

The Scam

the chairman would be useful, keeping in mind the magnitude of the fraud. At around 12.30 in the afternoon, Khemani placed a call to Harshad. "Please come and see me immediately. It is urgent," he told Harshad.

Though Harshad had stopped dealing in securities, he readily agreed to come. He may have known about the fraud by then. From his office to Khemani's is a two-minute walk. Quite possibly, Harshad drove down because he entered Khemani's room at 12.30 sharp.

"You were supposed to deliver these securities..." started Khemani.

"Yes I know," interrupted Harshad. "Instead of SGLs, the PNB and the SBS have given BRs. I have taken the BRs from Sitaraman to get SGLs from the two banks. But as you know, the Income Tax has sealed my offices. I don't have access to these BRs now."

"That is your problem," said Khemani. "Either you give us the securities or get the counterparty banks to pay." After a moment's pause, he added, "Within a week. You must start making payments immediately."

That was a tall order even for Harshad. His first payment — a cheque of Rs 243.18 crores from ANZ Grindlays Bank came in on Monday the 13th and then nothing for the rest of the week. Meanwhile a worried Khemani threatened, begged, cajoled and pleaded with Harshad to return the money. What partly helped were the holidays between 14 and 18 April when the market was closed. On the 18th, Khemani buzzed Subba Rao. "Call Harshad and force him to meet the chairman," he told him. Subba Rao agreed. Harshad got a call from the SBI the same day and turned up in Khemani's room.

This time, he most certainly came in his car, his Rs 45 lakh Toyota Lexus, the world's topselling, new luxury model, driven by a white-gloved chauffeur. It proved to be a fatal error. Word leaked out that Harshad had problems in reconciling his transactions with the SBI.

Who Won, Who Lost, Who Got Away

Harshad was taken to Subba Rao's room and from there to the chairman. He was at his voluble best. He promised to square up in the next few days. "I am an honest man. I have all the BRs," he asserted. (Later, in jail, he told Khemani, "I am sorry for what has happened." Khemani probably felt like pulling a trigger on him.) The rest of the time (almost 30 minutes) Harshad delivered a monologue on his investment philosophy. He had done the same thing with V Krishnamurthy, member, Planning Commission, his associates and on 1 April, with the RBI governor.

The cornerstone of Harshad's philosophy was his pet replacement cost theory, under which existing companies ought to be valued at the much higher cost of replacing them and not at the much lower historical cost as per conventional accounting methods. Looked at this way, many Indian companies appeared undervalued and were therefore, great scrips to buy. Harshad's other theory was that the Indian economy was turning around and it was time we invited foreign investors into Indian markets.

On the 18th, Harshad gave three more Grindlays cheques totalling to Rs 142 crores and two more on the 20th of Rs 160 crores. Two visits by the famous Harshad to the SBI headquarters within one week set tongues wagging. A former SBI employee picked up the gossip. He passed it on to *The Times of India* on 2 April. A day earlier, Harshad had given in another Rs 5 crores.

Only one cheque remained — of just Rs 6.35 crores — which Harshad would deliver on the 24th. Just one more day and Harshad would have made it and the SBI would have recovered its money and at the most, suspended Sitaraman and his boss A N Bavadekar, deputy manager, securities division at the main branch, who was blindly endorsing the transactions and signing the cheques that Sitaraman was putting up for his approval.

The 23rd of April was a day like any other. Except that *The Times of India* carried a three-column story innocuously headlined, "Broker asked to square up Rs 500 crore". The broker was not named. He was referred to as the Big Bull. That was due to

Goiporia's stonewalling. When he was asked whether it was true that Harshad Mehta had large outstandings with the SBI, he came up with an obfuscatory answer.

"Was there a problem of reconciliation with Harshad?" *The Times of India* asked Goiporia. "We deal in thousands of crores of securities. We do have reconciliation problems from time to time."

"Is Harshad Mehta unable to pay Rs 500 crores due to the SBI?" Goiporia responded: "Harshad Mehta? The broker? I can't comment," and he disconnected the phone.

Khemani was more categorical. "There is no problem here. It is completely false. A reconciliation gap of Rs 20 to Rs 30 crore is always there," he said, reducing the sum considerably.

Soon after, Goiporia was asked to go on leave. As months of revelations would prove, the SBI, unknown to its chairman, had a great deal to do with Harshad. And journalists' imagination fell way short of guessing the true dimensions of the securities scandal. There was deep rot within the system that even shrewd market players like Khemani were unaware of.

On 23 April, when the *Times* story broke, the question that vexed everybody was, where Mehta got his money from to square up with the SBI. The answer was quite startling. He picked it virtually from the RBI. Actually, his quarry was the next best choice — the National Housing Bank (NHB) — a fully-owned subsidiary of the RBI. The news that an RBI outfit had helped a broker to cover his fraud broke in early May when Parliament was in full session. Though no member of Parliament understood the highly technical nature of the scam, they were smart enough to convert it into a political hand grenade.

On 29 April, NKP Salve, deputy leader of the Congress in the Upper House, told Manmohan Singh that since he was the finance minister, "I would have thought it was best to go home." This was a thinly disguised political missile. Singh, however, failed to even make a statement in the House because he did not have adequate