

“RBI addressed a letter to Custodian providing proof of purchase of PSU Bonds of Rs.50 Crores f.v. by HSM from Syndicate Bank on 28.03.1992 and confirmed that Rs.90.46 Crores paid by NHB on 30.03.1992 was not credited to the account of HSM but in fact was credited to the account of SBI Caps.”

TRUE COPY

RESERVE BANK OF INDIA

CENTRAL OFFICE

DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT

OFFICE : 1, WORLD TRADE CENTRE,

CUFFE PARADE, COLABA, BOMBAY 400 005

DBOD. (Spl. Cell) 27/27.08.003(A)/95-96

July 12, 1995.

BY COURIER/SPEED POST

CONFIDENTIAL

Mr. Rajiv Bharadwaj,
Deputy Secretary,
Office of the Custodian,
Bank of Baroda Bhawan,
3rd floor,
16 Parliament Street,
New Delhi – 110 001.

Dear Sir,

**Harshad S. Mehta – Recovery of assets 17% NTPC Bonds
FV. Rs.20 crores & 9% IRFC Bonds FV. Rs.30 crores**

Please refer to your DO Letter No.941/ CVS/ATI/HMG/93(4)/SYB dated 29 June 1995 regarding 17% NTPC Bonds FV Rs.20 crores and 9% IRFC Bonds FV. Rs.30 crores held by Syndicate Bank. We are enclosing herewith a computer printout (Statement I) showing debits and credits in various accounts of Harshad S. Mehta on 24 and 28 March 1992. It is seen from records available that on 24 March 1992, NHB issued 2 cheques Nos.212589 for Rs. 690830348.64 and 212587 for Rs.146212000.00. The first cheque of Rs.690830348.64 was credit to the a/c. of HSM with ANZ Grindlays Bank (highlighted in Statement I). The cheque was issued towards the undernoted deals:

1. The books of NHB show the above purchase transactions with SBI. In response to our queries in the matter NHB has clarified vide its letter NHB/6008/95 dated 10.7.1995 (enclosed) that the above purchase was in fact from ANZ Grindlays Bank and for Units (Transaction value Rs. 85,87,31,101.64) as against the bonds indicated above.

1.1 On the sale side, the transaction in Units for FV Rs.1.787 crores and Rs.9.40 crores were observed to the reversal logs of NHB's purchases on 18-3-92 & 23-3-92 wherein the funds had come from HMS's accounts.

1.2 The second cheque no. 212587 for Rs.14.6212 crores was credited to the account of SBI Caps and is explained in para 2.2 (a) below.

1.3 On 28 March 1992, HSM's account No.8710 (indicated as 8710A in statement I) was debited for Rs.487309588.44 (highlighted) which corroborates Syndicate Bank's statement of having received the said amount vide PO No.553294 drawn on SBI towards their sale of the above referred bonds of aggregate FV. Rs.50 crores. In the circumstances, the securities referred above appear to have been paid for by HSM. However, it is seen from the letters of NHB and Syndicate Bank dated 23.7.93 and 1.10.93 respectively (please see enclosures to your letter) that while NHB's sale of 24.3.92 was reversed vis a vis Syndicate Bank on 25.11.92, the delivery of securities indicated at para 1 above (viz. Units FV Rs. 10 Crores, 17% NTPC Bonds FV Rs. 50 Crores and 9% IRFC Bonds FV Rs. 30 Crores) purchased by NHB from ANZ Grindlays Bank/Harshad Mehta had not been effected by the broker. Consequently, the payment of Rs.69.08 crores by NHB on 24.3.92 towards purchase of said securities to ANZ Grindlays Bank which were credited to HSM's account remain an NHB/ANZ/HSM disputed

transaction. Please see NHB's reply dated 10 July 1995 in response to our queries.

1.4 For your information, HSM's account No.8710 has been indicated as 8710 A in the computer statements where, in view of equal debits and credits attributed to the broker in the Waste Book of SBI, the bank did not pass any voucher for a "net" debit/credit in the said current account of HSM. For your convenience, we are also enclosing Statement I A listing out in chronological order all payments/receipts vis a vis Syndicate Bank and National Housing Bank from all the bank accounts of HSM group.

2. The statement of National Housing Bank (NHB) enclosed with the above letter listing out the amounts paid by them to SBI was also examined to determine the inflows into the accounts of HSM as queried at para 3 of your letter. Computer printouts of relevant dates (statement II) are enclosed with inflowing amounts suitably highlighted and our comments made thereagainst.

2.1 It will be observed that cheque amounts at Sr. No. 1, 7, 9, ___, ___ to NHB's letter No.5505/INV-92 dated 3 June 1992 were credited to HSM's account with SBI. Our comments in statement II may be seen for items at Sr. Nos. 2, 4, 5 & 6 comments for items at Sr. No.3 and 8 are given below:

A) 24.3.92 – Item at Sr. No.3 for Rs.40,45,93,063/-

The above amount includes Rs.25,83,81,060.00 towards R/F deal No.204 dated 7.3.1992 due to reversal on 24.3.1992. NHB had paid Rs.25,66,50,000 to SBI vide RBI cheque No.212279 on 7 March 1992 which got credited to HSM's account (highlighted). The balance amount of Rs.14,62,12,000/- was paid by NHB vide RBI cheque No.212587 on

24 March 1992 but the same was found credited to the account of SBI Caps. NHB's books show purchase of 17% NTPC/IRFC/Units (unspecified FV) for Rs.404593060.00 And sale of Units FV Rs. 17.70 crores for Rs.258381060.00 with SBI against which cheque No. 212587 for Rs. 14.6212 Crores was issued. It is observed from the records pertaining to SBI Caps available with us that the said amount (Rs.14,62,12,000) was received against their sale of units FV. Rs.10 crores to Canfina being the second/sale log of R/F deal executed on 10-3-92. The counterparty was actually "dummy" and the funds appear to have been received from NHB. On the same day, SBI Caps had a purchase transaction with ANZ for units FV. Rs.10 crores and the transactions amount of Rs.146184000 was found credited to HSM's account at SBI.

B) 30-3-92 – Item at Sr. No.8 for Rs.90,45,53,603.20

The amount paid by NHB vide RBI cheque No.212666 was not found to have been credited to HSM's account. It was observed from the bank statement relating to SBI Caps that the said amount was credited to this account. The company is said to have adjusted the said receipt and another one of Rs.1002476450/- against its sales vide Deal Nos.4312, 4313, 4320, 4307, 4315, 4311, 4323 and 4323, all of which were reversal logs of R/F deals in Units and PSU bonds.

3. Kindly let us know if any further clarification/details are required.

Yours faithfully,

(Vijay Chugh)
Assistance General Manager
Encl: as above (20)