DCM-ESCORTS

Sharing Losses

LAST week-end the seesaw battle being waged by Swraj Paul to take over Escorts and DCM slowed to a less suspenseful motion when the London-based industrialist suffered a series of setbacks. The first and predictable one came when Escorts' Board of Directors refused on June 9 to register 4,62,377 shares lodged by Paul's brokers Harish Bhasin and Bharat Bhushan. At the company's Annual General Meeting the same day, a poll demanded by seven Paul lobbyists on two resolutions—a move designed to see which way the financial institutions as majority shareholders would swing—backfired when the voting went overwhelmingly in favour of Escorts' management.

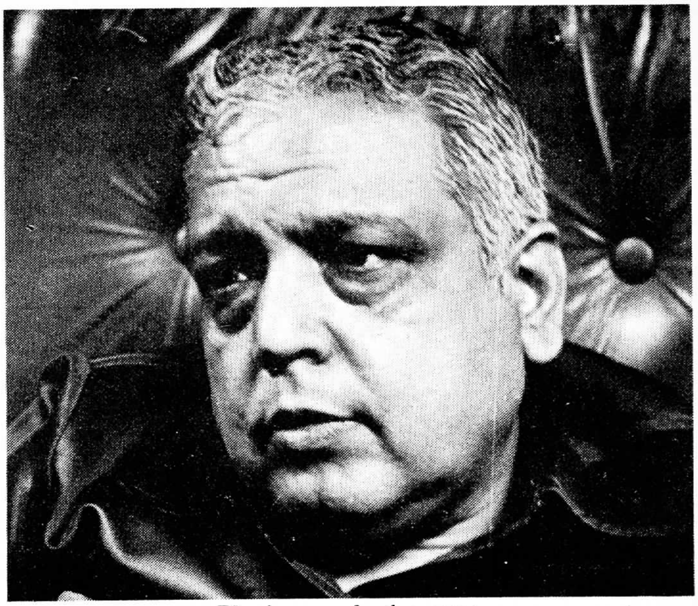
Then, soon after the Finance Ministry ordered the Reserve Bank of India (RBI) to inquire into Paul's massive equity purchases in the two companies, the bank threw on another damper when it ordered Paul's bankers, Punjab National Bank (PNB) not to release to the brokers a sum of Rs 1.07 crore remitted by the tycoon's Caparo Group. Between March and early June, however, PNB had already released over Rs 11 crore of Paul's remittances to the brokers to pay for Escorts' disputed 4.62 lakh shares and 1.2 million shares of DCM.

Close Call: The RBI's pre-emptive strike nearly caused a crisis on the Delhi Stock Exchange (DSE) because the blocked funds were meant to pay for one lakh Escorts shares and 85,000 DCM shares received by Harish Bhasin against earlier transactions. Bhasin—who is also president of the DSE—staved off blacklisting only by mobilising local resources. But there were grave doubts about whether Bhasin had violated rules by indulging in forward deals, and by paying for non-resident purchases with local funds. "Before people accuse me they should first wash their own houses," retorted Bhasin. "What is resident or non-resident for me? I have to pay for the shares in rupees in any case, and I did so."

At fortnight's end Paul's brokers were claiming total purchases of 9.75 lakh Escorts shares (representing 7.5 per cent of total shareholding) and 1.2 million DCM shares (representing 13 per cent of total shareholding). But another potential slip-up by invaders surfaced. The Government's Portfolio Investment Scheme stipulates that all non-resident investments ought to be routed through a bank; when a bank deputes a broker to purchase shares it is expected to submit daily reports of all transactions to the RBI. In Paul's case, the PNB had failed to observe this rule. Paul's spokesmen sought to put this down to a technical error, but a senior DCM official retorted by saying: "The law does not recognise grey areas. It sees misdemeanours in black and white."

Stock market sources, however, said that Paul's brokers might in fact have benefited from the RBI inquiry and the stoppage of Paul's June 13 remittance. The two factors contributed to a dramatic crash in the two scrips on June 20, with DCM plunging from a high of Rs 105.50 to Rs 70, and Escorts from a high of Rs 82 to Rs 65. Reports indicated that Paul's brokers took advantage of the slump to pay for large chunks of previously contracted shares. The market swung upward again the next day, and suspicions of deeper game were reinforced when RBI Governor Manmohan Singh was summoned urgently by Union Finance Minister Pranab

Paul: suffering setbacks



Bhasin: on a buying spree

Mukherjee to Delhi on June 24. When INDIA TODAY met Bhasin the following day he said: "We anticipate that the RBI will clear the blocked remittance within the next three or four days." That would result in a windfall profit for the brokers, because the two companies' shares would immediately shoot up in value.

Counter-offensive: In London, Paul was reported to be considering appealing against Escorts' refusal to register his purchases to either the Company Law Board or the courts. DCM meanwhile fired another salvo by announcing the early closure of its books—on June 29 instead of November—and also preponed its annual general meeting by six months. The hasty move was ostensibly to effect a change in the company's name from Delhi Cloth and General Mills Limited to DCM Limited, but it was clear that the company actually wanted Paul to show his hand by lodging the shares he had bought.

The brokers were therefore forced to marshal as many shares as possible in a very brief while. Said an angry Bhasin: "This is needless and frivolous expenditure at the shareholders' cost. DCM has not complied with a Finance Ministry directive asking for conversion of all equity shares of whatever denomination into standard face values of Rs 10 and Rs 100. The company's shares continue to have a par value of Rs 25, although the last date for conversion is December 31. Secondly, the company's convertible debentures will get converted on July 1, but such conversions will be in the old name because a nomenclature change takes time. So what is the use of the sudden closure of books except to provoke us?"

"Anything I say will only increase confusion and controversy," said SBI Governor Manmohan Singh, declining to comment on questions raised about the legality of Paul transferring shares and about the reasons for the RBI stepping into the act. The Punjab National Bank was equally uncommunicative. So a host of technical questions raised by the rival parties—about the non-resident status of Swraj Paul's companies, whether Paul's share purchases had been completed (i.e. paid for and delivery taken) before May 2, when the 5 per cent ceiling on non-resident investment came into effect, —went begging for answers.

Manmohan Singh: no comment

The biggest mystery concerned the vast sums that Swraj Paul had mobilised to mount his daring and adventurous stock market raid. Published figures about the financial status of his companies in Britain left little room for doubt that they did not have the wherewithal to finance a share market operation of this size: a good many of them had share capital that was counted in thousands of pounds, many were making losses, and in some cases their turnover was too small for them to even consider staking millions in any single and risky operation.

While the battleground shifted from the stock market ring to lawyers' chambers and closed-door meetings, Swraj Paul's brothers finally came into the open to try and clear public doubts about their operations—lobbying in Bombay, launching a campaign to meet the press, and in the process virtually dropping the so far consistent line that the objective was not a takeover.

Contacted in London regarding the source of his funds, Paul suggested that banks had lent him the money. His brother Jit Paul in Calcutta chose to counter the question by asking: "If a customer pays a bill in my restaurant I don't ask him where he got his money from." Under existing laws the Government cannot investigate the sources of a non-resident's funds. Jit Paul and other "family friends" are also reported to be preparing to buy large chunks of Escorts and DCM equity with local funds—an eventuality that will vastly beef up the Paul family's holdings in the besieged companies.

Broker Bhasin meanwhile waxed indignant about Escorts' refusal to register his purchases. "The sanctity of negotiable instruments is lost," he fumed, "and if this is allowed to stand the stock markets will suffer a severe jolt. It will be tantamount to negation of currency. I am within my rights to return all those shares as worthless pieces of paper and demand my money back in full. If the stock market has to suddenly pay me Rs 12 crore do you know what will happen? There will be a tremendous crash." Faced with a fluid and unprecedented situation the Government has been singularly coy about spelling out its policy in unambiguous terms. It might have bitten off more than it can chew for the unanswered questions of last fortnight are only the tip of the iceberg.

—CHAITANYA KALBAG