah Biren Kantilal (Suzlon Energy-1303)
12. Kamal P Jhaveri (IDFC-883)
13. Devangi Dipakbhai Panchal(TV Today Network-862)
14. Chandrakant Amratlal Parekh (Suzlon Energy-803)
15. Dharmesh K Katakia (IDFC-749)
16. D B Mehta (NTPC-710)
17. Pratik Mafatlal Shah (Suzlon Energy-710)
18. Dhaval K Katakia (IDFC-700)
19. Deepakkumar Shantilal Jain (IDFC-686)
20. Himani N Patel (Suzlon Energy-635)
21. Deepak Madhukant Patel (Jet Airways-633)
22. Indiabulls Securities Ltd. (TCS-559)
23. Opee Stock - Link Ltd. (Jet Airways-553)

24. Manojdev Seksaria (IDFC - 1989) 16.8. In NSDL and CDSL taken together, a total of 58,938 accounts (37,240 in NSDL and 21,698 in CDSL) had been used as afferent accounts for cornering the retail portion of the IPO. Out of these 58,938 accounts 49,708 accounts representing about 84% of the total afferent accounts were held with Karvy DP.16.9. Upon examination of the details of afferent accounts that served as conduits for the master account holders, it is seen that multiple demat accounts were opened in large numbers since November 2003. More multiple demat accounts got opened in 2004 and the process continued till August 2005. Another common feature of the above conduit accounts is that most of these dematerialized account-holders were found to share common addresses which are the same as that of the master account holders.

16.10. Upon examination of the demat details of the key operators, it was observed that as many as 14 out of the 24 key operators had their respective demat accounts with Karvy-DP. Thus, it appears that Karvy-DP was actively in league by opening demat accounts for many of the key operators and also for most (about 84%) of the afferent accounts that served as conduits for the key operators. Also the numbers are too significant to be dismissed as the normal incidence of business while the stunning percentage in terms of concentration of suspect accounts cannot but tar Karvy DP with the same brush.

16.11. As per data obtained from NSDL and CDSL, it was seen that the 24 key operators had in turn made off-market transfers to various entities during the pre-listing period. It stands to reason that these entities who received shares through off-market transfers from the 24 key operators would have provided finance to the key operators which finance was used for cornering the retail portion of the IPO shares.

Since the financiers have received the shares from the key operators it would appear that these financiers are the ultimate beneficiaries of the IPO abuse committed by the key operators. As observed in the cases of Yes Bank and IDFC, it would be seen that many of the financiers might have sold the shares immediately on listing and commencement of trading on the stock exchanges thereby profiting from the higher listing price as compared to the issue price. Even

in a few cases where the financiers may not have actually sold the shares in the market, still they have made notional gains from the higher listing price. The gains made by the financiers were worked out by comparing the closing price (on NSE) on the first day of listing in respect of each of the above IPOs with the issue price of the respective IPOs.

16.12. From the calculations of the gains made by the financiers of Roopalben Panchal, SEIPL and other key operators, it is seen that the total gains of these financiers, in both NSDL and CDSL, works out to roughly Rs. 72.38 crores.

16.13. Inter-Linkages amongst Financiers and Key Operators 16.14. The investigations revealed inter-linkages amongst the above financiers.

16.15. Purshottam Budhwani and Manojdev Seksaria 16.16. It was seen that on October 20, 2005 Purshottam Budhwani transferred 16,304 shares of Suzlon Energy to Manojdev Seksaria and on the same day Manojdev Seksaria transferred back 18,624 shares to Purshottam Budhwani. These off-market transfers between Purshottam Budhwani and Manojdev Seksaria done prior to commencement of pay in / pay out on the stock exchanges clearly bring out the linkages between them.

16.17. Roopalben Panchal, SEIPL, Purshottam Budhwani and Vora Group 16.18. It is seen that Purshottam Budhwani has made off-market transfers of IPO shares to various entities namely Puloma Dushyant Dalal & Dushyant Natwarlal Dalal, Rasila Natwarlal & Natwarlal Thakordas, Natwarlal Thakordas & Dushyant Natwarlal Dalal, Nimisha Kadakia, Rajkumar Jain, Balvinder Gurmukhsingh Purswani, Jayprakash Girdharilal, Niranjana Girdharilal, Gurmukhdas Rameshkumar Giyamalani, Mehta Bansilal and Magnum Equity Services Limited. It is also seen that SEIPL had made off-market transfers of IDFC shares to Puloma Dushyant Dalal & Dushyant Natwarlal Dalal in NSDL thus showing that SEIPL and Purshottam Budhwani had made off-market transfers to common financiers.

Further, Roopalben Panchal and SEIPL have made off-market transfers to common sets of companies belonging to the Vora group such as Zenet Software,

Seer Finlease, Excel Multitech, Taurus Infosys, etc.

16.19. Roopalben Panchal, Dharmesh Mehta and Velvet Financial 16.20. It is seen that Dharmesh Bhupendra Mehta, a key operator and a major client of BHOB Goregaon branch who had been introduced by Karvy to BHOB, had transferred around 43,624 shares of IDFC to M/s. Velvet Financial Advisers Pvt.Ltd. (Velvet Financial) on August 11, 2005 i.e.

just before listing of shares on stock exchanges. It is seen that Roopal Panchal had also transferred 4,17,000 shares of IDFC to Velvet Financial on August 9, 2005.

16.21. Upon examination of the bank transaction statement of Velvet Financial it was observed that Velvet Financial had paid Rs 76,56,250 to Dharmesh Mehta and apparently there is no receipt of Rs 64 lakhs by Velvet from Dharmesh Mehta. Upon receipt of allotment, it is seen that Dharmesh Mehta has transferred the IPO shares to Velvet Financial while retaining some of these shares as his commission for executing the transactions.

16.22. Roopalben Panchal and Vora Group 16.23. Upon examination of Roopalben Panchal's bank account statement with BHOB Worli Branch, it is seen that Roopal Panchal had brought in margin money for IPO finance to the tune of Rs 22.03 crores. Upon examination of the source of funds of Roopalben Panchal for the margin money brought in by her, the following entities appear to have provided her finance for making the above applications: Name of the entity Amount given as margin money to BHOB, Worli Branch Seer Finlease Pvt. Ltd Rs 22,03,50,375 (which includes Rs 20,05,00,000) Taurus Infosys Ltd 16.24. It appears that the arrangement between Roopalben Panchal and the above entities / financiers were an arrangement for cornering retail portion of IPO which has been sought to be given a color of pure financing transaction.

16.25. Panchal group and Jhaveri group 16.26. Linkages between the Panchal group (consisting of Roopalben Panchal and others) and Jhaveri group (consisting of SEIPL and others) are also noticed. These linkages include the following: Dipakbhai Panchal and Bhargav Ranchodlal Panchal who belong to the Panchal

group and Kamal Priyakant Jhaveri who belongs to the Jhaveri group are common directors in Arth Stock Broking P Ltd., a broker of Ahmedabad Stock Exchange. Also, Arth Realty P Ltd. (which has the same address as that of SEIPL) and Devangi Dipakbhai Panchal are the two largest shareholders in Arth Stockbroking P Ltd. 16.27. Karvy and other Key Operators and Financiers 16.28. Roopalben Panchal, SEIPL, Purshottam Budhwani and Manojdev Seksaria have transferred funds to Karvy Consultants. Karvy Consultants also has financial transactions with Anagram Securities Ltd., Anagram Stock Broking, Balwinder Purswani and Dushyant Natwarlal Dalal.

Purshottam Budhwani and Manojdev Seksaria have transferred funds among themselves. These financial transactions also support the view that there are strong interlinkages amongst the key operators as well as between Karvy group and the key operators.

16.29. Incidentally Grace Consultancy- C\O Dipak J Panchal, Arth Realty P Limited (which has the address same as SEIPL), Purshottam Budhwani and Manoj Seksaria are all sub-brokers of Karvy-DP and are amongst the top four sub-brokers in terms of number of applications for demat accounts procured for Karvy-DP. 16.30. In view of the inter linkages amongst the master account holders and their financiers, it appears that a few common sets of entities were indulging in irregularities in a large scale in the various IPOs, indicating interlacing and interlocking operations with a common control.

16.32. Since many of the afferent demat account holders were found to share common addresses, SEBI advised NSDL and CDSL to verify the genuineness of demat account holders where 20 or more account holders share common addresses. Based on information furnished by CDSL and NSDL it is seen that six DPs of CDSL and 21 DPs of NSDL had 500 or more demat account holders sharing common addresses. All the above DPs confirmed to NSDL and CDSL that the KYC documentation in respect of the above demat accounts was complete in all respects.

16.33. However, SEBI decided to conduct further verification relating to the following five DPs namely, HDFC Bank Ltd.(HDFC), Dindayal Biyani Stock

Brokers Ltd.(DBSBL), Centurion Bank of Punjab Ltd.(CBPL), Infrastructure Leasing & financial Services Ltd. (ILFS) and Wellworth Shares and Stock Broking Ltd. (WSSBL). Accordingly, SEBI engaged an independent CA firm to conduct inspection / audit. The inspection by SEBI appointed CA firm brought out numerous violations.

16.34. DBSBL 16.35. DBSBL the depository participant is exclusively serving the interest of the director's family members and has not quite associated with any public customers. In the absence any public association it can as well use the services of any other Depository participants. DBSBL presently has permitted opening of multiple accounts within the family in permutation and combinations of names. This facilitated BO to make multiple applications for shares in IPOs under the retail category by indicating separate Demat accounts in the respective application forms.

It is apparent that there is a conflict of interest between the activities DBSBL as a DP and that of its directors as multiple applicants in the IPOs.

16.36. WSSBL 16.37. The activities of WSSBL DP are of a piece with the pattern as noticed in the case of DBSBL. DBSBL has opened accounts in the names of Directors and their family members. In the absence of dealings with public, the DP registration granted to WSSBL and DBSBL does not serve any meaningful purpose as its directors can open demat accounts with other DPs for their securities market activities.

16.38. ILFS 16.39. ILFS has been predominantly encouraging IPO financing in its operations for catering to the BO/Demat accounts. It funds the public issues by accepting very little margin and providing finance for the remaining major portion. e.g. in the case of IDFC, the issue was for Rs.36/-per share, while it financed Rs.34.50 and accepted Rs.1.50 as margin. ILFS have accepted a mandate from every BO/loanee that on receipt of the allotted shares, it would have to be transferred through off-market transfers to any other demat account of their choice and DP. This sort of arrangement is not in the interest of securities market as the same may result in creation of name lenders and not genuine investors. Also the inspection of ILFS by SEBI appointed auditor disclosed several irregularities in the

matter of compliance with KYC norms.

16.41. From the examinations and physical verifications relating to the demat account operations and demat clients of CBPL DP, it emerged that CBPL had failed to exercise even basic due diligence or adhere to the KYC norms prior to the opening of demat accounts in the names of thousands of clients who upon verification ultimately turned out to be men of straw.

16.42. Besides various glaring lapses in documentation that were noticed during the course of random checks, it was also seen that CBPL did not care to ascertain the genuineness of the persons in whose name it opened dematerialized accounts. The physical verifications carried out by SEBI as well as by the CA firm revealed that many of the dematerialized account-holders of CBPL simply did not exist. In some cases where they did exist it was found that they were merely name-lenders who did not have the wherewithal to open and operate demat accounts or deal in securities market.

16.43. CBPL Ahmedabad branch has provided IPO finance to the tune of Rs.7 crores to about 2200 applicants in the case of IDFC issue. In the light of the findings of the physical verifications as narrated above, it appears that many of the customers to whom CBPL has provided IPO finance may be fictitious/benami. The glaring lapses in the demat operations of CBPL is accentuated by the fact that it not only opened demat accounts in the names of the non-existent/fictitious/benami entities but also provided IPO finance to these entities without conducting basic customer due diligence of its borrowers.

16.44. Physical verification at the addresses of the demat clients of CBPL DP by SEBI officials as well as by the CA firm engaged by SEBI has revealed that many of the demat clients were not residing at the addresses as per the records of CBPL. In some cases, the addresses were located in chawls and the account holders were men of straw whose voter ID and other identity documents were exploited by Mahesh Shah and his associates/principals such as SEIPL for opening multiple demat accounts.

16.46. From the inspection of DP operations of HDFC Bank by the CA firm engaged by SEBI as well as the firm engaged by CDSL, it emerged that HDFC bank had failed to exercise due diligence and has opened demat accounts in the names of fictitious / benami entities. Numerous irregularities and non-adherence to the prescribed KYC norms were found. During the course of verification of genuineness of account holders done by the depositories at the instance of SEBI, HDFC bank DP had confirmed that it has complied with the KYC norms in respect of its demat account clients. In the light of the findings of the inspections, the above confirmation by HDFC Bank DP appears to be totally divorced from reality as established. 286 SB accounts opened by the key operator (Purshottam Budhwani) with HDFC bank is clearly proof enough for the plan of action to open multiple dematerialized accounts and channelise the funds in a manner that would bury the audit trail.

16.47. With regard to the banking operations of HDFC bank it is seen that some of the bank account transactions as examined by SEBI as well as the CA firm engaged by SEBI appear to be of suspicious nature .In any case I note that inspection of HDFC bank by RBI had revealed violation of KYC norms for IPO subscription and cornering of retail portion of IPO through fictitious/benami demat accounts and RBI has levied monetary penalty on HDFC bank. In that view, the role of HDFC Bank, despite stated confirmation regarding compliance to KYC norms, raises serious concerns on its compliance while suggesting it had truck with Purshottam Budhwani in so far as it had actively lent its system to be misused by wily operators.

16.48. MOSL DP 16.49. In addition to the irregularities in the cases of the above five DPs, in the case of DP Motilal Oswal Securities Ltd. the inspection conducted by a CA firm engaged by CDSL brought out numerous violations such as not obtaining proof of identity of second and third demat account holders, not obtaining proof of address in some cases, non-verification of photocopies of POI / POA documents with the original, the agreement between the DP and the client being incomplete and not obtaining signature of the BO holder across the photograph.

16.50. Inspection of DPs by SEBI 16.51. During the course of investigations in the cases of Yes Bank and IDFC, SEBI found that two DPs namely Karvy DP and Pratik DP had large number of fictitious/ benami dematerialized account-holders. SEBI had conducted inspection of Karvy DP and Pratik DP. The inspections by SEBI brought out numerous violations on the part of Karvy DP and Pratik DP.16.52. Pratik DP 16.53. Pratik has about 5,000 plus active BO accounts at both the depositories put together. A significant number of accounts were opened exclusively for IPO purpose under their "Investor IPO scheme". Accounts opened under the scheme are at special tariff.

16.54. Apparently, many IPO sub brokers brought in clients and opened accounts under the "Investor IPO scheme". During the month of June and July 2005, the time when large IPOs hit the market, more than 600 accounts were opened. These accounts were opened in most cases with the same correspondence address i.e. the address of the IPO sub broker. The DP opened BO accounts in similar manner with 16 set of addresses where the number of accounts were more than 20.

16.55. The DP had opened many accounts of the same person with varying combination of names with the same set of photographs, proof of identity and address. In certain cases proof of identity and address were not taken. The proof of address taken varied from the address captured in the Depository Participant Module (DPM) system in certain cases. There were various discrepancies in banker's certificate obtained as proof of identity and address such as it did not contain unique specimen signature, code, while the certificate issued was not on bank's stationery.

16.56. In certain cases mismatch of signature in the account opening form and Delivery Instruction Slips was observed. There was large number of off market transfers executed from various accounts opened under the IPO scheme to certain accounts apparently of the IPO sub brokers immediately after the allotment of IPO. For the clients connected to the Budhwani group, the charges were debited to the account of Shri Budhwani and settled with him.

16.57. The findings of inspection of Pratik DP by SEBI as narrated above indicate that the internal control procedures at Pratik DP with respect to the account

opening procedures are not adequate. The DP has not exercised proper care and due diligence as stipulated under regulation 20A of SEBI (Depositories and Participant) Regulations 1996 while opening beneficial owners account. The depository participant has not exercised proper care and precautions as stipulated under Regulation 42(2), 42(3) and Regulation 20A of SEBI (depositories and Participant) Regulations 1996, while processing of the Delivery Instruction Slip (DIS) for transfer of securities.

16.58. Karvy DP 16.59. During the inspection of Karvy -DP it was found that their system does not check the compliance of documentary requirements such as identity proof; address proof, agreement date etc. Further, it was observed that the physical account opening forms do not bear the signature of the official verifying and approving the opening of the account.

16.60. Besides the groups identified by SEBI in the interim orders dated December 15, 2005 and January 12, 2006 in the cases of Yes Bank and IDFC respectively, during the course of the inspection of Karvy DP, SEBI found that there were another 147 sets of addresses on NSDL and 37 sets of addresses on CDSL having more than 20 clients each. Apparently majority of these BO accounts were brought in by the IPO sub-brokers of the Karvy's IPO distribution arm. Further it was revealed that the correspondence addresses in such accounts were those of these IPO sub-brokers. In certain cases, it was found that Karvy-DP had accepted invalid documents towards POI. The observations on the account opening procedures of Karvy DP revealed that it had not exercised proper care and due diligence while opening of the BO accounts.

16.61. On verification of Delivery Instruction Slip (DIS) signature mismatch was observed showing that the depository participant has not exercised proper care and precautions while processing of the DIS for transfer of securities. The observations on the area of issuance and the processing of the Delivery Instruction slip (DIS) shows that Karvy DP had not exercised proper care and not acted diligently while execution of the DIS undertaken by it on behalf of its BO's.

16.62. The inspection of the Karvy DP operations had revealed that the DP had accepted the payment of amount due on various BO accounts from third party

cheques. In case of 225 accounts a single cheque (Cheque Number 273329 issued by HDFC Bank Navranpura, Ahmedabad) was deposited in the account of a key operator. Similarly in case of 1276 accounts a single cheque (Cheque Number 699328 issued by HDFC Bank, Navrangpura, Ahmedabad) was deposited in the account of a key operator. It was further observed that the DP had issued a single receipt in case of the amount paid on behalf of various accounts. Similarly in various accounts of Panchal Family/group a single consolidated cheque have been deposited by a third person on behalf of these account holders to settle the outstanding DP dues.

16.63. It was found that Karvy-DP was encouraging the investors to open more and more BO accounts especially for the IPO purposes. The charges for these kind of the accounts were very minimal and further the charges in respect of the BOaccounts which were referred to Karvy DP by its IPO sub-brokers was very less as compared to the investors who came directly to open the BO account mainly under the IPO scheme.

16.64. For Karvy DP, "Dematerialization" was not a mere regulation but an act of faith that not only guided the way and gave free rein to opening several sets of multiple demat accounts, without being beleaguered in the burr of needless regulatory qualms, but also found its manifestation in dematerializing the inconvenient regulatory bottlenecks in a free - wheeling exercise that made the process seamlessly simple, besides giving an eclectic flavour to the tally of accounts with the shades of real and seemingly real. Accordingly there were no perceived impediments in account opening and issuance or processing of DIS. From the above it may be seen that while Karvy DP seemingly complied with the guidelines pertaining to proof of address and identity, exercise of caution while processing the forms would have alerted the DP to the wrong doing on the part of the demat account holders. This has facilitated Roopalben Panchal, Purshottam Budhwani, Manojdev Seksaria and others in opening large number of DP accounts in various names for the purpose of cornering of shares and misusing IPO allotment process. The realtime alerts with sheer preponderance of numbers either in terms of accounts opened on a single day or off-market transfers in a single day did not register with them, because the entire sequence was following a pre-

determined course with fewer surprises.

16.65. Karvy DP KYC document verification 16.66. In view of the fact that more than 95% of the fictitious/benami dematerialized account-holders identified in the cases of Yes Bank and IDFC had their dematerialized accounts with Karvy DP, SEBI conducted a detailed scrutiny of the documents relating to demat accounts opened by Karvy DP. It was found that the account opening forms of almost all the dematerialized accounts opened by Karvy DP in fictitious/benami names had letters purportedly issued by Bh OB and Vijaya Bank towards POI and POA. During the course of verifications by SEBI with these banks, it was found that the savings bank accounts indicated in the dematerialized accounts held in fictitious/benami names did not exist.

Also the branch managers of the concerned banks denied the bank having issued any such bank letters towards POI and POA indicating the bank account number.

16.67. In view of the non-existence of the savings bank account with the bank's branches and the denial of the branch managers, it is evident that the bank letters based on which Karvy DP had opened thousands of demat accounts is fraudulent and fabricated.

16.68. It is seen that the contents of the fabricated bank letter like name of the applicant, address, saving account, branch code etc exactly matches with the data available on the depositories system including comma, full stop, spelling mistake, small letter / capital letter, thereby giving rise to the possibility that the details for the fabricated bank letters have been picked up from the depository system and then printed on the bogus bank letterhead. The data entered in the depository system is available only to the depository or the concerned depository participant. Thus the fabrication of the bank documents is possible only with the connivance of the depository.

16.69. Further, it is seen that the fabricated Bank letters where the branch details are mentioned matches exactly with the MICR data as contained in the depository system. MICR number enables identification of the name of bank and the bank branch. The matching of the bank MICR details as contained in the depository

system with that mentioned in the fabricated bank letterheads also confirms the suspicion that the information relating to bank branches as available in depository system were downloaded and the bank letterheads were fabricated on that basis.

16.70. Considering that the data in the depository system matches exactly with the forged bank document and since the data in the depository would be available only after entry in the system and not before that, it appears that the documents i.e. the Bank letters have been fabricated after the date of opening of the demat accounts. In view of the above, it appears that at the time when Karvy-DP opened the demat accounts, there were no documents evidencing proof of identity and proof of address of the account holder. Perhaps karvy might have fabricated the bank letters as an after thought to make the records complete in the wake of SEBI enquiry in October, 2005 long after the opening of the demat accounts. Further, it is seen that the savings accounts relating to IPO financing in various branches of Bh OB were introduced by Karvy and the documents for opening these bank accounts were also submitted by the Karvy. Thus, Karvy was at the root of creating rootless wonders. Karvy DP had complete knowledge of the details of bank accounts and the same was used by Karvy-DP for the purpose of opening multiple demat accounts.

16.71. Further it was found that in the case of many of the dematerialized account-holders the photographs affixed on the demat account opening documents did not match with that of the bank documents. This leads to the conclusion that Karvy DP had opened dematerialized accounts without obtaining proof of identity and at a later stage, merely to make the demat account opening documents seemingly compliant with the KYC norms prescribed by SEBI, Karvy DP had procured photographs and affixed the same on the demat account opening documents. This also smacks of an after thought.

16.72. Karvy-DP had, during 2003, tied up with Bh OB for the purpose of financing their demat account clients. Based on introduction of saving account by Karvy, BHOB disbursed the loan amount to the clients of Karvy DP. However, with passage of time, it appears that Bharat Overseas Bank officials chose to rely more on Karvy's DP account details and true comfort therefrom while dropping their

guard in the matter of opening bank accounts and verification thereof. Exploiting the blind trust and complacency on the part of Bhob, Karvy gave short shrift to the KYC procedures, while playing ducks and drakes with the trust of the bank officials. Thus in the year 2005 when market for IPOs was booming, Karvy-DP did not comply with the account opening formalities by opening multiple demat accounts in fictitious / benami names. Thereafter, in order to make its account opening procedure seemingly compliant, Karvy-DP resorted to fabrication of bank documents towards POI and POA and also arranged for photographs from other sources. Thus, it appears that Karvy, being the progenitor of the entire scheme won over the trust of the allies in the bank and made its pitch effectively in the market, besides making common cause with the sub brokers and financiers who were part of the manipulative assemblage.

16.73. Involvement of Karvy RTI 16.74. During the course of investigations, it was found that Karvy-RTI has issued consolidated refund orders favouring banks / financial institutions in respect of the applications that were financed by the banks / financial institutions. Karvy -RTI has issued a single refund order (RO No. 610003) payable to Bharat Overseas Bank in respect of 6878 IPO applicants in the case of IDFC IPO. Similarly, Karvy-RTI has issued consolidated refund orders favoring Centurion Bank Limited, IDBI Limited, Indian Overseas Bank, Infrastructure Leasing & Financial Services Ltd, Kotak Street.com and ICICI Web Trade Limited in respect of thousands of IPO applicants in the cases of YES Bank and IDFC IPOs.

16.75. Arrangement between Karvy and Bh OB 16.76. Karvy presented to Bh OB an idea paper and a process flow. As per the process flow, the IPO applications would be filled in by the investor and a cheque/DD in favour of the Bank towards the margin amount shall be deposited. The investor would need to open the D-mat account with Karvy who would place a lien on the shares deposited into the investor's account until the investor clears the loan with the Bank. The client would deposit the payment instrument and bid form with the Bank along with the account opening document and documents for the loan. The Bank would ensure that the Savings Bank (SB) account opened by the Bank is mentioned in the relevant column in the bid form as the Bank account to which the refund is to be sent. The

Bank would issue Pay order for the amount of the application by debiting loan account and margin money of the respective applicants. If the investor is not allotted shares against the IPO application, refunds are made to investor by the registrar through the Bank and the refund order credited to the account, after liquidating the loan. In case of allotment, the investor is required to bring in the required amount if there is shortfall and fulfill the obligation with the Bank along with the interest after which the lien is released by the Bank and informed to the DP for release of Bank's lien on the demat account. Thus it appears that the idea presented by Karvy to Bh OB started as a practicable business proposition but contained potential ingredients for future mischief, as it turned out in the final denouement.

16.77. The said process flow presented by Karvy also contained a clause that there were no chances for cases such as benami applications, multiple applications, fraudulent investors etc. These aspects did give solace to the Bank to venture into this segment. A beginning was made with the financing of IPO relating to Maruti Udyog Ltd. and an allocation of amount was advised to various branches of Bh OB. 16.78. It was because of the presence of Karvy, the branches of Bh OB took it for granted that existence of a demat account with Karvy - DP pre-supposes compliance with the Know Your Client (KYC) norms. This finding of the internal investigation done by Bh OB gives rise to the inference that the demat accounts were opened first before the opening of bank accounts and providing of IPO finance by Bh OB. This gives lie to the possible claim of Karvy DP that it had obtained letters issued by Bh OB towards proof of identity and proof of address before opening demat accounts because such purported letters from Bh OB would not be forthcoming prior to the opening of bank accounts which was done after the opening of demat account.

16.79. It was gathered during the course of internal investigation by Bh OB that all the branches viz., Worli, Goregaon and Ahmedabad had representatives of Karvy Consultants coming in, which led to the Managers/Officers/staff members drawing total comfort from them. In short, the presence of Karvy Consultants, their representatives, their sourcing of applications, their stamps on the Bid-cum-Application Forms, their demat accounts - all contributed to a blastate of easy

acceptance without questioning, besides presupposing compliance with Customer Due Diligence and KYC norms . This needless to say, proved to be quite fatal. Also, having floated the Idea Paper, Karvy has made it work and was in full control of its implementation in a conducive environment wherein the Bank meekly came under the leading strings of Karvy and in due course, a part of the manipulative assemblage and this continued so long as the Bank got its margins and revenues without any risk, while the risk of exposure to scrutiny was lost sight of in the burgeoning volume of business in several IPOs.

16.80. It is also observed that the key operators had opened multiple demat accounts with Karvy DP showing their bank account details as Vijaya Bank. Investigations reveal that the Vijaya bank, Ahmedabad branch accounts of the demat clients of Karvy DP did not exist. The branch manager of Vijaya Bank, Ahmedabad has also confirmed that the said bank accounts do not exist with the bank. Hence, it logically follows that the bank could not have given any letter towards POI and POA to be used for opening of demat accounts with Karvy DP. The branch manager of Vijaya Bank also denied having issued any such letters.

Therefore this is an exercise in afterthought by Karvy DP to cover up the tracks in the wake of SEBI enquiry.

16.81. Fabrication of Documents by Karvy DP 16.82. With a view to further exploring the arcane details in the esoterics of Karvy's elaborate design effectively camouflaged to pass muster, SEBI compared the details as mentioned in the fabricated bank letter with the data as appearing in the depository system. It is seen that all the details like name, address and bank account number in the fabricated bank letter exactly matches with the data available on the depository system, including minutiae like capital letter, space, comma, full stop etc. For instance the name of a client as appearing in depository system is HARI JAISWAR. This exactly matches with the name appearing on the bank letter. It is significant to note that even the full stop which is appearing after Jaiswar also matches and name is also in capital letter just as entered in the depository system.

Further the address also matches including comma, space etc. For example one "ROOM NO.10/5 WING-A,RAMNARAYAN" appearing in the depository system

has full stop after NO with no space; similarly there is no space between WING-A, RAMNARAYAN. The address mentioned in the bank letter is also exactly in the same format, with the same characteristics in terms of minutiae making it appear like a carbon copy.

16.83. From the above it can safely be concluded that the bank letter has been generated after the demat account has been opened because unless the data is entered in the depository system, it would not have been possible to download the said details for generating the fabricated documents containing details of account holders that matches exactly with that of the depository system in a carbon copy fashion.

The said observation is corroborated by the fact that Karvy DP had downloaded the details of the BO holders from the depository (which would have served as the basis for generation of the fabricated documents) many times around the time when large number of demat accounts were opened by Karvy DP. 16.84. As per the existing system in CDSL, the depository system automatically picks up the address of the bank based on the MICR details entered in depository system by the depository participant.

Thus this information is not entered by the DP. It is seen that in respect of various BO IDs, the address of the Bank as mentioned in the forged letterhead matches exactly with that in the depository system.

This confirms that the data of bank address given in the forged letterhead has been picked up from the depository system. Further, the perfect matching of the bank details including minutiae between that in the depository system and as mentioned in the forged bank letter shows that the bank letters could not have existed at the time of opening of demat accounts as the details in the depository system including the bank MICR details can be picked up only after the opening of demat account. This further shows that the bank letters were an after thought for documenting the DP account and make a false appearance of having complied with the KYC norms prescribed by SEBI for opening of demat accounts.

16.85. Since there is exact matching of data mentioned in the fabricated letter including comma and spelling mistake etc, with the data in the depository system including the address of the bank, it can be concluded that the fabrication has happened at the end of depository participant for the reason that the data entered in the depository system is available only to the depository or the depository participant. Therefore it follows that the depositories in the process have allowed themselves to be used in active manipulation of data by the DP and none of their inspections on DPs have shed any light on the same, thereby making them a party to the whole episode. Further, the depositories and DPs share a principal- agent relationship and the depositories cannot escape responsibility for the acts of the DPs.

16.86. Misuse of DIS - Karvy DP 16.87. Delivery Instructions Slips booklet is issued to the client after the demat account is opened. DIS is an important document issued to the clients for the purpose of transferring the securities from one demat account to another account. Before issuing a DIS booklet to the client, the DP normally makes an entry in their back office system with the details of the starting serial number and the ending serial number of the DIS booklet allotted to each clients so as to ensure that no DIS is misused by any unauthorized person while unauthorized use can be easily traced when presented by any client other than to whom the DIS has been allotted.

16.88. On sample verification, it was found that the DIS serial numbers issued by Karvy DP to clients belonging to various groups were in continuous serial numbers. This is possible only if loose DIS of one booklet had been issued to various clients. Even in such a scenario it is highly unlikely that the DIS executed by various persons making off-market transfers to one entity will have continuous serial number.

This is possible only if DIS slips had been issued by the DP to one or few persons controlling the alleged group.

16.89. It is seen that hundreds of the DIS submitted by each of the groups (such as Roopalben Panchal, Purshottam Budhwani, Manojdev Seksaria) are in continuous serial numbers thereby showing that Karvy DP had issued the DIS

slips pertaining to hundreds of benami / fictitious dematerialized account-holders to a few purporting to represent the group.

16.90. In this context it is noted that in respect of the off-market transactions relating to the above DIS, many demat accounts were debited and a single demat account was credited. Since it is easier to obtain credit transaction number from the demat account statement of Roopalben Panchal, it appears that the DP has conveniently used the credit transaction number on the DIS used for debiting various demat accounts. This is highly unusual. It passes one's credence as to how Credit Instruction Number (CIN) could figure in DIS which are used for debiting the demat account. The very fact that it is so clearly indicates that the DP had no debit instruction from the afferent account holders and the DIS had been generated post-facto to make up the records by conveniently using the CIN available from one account thereby dispensing with the rigmarole of wading through thousands of afferent account statements which is cumbersome and laborious. Further it shows the constructive knowledge and involvement of the DP in the modus operandi employed by Roopalben Panchal and others and the same is consistent with the DP's lead role in the entire scheme.

16.91. Role of Depositories 16.92. Procedure followed by NSDL with respect to inspection of DPs 16.93. In the light of the irregularities found in the IPOs of Yes Bank and IDFC wherein large number of demat accounts (running into thousands) was opened by few people to corner the retail portion of the IPO allotment, SEBI examined the role of depositories. SEBI also looked into the inspections of the Depository Participants conducted by NSDL & CDSL. Further SEBI verified whether the functioning of the depositories is in a manner which is in the interest of the investors and the securities market.

16.94. For the purpose of the examination, SEBI obtained from NSDL and CDSL all the inspection reports pertaining to seven DPs viz. Karvy Stock Broking, HDFC Bank, Pratik Stock Vision Pvt. Ltd, IL& FS, Centurion Bank, Wellworth Share & Stock Broking and Dindayal Biyani Stock Brokers Ltd. These DPs were shortlisted on the basis of the occurrence of large number of multiple accounts with same addresses with these DPs found during the course of verifications done by CDSL.

The follow up action regarding action taken by disciplinary committee and penalties were also obtained from the depositaries. Information was also called for regarding waiver of penalties if any. The operation Inspection reports and the observation in sign-off reports were analysed to find out the nature of inspection and the effectiveness of them in serving the purpose it was actually intended for.

- o It was observed that the sample used for observations are pathetically low, always less than 1% and mostly less than 0.1% in these inspections. Further it is interesting to note that though the numbers of accounts have increased (doubled) during the year, the sample size remained the same.

- o It is also observed that in case of new accounts opened, the errors are quite high i.e. about 50% of the accounts inspected have errors. In some case it is 100 % i.e. all the accounts inspected have errors. The range of the errors is also very wide from 6% to 100 %. It further shows that the reliability of these inspections is very low over a period of time. In some inspections, the numbers of errors found are large, while in the next one it drops drastically.

The time allowed for these inspections also casts doubts on the reliability of these inspections.

- o Further it is also observed that the table format which shows the errors and their number do not correspond with the actual errors and their number found in the annexure which details the number of the account and the deficiency found. As a result some instances are found where the accounts involved in errors are more than 100%. This has happened because the report shows fewer errors. For example in case of Karvy Hyderabad inspection of November 2005, it was found that the table shows 22 errors in total, but the annexure shows 26 accounts which have account opening errors. This is not possible because one account should have at least one error. Hence there are errors in the inspection report itself.

- o There is recurrence of same errors in account opening repeatedly in inspection after inspection. NSDL has commented on these in their reports. The DPs sent confirmation letter stating that they had rectified all deficiencies. In the next inspection, the same error recurred, and the cycle goes on. Penalty is hardly

levied for these deficiencies, while penalties are levied for employees of DPs not having NCFM certification. The DPs are aware that account opening errors are not seriously taken by NSDL and hence do not take steps to prevent these errors from recurring. This seems to have been a regular practice over the years which have made non-compliance while account opening a regular feature. The depository turns a blind eye to these deficiencies which has led to its recurrence again and again.

16.95. It was found that NSDL waives penalties if the DP concerned rectifies the deficiencies. The observations reported by DP as complied with in its first reply after conclusion of inspection do not attract any penalty in any case. Thus NSDL does not impose penalties for violations rectified immediately after inspection, does not impose penalties harsher than monetary penalties for the remaining violations and also waives the penalties imposed if the DP reports rectification of deficiencies. This system creates no dis-incentive or deterrent for a DP to comply till NSDL inspects and finds the violation, since rectification after inspection assures that no penalty of any kind is imposed on DP. 16.96. It was observed that NSDL had not taken appropriate penal action against DPs for repetitive violations by DPs observed by NSDL during inspections. NSDL's action has never gone beyond imposition of monetary penalties. Penalties are waived off even for serious violations like inadequate control by DPs in DIS processing and client account debit without proper authorization.

16.97. It was observed that regardless of the type of DP (broker, Bank etc.) and regardless of the size of the operations of the DP concerned, NSDL devotes usually only one day for inspection. Also, NSDL has allotted a fixed time for each area of DP's operation and the time allotted remains the same irrespective of the quantum of instructions processed by the DP. 16.98. Procedure followed by CDSL with respect to inspection of DPs 16.99. Inspection reports for the seven Depository Participants were also called for from CDSL. On perusal of inspection report it was found that CDSL gets its inspection conducted by outside professionals. The inspection reports are not indicative at all. From the inspection report it is very difficult to draw a conclusion as it is in 'Yes' and 'No' format.

16.100. The inspection reports of CDSL are of poor quality and no effort is taken by CDSL to work on the format of the inspection report.

However, the special inspection conducted by CDSL which too has been conducted by outside professionals has covered all the points in detail unlike its earlier 'Yes' and 'No' format.

16.101. System Audit of NSDL 16.102. SEBI investigations in the IPOs of Yes Bank revealed significant irregularities in opening of demat accounts by Karvy-DP in NSDL. These findings raised concerns as to the systems and processes in place at NSDL for monitoring and preventing irregularities relating to opening of and operations in demat accounts. Hence, SEBI engaged a firm, namely iSec Services (P) Ltd. to conduct system audit of NSDL.

The salient findings of the system audit report are narrated in the succeeding paragraphs.

Account opening-Karvy Stock Broking Ltd.as a DP a. Agents of Karvy opened most depository accounts having same addresses. These agents had no legal sanction. In fact SEBI (D&P) regulations as well as the agreement, which NSDL signs with DPs (Depository Participant), prohibits such work without prior permission.

b. This was never checked or reported either by the internal auditors (Haribhakti & Co) of Karvy or by external inspection teams of NSDL.

c. These agents had ready-made stamps of addresses, which were affixed on the application forms. This too has never been reflected either in the internal audit reports or the Inspections by NSDL d. These agents after collecting the papers had local data entry operators enter the data on a magnetic media. This activity went unnoticed all along. In fact the entire process of verification of addresses and identity was bypassed by this operation.

e. This data was given to the front office of local Karvy offices in India (428 offices) along with paper work.

f. Local offices then sent the CD containing the data to Karvy in Hyderabad.

g. Karvy Hyderabad, uploaded this data for account opening with NSDL.

h. NSDL's DM application never checks the data uploaded by DP. i. Due to slack internal controls and supervision these accounts came to exist. Once the accounts got opened they were ready to be used for any subsequent IPOs j. The system audit report made significant observations detailing the modus operandi and also possible complicity of entities involved in the process of IPO allocations i.e. NSDL and Karvy Contributory Negligence of NSDL k. NSDL never could capture the fact that there were agents being used for opening of demat account by Karvy DP. This is in spite of the six monthly inspections conducted by NSDL at various locations of Karvy. This leads to the impression that Inspections were perfunctory besides facilitating fictitious / benami / multiple accounts l. If the DP work related to account opening is not being monitored by NSDL, then this raises a question regarding the purpose of the activity of Inspection or 'visits' by depository. In fact the inspection forms include sub sections for checking account opening.

m. NSDL never physically verifies the DP prior to recommending the registration of DP with SEBI. This is quite serious as it may get a DP recommended without complete knowledge of where it exists.

n. Integrity of Account creation dates, which are essential for maintaining integrity of any financial systems, has not been maintained in NSDL systems. All account creation dates prior to 16/4/1999 are dummy dates in DM software. There are many other fields where the junk data is entered in the DM database.

o. NSDL has never had the application code verified by any third party. While maker and checker is an established process in financial industry, this has not been followed till date by NSDL in its own systems as the DM software never verifies any data except for the fact that it came from a valid DP id.

p. Physical verification has revealed that on the mainframe that hosts the DM and database there is no evident control on creation of users and groups.

q. There is no evidence of monitoring any of the access logs on the mainframe.

r. There is no documentation to disclose the management intent to monitor or audit the logs created on mainframe.

s. NSDL till date has made no byelaws for any internal monitoring review and control of its processes as required under Section 26 (p) of Depositories Act, 1996 as well as Section 34 of SEBI (Depositories and Participants) Regulations, 1996. Auditors have pointed this out for IS (Information System) audit at different times but have never been implemented.

t. NSDLs internal auditors (Aneja & Associates) have been appointed since 1998 and do not have any agreement signed between NSDL and the auditors. The reports are at best perfunctory and some times do not maintain temporal integrity.

u. Besides email from prospective participant in Form A and Form B, NSDL as per its process does not have any independent proof of the place where the DP is going to keep the software supplied by NSDL v. Inclusion of the field for correspondence address in the depository system was a major step in helping the financiers achieve their collateral purposes. NSDL additionally introduced correspondence address (viz, the address of Financier) in the DP system, despite SEBI refusing to accede to their request. Similarly CDSL went on its own to have correspondence address (address of Financier) without due approval of SEBI and withdraw the same on October 20, 2005 in the wake of SEBI probe. This greatly facilitated the financiers to have real time control over the transactions of afferent accounts in the DP system besides direct control on payments, refunds, credit advice etc. without having to go through the rigmarole of routing the transactions through individual afferent accounts which are time consuming and laborious besides complicating the process of settlement of financial refunds. This particular relaxation through the incorporation of correspondence address in DPM for afferent account holders with a preponderant size and variety with all the attendant complexities of control in operation has made it facile and easy for the financiers to hoodwink the system and perpetrate the mischief while virtually entering into direct dealings with DP / Registrar to the Issue without the necessity of having the fae of afferent account holders.

16.103. The findings of investigations so far, prima facie, reveal violations of serious nature by the key operators, their financiers, concerned DPs, Karvy group and the depositories including violation of Regulation 3 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003, Regulation 42(2), 42(3), 43, 46 and 52 of SEBI (Depositories and Participants) Regulations, 1996 and clauses 3, 9, 12, 16, 19, 20 and 22 of Code of Conduct specified in Regulation 20 (a) of SEBI (Depositories and Participants) Regulations, 1996 and the provisions of Depositories Act, 1996 and Provisions of SEBI Disclosure and Investor Protection Guidelines, 2000.

16.104. Investigations are being completed and quasi-judicial proceedings including issue of show cause notice, commencing enquiry proceedings and adjudication proceedings are being initiated. In the interim, pending completion of the quasi-judicial proceedings, the following order is issued: 17.1. In view of the grave emergency arising out of the conduct of parties with the added risk that such devious practices, if unchecked, would be continued with impunity in future, there is a need for immediate regulatory intervention. .In the wake of the interim orders in the case of Yes bank and IDFC IPOs there has been a spate of public complaints alleging manipulation in IPO's and urging immediate action from SEBI for protecting the retail investors. Also there is a heightened investors' concern on the IPO's as reflected in the tenor of demands made on SEBI.and the same calls for a timely reponse from SEBI as regulator to restore the confidence of the retail investor.Amidst such public expectations,coupled with due regard to the fact that a number of IPO's are in the wait for entry into the securities market,which need to be insulated from the manipulations of the various entities as mentioned in this order by suitably restraining them from participation in the ensuing IPO's which has acquired a sense of urgency and which cannot brook the normal delay of quasi judicial proceedings for taking a decision, there is an imperative need to pass the present interim order to protect the market particularly the IPO's from being preyed on by predatory manipulators. Further if the entities, as prima facie found to be instrumental in tilting the IPO allotment process to their favour by the intricate modus operandi as clearly seen in the findings of this order, are allowed to operate in the market any more, the same is fraught with immense mischief and incalculable damage to IPO allotment process besides undermining the

confidence of the retail investors who are urging for a fair deal in the market free of such manipulators. Also SEBI has to reckon with the present booming market while formulating a course of action as decided in this order. Therefore with a view to protect the interest of investors and securities market from further such acts, in exercise of the powers delegated to me by the SEBI Board in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Section 11, 11B and 11(4)(b) thereof and Section 19 of Depositories Act, 1996, pending enquiry and passing of final order, I hereby issue the following directions, by way of ad interim, ex-parte order: 17.2. The following entities who appear to be key operators in various IPOs during the years 2003 to 2005, are directed not to buy, sell or deal in the securities market including in IPOs, directly or indirectly, till further directions:

1. Roopalben Nareshbhai Panchal
2. Sugandh Estates And Investments Pvt.Ltd.
4. Arjav Nareshbhai Panchal
6. Kelan Atulbhai Doshi
7. Ambuja Estate And Holdings Pvt.Ltd.
9. Dharmesh Bhupendra M
10. Jhaveri Securities Pvt. Ltd.
11. Biren Kantilal Shah & Shah Biren Kantilal
13. Devangi Dipakbhai Panchal
14. Chandrakant Amratlal Parekh
17. Pratik Mafatlal Shah
19. Deepakkumar Shantilal Jain
21. Deepak Madhukant Patel

22. Indiabulls Securities Ltd.

23. Opee Stock - Link Ltd. 17.3. NSDL and CDSL are directed to ensure that the dematerialized accounts which served as conduits for the above entities are not utilized for manipulation of IPO allotment in future by taking such action as may be appropriate.

17.4. Many of the above 24 master account holders have in turn made further off market transfers to other entities thereby indicating that they themselves must have acted as intermediaries for their financiers who appear to be the ultimate beneficiaries. The following financiers of the master account holders are hereby directed not to buy, sell or deal in securities market including in IPOs, directly or indirectly, till further directions:

2. Velvet Financial Advisers Pvt.Ltd.

3. Jayesh P Khandwala HUF

5. Excell Multitech Limited

6. Zenet Software Limited

8. Seer Finlease Private Ltd.

9. Devangi Dipakbhai Panchal

10. Dipak Jashvantlal Panchal

12. Rajan Vasudev Dapki

13. Bhargav Ranchhodlal Panchal

14. Hina Bhargav Panchal

16. Bhanuprasad Dipakkumar Trivedi

18. Sujal Leasing And Finance Pvt.Ltd.

20. Anand Netanand Choudhary

21. Netanand Surjaram Bhambu
22. Ramesh Chimanlal Shah
24. Saumil A Bhavnagari
25. Masat Texturising And Twisting Private Ltd.
30. Welvet Financial Advisers Pvt.Ltd.
31. Vasudev Gordhandas Dapki
32. Sanjay Rameshchandra Shah
33. Himanshu Piyushkumar Choliya
35. Dushyant Natwarlal Dalal
38. Amadhi Investments Ltd.
41. Veenaben Y. Thakkar
43. Puloma Dushyant Dalal
44. Rajesh Jhaveri Stock Brokers Pvt. Ltd.
46. Deep Stockbroking Private Limited
47. Arth Stockbroking Pvt.Ltd.
49. Natwarlal Thakordas
52. Balvinder Gurmukhsingh Purswani
53. Jayprakash Girdharilal
54. Niranjan Girdharilal
55. Gurmukhdas Rameshkumar Giyamalani

57. Magnum Equity Services Limited

58. Meenakshi L Phulwani

59. Laxminarain L Phulwani

61. Anagram Securities Limited

62. Chirag Jayendrakumar Shah

64. Kela n Atulbhai Doshi

66. Ashmi Financial Consultancy Pvt.Ltd.

67. Chimanlal Girdharlal Shah

73. Dadia Finvest Limited

79. Neha Narendra Dadia

80. Dhaval Narendra Dadia

81. Narendra Harilal Dadia

82. Kashmira Narendra Dadia

83. Rupesh Vipinchandra Shah

84. Karvy Stock Broking Limited

85. Shah Kantilal Jitmal 17.5. It is understood that Shri Dushyant Natwarlal Dalal is a Chartered Accountant and findings of SEBI investigation in so far as it relates to him are being communicated to Institute of Chartered Accountants of India (ICAI) for examining his conduct as brought out in this order.

17.6. Direction against DPs: 17.7. SEBI vide ex-parte ad interim order dated January 12, 2006 in the case of IDFC has already directed Karvy DP and Pratik DP not to open new dematerialized accounts till the submission of verification report and obtaining a no-objection from SEBI for accepting fresh business as a

DP. In view of the detailed findings against Karvy DP and Pratik DP in this order, Karvy DP and Pratik DP, in my view prima facie do not appear to be fit to deal in securities market as SEBI registered intermediaries. Appropriate quasi-judicial proceedings are being initiated against the two DPs. In view of the substantial findings of a serious nature brought out in this order against Karvy DP and Pratik DP, in addition to what has been noticed in the earlier two interim orders in the cases of Yes Bank and IDFC, I direct that Karvy DP and Pratik DP shall not carry on the activities as DP till the completion of enquiry and passing of final order, excepting for effecting transfer of BO account to another SEBI registered DP on request. Notwithstanding this direction, Karvy DP and Pratik DP shall continue to be governed by the SEBI (Depositories and Participants) Regulations, 1996 and other applicable legal provisions in other respects.

17.8. Since the other business groups of Karvy have appeared to have acted in concert in the gamut of the IPO manipulations, I further direct Karvy Stock Broking Ltd., Karvy Computershare Pvt. Ltd., Karvy Investor Services Ltd. and Karvy Consultants Ltd. not to undertake fresh business as a Registrar to Issue and Share transfer agent, excepting those businesses already contracted as on date.

17.9. The following other DPs which prima facie appear to have grossly failed in adhering to the Know Your Client norms laid down by SEBI and thereby facilitated opening of demat accounts in fictitious / benami names and cornering the retail portion of IPO shares, are directed not to open fresh demat accounts till further directions: 2. Dindayal Biyani Stock Brokers Ltd. 3. Centurion Bank of Punjab Ltd. 4. Infrastructure Leasing & financial Services Ltd. 5. Wellworth Shares and Stock Broking Ltd. 6. Motilal Oswal Securities Ltd. 7. Khandwala Int.Fin.Services P Ltd. 9. Jhaveri Securities P Ltd. 10. ING Vysya Bank Limited 11. Pravin Ratilal Share & Stock Broking Ltd. 12. Infinite Fin Srv Pvt.Ltd. 17.10. The depositories viz. NSDL and CDSL are directed to conduct inspection of the above DPs and submit a report within a period of one month from the date of this order to verify whether all the demat account holders of these DPs are genuine and KYC norms laid down by SEBI have been duly complied with and take appropriate action against suspect accounts on verification.

17.11. The following DPs of NSDL had more than 500 demat account holders sharing common addresses: 1. Kotak Securities Limited 3. Standard Chartered Bank 5. Kotak Mahindra Bank Ltd. 8. Integrated Ent. (I) Ltd. 9. Action Fin Serv (I) Ltd. 10. Stock Hldg Corp Of I Ltd. 12. Pratik Stock Vision P Ltd. 13. The Kalupur Com.Co.Bank 14. SSKI Investor Ser.Pvt.L

17.12. NSDL is directed to conduct inspection of the above DPs and submit a report within a period of one month from the date of this order to verify whether all the demat account holders of these DPs are genuine and KYC norms laid down by SEBI have been duly complied with and take appropriate action against suspect accounts on verification.

17.13. Direction against Depositories 17.14. The depositories have failed to exercise oversight over their DPs. The periodical inspection of DPs being done by the depositories appears to be merely a cosmetic exercise. It is unbelievable that thousands of demat accounts in fictitious / benami names got opened by Karvy DP, Pratik DP and other DPs in utter disregard of the KYC norms laid down by SEBI, presumably the same could have taken place either with the connivance of the depositories or depositories turning a Nelson's eye to the happenings in the depository system. The interim findings in this order demonstrate the contributory negligence on the part of the depositories and their management. It is clear that there have been grave management lapses leading to such a situation. It is the responsibility of the promoters to ensure that the depositories are properly managed in the interests of investors. To that end, the promoters of NSDL and CDSL, without further loss of time are directed to take all appropriate actions including revamping of management which clearly has allowed matters to come to such a sorry pass.

17.15. It appears that some of the DPs named in this order are also acting as brokers. The stock exchanges are advised to examine the role and involvement of brokers / sub-brokers by way of participation in IPOs either directly or indirectly and their dealings in the shares subsequent to listing and submit a report within a month together with actions if any.

17.16. With regard to the findings of SEBI investigation relating to provision of IPO finance to fictitious/benami applicants, reference is being made to RBI in respect

of the concerned banks.

17.17. The major stock exchanges viz. BSE and NSE and the depositories viz. NSDL and CDSL are directed to ensure that all the above directions are strictly enforced.

17.18. This order shall be treated as showcause notice against the concerned entities named herein. The entities/persons against whom this order is issued may file their objections, if any, to this order within 15 days from the date of this order and, if they so desire, avail themselves of an opportunity of personal hearing at the Securities and Exchange Board of India, Head Office, First Floor, Mittal Court B Wing, Nariman Point, Mumbai - 400 021 on a mutually convenient date and time within 15 days from the date of this order. They may inspect the relevant documents on any working day prior to the hearing during office hours at the SEBI office at Mittal Court, 'B' Wing, 1st floor, 224 Nariman Point, Mumbai 400 021 This order shall come into force with immediate effect.

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