Frauds and scams, throwback to 'K10' era?

Will the PNB case result in convictions, stronger laws? Does history hold clues? Post Ketan Parekh, what has happened?

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Sinking returns

At the height of his market operations, Parekh's favourite stocks came to be known as K10. They included Zee Entertainment, Mukta Arts, Himachal Futuristic Communications and Pentamedia Graphics. Some like Amitabh Bachchan Corp. and Crest Communications are no more listed on the bourses

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Annual returns in % *Year to date

Company	2014	2015	2016	2017	2018*
HFCL	119.20	-1.65	-29.86	128.43	-8.22
Mukta Arts	-12.19	81.90	75.07	15.45	-38.82
Tips Industries	33.58	17.38	-3.15	90.24	-15.39
Pritish Nandy Communications	32.09	50.00	21.36	-2.32	-35.45
Zee Entertainment	37.68	7.85	10.11	28.76	-2.40
Pentamedia Graphics	67.16	-34.82	-5.48	-4.35	-9.09
GTL	-17.13	-10.18	14.41	3.58	-42.54
Sensex	29.89	-5.03	1.95	27.91	-2.20

Source: BSE

"If Harshad Mehta thought of himself as an innovator who created a system and penetrated the market, then Ketan Parekh perfected that system during more challenging times," said a veteran stock market participant who once did a few trades for KP, as Ketan Parekh was and is still known in stock market circles.

Parekh was not the first name to be associated with a stock market scam. There were a few before him as well but the magnitude and scale with which Parekh executed his modus operandi made him stand out. Not to forget the fact that when he emerged on the scene in 2001, the Securities and Exchange Board of India (SEBI) had already grown out of its infancy thanks to the Harshad Mehta scam of 1992.

The recent revelation of fraud perpetrated at the Punjab National Bank has brought to light new ways of circumventing the system. Letters of Understanding and the connectivity between the SWIFT messaging and core banking systems are bandied about as loopholes. What will this lead to? Convictions? Stronger laws? A look at the past punitive action on one person who attracted the attention of regulators and market participants alike, may offer some insight.

'Is Parekh still active?'

While almost two decades have passed since Parekh was first banned from the securities market, his name still crops up in discussions with many market participants who claim he is still active through his front entities but they do not have a credible proof to back the claim.

Parekh was in the news on February 27, when a special court created to hear SEBI matters sentenced him to jail for three years, finding him guilty for not paying a penalty imposed by SEBI.

The case pertains to Panther Fincap and Management Services where Parekh was a director. when the firm acquired shares of Shonkh Technologies International, which, according to SEBI, was beyond the permissible limit and without the statutory disclosures.

SEBI initiated proceedings in the matter in 2003 and imposed a penalty of ₹6.5 lakh on the company and the directors. The firm offered a demand draft for part payment of the amount. SEBI declined saying rules do not allow part payment and deferment of the penalty.

The regulator then filed a case at the special SEBI court formed to hear specific matters related to the capital markets watchdog. Parekh, currently in his mid-50s, didn't have to go to jail though, as the Bombay High Court granted him bail soon after the SEBI court verdict.

This was, however, only a small case in the larger scheme of things that Parekh was allegedly involved in and was ultimately tried for by regulatory and investigative agencies. SEBI first barred Parekh in an April 2001 ruling that he could not undertake any fresh business as a stock broker or merchant banker till further directions.

But, the most significant order against him came in December 2003 when SEBI banned him from the securities market for 14 years.

In a 67-page order issued by the then SEBI chairman G.N. Bajpai, the regulator stated that the "entities connected to and controlled by Ketan Parekh, if allowed to continue with their operations in the securities market, could pose constant threat to the integrity of the securities market and endanger the investors' interests."

"When the corporate personality is being blatantly used as a cloak for fraud or improper conduct, and where the protection of public interest is of paramount importance, it is necessary to lift the corporate veil so as to pass an appropriate order rendering justice," said the order highlighting that Parekh's entities allegedly undertook circular and fictitious trades to create artificial volumes in certain stocks.

'Conspiracy, cheating'

In 2003, even the Central Bureau of Investigation (CBI) filed a charge sheet in the Madhavpura Mercantile Cooperative Bank matter against Parekh and five others accusing them of conspiracy, cheating and forgery. He was convicted by a special CBI court in March 2014 and was sentenced to two years of rigorous imprisonment though he spent only a year in jail.

"Harshad [Mehta] operated in an era when there was a manual trading ring with an outcry system. By the time KP came into the picture, we had electronic systems in both BSE and NSE. KP was a thinking market operator with a unique style of operation," said Arun Kejriwal of Kejriwal Research & Investment Services.

> **KP mastered the art of exploiting the then existing systems of exchanges**
> ARUN KEJRIWAL
> Kejriwal Research & Investment Services

"He worked with a wide diaspora of market participants and mastered the art of exploiting the then existing systems of the exchanges to make money," he added. Incidentally, Parekh worked under (Harshad) Mehta before starting out on his own.

Market participants said Parekh was 'smart' and 'more of a thinker than doer' who created strategies and then sat back and saw his plans unfold with the help of his coterie.

They added Parekh, with his coterie, would target stocks in the midst of negative news and even managed to extract sensitive information regarding other players' positions courtesy his "friends at the right places." Information about positions of other traders or investors can greatly help in devising a strategy to derive maximum benefit from a trade.

"Unlike Harshad, KP was never solely dependent on the brute force of money that both had at their disposal," said a broker who came to the market in 1988 and saw both Harshad and KP operate.

At the height of his market operations, his favourite stocks came to be known as K10 and included Zee Entertainment, Mukta Arts, Himachal Futuristic Communications (HFCL) and Pentamedia Graphics, among others. Some like Amitabh Bachchan Corp. and Crest Communinications are no more listed on the bourses.

Some of the market players who had worked with him in the past said that it was widely believed that he helped promoters pump up the volume and price of their stock by circular trading within connected entities and then dumping them with domestic financial institutions.

Incidentally, if the market buzz is to be believed, till a few years ago, Parekh was active in the primary market allegedly colluding with promoters to manage the subscription and post-listing performance to give attractive exits to the investors.

While the regulator did not explicitly mention that Parekh was active in the primary market, it did bring in a rule in January 2012 mandating newly-listed shares to be included in the pre-open session on the day of listing and also introduced circuit limits on such shares on the first day itself. This effectively capped the listing gains for newly-listed shares.

However, in June 2009, even as the 14-year ban on Parekh was still in force, SEBI was probing another matter of alleged manipulative trading by a few entities and found a Parekh link in the case.

The regulator found that the fund flow analysis provided by the Income Tax department showed that "many of the connected clients named in this order appear as conduits for the funds originating from Ketan Parekh group company."

'Front entities'

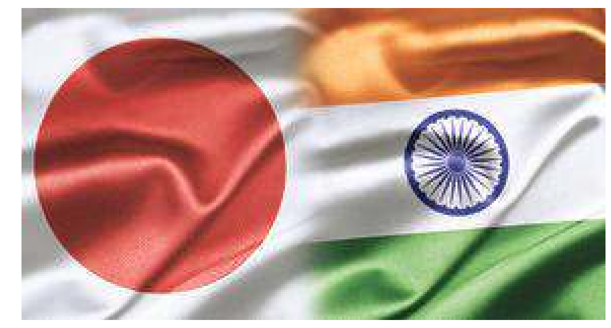
While referring the matter to the Enforcement Directorate, the regulator said that "it appears that he [Parekh] has conveniently used the connected clients at will as his front entities for executing trades desired by him in the securities market."

"... this flow of funds originating from Mr. Ketan Parekh which were routed through the connected clients, when juxtaposed with securities market transactions of connected clients, as brought out by the instant SEBI examinations, leads to the possibility that the securities market transactions of the connected clients were executed as a part of a larger device for creating additional layers to obfuscate the funds trail and also to integrate the money originating from Mr. Ketan Parekh into the banking system," said the order.

Interestingly, in July 2012, there were media reports that the Intelligence Bureau had submitted a report to government officials highlighting a stock market scam with Parekh and his associates targeting shares of companies such as Dewan Housing Finance Corporation, Goenka Diamond Jewels, IVRCL, GMR Infrastructure and the public issue of Tribhovandas Bhimji Zaveri.

While none of the interested parties – the IB, the government, the exchanges or SEBI – confirmed or denied the report, the talk in the markets maintained that the chartered accountant from Mumbai's elite Marine Drive area was active in the stock markets and, as always, had found a way to work around the restrictions.

M&A rebound is a good sign for Indo-Japan ties



Gone awry: Japanese firms grew wary of investing in India after the telecom and pharma disasters. ▪GETTY IMAGES/ISTOCK

UNA GALANI

A resurgence of Japanese interest in India is worth meditating on. Nippon Steel is part of a bid for its bankrupt rival on the subcontinent, Essar Steel. That would mark a revival of high-profile dealmaking in India after several big flops. The two countries share a spiritual affinity through Buddhism; healthier financial relations will also help create the harmonious, democracy-led region that Tokyo and Washington both want.

Market opportunity

India's rapidly growing middle class represents a huge opportunity for Japan, a rich country with a shrinking population. Still, Mumbai's bankers have enjoyed fewer trips to Tokyo in recent years as companies there grew wary of investing in the developing market.

Data from the Indian embassy in Tokyo shows foreign direct investment peaked around 2008 and 2009, with mega-deals including NTT DoCoMo's $2 billion purchase of a stake in Tata Teleservices and Daiichi's Sankyo's $3 billion-plus acquisition of drugmaker Ranbaxy Laboratories.

Both deals were disasters. Tata Teleservices performed badly and then, to exacerbate the pain, the RBI tried to prevent DoCoMo from recouping half of its original investment as part of a pre-deal insurance policy agreed upon between the two companies. Meanwhile, Ranbaxy ran into big trouble with U.S. regulators. Daiichi Sankyo alleged that the previous Indian shareholders hid information; it eventually sold the company to a domestic rival. Both Japanese groups took their cases to international courts.

> **'Free and open Indo-Pacific' forms the core of Japan's foreign policy**

The two cases are not the best advertisement for big bets on the subcontinent. It is against this backdrop that Nippon has teamed up with Luxembourg-based ArcelorMittal to bid around $6 billion for Essar Steel. The Japanese probably hope that investing alongside the Mittal family, as a quasi-local partner, will help avoid nasty surprises. A deal would follow smaller investments by Japan's SoftBank into tech start-ups and a 50-year loan from Tokyo to build a bullet train linking Mumbai with Ahmedabad.

More investment will also lend credibility to the idea of a "free and open Indo-Pacific". This regional concept, in which authoritarian China is not the centre, is a core plank of Japan's foreign policy, and has been talked up by U.S. President Donald Trump. It is an ambitious vision that will sound more plausible if Japanese companies can invest in India without losing their shirt.

(The writer is a Reuters Breakingviews columnist. Opinions expressed are her own.)

EXPLAINER

What is International Solar Alliance?

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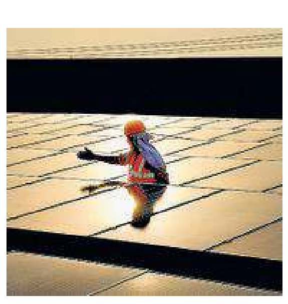

The founding ceremony of the International Solar Alliance was held in New Delhi on March 11. It was followed by the first summit of the Alliance.

What is this alliance?

■ The International Solar Alliance (ISA) was unveiled by Prime Minister Narendra Modi and then French President Francois Hollande at the U.N. Climate Change Conference in Paris on November 30, 2015. The idea was to form a coalition of solar resource-rich countries to collaborate on addressing the identified gaps in their energy requirements through a common approach. Towards this, the ISA has set a target of 1 TW of solar energy by 2030, which current French President Emmanuel Macron said would require $1 trillion to achieve.

Who are the member countries?

■ The ISA is open to 121 prospective member countries, most of them located between the Tropics of Cancer and Capricorn as this is the region worldwide with a surplus of bright sunlight for most of the year.

So far, however, only 56 countries have signed the ISA Framework Agreement. These include Australia, Bangladesh, Benin, Brazil, Burkina Faso, Cabo Verde, Cambodia, Chad, Chile, Comoros, Costa Rica, Cote d'Ivoire, Cuba, Djibouti, Dominican, Republic, DR Congo, Equatorial Guinea, Ethiopia, Fiji, France, Gambia, Gabon, Ghana, Guinea, Guinea-Bissau, Guyana, India, Kiribati, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Nauru, Niger, Nigeria, Peru, Rwanda, Sao Tome, Senegal, Seychelles, Somalia, South Sudan, Sri Lanka, Sudan, Suriname, Tanzania, Togo, Tonga, Tuvalu, UAE, Uganda, Vanuatu, Venezuela and Yemen.

What is India's role?

■ Apart from being a founding-member, India plays a significant role in the alliance in terms of being a host as well as a major contributor to the achievement of the target. The ISA is the first international body that will have a secretariat in India. India, with a target to produce 100 GW of solar energy by 2022, would account for a tenth of ISA's goal. "India will produce 175 GW electricity from renewable sources by 2022 and 100 GW will be from solar energy," Mr. Modi said, addressing the ISA.

"Distribution of 28 crore LED bulbs in three years has saved $2 billion and 4 GW of electricity. India will also provide 500 training slots for ISA member-countries and start a solar tech mission to lead R&D."

INTERVIEW | KAMAL NATH

IT business model is now lesser hardware, people, licences

An era has changed and that is why cloud computing is at the core of Sify's strategy, says the company's CEO

K. BHARAT KUMAR

Sify Technologies shot into the limelight with its $ 115-million acquisition of IndiaWorld Communications Pvt. Ltd. in 2000. It was also among the earliest among Indian firms to list on the Nasdaq. In just more than the decade and a half since, the company has changed tack from targeting retail users to focusing on enterprise clients. It clocked a 23% growth in revenues to ₹1,843 crore for the year ended March 2017. CEO ***Kamal Nath****, who joined Sify in 2012, tells us what wrought the change.*

How has the business changed after you came in?

■ Prior to my coming in, we had to make the change from consumer to enterprise. It was clear that Internet access would be predominantly through the mobile and using broadband. We wanted to be in the enterprise space and use our experience, having served end-consumers. Sify has been always building infrastructure in-house. We focused on two areas of enterprise – one, where the data would reside [the data centre] and two, the media that allows access to data [the network].

Earlier, we were too entrenched in infrastructure. When the infrastructure and managed services integration trend emerged, it boded well for us. We had a network piece, managed services piece, we were doing a little bit of integration also – services; we only managed the facility. Now, we not only manage the facility, we will help you build the IT infrastructure inside the data centre in various models: if you want the hardware to be in your books, we can help you do it; you can use our infrastructure as a service; if you want someone else to provide the hardware and you just want us to manage it, that's possible too. Hosting is the centre piece around which this entire thing is woven.

We also had some applications and offered security portfolio too. All these businesses were smaller when compared to our telecom business. It was then logical for us to combine the telecom piece and the telecom-managed services piece into one.

Here's an example: earlier, we used to only give data centre services and hosting

Who is your target customer?

■ Our sweet spot is the medium-sized segment with client revenues in the range of ₹5,000 crore to ₹12,000 crore. That is a segment, which I have seen in the last 2-3 years, is more open to change. Earlier, IT was run on premise. You buy the hardware from HP, IBM, Wipro or HCL and, you ask someone to manage it.

The whole game was around more hardware, more people, more licences... That model is changing to lesser hardware, fewer people, fewer licences. The medium-sized segment loves this and it connects well with the purchasing chief financial officer. Also, our business outcome-based model has found favour with this segment. We have 3 to 4 customers who have signed up for this; we set up the entire IT infrastructure for the client and run the IT operations for them; we get the money when they get the money from their end-users. Medium-sized clients love it.

For example, we run the entire data centre for a health insurance vendor in India; 3 to 4 years back, this contract...it would have definitely gone to the large hardware players. Now, a lot of these come to us.

Where do other offerings, such as iTest, fit in?

■ iTest is a great example of the outcome-based model. That's a business process as a service. Cloud is at the core of Sify. In the SSC exam, for example, we get paid on the basis of per student per test We have conducted exams in 451 centres across the country. It is also a cloud model. We are not billing anything, the client is only subscribing to the cloud model. We are not billing separately for centres, for laptops or for the connection; everything has now become converted into a per student per test fee.

> **Our sweet spot is the medium-sized segment with client revenues of ₹5,000 crore -₹12,000 crore**

It is transparent, with no human intervention and [with] fair evaluation. It is one of the most successful lines of business for Sify. We see large growth here.

Similarly, our proprietary software for the supply chain business is also on the cloud. It adds to, instead of competing with, software applications such as SAP. Again, our target is the middle-sized business.

Are receivables a concern in India, especially when you service the government?

■ Cloud has changed the scenario. The government, too, has started acknowledging the role of cloud in data centres. In the utilities space, the U.P. state electricity board has opted for our pay-per-use model.

We partnered with an application metric and billing software company to provide this service to the government entity. Since there is little upfront payment, government agencies also like this model.

How about margins for each of your businesses??

■ In services, where the investments are high, initial days of a business will suck up more margin. Our margins are more in services, but we are happy that our data centre-centric business has overtaken the telecom business in terms of contribution to revenue.

On the margins front, telecom will be contributing more because, over a period, monetisation has happened. We are investing in the data centre business, where we have to acquire market share.

When you are acquiring customers using the outcome-based model, you need to invest; because we are not expecting the customer to pay upfront.

How has headcount changed for you?

■ Whatever we do today is not by adding people. When we moved from ₹760 crore to almost ₹ 1,800 crore, we actually reduced our people... from 3,500 to 2,500..

Are investors happy? Since 2012, your share price has gone below $1 and is now hovering at about $2...

■ That does not reflect our true capability. We are here in India but are listed on the Nasdaq. Investors are yet to fully grasp our transformation story, so we're ramping up our investor-facing activities.

We thought of transforming ourselves first and then going to investors. Clients are taking more and more notice of us. We need to go to investors with a complete re-messaging that the era has changed; that's why cloud is at the core of Sify; that all the business units having relevance in the cloud is an important message.

What metrics do you track?

■ Return on investments. Whatever we invest, we aim to quickly earn it back. There are two challenges. Infrastructure investment, and ramping up services portfolio. The revenue spread is important.

For example, in the network business, management services contribute to 25% per unit of bandwidth. Ideally, we want 100% of bandwidth customers to be managed-services customers. That is an important parameter. Because it is a growing business, we aren't bothered about productivity. For a new business, client acquisitions are important.