

BEFORE THE SECURITIES APPELLATE TRIBUNAL
MUMBAI

Order Reserved on: 17.01.2025

Date of Decision : 29.01.2025

Appeal No. 7 of 2025

[Along with Misc. Application No. 37 of 2025]

Salasar Stock Broking Limited & Ors. ...Appellants

Versus

Securities and Exchange Board of India ...Respondent

Mr. P.N. Modi, Senior Advocate with Mr. Neville Lashkari and Dr. Keyur Shah, Advocates i/b Prakash Shah & Associates for the Appellant.

Mr. Gaurav Joshi, Senior Advocate with Mr. Ravishekhar Pandey, Mr. Ratan Singh, Prapti Kedia and Ms. Neha Rautela, Advocates i/b Agama Law Associates for the Respondent.

ORDER:

Per: Justice P.S. Dinesh Kumar, Presiding Officer

We have heard Shri Pesi Modi, learned Senior Advocate for the appellant and Shri Gaurav Joshi, learned Senior Advocate for the respondent— SEBI.

2. This appeal is directed against the *ex-parte* interim order-cum-show cause notice dated January 02, 2025 passed by the

WTM¹, SEBI² in the matter of Rohit Salgaocar and 21 others.

Appellants are noticees Nos. 4, 11, 16, 17 and 18.

3. Brief facts of the case are, SEBI conducted an investigation for the period January 1, 2021 and June 20, 2023 with regard to pattern of trades in common scrips of various funds of an overseas entity engaged in the business of foreign portfolio investment. In the impugned order, the overseas entities have been collectively referred to as “Big Client”, with a footnote that the name of the Big Client would be supplied to the noticees during the inspection and to this Tribunal and Courts.

4. SEBI conducted a search and seizure operation on June 22, 2023 in the premises of 17 entities during the course of which documentary and electronic evidences were gathered and statements of various noticees were recorded. The evidence collected during the search and seizure operation revealed that the noticees, in addition to traditional front-running methods, had used complex trading strategies to take advantage of the prior knowledge of impending trades of the Big Client and thereby made wrongful gains.

¹ Whole Time member

² Securities and Exchange Board of India

5. Having come to a *prima facie* opinion that there had been violation of various provisions of the SEBI Act, 1992 and the PFUTP Regulations, SEBI, by the impugned order, has directed *inter alia*, the appellants (noticees Nos. 4, 11, 16, 17 and 18) and noticee no. 1 and 2, to deposit jointly and severally a sum of Rs. 12,45,20,605/- in an interest-bearing savings account with lien marked in favour of SEBI. It is further directed that there shall be no debits from the bank accounts of these noticees without SEBI's permission.

6. Shri. Pesi Modi, learned Senior Advocate for the Appellants, submitted that noticee No. 4 is a stock broker entity; that the trades in question have taken place in 2022 and 2023 therefore, it is unjust and unfair to freeze appellant's bank accounts and demat accounts; that the SEBI has arrived at an incorrect conclusion that appellant no. 1 has made an illegal gain of Rs. 12,45,20,605/-; that appellants have a good case on merits and the balance of convenience is in favour of the appellant.

7. He further submitted that the major finding in the impugned order is that appellant's proprietary trading account (Salasar Stock Broking Ltd.) was used to execute trades based

on non-public information received from noticee No. 2, Ketan Parekh. Appellants deny indulgence in any front-running of any trade of third party. Appellants were not aware that the information received by them was a non-public information or related to the trades of the Big Client.

8. Shri Modi further submitted that the interim order has been passed simultaneously with the issuance of show cause notice. The direction to deposit Rs. 12.45 Crores as estimated wrongful profit is harsh and puts appellants into hardship. He submitted that this Tribunal usually directs deposit of 50% of the penalty/disgorgement as a condition to grant interim order and prayed interim order may be passed on similar terms.

9. Strongly opposing the interim prayer, Shri Gaurav Joshi, learned Senior Advocate for the SEBI, submitted that the entire front-running has been orchestrated by the noticee No. 2 Ketan Parekh, who in turn, was issuing trading instructions, based on the non-public information relating to big client's interest for trading in certain scrips, to other noticees. Ketan Parekh and his group entities were earlier prohibited from dealing in securities and debarred from associating with the securities market for a period of 14 years vide SEBI's order dated December 12, 2003.

10. Prior to execution of suspicious trades, the front-runners were receiving trade instruction through WhatsApp chat or calls from a person, whose contact numbers were saved in their devices as Jack, Jack New, Jack Latest New, Boss etc. The said numbers belonged to Ketan Parekh, who was receiving non-public information relating to the big client from Noticee No.1, Rohit Salgaocar. The Front-runners either directly or indirectly, used to build positions in the same scrips ahead of the impending order of the big client based on the trading instructions received from Ketan Parakh. As and when the substantial impending order of the big client were placed in the market, the Front-runners took counter-positions upon instructions from Ketan Parakh to match with the position of the big client. This would lead to squaring off their initial positions taken in the scrip or creating excess long or short position in the scrip, which they would eventually square off during the day and thus generated huge illegal gains in a short span of time.

11. Shri Joshi further submitted that investigation has revealed that 'Big Client' used to place orders containing the scrip name, buy/sell quantity, the price, etc. through their order messaging system called 'FIX'. For orders routed through Motilal Oswal and Nuvama, their traders used to execute the orders. Rohit

Salgaocar's company called 'SCPL' had entered into referral agreements with Nuvama and Motilal Oswal for revenue sharing of the brokerage earned on the trades of Big Client referred by SCPL. The instructions regarding execution of the trades were directed by Rohit Salgaocar.

12. Shri Joshi contended that both Rohit Salgaocar and Ketan Parekh have admitted in their statements made on oath that they used to interact with each other over WhatsApp in this regard during the investigation period and the same has been corroborated by the data obtained from IPDR³ of mobile numbers of Ketan Parekh.

13. Shri Joshi submitted that the trades were executed in the proprietary trading account of Salasar Stock Broking Ltd., as per the instructions given on the WhatsApp group named 'Jack Saro' in which noticees No. 11, 16 and 17 were members. He took us through the screenshots of messages in the WhatsApp group 'Jack Saro' taken from the device of Sumit Sonthalia (noticeeNo. 1). To a pointed query made by us, Shri P.N. Modi in his usual fairness, did not dispute that the screenshots were taken from the Sumit Sonthalia's device.

³Internet Protocol Detail Record

14. Adverting to Table No. 55, Shri Joshi submitted that Sumit Sonthalia had asked Ketan Parekh for Rs. 25 Lakhs and the same was delivered by cash. He took us through other WhatsApp screenshots and submitted that the appellant No. 1 being stock broker has used his proprietary account for front-running the trades. He prayed that in view of admitted facts, appellant's prayer for grant of interim relief subject to deposit of 50% of the estimated profit may be rejected.

15. We have carefully considered rival contentions and perused the records.

16. As noted hereinabove, it is not denied that the WhatsApp message extracts are taken from the device belonging to Sumit Sonthalia (noticee No. 11). The screenshots in Table No. 55 and Table No. 56 clearly show cash transfer of Rs. 25 Lakhs to Sumit Sonthalia and Rs. 50 Lakhs from Sumit Sonthalia to Ketan Parekh. 17. The statements of noticee No. 1 have been extracted in the impugned order and they read as follows:-

“Q 21. From 2021 onwards, what is the percentage of Big Client's trades that were routed by you through Motilal and Nuvama?”

Reply- Around 90%

Q 23. Explain how the trades for Big Client were executed?

Reply- Dealer of the Big Client provides me with the name of the stock they are interested in. I will check the availability with different market participants including foreign funds, Indian funds, other holders of the shares etc. and lastly with Ketan Parekh. After confirming the availability from the counterparty, I get back to the dealer of the Big Client with the quantity and price on offer. Upon confirmation from the dealer of the Big Client, the deal goes through. The Big Client dealer sends the deal ticket to the broker in India. After execution of the trades, Indian broker used to confirm me on Bloomberg chat. Sometimes, I used to get confirmation from Big Client dealers as well.

Q 27. In the reply to Q. No. 23, you have mentioned that you used to source counterparties through Mr. Ketan Parekh. What percentage of Big Client trades were being fulfilled by Ketan Parekh?

Reply- Around 90%. ”

17. The trade pattern based on non-public information by the front-runners (appellants) in HDFC Ltd. scrip on September 19, 2022 is also recorded in detail in the impugned order and it reads as follows:-

Table no. 35
Trades undertaken by the FR2 and Big Client during aforesaid time period

Particu- lars	Buy / Sell	Count Of Orders	Order Start Time	Order End Time	Trade Start Time	Trade End Time	Sum of Trade Qty	Average Trade Price Range (in INR)	Match Vol.
FR2	Buy	13	10:03:42	10:32:32	10:03:42	10:32:34	1,00,000	2428.80 – 2439.00 (2433.32)	-
Big Client	Buy	7	11:11:02	11:11:17	11:11:02	11:11:26	2,50,000	2446	-
FR2	Sell	4	11:11:08	11:11:08	11:11:08	11:11:08	1,00,000	2446	99,173

18. The screenshot extracts containing the trading instructions given by Ketan Parekh are extracted in Table No. 36. Table No. 35 Shows that instruction was given to buy HDFC scrip at 10.03 hrs. The front runner has placed 13 buy orders between 10:03:42 and 10:32:32. The buy order for the entire quantity of 1 lakh shares of HDFC scrip was placed and trade was executed between 10:03:42 and 10:32:34. The Big Client has placed orders for 2,50,000 shares between 11:11:02 and 11:11:26. The front runner has immediately sold his One lakh shares at 11:11:08.

19. The buy orders placed by the front runners and the Big Client; and the sale by the front-runner as recorded in Table No. 35 is corroborated with the instructions given by Ketan Parekh contained in the WhatsApp screenshot in Tables No. 36 and 37. Similarly, the cash transfers of Rs. 25,00,000/- from Ketan Parekh to Sumit Sonthalia and Sumit Sonthalia to Ketan Parekh are also extracted in Table No. 55. The estimated profits earned by the front runners is tabulated in Table No. 64 in the impugned order. Appellant's earning is estimated as Rs. 12.45 crore.

20. Shri Modi urged that appellants may be put on terms by directing them to deposit 50% of the estimated profit earned by them as per usual practice followed by this Tribunal. We may record that Shri Modi is right in his submission that normally in cases where the appellants are imposed with Penalty, this Tribunal directs deposits of 50% of the penalty amount. We may hasten to add that it is not a rule. Interim orders are passed keeping in view the facts and circumstances of each case. In the case on hand, it is an admitted position that the WhatsApp screenshots are from the device belonging to the appellant Sumit Sonthalia. The facts recorded hereinabove also indicate cash transactions of huge quantity between Sumit Sonthalia and Ketan Parekh.

21. The trade pattern described in Table No. 35 *prima facie* shows that the instructions were given by Ketan Parekh with regard to buy and sell orders, based on prior knowledge of the impending order of the Big client. It is in public knowledge that Ketan Parakh has been implicated in several matters of fraud and manipulation of securities market and was debarred for an unprecedented period of 14 years. The appellants still preferred to join hands with him in the alleged front-running transactions.

22. In the facts and circumstances of this case, we are of the considered view that appellants' prayer to consider deposit of only 50% of the estimated profit as a condition to grant the interim prayer is devoid of merits. The prayer for interim order stands rejected.

23. All observations in this order are *prima facie* in nature while considering the interim prayer and shall have no binding effect. SEBI shall pass the adjudicatory orders, wholly uninfluenced by this order.

Justice P.S. Dinesh Kumar
Presiding Officer

Dr. Dheeraj Bhatnagar
Technical Member

29.01.2025
msb