

INVESTOR EDUCATION AND PROTECTION PROGRAMME

A report

INTRODUCTION

A potential investor invests in the stock market with certain expectations about the prospects of income from the investment and the capital growth of the security and the corporate benefits that may accrue. While making a decision, the investor ought to have evaluated the attendant risks, especially as expectations on income and/or growth may not materialize. Equity investment by definition is risk capital. However, less educated, small investors in rural areas are attracted by rewards, while the attracted risks or either not informed to them or otherwise ignored. When the risks do materialize, such investors get disenchanted from the capital market. An investor in debt instruments has recourse to redeem the investments from the company, besides the market. But an equity shareholder can realize value only through the market, if and only if, the share is being traded and at the price at which it is traded.

THE NEED

In the last decade the Indian capital market has become one of the most technologically advanced capital market in the world with T+2 rolling settlement, dematerialization, computerized on-line trading at over 400 towns with over 10000 terminals. The Indian securities market is a multi-product market, including equity, debentures, Government and corporate bonds, derivatives, mutual funds, futures and options. Now even the Internet trading is possible from anywhere. The capital market has also become safe with Trade Guarantee Fund and elimination of bad delivery problem. However, the investors in the past have burnt their fingers from one scam after another. The main cause of which, apart from others, was corporate governance practices. As the saying goes, once bitten, twice shy; the investor is presently shying away from the capital market.

Considering the risks in the capital market particularly from the unscrupulous issuers and intermediaries, ineffective and not so efficient surveillance system, coupled with lax and time consuming legal systems; a need was felt to educate the investors, especially the young investors and the persons coming from the rural background regarding their rights and responsibilities as investor. For the economic growth of the country a thriving capital market is a necessity. As a recent study has indicated, India is fourth in the world in terms of purchasing power parity, only after US, China and Japan, and with growing disposable income and declining interest rate regime, the investors are looking for investment opportunities in the capital market. To attract the investors to capital market, it is essential to spread the education about capital market.

THE TARGET AUDIENCES

CUTS with the support of Department of Company Affairs, Ministry of Finance, Govt. of India, decided to conduct Workshops and Open Houses in six different districts of Rajasthan. The workshops were meant for representatives of local NGOs, CUTS networking organizations, volunteers, teachers, social workers and others to bring among them awareness about capital market and investor redressal mechanism. The purpose of Open House was to teach the masses with regard to proper investments, to make them aware about the risks and to make them aware about handling their investment grievances. Apart from this, those investors, who have invested in private finance companies, non-banking financial institutions etc were also present in the programme. In the Open Houses, an open invitation was extended to local population for coming to have awareness about capital market, recent developments, risks and rewards, to get their problems resolved on the spot (to the extent possible), air their views, give suggestions and connected matters.

PAST EXPERIENCES OF THE PARTICIPANTS

The participants present were of mixed category. Some were totally new to the subject, some had experience of investing money in the market, and some had grievances against some or the other company. Some of the participants had never seen a share. Participants were from less educated to professional level. Most of the participants were not aware of capital markets, players in the market and from where to get information. Largely the participants were not aware of Internet. Glossary of terms used in the capital market was explained to the participants.

PROGRAMME OBJECTIVES

The programme objective was to identify and build capacities of Investor Protection Organisations in 6 districts of Rajasthan, namely at Chiittorgarh, Jhunjhunu, Jalore, Sawai Madhopur, Alwar and Dausa. It was proposed to upgrade the skills of Consumer Protection / Investor Protection Organisations for specific issues related to investor protection and grievance redressal mechanism. The Workshops were planned for one and half day to be followed by an half day Open House. In the Open Houses, investors and prospective investors also participated to air their grievances and find solutions regarding their investment-related problems. Open Houses for Investor Education and Protection have been conducted in the past by CUTS, other Investor Protection organisations, stock exchanges, others and SEBI. However, probably it is for the first time that Workshops have also been conducted particularly for rural less educated prospective small investors or resource persons.

TOPICS COVERED

The Workshops were in the nature of awareness programme. The following topics were covered in the workshops:

Introduction to Investments, savings and investment
Fundamental principals of investment – safety /security, return, growth, liquidity
Risk and return, Risk diversification, Risk management and safeguards
Do's and Don'ts for the investors
Financial and non-financial investments
Capital market and money market
Different types of investments
Different types of instruments – shares, debentures, bonds, mutual funds, derivatives, futures and options, index futures
Merchant Bankers and their role
Transfer and dematerialization of shares
SEBI – its role and responsibilities
Working of stock exchanges
Trading and settlement systems
Capital market intermediaries, their registration, roles and functions, responsibilities
Working of companies, Companies Act, 1956, Board of Directors
Rights and responsibilities of share holders
Registrar of Companies
Department of Company Affairs
Investor Protection Organizations – their roles and responsibilities, registration with SEBI and DCA
Different types of investment problems
Complaints, redressal mechanism and different complaint redressal authorities

DOCUMENTS SHOWN TO PARTICIPANTS

As most of the participants had never seen a share certificate, they were shown a share certificate and explained the contents of the share certificate. Along with share certificate, transfer deed form was also explained. Application form for dematerialization of shares and specimen of dematerialization account statement was shown to the participants. Advertisement issued by the Association of Mutual Funds in India in the Economic Times of 11/03/03 regarding compulsory Identity Card for Mutual Fund Agents from 01/04/03 was shown to participants. The participants were shown the pages from the news papers regarding the share prices and were explained how to read share prices. A specimen page containing 743 the Non-Banking Finance Companies and Residual Non-Banking Finance Companies registered with RBI to hold / accept deposits from public from the web site of RBI www.rbi.org was also shown.

KIT DISTRIBUTION

On registration, the participants were given the kits which included brochures issued by the SEBI, CUTS own publication about investor protection and other relevant material.

RESOURCE PERSONS

The main faculty for the full programme was Mr Kailash Chandra Gupta, Investment Counsellor and former Director (Finance) and Member of the Board of Directors of a Govt. of India Undertaking, Stock-broker and AGM of EXIM Bank. Other resource persons included representative from University of Calcutta, Tax Consultant from Kolkatta, Professors of Deptt. of Economics and Financial Administration of University of Rajasthan, Chief Editor of local Hindi newsletter "Nafa Nuksan", representatives from Mumbai, Bangalore, Bhopal, Lucknow and Udaipur consumer organisations. Among Local faculty members were Suptt. of Police, Addl. Collector and District Magistrate, Bar Association President, Former Consumer Disputes Redressal Forum Member, Govt. Small Savings Officer, Sub-broker, Chartered Accountant, Company Secretary, Advocate etc.

CENTREWISE REPORT

A report on the Workshops and Open Houses conducted at different districts is given below:

CHITTORGARH

Days / Dates: Tuesday 04/03/03 and Wednesday 05/03/03

Venue: Hotel Chetna
Bus Stand, Chittorgarh 312 025

Local Network Coordinator: Shri Madangiri Goswami

Local Coordinating Organisation: CUTS Centre for Human Development
Manav Vikas Kendra
Rawala, Senth
Chittorgarh 312 025
Phone: (01472)241472
Fax: (01472) 240072
email: cutschd@sancharnet.in

Geographic Area Covered: Boheda, Tehsil Badi Sadri; Choti Sadri; Village Sahanava; Kesarpura, Shambhupura; Nandvahai; Gangrar; Kalyanpura, Bhupalsagar; Nagari; Nimbhaheda; Napati; Karedia; Gardana, Tehsil Bhadesar; Devgarh, Pratapgarh; Jadana; Napafala Barabhadara; Momana, Choti Sadri; Madola;
(Annexure A.1)

Local Resource Persons: Shri Arjun Mundra, Chartered Accountant.
Shri Jagdish Rathi, Company Secretary.

External Resource Person: Dr Somdev
Professor in Deptt. of Economic Administration and Financial Management
University of Rajasthan, Jaipur

Shri Jai Singh Kothari
Chief Editor
Nafa-Nuksan, Jaipur

Participants: 40 (List at *Annexure A.2*)

Media Coverage: Dainik Bhaskar, Jaipur, Chitorgarh Supplement 05/03/03
Rajasthan Patrika, Udaipur, Chitorgarh Supplement 05/03/03
Rajasthan Patrika, Udaipur, Chitorgarh Supplement 07/03/03 (*Annexure A.3*).

Photographs Four (*Annexures A.4*)

Proceedings:

At the outset the purpose of the Workshop was explained to the participants. They were asked to give their introduction, any past dealings in the capital market, information about investor protection organizations in their area, expectations from the workshop and they were requested to tell if they have any specific questions. The participants were from villages surrounding the Chittorgarh. Mostly they were not aware of the capital market and how it functions. Based upon the information collected, the workshop was designed and conducted in a way that it is relevant to the participants present keeping in mind the objectives of the programme. The Workshop turned out to be very interactive with lot of participation. The topics mentioned above were explained in a very simple way in Hindi language. Some of the questions, which were asked by the participants, were where to invest? What precautions are to be taken while investing? In the falling interest rates, what should small investors do? How should participants educate others? How to identify good and bad Non-Banking Finance companies? What an investor should do when a company vanishes? The questions of the participants were adequately responded. Some participants wanted to have clarifications of different terms used in the capital market, which were provided.

Dr Somdev and Mr Jai Singh Kothari discussed about how to protect the persons who become agents of the companies, which collect money and disappear. The wreaths of local investors have to be tolerated by the agents, who have become intermediaries. The participants mentioned the names of companies like Memorial Finance Company, Unlock Money, Pulse Green Forest Limited, Dhan Laxmi which had collected the money and disappeared. On requesting to provide the details and document, Investor Protection Munches / evidence, participants came out with specific suggestions. As a follow-up of the workshop they wanted to create an Investor Protection Forum (Munch). *The details of this Investor Protection Munch are given in the Future Action para towards the end of this report.*

In the Open House, the investors asked number of questions about the specific companies in which they have invested money and do not know anything about those companies. Persons who lost money in the Non-Banking Finance Companies were also perturbed and had lost all hopes. Investors aired their views on different subjects.

JHUNJHUNU

Days / Dates: Friday 07/03/03 and Saturday 08/03/03

Venue: Hotel Madhav Heritage (Shekhawati)
Near Circuit House,
Jhunjunu 333 001

Local Network Coordinator: Shri Rajendra Sen

Local Coordinating Organisation: Saarathi Sansthan
Near Kakoda Railway Crossing
Surajgunj Mandi 333 029
Phone: (01596) 237679
Fax: 901596) 237695

Geographic Area Covered: Singada, Mandana; Kasani, Chirawa; Surajgarh;
Dindawa, Aguna; Pilani; Khanpur, Buhana; Jhunjunu; Maru; Sanpur; Hanumanpura;
Abusar; Islampur; Udaipur Wati; Navalgarh; Mukundgarh (Annexure
B.1)

Local Resource Persons: Mr Niranjan Singh, Samaj Network Convenor
Mr Rohit Chowdhury, Chartered Accountant.
Mr Nitin Agarwal, Sub-broker

External Resource Person: Dr Satish Batra
Asstt. Prof. in Deptt. Of Economics
University of Rajasthan, Jaipur

Dr Narayan Sinha
Head of the Deptt. of Economics
University of Rajasthan, Jaipur

Participants 40: (list enclosed as Annex. B.2)

Media Coverage: Danik Bhaskar, Sikar 08/03/03 Advt.
Rajasthan Patrika, Sikar 08/03/03 Advt.
ETV Rajasthan TV Channel (Annex. B.3)
Photographs Four (Annex. B4)

Proceedings:

Apart from the awareness level discussions of the topics listed above certain other subjects were discussed in some details. Investor beware was an important topic which was discussed at some length. How to invest in the companies was another topic discussed. How to invest in shares and what precautions to be taken were also explained. Some other topics were: opportunities available to small village investors, procedure for purchase and sale of shares in the secondary market, working of stock exchanges, how to select a good broker, complain redressal system, price movement, share price indexes, dematerialization of shares, derivatives trading, index trading, internet trading, etc. etc.

One of the questions was about Non-Banking Finance Companies which took deposits and disappeared. One specific case was of the JVG company. Mr Kailash Gupta explained that the CEO of JVG was visiting Baroda and in his reception number of big gates were installed, banners were put in the city and lot of media publicity was done along with a procession in his honour. A big public meeting was organized in which large number of investors participated. The CEO explained his very attractive schemes. Mr Gupta also attended the meeting and did some research subsequently. He cautioned the prospective investors against investing in the JVG stating that they are promising 41% p.a. interest which is not sustainable and the investors may even lose the principal amount. Mr Gupta's report was published in the Indian Express Baroda edition of 29th June, 1997 entitled 'JVG Offers 41% per anum'. Subsequently the promoters disappeared with investors money. However, CEO of JVG was arrested and jailed. Mr. Gupta explained the participants that they should not be tempted by attractive offers to get rich quick.

A specific question arose about what happens if a company goes into liquidation. The investors were informed about the liquidation process, the company coming into the preview of Official Liquidator appointed by the High Court, how to file claims against the company, hierarchy of claims for different class of claimants, settlement procedure, etc. The role of BIFR was also explained.

Mr Nitin Agarwal, sub-broker registered with Bombay Stock Exchange and having his terminal at Jhunjhunu explained about the online trading facility available at Jhunjhunu. He also said that BSE can provide funds upto Rs 2 lakhs if more than 50 investors form a Investor Group and wants to organize Investor Education Programme at local level. The project budget could include provisions for faculty, refreshment, venue and other expenses. BSE can also provide the faculty for the programme. Any local NGO could contact the Investor Services Cell of the BSE. Mr Pankaj Gupta is the CEO of this Cell.

Dr Satish Batra and Dr Narayan Sinha gave some tips to the investors regarding safe investment and also shared some of their own experiences with private finance companies.

JALORE

Days / Dates: Tuesday 11/03/03 and Wednesday 13/03/03

Venue: President Hotel (Formerly Chitra Group)
Naya Bazar, Jalore

Local Network Coordinator Shri Mahendra Kumar Ojha

Local Coordinating Organisation: Sankalp Sansthan
Hospital Road
Ahore 307 029
Phone: (02978) 222312, 222047
222147 Res
Fax: (02978) 222499, 222966

Geographic Area Covered: Ahore; Nilkanth; Bituda; Sankarna; Narsana; Odwada;
Rama; Norepura; Jhunjhani; Mandwala; Bhinmal; Jalore; Umaidpur; Leta;
(Annexure C.1)

Local Resource Persons: Mr B R Delu, Astd. District Magistrate & Collector
Smt. Pushpa Lata Bansal, Ex-Member, Consumer Disputes Redressal Forum
Shri Bhairu Singh Rajpurohit, Retired Post Master, Jalore
Shri Purshottam Pomal, District Small Savings Officer
Smt. Shashi Kanwar, Bhenswara, Member, Jila Parishad
Shri Mohan Parashar, Tax Consultant and Ex-Vice Chairman, Nagrik Sahakari
Bank

External Resource Persons: Shri Narayan Jain
Tax Consultant, N P Jain and Co.
Kolkatta

Shri Arun Kumar Mishra
President
Indian National Consumer Federation
Lucknow

Participants: 52 (list enclosed as Annex C.2)

Media Coverage: Rajasthan Patrika, Jodhpur, 10/03/03
Rajasthan Patrika, Jodhpur, 12/03/03
Rajasthan Patrika, Jodhpur, 13/03/03 Ad.
Dainik Navjyoti, Ajmer, 11/03/03
Dainik Navjyoti, Ajmer, 12/03/03 Ad.
Dainik Navjyoti, Ajmer, 13/03/03
Danik Bhaskar, Jodhpur, 12/03/03 Danik Bhaskar,
Jodhpur, 14/03/03

(All Annex. C.3)

Photographs Total four (*Annex.C.4*)

Proceedings:

The Investor Education and Protection Programme was done as scheduled covering all most all the relevant topics from the prospective of awareness as most of the participants were not aware of these subjects.

The subject matter of multi-channel marketing companies came to fore. It was explained that if there is only product marketing and no monetary deposits are involved, there is no legal prohibition against these types of transactions. However, no Non-Banking Finance Company can accept any deposit without the prior registration and approval of RBI. A lady investor brought the specific case under which she deposited more than four thousand rupees for certain products to be received. She said, she received back a cheque of Rs 3,200/= and another cheque of Rs 400/= drawn on ICICI Bank. If she could convince 3 more persons to join the scheme, she would get additional monetary benefits. Further if these 3 persons could make other 3 persons join the scheme by making four thousand and odd deposit, she would get further sums of money. There would be additional benefits to her as more persons join in the lower chains created by her. The lady investor was requested to bring the documents.

The scheme was Emerald scheme. On examination of the documents it was found that Emerald is a division of Betstracommin Pvt. Ltd. based at Indore. The application form has all the terms, which are one sided and get them signed by the applicant, calling him partner. They specifically get the signature that the amount is for the products to be delivered within 20 days after receiving the payment. The company to safeguard itself does all this. However, to attract the gullible, illiterate, village small investors, two cheques as mentioned above are given. On examination, it was found that the Rs. 3,200 cheque was issued in the name of some prefix followed by Product Bank and in appearance looks like a cheque. It was explained to the participants that it is not a cheque issued on a bank and just a piece of paper. The Rs 400/= cheque was issued on the ICICI Bank as commission. The cheque was not an account payee cheque and was not issued by the Betstracommin Pvt. Ltd. It was explained that anybody can open a Bank account and it can not be construed as any thing more than the account holder is having a account. In the guise of purchase and sale of products to be delivered in 20 days after full payment, the company is tempting to make deposits, with false refunds. The participants were explained to be aware of this type of manipulations and consult the professionals before parting with their money.

The Asst. District Collector and Magistrate explained that in case of any doubt, the investors could take the help of local administration, police and the Legal Cell at the Collectorate. In case of any fraud, the investors should not hesitate to file the complaints under the Indian Penal Code. The details of the government small savings schemes and different post office savings schemes were explained in the meeting. In the month of February 2003 in Jalore district Rs 58 crores were invested in the government small savings schemes and after considering the withdrawals there was total net savings accrual of Rs 23 Crores. The net small savings annual target for the Rajasthan State is Rs 3400 crores. The participants raised the question of not getting their money back from the post office in time. It was explained that in the villages, the

post offices could keep only certain amount as cash, which can be given to depositors on demand. In case of higher amounts required by the depositors request has to be made to the bigger post offices and it does take some time to get the cash. Shri Narayan Jain and Shri Arun Kumar Mishra shared some of their experiences. They also explained as to how the small investors gets attracted with lucrative schemes of companies and later on run after them for their money worth valuable.

SAWAI MADHOPUR

Days / Dates: Saturday 15/03/03 and Sunday 16/03/03

Venue: Ankur Resort of Supreme Hotels Group
Aalanpur, Sawai Madhopur 322 001

Local Network Coordinator: Shri Hari Prasad Yogi

Local Coordinating Organisation: Consumer Legal Help Society
Opp. Girls School
Aalanpur
Phone: (07462) 235012

Geographic Area Covered: Pipalwada; Kherda; Alanpur; Dingla; Kushtala;
Gangapur City; Wazirpur; Sawai Madhopur; Khandar; Daulatpur (Annexure
D.1)

Local Resource Persons: Shri Radha Mohan Sharma, Advocate
Sawai Madhopur

External Resource Person: Shri Vivek Agrawal
Legal Advisor
NCHSE
Bhopal

Shri V K Parigi
President and Managing Trustee
Consumer Education Centre
Bangalore

Participants 72 (list of participants enclosed as Annex. D.2)

Media Coverage: Rajasthan Patrika, Jaipur, Sawai Madhopur, Karoli
Supplement, 15/03/03 Advt.
Rajasthan Patrika, Jaipur, Sawai Madhopur-Karoli Supplement, 17/03/03
Dainik Bhaskar, Jaipur, Sawai Madhopur Supplement, 15/03/03
Dainik Bhaskar, Jaipur, Sawai Madhopur Supplement, 16/03/03 Advt.
(All as Annex. D.3)

Photographs four (as Annex. D.4)

Proceedings:

At Sawai Madhopur the participants were relatively more educated than the earlier places. The participants were largely from NGOs, teachers, advocates, small business persons and accountants. Accordingly, the discussions were conceptually at slightly higher level compared to earlier places. Most of the topics were also discussed at the awareness level in a shorter duration compared to other places. The participants were keen to know the intricacies of the Non-Banking Finance Companies and the vanishing companies. It was informed that any 2 persons with paid up capital of Rs 1 lakhs on submission of Articles of Association and Memorandum of Association can register a company with the relevant Registrar of Company (ROC). The ROC does not verify the antecedents or even the address of the company at the time of registration. Similarly any 7 persons with paid up capital of Rs 5 lakhs can incorporate a public limited company. Under the amended section 3(1) of the Companies Act, 1956 any invitation or acceptance of deposits by a private limited company from persons other than its members (shareholders), directors or their relatives is prohibited. Non-Banking Finance Companies and Residual Non-Banking Finance Companies are required to obtain Certificate of Registration under Section 45 IA of the Reserve Bank of India Act, 1934 to hold / accept deposits from public. The names and address of 743 certified companies are given on the web site of RBI, www.rbi.org. There inquires pertaining to specific companies were replied by telling them whether the specific company has a valid certificate from RBI or not. It was also explained that from 04/03/03, RBI has allowed maximum interest payable on public deposits of NBFC to be 11%. If any company offers more than 11%, than it is illegal and investors should not get into the trap. The participants were requested to visit the RBI web site for the circulars and directives issued by the RBI.

Similarly any person deposits or otherwise dealing with housing finance companies was advised to satisfy himself that the concerned company has certificate of registration under Sec 29A of the National Housing Bank Act, 1987. National Housing Bank is wholly owned by RBI and its head office is at India Habitat Centre, core 5A, 3rd floor, Lodi Road, New Delhi 110 003. It was also clarified that housing finance companies are neither insured nor guaranteed by NHB and the depositor has to satisfy about the company and its creditworthiness.

The Department of Company Affairs (DCA) has set up task forces and identified 229 Vanishing Companies. DCA is taking legal action against these companies. The participants were informed whether the specific company about they had sought information is in the list of Vanishing Companies or not. The list of Vanishing Companies against which legal action has been initiated is also available on the DCA website <http://dca.nic.in>. However, they were cautioned that if the name of a company does not appear in the list of Vanishing Companies, it does not necessary mean that it is not a Vanishing Company.

ALWAR

Days / Dates: Friday 21/03/03

Venue: Aravali Hotel
Station Road
Alwar 301001

Phone: (0144) 2332883, 2332316

Fax: (0144) 2332011

email: hotelaravali@rediffmail.com
kakkar@datainfosys.net

website: alwarnet.com/aravali/aravali.htm

Local Network Coordinator: Mrs Santosh Bhargava

Local Coordinating Organisation: Award Sansthan
Behind Gopal Talkies
Alwar
Phone: (0144)2335080

Geographic Area Covered: Jobner, Dist: Jaipur; Alwar; Rainpur, Laxamangarh;
Bandikui; Thanagangi; Bahrore; Kherli; Mehwa; Badan ka Kuwa; Guwarki, Hudla;
Baswa Road; Suratgarh; Ronpur
(Annexure E.1)

Local Resource Persons: Shri B R Gwala, Suptt. Of Police

External Resource Person: Shri Nabin Sen
Prof. Deptt. of Economics
Calcutta University

Mr Pramod Jhanwar
Secretary
Maruti Seva Sansthan
Udaipur

Participants: 30 (list enclosed as Annex E.2)

Media Coverage: Dainik Bhaskar, Alwar 21/03/03
Rajasthan Patrika, Alwar 21/03/03
(As Annex. E.3)

Photographs four (As Annex. E.4)

Proceedings:

The participants were from NGOs, teachers, students, advocates, investors, employed, self-employed, agriculturists and others. At Alwar due to various reasons, the Workshop and Open House were of only one day. The topics were generally covered at the awareness level. The representatives of the NGOs were explained the

requirements for registration of investor protection organizations with SEBI and DCA. This topic was covered at all other places also so that in course of time, the participating NGO could conduct the investor education and protection programmes. The fundamental principals of investment were explained in some detail. The precautions to be observed by the investors were also discussed. The participants asked about the safety of the agents who become targets of attack after the companies vanish. They were told to investigate about the companies before they consider becoming agents of them. In this regard they should take professional help. They were instructed to refer the relevant web sites addresses of before investing or becoming agents. Some of the addresses given were of the SEBI www.sebi.com, Deptt. Of Company Affairs <http://dca.nic.in>, Bombay Stock Exchange www.bseindia.com and National Stock Exchange www.nseindia.com.

The Supt. of Police Shri Gwala explained at length the role of Police. He also explained broadly what are different violations of the acts connected with the financial transactions, in what cases Police can intervene and in what cases it cannot. The cases of companies like JVG, CRB Capital Markets, multi-channel marketing companies again came up for discussion. The investor complaint redressal mechanism and the role of different authorities in dealing with different types of complaints were explained.

Mr Nabin Sen spoke on the systems of safe investments and Mr Jhanwar threw some light on the safest mode of investments through Banks.

DAUSA

Days / Dates: Monday 24/03/03 and Tuesday 25/03/03

Venue: Shanti Hotel
Opp. Railway Station
Dausa 303 303
Phone: (01427) 221436

Local Network Coordinator: Shri Kamlesh Kumar Bohra

Local Coordinating Organisation: Consumer Welfare Society
Opp. Head Post Office
Lalsot Road
Dausa 303 303
Phone: (01427) 223090
220684 Res.

Geographic Area Covered: Akrudh; Madawar; Maheswar Kala; Nagal Chapa; Mandawati; Sevra ki Dhani; Bhojwada; Papadda; Lalsot; Dausa; Jaipur; Patoli; Khodra Khurd; Ghana ka Banda; Sethal; Hingotia; Sikray; Kallawas Tiwara; Jonavaya; Jone; Jorepura; Bhandarej; Baldevgarh; Rajgarh; Khurikala; Raisar; Bandikui; Nagal Rajaptan; Kundal; Jagmalpura; Baldevgarh; Chareda;
(Annexure F.1)

Local Resource Persons: None

External Resource Persons: Shri Y G Muralidhar
Secretary
CREAT
Bangalore

Shri Surendra Kanstiya
Chairman
CGSI, Mumbai

Participants 67 (List enclosed as *Annex. F.2*)

Media Coverage: Dainik Bhaskar, Jaipur, Dausa Supplement 25/03/03 Advt.
Rajasthan Patrika, Jaipur, Dausa Supplement 25/03/03 Advt.
Rajasthan Patrika, Jaipur, Dausa Supplement 26/03/03
Dausa Gazzete 25/05/03
(enclosed as *Annex. F.3*)

Photographs four (enclosed as *Annex. F.4*)

Proceedings:

The participants were informed about the different concepts regarding the investments. The implications of different types of financial and non-financial investments were explained. Basic principals of investment were explained. The participants understood the concept of risk and return. The participants raised the question of companies coming out with selling white goods like motor-cycles, refrigerators, sewing machines at discount up to 50% and giving delivery after about a month of receipt of full payment. The companies in the beginning deliver some products to some persons at half the price due to which other persons get tempted and make their deposits. After collecting huge amounts the money collectors disappear. The participants were explained that according to RBI, no non-banking finance company could give more than 11% interest on deposits. The participants agreed that in general, after meeting all the expenses, in today's competitive world a business could hardly earn above 20% profit. Therefore, if any body promises above 20% return, it should be looked with suspicion of losing the hard-earned principal amount.

If anybody is selling a product or service at substantially lesser price than the market price than the investors / consumers must consider the offer with suspicion. Either the offering is sub-standard in quality, it is stolen property or there is intention of cheating the investor.

Mr Y G Muralidharan said that there are big companies having popular leaders from sports, films, politics, business or other fields in the Boards or sponsoring their schemes, which come out with lot of fanfare with media blaze to woo prospective investors. Mr Kanstiya cautioned the investors against getting into the trap in their own interest. There are many such companies in the market. For an example the case of Sahara was taken for examination. First of all the participants were told that the important thing is not how big the company is, but what you are getting into as an investor. Sahara has many schemes from daily deposits, fixed deposits for varying

tenures. The most popular scheme Sahara 4 was put under microscope. An investor can deposit Rs 5 to 500 per month for 48 months and after 84 months, he would get the matured amount. If an investor deposits Rs 100 pm for 48 months at the end of 84 months he is expected to get Rs 7632/=. Although the investor has to give his details in the big font, the details of the scheme and rules and conditions are printed in such a small font that the investor is not even able to read and is expected to sign and deposit his money. If he cannot even read, the question of understanding does not arise. In a recent judgement, the District Consumer Redressal Forum in the case of Om Prakash Kulshrestha vs Citibank and New India Assurance Company (Hindustan Times, Jaipur dated 12/04/03/*enclosed as Annexure G*) has held that printing certain terms and conditions in small print is a malpractice. If it had been otherwise, the terms and conditions of the contract would have been printed in more legible font. Under the circumstances, the Forum held, that the consumer is not bound by the terms and conditions (This is a judgment of significant impotence and probably a class action suit is called for). The investors were advised to keep a magnifying glass in their own interest.

The name of the company is Sahara India Financial Corporation Limited, Lucknow. In para 11(a) of the approved advertisement, the company states that the company is following the Residual Non Banking Companies (Reserve Bank) Directions, 1987. However, in para 11(b) it is clearly stated that following the directions does not mean that the RBI guarantees the refund of the money. Most of the uneducated village investors and the participants in the Investor Education Programme at all the places were shocked to know this. Para 15 states that the deposit amount is without any insurance. As on 31/03/03, the company had Rs. 143 Crs. as capital and Rs 283 Crs. as Reserves; totaling into equity of Rs 426 Crs. Deposits on that date stood at Rs 5566 Crs. and current liabilities and provisions at Rs 66 Crs. making the debt amount of Rs 5632 Crs. Thus debt equity ratio was 13.2:1, which is very high and is a risky proposition. Considering from another point of view 0.53% profit after tax on total funds employed tantamount to gross mismanagement being perpetuated by the company. For the last three years, the company has not paid any dividend. At the top of this, recently on their 25th anniversary, the company has given 5 full-page advertisements in almost all the leading newspapers in all the editions. Against total capital employed of Rs 6068 Crs., only Rs 480 Crs are in fixed assets and out of remaining Rs 3751 Crs are in investments, some in current assets and Rs 555 Crs in loans and advances. It is only the fixed assets, which the company cannot quickly dispose off. If the Board of the company decides to encash investments and run away they could do it. This is not to pass any aspersions on the management of Sahara or to say that they are going to do it. The point is being made looking from the safety point of view of a small investor. A small investor is not equipped to analyze the company as a whole. Even looking from the point of view of an individual small investor, he has to make deposit for 48 months and is likely to get the money back only after 84 months. Thus the scheme does not provide liquidity. There is provision for pre-matured return but after minimum 60 months and on giving 60 days notice. If within 24 months, 12 installments are not deposited, it is treated as "lapse account" and if full installments are not deposited it is treated as "default account" and payment will be made only after 84 months. The brochure does not mention how much amount and on what basis he will get the amount in case of default or lapse accounts. For this he has to get the information from the office of Sahara. This is an illegal condition as the

company could subsequently change the figures or deny from payment of any sum. After 12 months deposit, an investor can get loan, but only 75% of his deposits and has to pay 1.25% per month interest. The depositor has to sign that in case of dispute the company will appoint a sole arbitrator, who could be a company's branch worker or sector worker. In all likely hood the judgments from the biased arbitrators could only be in favour of the company.

FUTURE ACTION / ROAD MAP

At Chittorgarh, the participants themselves came out with the suggestion that they shall collect the data of the investors who had invested money in the past and have lost the money or not aware of what is happening to the investments they had made. The NGO representatives and other participants would do door to door survey in their local communities and prepare a database with the evidences/receipts and other relevant documents. For this purpose the Chittorgarh office of CUTS would design a performa. The participants agreed to fill the performa in a month's time and will send along with the copies of the supporting documents to CUTS Head Office. CUTS taem then in-turn would process the data and organize an Investors Protection Forum (Manch). After the analysis, a meeting would be called to reveal the findings of data collected before the authorities of Deptt. of Company Affairs and later on further action plan will be designed.

At Jhunjhunu, we got the lead regarding conducting of Investor Education & Protection Programme (I E & P) with the help of BSE. If more than 50 investors or prospective investors could form a group than BSE could fund up to Rs 2 lakhs for conducting the programmes and also provide faculty on their behalf.

At Dausa, there is coordinating organization of local NGO network. They are interested in conducting the Investor Education and Protection Programmes in different villages with the help of CUTS. This would be persued.

In a discussion with the Executive Director of Jaipur Stock Exchange he said that Jaipur Stock Exchange is willing to conduct I E & P Programme with CUTS in 9 districts and is willing to fund 50% of the cost of the programme.

SEBI has launched a "Securities Market Awareness Campaign", which was inaugurated by the Hon'ble Prime Minister Shri Atal Behari Vajpayee on 17th Jan., 2003. CUTS would approach SEBI to be a partner in organising programmes under this campaign.

Following the order of the Jaipur District Consumer Redressal Forum regarding small font size print (referred above), CUTS would take up the matter with RBI for NBFC and RBFC and with SEBI for IPOs to mention risk factors in the bigger font compared to rewards or at least in the same font.

In the Workshops and Open Houses at all the places, it repeatedly came out that the investors have lost confidence in the capital market and that is why hardly any IPO is coming out, there is almost no trading in 21 stock exchanges and even at NSE and BSE, the retail investor is not trading. Ultimately any market could only sustain on the basis of retail consumer/investor. The main reason for lack of confidence is the losses

suffered by the investors due to vanishing companies and scam after scam after scam in the market. The root cause of all this is the corporate governance practices. In view of this, CUTS is planning to initiate a work on corporate governance with the ultimate objective of improving the corporate governance practices. As an outcome of the present Workshops and Open House programmes, a Corporate Governance Proposal would be submitted under the Investor Education and Protection Fund of the Department of Company Affairs.