

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: PRASHANT SARAN, WHOLE TIME MEMBER**

IN THE MATTER OF DEALINGS IN THE IPO OF RDB RASAYANS LIMITED

**In respect of Chartered Capital and Investment Limited, Mr. Mohib Noman
Khericha and Mr. Manoj Kumar Ramrakhyani**

Date of Hearing: March 16, 2012

Appearances:

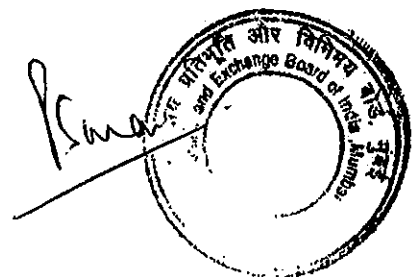
For Noticees: Dr. Veerendra V. Tulzapurkar, Senior Counsel
Ms. Ipsita Dutta, Principal Associate, Amarchand & Mangaldas
Ms. Shruti Rajan, Senior Associate, Amarchand & Mangaldas
Mr. Savyasachi K. Sahai, Associate, Amarchand & Mangaldas
Mr. Mohib N. Khericha, Managing Director, CCIL
Mr. Manoj Kumar Ramrakhyani, Vice President, CCIL
Mr. Sagar Bhatt, Assistant Vice President, CCIL
Mr. Deepak Singhvi, Director, CCIL

For SEBI: Mr. Santosh Kumar Sharma, General Manager
Mr. Ashutosh Arun, Assistant Legal Adviser
Mr. Vipul Jain, Assistant Manager

ORDER

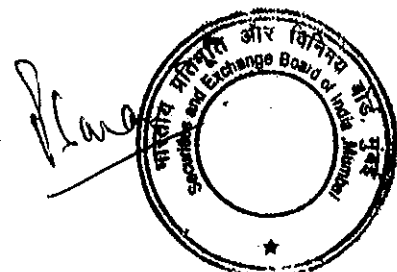
**UNDER SECTIONS 11(1), 11(4) AND 11B OF THE SECURITIES AND EXCHANGE
BOARD OF INDIA ACT, 1992**

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') had issued certain directions in the matter of dealings in the Initial Public Offering (hereinafter referred to as 'IPO') of RDB Rasayans Limited (hereinafter referred to as 'RDB'), vide an *ex-parte ad interim order* dated December 28, 2011 (hereinafter referred to as the '*interim order*'). Chartered Capital and Investment Limited (hereinafter referred to as 'CCIL') acted as the merchant banker/ lead manager in the IPO of RDB. The said interim order *inter alia* prohibited CCIL, its Managing Director, Mr. Mohib Noman Khericha and the Vice President, Mr. Manoj Kumar Ramrakhyani, (hereinafter collectively referred to as 'the entities' and individually by their respective names) from taking up any new assignment or involvement in any



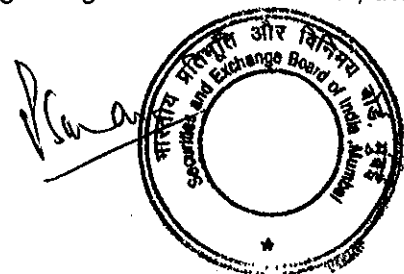
new issue of capital including an IPO, follow-on issue etc., from the securities market in any manner whatsoever till further directions. The entities/ persons against whom the *interim order* was issued, were advised that they may file their objections, if any, within twenty one (21) days from the date of the said order and also avail of an opportunity of personal hearing, if they so desire.

2. Before proceeding further, it would be necessary to note the background of the matter: RDB came out with an IPO during the period of September 21, 2011 to September 23, 2011. The shares of RDB were allotted at ₹79. SEBI initiated a preliminary investigation upon noticing wide fluctuations in the price of the scrip of RDB, pursuant to the listing. The preliminary investigation *inter alia* revealed that RDB has *prima facie* diverted from the stated objects of the issue, which were financing of the capital expenditure to increase the manufacturing capacity, to meet general corporate purpose and to meet issue expenses. Further, it was mentioned in the prospectus that pending utilization, the issue proceeds would be invested in high quality interest bearing liquid instruments including money market mutual funds and deposits with banks. The prospectus also finds mention that no other transactions are intended, other than the related party transactions disclosed in the prospectus. However, the investigation *prima facie* revealed that RDB had transferred the entire IPO proceeds to one RDB Realty and Infrastructure Limited (hereinafter referred to as 'RDB Realty'), a group company of RDB as interest bearing loan repayable on demand. This fact was not mentioned in the Red Herring Prospectus (hereinafter referred to as 'RHP') dated September 13, 2011 or in the Prospectus dated September 26, 2011. *Prima facie* it was alleged that CCIL has failed to exercise due diligence to ensure that the RHP and prospectus contained all the disclosures in relation to the fact that RDB proposed to provide the loan to its group company which was engaged in an unrelated business by utilizing the IPO proceeds and also failed to inform prospective allottees in the IPO about the RDB's intention. Further, it has also been alleged that RDB and CCIL were responsible for mis-statements in the prospectus relating to related party transactions and *interim* utilization of IPO proceeds.
3. Pursuant to the passing of the *interim order*, the entities replied vide a common



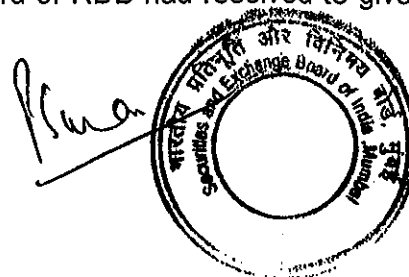
letter dated January 14, 2012. Thereafter, opportunities of personal hearing were granted to the entities on March 16, 2012. On the date scheduled for the hearing, Mr. Mohib N. Khericha, Mr. Manoj Kumar Ramrakhyani, Mr. Sagar Bhatt, Assistant Vice President, CCIL, Mr. Deepak Singhvi, Director, CCIL appeared before me, along with their lawyer, Dr. Veerendra V. Tulzapurkar, Senior Counsel, Ms. Ipsita Dutta, Ms. Shruti Rajanand Mr. Savyasachi K. Sahai associates at Amarchand & Mangaldas. Dr. Veerendra V. Tulzapurkar, Senior Counsel made oral submissions on behalf of the entities. Thereafter, vide letter dated March 19, 2012, the advocates for the entities filed written submissions which were also taken on record. The submissions of the entities in brief are:

- a. CCIL follows a comprehensive legal and business due diligence process consistent with the regulatory framework for IPOs.
- b. CCIL took the initiative to objectively verify the details of RDB, so that the investors are provided with full and complete information about the issue. CCIL verified all the statements and disclosures proposed to be made by RDB in its offer documents. In addition to receiving information from RDB, it also obtained copies of the audited financial statements and filings made with Registrar of Companies (hereinafter referred to as 'RoC') to independently verify the details.
- c. CCIL did not restrict its involvement till the closure of the issue, but supervised the post-issue obligations also, in compliance with its duties under the ICDR Regulations.
- d. In terms of Letter of Offer, Memorandum of Understanding and the Underwriting Agreement, RDB was contractually obliged to furnish all material information to CCIL with respect to related party transactions and issues which would have a significant impact on its financial position. CCIL had also requested RDB to keep it informed of all the material activities and updates during the course of the issue.
- e. CCIL was not informed by RDB regarding the board meeting on September 12, 2011 and the Extra Ordinary General Meeting dated September 28, 2011. At no point of time, despite CCIL's best efforts, RDB communicated the change in the proposed interim use of the issue proceeds. CCIL was neither informed by RDB directly, nor was such information available in the public domain. CCIL also undertook periodic independent searches on the public domain, such as RoC to update itself and verify any material development regarding the issue. However, the



resolutions of meetings were not available on the website of Ministry of Corporate Affairs.

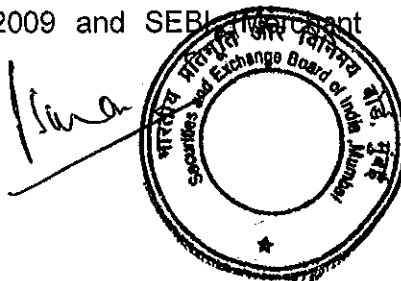
- f. CCIL was never cognizant or a party to the concealment of development regarding the issue.
4. While the proceedings were in progress, the entities approached Hon'ble Securities Appellate Tribunal requesting for setting aside the directions contained in the *interim* order against them. Hon'ble Securities Appellate Tribunal after considering the facts and circumstances of the case, ordered as under:
- "...., we direct the Board to complete the investigation, qua the appellants, within a period of two weeks from today. In case the Board is not able to pass appropriate order within the stipulated time the ex-parte ad interim order passed against the appellant shall stand vacated. ..."*
5. I have taken note of the above order. I have also considered the replies/ objections filed by the entities, the submissions made on their behalf during the personal hearing and the relevant material available on record. The limited issue to be considered and decided in this order is whether, based on the available material on record and after considering the submissions made by the entities, the directions issued by SEBI vide the *interim* order needs to be continued, revoked or modified in any manner, in so far as it relates to the entities herein.
6. I note that CCIL was appointed as the lead manager to manage the IPO of RDB. CCIL in its reply has submitted that it adopted a comprehensive legal and business due diligence process for the said IPO. It is seen that during the entire process of IPO as can be noticed from the documents on record, RDB had made available all the details as asked for by CCIL. However, CCIL in its reply has strenuously argued that it was not made aware of the developments made in the Board meeting dated September 12, 2011 and the Extra Ordinary General meeting on September 28, 2011.
7. It is observed that RDB in its Board meeting dated September 12, 2011, has passed a resolution to grant some of its surplus funds by way of loan to RDB Realty, one of its group companies, to the extent of ₹50 crores for the business purpose, repayable on demand. I note that the Board of RDB had resolved to give



notice for convening Extra Ordinary General meeting on September 28, 2011 for providing the said loan, as it required approval from shareholders. I note that in the Extra Ordinary General meeting held on September 28, 2011, the consent of the shareholders was accorded to the Board of Directors of RDB to deploy some of the surplus funds to RDB Realty.

I note the submission of CCIL that it had no knowledge of these meetings and decisions until December, 2011. CCIL has submitted that the information regarding these meetings was not even available in the public domain and it had no other reasonable mechanism available to have access to such information. CCIL in its reply has also relied upon the email of RDB dated December 03, 2011 to SEBI, wherein they have submitted that there was no intimation given to CCIL regarding the said meetings.

8. I have considered the submissions of CCIL in the light of the material available on record and note that RDB had updated the details on RoC website for the Annual General Meeting held on September 28, 2011, on the very same day. However, the update for the Extra Ordinary General meeting also held on September 28, 2011 for according the consent of shareholders to give surplus funds of the company in the form of loan to RDB Realty was made on October 19, 2011. Therefore, the information regarding the meeting was in the public domain since October 19, 2011. There appears to be an omission on the part of RDB to inform CCIL about the Board meeting on September 12, 2011 and the Extra Ordinary General meeting on September 28, 2011, especially when they have communicated about the other meetings during the period of IPO.
9. I note that the investigation in the matter is still in progress and the findings thereof would reveal the role of each of the entities in the dealings in the IPO of RDB. I note that the directions issued vide the *interim* order are *interim* in nature and were issued on the basis of *prima facie* observations. Thus, at the present stage, I am of the considered view that it would not be appropriate to give any conclusive findings as to any fact or submissions made by CCIL. It is to be noted that the activities of CCIL was found to be *prima facie* in violation of the provisions of the SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2009 and SEBI (Prohibition of Fraudulent and Unfair Practices in Connection with Securities) Regulations, 2009.



Bankers) Regulations, 1992 read with the SEBI Act, 1992 as mentioned in the *interim* order.

10. Therefore, I do not find it fit to modify/ revoke the *ad interim* directions issued vide Order dated December 28, 2011. I am convinced that the directions in the *interim* order in respect of the entities need to be continued, till further directions. Needless to say, the same would be reviewed upon conclusion of all the proceedings in the matter.
11. In view of the foregoing, I, in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Sections 11(1), 11(4) and 11B thereof, hereby confirm the directions issued Chartered Capital and Investment Limited, Mr. Mohib Noman Khericha and Mr. Manoj Kumar Ramrakhyani, vide *ex-parte* and *interim* Order dated December 28, 2011.



Prashant

PLACE : MUMBAI
DATE : SEPTEMBER 7, 2012

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA