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ISSN (Online) : 2455 - 3662
SJIF Impact Factor :4.924

EPRA International Journal of **Multidisciplinary Research**

Monthly Peer Reviewed & Indexed
International Online Journal

Volume: 4 Issue:7 July 2018



Published By :
EPRA Journals

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**EPRA International Journal of
Multidisciplinary Research (IJMR)**

HARSHAD MEHTA CASE: STOCK MARKET AND BANK RECEIPT SCAM

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ABSTRACT

Researcher in this research paper explains how one of the biggest stock scandal in 1992 had been done by Harshad Mehta and how Harshad Mehta deceitfully washed over Rs 24,000 crore in the share trading system over a three-year time frame. Impact of this scandal on legal regime of india and regulatory authority like SEBI and RBI.

KEYWORDS: *stock scandal, stockbroker, Bombay Stock Exchange*

INTRODUCTION

Georg Hegel, scholar once stated: "We gain from history what we don't gain from history." This statement is fit, particularly in the light of the Rs 13,000-crore Nirav Modi-Punjab National Bank scam. Why? Since back when India had quite recently opened up its business sectors to the world in 1991, a stock dealer named Harshad Mehta had done scam by abusing the loopholes in the Indian banking framework.

Balanced for expansion today, Harshad Mehta deceitfully washed over Rs 24,000 crore in the share trading system over a three-year time frame.

Harshad Mehta was an Indian stockbroker, surely understood for his riches and for having been accused of no. of financial wrongdoings that occurred in the Securities Scam of 1992¹.

Of the 27 criminal accusations brought against him, he was just indicted four, preceding his

demise at age 47 out of 2001². It was claimed that Mehta occupied with a gigantic stock control plot financed by useless bank receipts, which his firm facilitated in "prepared forward" transactions between banks. Mehta was indicted by the Bombay High Court and Supreme Court of India as far as concerns him in a financial scandal esteemed at Rs.4999 Crores which occurred on the Bombay Stock Exchange (BSE). The scandal uncovered the loopholes in the Indian banking framework, Bombay Stock Exchange (BSE) transaction framework and SEBI additionally acquainted new standards with cover those loopholes. He was striven for a long time, until he passed on in late 2001³.

LIFE

Harshad Shantilal Mehta was conceived on 29 July 1954, at Paneli Moti, Rajkot area, in a

¹ "The securities scam of 1992 - CBI Archives". www.cbi.gov.in. CBI (Central Bureau of Investigation), India. Retrieved 22 May 2018.

² "Action against Harshad Mehta, Videocon, BPL and Sterlite (Press release 19 April 2001)". www.sebi.gov.in. SEBI (Securities and exchange board of India). Retrieved 30 January 2018

³ "Admires of Harshad Mehta". *The Hindu Business Line*.

Gujarati Jain family. His initial youth was spent in Kandivali, Mumbai, where his dad was a little time businessperson. Afterward, the family moved to Raipur's Modhapara, Chhattisgarh, where Mehta considered in Holy Cross Byron Bazaar Higher Secondary School. A cricket devotee, Mehta did not demonstrate any exceptional guarantee in school and came to Mumbai after his tutoring for contemplates and to look for some kind of employment. Mehta finished his B.Com in 1976 from Lajpatrai school Mumbai and worked various odd employments for the following eight years.

CAREER

After graduation, Mehta attempted his hand at different employments, frequently identified with deals, including offering hosiery, concrete, and arranging precious stones. Mehta began his career as a businessperson in the Mumbai office of New India Assurance Company Limited (NIACL). Amid this time, he got intrigued by the share market and following a couple of years, surrendered and joined a brokerage firm. In the mid 1980s, he moved to a lower level administrative occupation at the brokerage firm Harjivandas Nemidas Securities where he worked a merchant for the representative Prasann Pranjivandas Broker who he thought about his "Master". Over a time of ten years, starting 1980, he served in places of expanding obligation at a progression of brokerage firms. By 1990, he had ascended to a place of unmistakable quality in the Indian securities industry, with the media (counting mainstream magazines, for example, Business Today) touting him as "The Amitabh Bachchan of the Stock market".

LATER CAREER AND THE 1992 SCAM

Grow More Research and Asset Management firm

In 1984, Mehta could turn into an individual from the Bombay Stock Exchange as an agent and set up his own particular firm called Grow More Research and Asset Management, with the financial help of partners, when the BSE sold a merchant's card. He effectively began to exchange 1986⁴. By mid 1990, various famous individuals started to put resources into his firm, and use his administrations. It was as of now that he started exchanging intensely in the shares of Associated Cement Company (ACC). The cost of shares in the concrete company in the end ascended from Rs. 200 to about 9000 because of a gigantic spate of purchasing from an arrangement of representatives including Mehta. Mehta defended this exorbitant exchanging ACC shares by expressing that

the stock had been underestimated, and that the market had just redressed when it revalued the company at a value proportional to the cost of building a comparable endeavor; the purported "substitution cost hypothesis" that he had advanced.

Amid this period, particularly in 1990–1991, the media depicted an increased idolized picture of Mehta, calling him "The Big Bull". He was canvassed in a cover page article of various productions including the well known financial magazine Business Today, in an article titled

"Seething Bull". His showy lifestyle of an ocean confronting 15,000 feet penthouse in the tony zone of Worli finish with a small fairway and swimming pool, his armada of an armada of autos including a Toyota Lexus, Corolla Starlet, Toyota Sera were flashed in productions. These further exemplified his picture when these were rarities notwithstanding for the rich individuals of India.

In criminal arraignments later brought by the experts, it was affirmed that Mehta and his partners at that point attempted a substantially more extensive plan, which brought about controlling the ascent in the Bombay Stock Exchange. The plan was financed by as far as anyone knows collateralised bank receipts, which were in actuality uncollateralised. The bank receipts were utilized as a part of here and now bank-to-bank loaning, known as "prepared forward" transactions, which Mehta's firm expedited. Constantly 50% of 1991 Mehta had earned the epithet of the "Huge Bull", since he was said to have begun the bull keep running in money markets. A portion of the general population who worked in his firm included Ketan Parekh, who later would be associated with his own duplicate scam.

Foundation of the 1992 securities scam.

1. Stamp paper scam

The Rs. 2200 crore "stamp paper scam" of 1992 at first included the printing and offering of stamp papers. It included false printing and offer of stamp papers in different parts of the nation, including by any semblance of a youthful secondary school go out in a residential community of Karnataka, Telgi. Up to the mid 90s, banks in India were not permitted to put resources into the value markets. Be that as it may, they were required to present benefits and on hold a specific proportion (limit) of their assets in government settled intrigue bonds. Mehta keenly pressed capital out of the banking framework to address this prerequisite of banks and directed this cash into the share market. He likewise guaranteed the banks higher rates of premium, while requesting that they move the cash into his own record, under the pretense of purchasing securities for them from different banks. Around then, a bank needed to experience a merchant to purchase securities and forward bonds from different banks. Mehta utilized this cash incidentally in his record to purchase shares, therefore climbing up demand of specific shares (of good settled organizations like ACC, Sterlite Industries and

⁴ Parikh, Daksesh; Katiyar, Arun (8 January 2013). "Spreading Shockwaves". India Today. Retrieved 31 October 2016.

⁵ Parikh, Daksesh; Katiyar, Arun (8 January 2013). "Spreading Shockwaves". India Today. Retrieved 31 October 2016.

Videocon) significantly, auctioning them off, passing on a piece of the returns to the bank and keeping the rest for himself. This brought about stocks like ACC (which was exchanging 1991 for Rs. 200/share) to about Rs. 9000 in only 3 months⁶.

2. Bank receipt scam

Another instrument utilized as a part of a major way was the bank receipt (BR). In a prepared forward arrangement, securities were not moved forward and backward in fact. Rather, the borrower, i.e. the merchant of securities, gave the purchaser of the securities a BR. The BR confirms the offer of securities. It goes about as a receipt for the cash got by the offering bank. Thus the name - bank receipt. It guarantees to convey the securities to the purchaser. It likewise expresses that meanwhile, the merchant holds the securities in trust of the purchaser.

Having made sense of this, Mehta required banks, which could issue counterfeit BRs, or BRs not supported by any administration securities. Two little and minimal known banks - the Bank of Karad (BOK) and the Mumbai Mercantile Co-agent Bank (MCB) - proved to be useful for this reason.

Once these phony BRs were issued, they were passed on to different banks and the banks thusly offered cash to Mehta, obviously expecting that they were loaning against government securities when this was not by any stretch of the imagination the case⁷. He took the cost of ACC from Rs. 200 to Rs. 9,000. That was an expansion of 4,400%. The securities exchanges were overheated and the bulls were on a distraught run. Since he needed to book benefits at last, the day he sold was the day when the markets smashed.

3. Exposed of 1992 security scam

On 23 April 1992, writer Sucheta Dalal uncovered Mehta's illicit strategies in a segment in The Times of India. Mehta was plunging wrongfully into the banking framework to back his purchasing.

An average prepared forward arrangement included two banks united by an agent in lieu of a commission. The dealer handles neither the money nor the securities, however that wasn't the situation in the number one spot up to the scam. In this settlement procedure, conveyances of securities and installments were made through the representative. That is, the vender handed over the securities to the representative, who passed them to the purchaser, while the purchaser

gave the check to the specialist, who at that point made the installment to the merchant. In this settlement procedure, the purchaser and the vender won't not know whom they had exchanged with,

⁶ Dalal, Sucheta; Basu, Debashis (29 July 2014). *THE SCAM: from Harshad Mehta to Ketan Parekh Also includes JPC FIASCO & Global Trust Bank Scam* (8th ed.). Mumbai: Kensource publications.

⁷ Dalal, Sucheta. "Revisiting 1992: The chickens come home to roost". Official website of Sucheta Dalal. Sucheta Dalal. Retrieved 22 May 2018.

either being known just to the agent. This the agents could oversee fundamentally on the grounds that at this point they had progressed toward becoming market makers and had begun exchanging for them. To keep up a similarity of lawfulness, they put on a show to attempt the transactions for the benefit of a bank.

Having made sense of his plan, Mehta required banks which issued counterfeit BRs (Not sponsored by any administration securities). "Two little and minimal known banks – the Bank of Karad (BOK) and the Metropolitan Co-agent Bank (MCB) – proved to be useful for this reason. These banks were ready to issue BRs as and when required, for a charge," the writers call attention to. Once these phony BRs were issued, they were passed on to different banks and the banks thus offered cash to Mehta, expecting that they were loaning against government securities when this was not so much the case. This cash was utilized to drive up the costs of stocks in money markets. At the point when time came to restore the cash, the shares were sold for a benefit and the BR was resigned. The cash because of the bank was returned.

This went ahead as long as the stock costs kept going up, and nobody had an idea about Mehta's tasks. Once the scam was uncovered, however, a ton of banks were left holding BRs which did not have any esteem – the banking framework had been cheated of an astounding Rs.40 billion (US\$600 million). He realized that he would be denounced if individuals came to think about his contribution in issuing checks to Mehta. In this manner, it happened that Citibank, agents like Pallav Sheth and Ajay Kayan, industrialists like Aditya Birla, Hemendra Kothari, various

legislators, and the RBI Governor R.Venkitaramanan all had assumed a part in permitting or encouraging Mehta's gear of the share market⁸

TRIAL AND CONVICTION

Abusing a few loopholes in the banking framework, Mehta and his partners redirected reserves from between bank transactions and purchased shares intensely at a premium crosswise over numerous sections, setting off an ascent in the BSE SENSEX. At the point when the plan was uncovered, banks began demanding their cash back, causing the fall. He was later accused of 72 criminal offenses, and more than 600 common activity suits were recorded against him.

He was captured and exiled from the share trading system with speculators considering him in charge of making a misfortune different substances. Mehta and his siblings were captured by the CBI on 9 November 1992 for professedly misusing more than 2.8 million shares (2.8 million) of around 90

⁸ Chakravarti, Sudeep (15 April 1993). "Book review: Debashis Basu's 'The Scam: Who Won, Who Lost, Who Got Away'". *India Today*. Retrieved 30 January 2018

organizations, including ACC and Hindalco, through produced share exchange frames. The aggregate estimation of the shares was put at Rs.2.5 billion (US\$37 million)⁹.

Mehta made a short rebound as a securities exchange master, giving tips without anyone else site and additionally a week after week newspaper segment. In any case, in September 1999, Bombay High Court indicted and condemned him to five years thorough detention and a fine of Rs.25,000(US\$370). On 14 January 2003, Supreme Court of India confirmed High Court's judgment. It was a 2:1 larger part judgment. While Justice B.N. Agrawal and Justice Arijit Pasayat maintained his conviction, Justice M.B. Shah voted to absolve him.

ALLIGATION OF PAYMENT OF BRIBE TO INDIA'S PRIME MINISTER

Mehta again raised a furore on 16 June 1993 when he made an open declaration that he had paid Rupees 1 Crore to the then Congress president and PM, Mr P.V. Narasimha Rao, as gift to the gathering, for getting him off the scandal case¹⁰.

TERMINATION

Mehta was under Criminal care in the Thane jail. Mehta whined of chest torment late around evening time and was admitted to the Thane common Hospital. He passed on following a short heart affliction, at 47 years old, on 31 December 2001. He is made due by his significant other and one child. He passed on with numerous suits as yet pending against him. He had inside and out 28 bodies of evidence enrolled against him. The trial of all aside from one, are as yet proceeding in different courts in the nation. Market guard dog, Securities and Exchange Board of India, had prohibited him for life from stock exchange related exercises.

A 2011 WikiLeaks record uncovered that Harshad Mehta had assets of 135,800 Crore (1,358,000,000,000)/1358 billion out of thirteen sub accounts with UBS AG, a Swiss bank¹¹.

May 2017, the overseer had dispensed rupees 6310 crores to banks and IT office by auctioning off assets of the Mehta, his relatives, and partners it had likewise distinguished extra assets worth more than rupees 2000 crore to be sold bringing the recouped sum (once this assets are effectively unloaded) to around rupees 8000 crore.

What is to be remembered is that the aggregate sum may never be recuperated as harshad Mehta likewise held share worth over rupees 453 crore crosswise over 131 organizations in benami accounts (esteem as on June 1995, all specified in court accommodation). At the point when the scam

uncovered, the benami account holder sold their shares having the overseer next to no to interface those record with harshad Mehta.

Will the Mehta family and partners have the capacity to pay off their liabilities, just 50% of which has been recuperated 25 years after the scam was uncovered?

CONCLUSION

Hence it is concluded that Balanced for expansion today, Harshad Mehta deceitfully washed over Rs 24,000 crore in the share trading system over a three-year time frame.

Harshad Mehta was an Indian stockbroker, surely understood for his riches and for having been accused of no. of financial wrongdoings that occurred in the Securities Scam of 1992.

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⁹ Pandya, Haresh (15 January 2002). "Harshad Mehta". The Guardian.

¹⁰ Mehta's is alleged to bribed PM Rao". Outlook India. Retrieved 20 April 2012.

¹¹ Black money in Swiss banks mainly from India". Wikileaks 88.80.16.63 Port 9999 (SSL enabled).