

Harshad Mehta Scandal

Harshad Mehta was an Indian stockbroker caught in a scandal beginning in 1992. He died of a massive heart attack in 2001, while the legal issues were still being litigated. Early life Harshad Shantilal Mehta was born in a Gujarati Jain family of modest means. His father was a small businessman. His mother's name was Rasilaben Mehta. His early childhood was spent in the industrial city of Bombay. Due to indifferent health of Harshad's father in the humid environs of Bombay, the family shifted their residence in the mid-1960s to Raipur, then in Madhya Pradesh and currently the capital of Chhattisgarh state. An Amul advertisement of 1999 during the controversy over MUL saying it as "The Big Bhool" (Bhool in Hindi means Blunder) He studied at the Holy Cross High School, located at Byron Bazaar. After completing his secondary education Harshad left for Bombay. While doing odd jobs he joined Lala Lajpat Rai College for a Bachelor's degree in Commerce.

After completing his graduation, Harshad Mehta started his working life as an employee of the New India Assurance Company. During this period his family relocated to Bombay and his brother Ashwin Mehta started to pursue graduation course in law at Lala Lajpat Rai College. His youngest brother Hitesh is a practising surgeon at the B.Y.L.Nair Hospital in Bombay. After his graduation Ashwin joined (ICICI) Industrial Credit and Investment Corporation of India. They had rented a small flat in Ghatkopar for living. In the late seventies every evening Harshad and Ashwin started to analyze tips generated from respective offices and from cyclostyled investment letters, which had made their appearance during that time. In the early eighties he quit his job and sought a job with stock broker P. Ambalal affiliated to Bombay Stock Exchange (BSE) before becoming a jobber on BSE for stock broker P.D. Shukla. In 1981 he became a sub-broker for stock brokers J.L. Shah and Nandalal Sheth. After a while he was unable to sustain his overbought positions and decided to pay his dues by selling his house with consent of his mother Rasilaben and brother Ashwin. The next day Harshad went to his brokers and offered the papers of the house as guarantee. The brokers Shah and Sheth were moved by his gesture and gave him sufficient time to overcome his position. After he came out of this big struggle for survival he became stronger and his brother quit his job to team with Harshad to start their venture GrowMore Research and Asset Management Company Limited. While a brokers card at BSE was being auctioned, the company made a bid for the same with financial assistance from Shah and Sheth, who were Harshad's previous broker mentors. He rose and survived the bear runs, this earned him the nickname of the Big Bull of the trading floor, and his actions, actual or perceived, decided the course of the movement of the Sensex as well as scrip-specific activities. By the end of eighties the media started projecting him as "Stock Market Success", "Story of Rags to Riches" and he too started to fuel his own publicity. He felt proud of this accomplishments and showed off his success to journalists through his mansion "Madhuli", which included a billiards room, mini theatre and nine hole golf course. His brand new Toyota Lexus and a fleet of cars gave credibility to his show off. This in no time made him the nondescript broker to super star of financial world. During his heyday, in the early 1990s, Harshad Mehta commanded a large resource of funds and finances as well as personal wealth.

The fall In April 1992, the Indian stock market crashed, and Harshad Mehta, the person who was all along considered as the architect of the bull run was blamed for the crash. It transpired that he had manipulated the Indian banking systems to siphon off the funds from the banking system, and used the liquidity to build large positions in a select group of stocks. When the scam broke out, he was called upon by the banks and the financial institutions to return the funds, which in turn set into motion a chain reaction, necessitating liquidating and exiting from the positions which he had built in various stocks. The panic reaction ensued, and the stock market reacted and crashed within days. He was arrested on June 5, 1992 for his role in the scam.

His favorite stocks included

- ACC
- Apollo Tyres
- Reliance
- Tata Iron and Steel Co. (TISCO)
- BPL
- Sterlite
- Videocon.

The extent The Harshad Mehta induced security scam, as the media sometimes termed it, adversely affected at least 10 major commercial banks of India, a number of foreign banks operating in India, and the National Housing Bank, a subsidiary of the Reserve Bank of India, which is the central bank of India. As an aftermath of the shockwaves which engulfed the Indian financial sector, a number of people holding key positions in the India's financial sector were adversely affected, which included arrest and sacking of K. M. Margabandhu, then CMD of the UCO Bank; removal from office of V. Mahadevan, one of the Managing Directors of India's largest bank, the State Bank of India. The end The Central Bureau of Investigation which is India's premier investigative agency, was entrusted with the task of deciphering the modus operandi and the ramifications of the scam. Harshad Mehta was arrested and investigations continued for a decade. During his judicial custody, while he was in Thane Prison, Mumbai, he complained of chest pain, and was moved to a hospital, where he died on 31st December 2001. His death remains a mystery. Some believe that he was murdered ruthlessly by an underworld nexus (spanning several South Asian countries including Pakistan). Rumour has it that they suspected that part of the huge wealth that Harshad Mehta commanded at the height of the 1992 scam was still in safe hiding and thought that the only way to extract their share of the 'loot' was to pressurise Harshad's family by threatening his very existence. In this context, it might be noteworthy that a certain criminal allegedly connected with this nexus had inexplicably surrendered just days after Harshad was moved to Thane Jail and landed up in imprisonment in the same jail, in the cell next to Harshad Mehta's.

Mumbai: Just as the year 2001 was coming to an end, Harshad Shantilal Mehta, boss of Growmore Research and Asset Management, died of a massive heart attack in a jail in Thane. And thus came to an end the life of a man who is probably the most famous character ever to have emerged from the Indian stock market. In the book, *The Great Indian Scam: Story of the missing Rs 4,000 crore*, Samir K Barua and Jayanth R Varma explain how Harshad Mehta pulled off one of the most audacious scams in the history of the Indian stock market.

Harshad Shantilal Mehta was born in a Gujarati Jain family of modest means. His early childhood was spent in Mumbai where his father was a small-time businessman. Later, the family moved to Raipur in Madhya Pradesh after doctors advised his father to move to a drier place on account of his indifferent health. But Raipur could not hold back Mehta for long and he was back in the city after completing his schooling, much against his father's wishes. Mehta first started working as a dispatch clerk in the New India Assurance Company. Over the years, he got interested in the stock markets and along with brother Ashwin, who by then had left his job with the Industrial Credit and Investment Corporation of India, started investing heavily in the stock market. As they learnt the ropes of the trade, they went from boom to bust a couple of times and survived. Mehta gradually rose to become a stock broker on the Bombay Stock Exchange, who did very well for himself. At his peak, he lived almost like a movie star in a 15,000 square feet house, which had a swimming pool as well as a golf patch. He also had a taste for flashy cars, which ultimately led to his downfall.

Newsmakers of the week: View Slideshow "The year was 1990. Years had gone by and the driving ambitions of a young man in the faceless crowd had been realised. Harshad Mehta was making waves in the stock market. He had been buying shares heavily since the beginning of 1990. The shares which attracted attention were those of Associated Cement Company (ACC)," write the authors. The price of ACC was bid up

to Rs 10,000. For those who asked, Mehta had the replacement cost theory as an explanation. The theory basically argues that old companies should be valued on the basis of the amount of money which would be required to create another such company. Through the second half of 1991, Mehta was the darling of the business media and earned the sobriquet of the 'Big Bull', who was said to have started the bull run. But, where was Mehta getting his endless supply of money from? Nobody had a clue. On April 23, 1992, journalist Sucheta Dalal in a column in The Times of India, exposed the dubious ways of Harshad Mehta. The broker was dipping illegally into the banking system to finance his buying. "In 1992, when I broke the story about the Rs 600 crore that he had swiped from the State Bank of India, it was his visits to the bank's headquarters in a flashy Toyota Lexus that was the tip-off. Those days, the Lexus had just been launched in the international market and importing it cost a neat package," Dalal wrote in one of her columns later. The authors explain: "The crucial mechanism through which the scam was effected was the ready forward (RF) deal. The RF is in essence a secured short-term (typically 15-day) loan from one bank to another. Crudely put, the bank lends against government securities just as a pawnbroker lends against jewellery....The borrowing bank actually sells the securities to the lending bank and buys them back at the end of the period of the loan, typically at a slightly higher price." It was this ready forward deal that Harshad Mehta and his cronies used with great success to channel money from the banking system. A typical ready forward deal involved two banks brought together by a broker in lieu of a commission. The broker handles neither the cash nor the securities, though that wasn't the case in the lead-up to the scam. "In this settlement process, deliveries of securities and payments were made through the broker. That is, the seller handed over the securities to the broker, who passed them to the buyer, while the buyer gave the cheque to the broker, who then made the payment to the seller. In this settlement process, the buyer and the seller might not even know whom they had traded with, either being know only to the broker." This the brokers could manage primarily because by now they had become market makers and had started trading on their account. To keep up a semblance of legality, they pretended to be undertaking the transactions on behalf of a bank. Another instrument used in a big way was the bank receipt (BR). In a ready forward deal, securities were not moved back and forth in actuality. Instead, the borrower, i.e. the seller of securities, gave the buyer of the securities a BR. As the authors write, a BR "confirms the sale of securities. It acts as a receipt for the money received by the selling bank. Hence the name - bank receipt. It promises to deliver the securities to the buyer. It also states that in the mean time, the seller holds the securities in trust of the buyer." Having figured this out, Mehta needed banks, which could issue fake BRs, or BRs not backed by any government securities. "Two small and little known banks - the Bank of Karad (BOK) and the Metropolitan Co-operative Bank (MCB) - came in handy for this purpose. These banks were willing to issue BRs as and when required, for a fee," the authors point out. Once these fake BRs were issued, they were passed on to other banks and the banks in turn gave money to Mehta, obviously assuming that they were lending against government securities when this was not really the case. This money was used to drive up the prices of stocks in the stock market. When time came to return the money, the shares were sold for a profit and the BR was retired. The money due to the bank was returned.

The game went on as long as the stock prices kept going up, and no one had a clue about Mehta's modus operandi. Once the scam was exposed, though, a lot of banks were left holding BRs which did not have any value - the banking system had been swindled of a whopping Rs 4,000 crore. Mehta made a brief comeback as a stock market guru, giving tips on his own website as well as a weekly newspaper column. This time around, he was in cahoots with owners of a few companies and recommended only those shares. This game, too, did not last long. Interestingly, however, by the time he died, Mehta had been convicted in only one of the many cases filed against him.