

VIRTUAL CURRENCY, REAL CRIME

By Labonita Ghosh and Makarand Gadgil, Mumbai Mirror | Updated: Apr 8, 2018, 05.03 AM IST



Bhardwaj, 35, was arrested from Delhi Airport on Thursday on his way back from Bangkok

From Nanded to Pune to Mumbai — how Amit Bhardwaj orchestrated India's first major bitcoin scam.

At an event in Delhi in March 2017, Amit Bhardwaj, the techie arrested by Pune police from Delhi airport on Thursday for masterminding a Rs 2,000 crore Ponzi scheme, kept harping on trust. Speaking at the ASSOCHAM event, the 35-year-old techie said: "Trust is the keyword... [with blockchain] you don't have to trust a human being to take decisions on your financial systems."

In the light of recent events, those who invested in Bhardwaj's various companies — GainBitcoin, GBMiners and later GB21 — might've found his words ironic had many of them not been duped by him in places as far afield as Nanded, Mumbai and Pune. Bhardwaj, along with younger brother Vivek (who was also arrested) and five others, orchestrated a scam involving cryptocurrencies and a multi-layer marketing (MLM) scheme to divest about one lakh people of their money by offering various get-rich-quick deals. People were persuaded to invest in bitcoins in Bhardwaj's company GainBitcoin — renamed GB21 once rumblings about fraud started to surface — with the assurance of 180 to 200 per cent returns over 18 or 20 months. Cases were filed against Bhardwaj and

his associates in Nanded and Pune earlier this year.

Bitcoin basics

But first, what exactly are bitcoins? Bitcoin is a cryptocurrency that is not recognised as legal tender in India, although some 200 other countries use it to varying degrees. It is a 'decentralised' digital currency, which means it doesn't come under the aegis of any bank or government. Transactions are verified by network nodes, and move between e-wallets, which are recorded in a system called a blockchain. There are over 100 kinds of cryptocurrency, including Ethereum, Ripple and Cardano, in circulation on the internet, but Bitcoin is the most popular among them. (Reliance Jio recently announced the launch of Jio Coins, its own cryptocurrency). A bitcoin needs to be 'mined', which involves downloading a free software and solving a complex mathematical problem. Solving the problem — which is essentially what 'mining' is — requires immense computing power and an investment of over Rs 10 crore. Every successful bitcoin miner gets 12.5 bitcoins. There are over one lakh miners globally, and China has the maximum number. What Bhardwaj offered investors was this: The cumbersome, 'mining' bit would be handled by his company GBMiners (he claimed it was the first Indian mining company), and the investors would receive substantial returns.



(L) UAE-based Aashish Dabbas was selected by Bhardwaj to be the smart and articulate face of his company; (R) Bhardwaj and his brother were taken to Pune after their arrest

Wool over their eyes

Bhardwaj, who had stints with Infosys in Pune, first plunged into entrepreneurship in 2012 with an online retail firm called HighKart, which professed to accept bitcoins as payment. His success with the e-tailer, legitimised his later initiatives. Investors Mirror spoke to said they'd heard of, and trusted, Bhardwaj because of HighKart, and felt their money would be safe. Others admitted they invested with him with the promise of instant and accruing wealth, even though they didn't understand how cryptocurrencies worked.

That was what Bhardwaj, who studied at Kendriya Vidyalaya, in Delhi, and later did his BTech from Nanded's MGM College of Engineering, in 2004, was banking on, says Vaibhav Parikh, of the law firm Nishith Desai Associates. "With any new technology, criminals are the first to take advantage," he says. "It happened with the internet, and now it's going to happen with cryptocurrency and blockchain."

Zakhil Suresh, a trader who recently moved from Kerala to Mumbai, realised within a few months of investing Rs 1 lakh in GainBitcoin that there was something wrong. In July 2016, he put in the money and waited for the returns to arrive in his digital wallet, but his online transaction continued to show as pending for many months and — after almost a year — suddenly closed down. Thanks to the galloping appreciation of the bitcoin, Suresh's investment today would have been worth almost 30 times more.

Last year, Suresh started an online petition calling for all the people cheated by GainBitcoin to band together for legal recourse. Some 1,100 people have already signed up. "When my friends and I first invested in GainBitcoin, there was no hint of a fraud," says Suresh. "We were flown to Delhi and met Amit Bhardwaj in his office. He had all these grand business plans that he laid out before us." But it was one of Bhardwaj's promoters, a man called Abhishek Bhandari, who shared with them stories of how his investment had trebled, which finally convinced Suresh and his friends. "We knew Bhandari through friends, and we trusted him, that's why we invested in GainBitcoin," says Suresh. In Pune, GainBitcoin promoters Aakash Kantilal Sancheti and Kajal Shingavi, who started a company called Cloud Miners, attracted investors like Ramesh Ramchandran and Anil Galim, who put in Rs 8.5 lakh and Rs 10 lakh to purchase 13 Bitcoins each, alongside Nisha Chaitanya Rai Soni and Milind Kokate, who invested Rs 13 lakh and Rs 10 lakh, respectively. "I have not received even a single paisa, though I was promised a return of 1.8 Bitcoins in 18 months for the single Bitcoin that I would give him," says Ramchandran. Sancheti has now been arrested as well, along with Bhardwaj and his brother.



Bhardwaj parties with investors on a yacht in Dubai in May 2017

Master of hardsell

When it came to marketing, however, Bhardwaj was always well prepared, says Suresh. His office even had a bitcoin ATM machine for a quick demo. Next door, was the Bitex office that was also apparently owned by Bhardwaj, adds Suresh, and carried out all of GainBitcoin's transactions. In fact, the Bhardwaj-owned parent company, the Hong Kong-based Amaze Mining and Research Company, with its cryptocurrency entities, mining company, digital wallet and even its own token currency MCap (or Mining Capital — whose value was manipulated by Bhardwaj), seemed like a one-stop shop that took care of every stage of a transaction. And just in case people needed a little nudge, Bhardwaj flooded the internet with infomercial videos and articles.

Offline, he bedazzled them with lavish launch and rewards-programme parties in Thailand and Dubai. Bhardwaj and his team flew busloads of investors to locations such as Hua Hin in Thailand, showed them a good time — and documented it all for future hardsell. He picked people such as Ashish Dabbas, a well-spoken UAE-based dentist, to be the face of the company. And Dabbas, in turn, populated Youtube with videos of him engaging with future investors, always set to some rousing, inspirational Bollywood track. The groups usually included a smattering of foreigners as well, to underscore GainBitcoin's global popularity. One video from February, starring Dabbas, ends with him zooming off in his Mercedes with a Caucasian friend riding shotgun.

GainBitcoin's marketing blitz, says investor Asif Kattakath, included seminars where promoters for the company took the stage, like motivational speakers, to convince people to buy into the gold mine they were peddling. "I got a chance to meet Amit Bhardwaj in his office because I was an early investor," says Kattakath. "Later, the only way you could interact with him was at the seminars organised by his associates."

Clearly, Bhardwaj was also reinventing himself as a thought leader. His social media feeds are full of articles he has written, usually on the future of cryptocurrencies. Last year, after he wrote his e-book, Cryptocurrency for Beginners, Bhardwaj received endorsements on social media for it from several Bollywood stars (sources told Mirror he had allegedly struck deals with their managers).

Bhardwaj interacts with a group of potential investors at a meet in Indore



The red flags

“Had investors been better educated about cryptocurrencies, or even about consumer laws, they would’ve found red flags everywhere,” says Parikh. “They would’ve known that it’s illegal in our country to assure any kind of returns, and Bhardwaj promised them upwards of 10 per cent every month.” Plus, says cybersecurity and blockchain expert Amit Jaju, investors would’ve found that 10 per cent was nothing when, in the global market, the returns on bitcoin were in the realm of 40 or 50 per cent. In 2015, the value of a single bitcoin was around \$250, but by the end of 2016 it had crossed \$1,000. In December 2017, it hit an all-time high of \$20,000 and more per coin. Today, a bitcoin is worth \$6,674. Suresh and his friends, who had bought in at Rs 16,000 apiece, would’ve found that each of their six bitcoins is worth almost Rs 5 lakh today.

“Bhardwaj was hoping for two things to happen,” says Jaju. “He knew the value of the bitcoin would grow manifold, and he knew he could control some of the rates by mining it himself. But he was hit by a double whammy. Not only did the price crash to \$7,000, but the complexity of mining also increased, with more competitors.”

Investment consultant Ketan Gawand adds: “Bhardwaj was offering 1.8 bitcoins on a single bitcoin every 18 months. To provide such returns, he needed to have around 15,000 bitcoins every month. But he never had more than 1,500 to 2,000 in his wallet. So he started a referral scheme.” That’s how a bitcoin scam turned into a Ponzi — through the institution of a MLM.

Like all these scams, one day the pyramid collapses, and that is what happened with Bhardwaj, Gawand says. Still, Bhardwaj kept it going by paying back some people — mostly the upper tiers, or GainBitcoin promoters — largely because they would keep bringing in more people. Many investors put in bitcoins but were paid back with MCap. He had rigged the system so that MCaps could only be sold at the (inflated) rates fixed by him.

It’s not clear if Bhardwaj’s arrest is going to help investors recover their money. But it has certainly spurred the call for some checks in a hitherto unregulated ecosystem. The Reserve Bank of India has banned the use of cryptocurrencies in all the entities within its ambit, including banks. And there are reports of people trying desperately to offload any cryptocurrencies they own. —With inputs from Vishal Srivastav, Pune

FROM BIRTH TO BOOM

2007 Satoshi Nakamoto begins working on the Bitcoin concept. It is believed that he lives in Japan, but whether Nakamoto is a name of a person or a collective pseudonym is still unknown



2009 Nakamoto mines the world’s first bitcoins, known as Block 0 or genesis block, on Jan 3. In October, New Liberty Standard, the first bitcoin exchange site, publishes a bitcoin exchange rate. The value of bitcoin is pegged at \$1 = 1,3009.03 BTC

2010 On May 22, 2010, the first real world transaction using bitcoin takes place at Jacksonville, in Florida. A programmer called Lazlo Hanyecz offers to pay 10,000 bitcoins for a pizza. On May 22, Mahin Gupta launches India’s first bitcoin exchange, buysellbit.co.in



2017 The value of bitcoin surpasses 1 ounce of gold in the spot market for the first time, and Japan passes a law making it legally acceptable tender



2018 On Thursday (April 5), RBI banned banks and other entities regulated by it from dealing in virtual currencies or facilitating transactions on behalf of its clients

