

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA, MUMBAI

CORAM: S. RAMAN, WHOLE TIME MEMBER

ORDER

Under sections 11(4) and 11B of the Securities and Exchange Board of India Act, 1992 read with Regulation 11(1) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, against M/s. Manan Trading Pvt. Ltd. and M/s. Prachi Gems in the matter of Pyramid Saimira Theatre Ltd.

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1. This order will dispose of Show Cause Notices dated August 28, 2013 and August 29, 2013 issued to M/s. Prachi Gems ('**Prachi Gems**') and M/s. Manan Trading Pvt. Ltd. ('**Manan Trading Pvt. Ltd.**') respectively.
2. Before considering the specific charges levelled against Prachi Gems and Manan Trading Pvt. Ltd. (hereinafter collectively referred to as the '**noticees**'), the factual background in the context of which charges have been levelled against the noticees may be noticed. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**'), while investigating the case of a forged letter dated December 19, 2008 purported to have been issued by SEBI to Mr. P. S. Saminathan, Chairman and Managing Director, Pyramid Saimira Theatre Limited (hereinafter referred to as '**PSTL**'), found that one Mr. Nirmal Kotecha ('**Nirmal Kotecha**'), a major shareholder of PSTL and a person observed to have been acting in concert with the promoters of PSTL, alongwith his associates, were alleged to have offloaded a substantial number of shares of PSTL on December 22, 2008 at artificially inflated prices, thereby making undue profits of approximately Rs. 10 crores.
3. Investigation further revealed that the contents of the forged letter issued to Mr. P.S. Saminathan were given wide publicity by media reports on December 21, 2008

(Sunday) and December 22, 2008 (Monday) stating that SEBI had directed Mr. P.S. Saminathan, one of the promoters of PSTL to make an open offer, for allegedly violating creeping acquisition norms under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. The closing share price of PSTL on December 19, 2008 was ₹ 75.45 at the National Stock Exchange of India Limited (hereinafter referred to as 'NSE'). The share price of PSTL shot up to ₹ 83 at NSE and ₹ 82.90 at Bombay Stock Exchange Limited (hereinafter referred to as 'BSE'), on December 22, 2008, when the markets opened.

4. The preliminary investigation by SEBI thus revealed, *inter alia*, the following:-
  - a. that there were fund transfers from and between Nirmal Kotecha and his close relatives (his mother, wife) and associated entities, over a six month period from June to December 2008.
  - b. that purchases of shares of PSTL were made just before the forgery of the SEBI letter, and that there was sale of a substantial number of shares of PSTL as soon as the markets opened on December 22, 2008, pursuant to news of the purported SEBI letter dated December 19, 2008 regarding the offer to be made by Mr. P.S. Saminathan becoming public.
  - c. that Nirmal Kotecha, with the assistance of associated entities, offloaded their stake in PSTL at artificially inflated price levels on December 22, 2008 and benefited from the price increase in the shares of PSTL.
5. Pursuant to the interim investigation in the scrip of PSTL, *ad interim ex parte* order dated April 23, 2009 (hereinafter referred to as '**interim order**') was passed against, *inter alia*, Manan Trading Pvt. Ltd. and Prachi Gems and their director/partners/proprietors, directing them not to buy, sell or deal in the securities market including in Initial Public Offerings, in any manner, either directly or indirectly, till further directions. Subsequently, vide orders dated April 4, 2012 in Appeal Nos. 51 and 52 of 2012, the Hon'ble Securities Appellate Tribunal stayed the operation of SEBI's interim order dated April 23, 2009 with respect to Prachi Gems and Manan Trading Pvt. Ltd. Further, vide order dated August 29,

2013 in respect of the Appeals filed by Mr. Rajendra Ranka (proprietor of Prachi Gems and one of the directors of Manan Trading Pvt. Ltd.) and Mr. Jitendra Jain (one of the directors of Manan Trading Pvt. Ltd.) the Securities Appellate Tribunal directed that final order with respect to the noticees would be passed by SEBI *"within a period of two months from the day of receiving the affidavit in reply to the show cause notices"*. In view of the said direction of the Tribunal, it is incumbent upon SEBI to pass a final order in the matter based on the material available on record.

### CONSIDERATION OF ISSUES AND FINDINGS

6. In view of the common facts and issues raised with respect to the Show Cause Notices issued to Prachi gems as well as Manan Trading Pvt. Ltd., the charges vis-à-vis both entities are being dealt with through this common order.
7. The *prima facie* findings against the noticees as per the ex-parte ad interim order dated April 23, 2009 was that they *"carried out suspicious banking transactions and have channeled these funds either directly or indirectly in the stock markets"*.
8. As per the Show Cause Notices (hereinafter referred to as 'SCNs') dated August 28, 2013 and August 29, 2013 issued to Prachi Gems and Manan Trading Pvt. Ltd respectively, it is alleged that the noticees had carried out financial transactions with one M/s. Chandan Gems, which in turn, directly transacted with one M/s. Om Associates (hereinafter referred to as '**Om Associates**'). The SCNs also allege that Om Associates' account was used by Nirmal Kotecha for routing money which funded the stock market transactions of his front and associate entities, which in turn was an attempt to camouflage his activities in the securities market. It was observed that Rs. 10 lakhs were transferred to one Mr. Amol Kokane's account on September 10, 2008 from the account of Om Associates with Axis Bank, Thakur Village, Kandivli (East) Branch. The money transferred to Mr. Amol Kokane's account on September 10, 2008, was in turn, alleged to have been ultimately routed to the stock market through the broker M/s. India Capital Market Pvt. Ltd. Investigation has revealed that Mr. Amol Kokane ('**Amol**

Kokane') had traded in the scrip of PSTL through the broker M/s. India Capital Markets Pvt. Ltd. Investigation further revealed that Amol Kokane's trading account was used to carry out synchronized and structured transactions in the scrip of PSTL, with persons/ entities associated with Mr. Nirmal Kotecha. Thus, in view of the role of the noticees in the alleged indirect transfer of funds to Amol Kokane, the SCNs allege that the noticees violated section 12A of the SEBI Act, 1992, and regulations 3 (d), 4 (1) and 4 (2) (e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003. The legal provisions alleged to have been violated by the noticees are reproduced for reference as follows:-

**SEBI Act, 1992**

***"Prohibition of manipulative and deceptive devices, insider trading and acquisition of securities or control.***

12A. No person shall directly or indirectly –

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognised stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(d) engage in insider trading;

(e) deal in securities while in possession of material or non-public information or communicate such material or non-public information to any other person, in a manner which is in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(f) acquire control of any company or securities more than the percentage of equity share capital of a company whose securities are listed or proposed to be listed on a recognised stock exchange in contravention of the regulations made under this Act."

**FUTP Regulations, 2003**

***"3. Prohibition of certain dealings in securities***

No person shall directly or indirectly –

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made thereunder."

**4. Prohibition of manipulative, fraudulent and unfair trade practices**

*(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.*

*(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely: –*

*...*

*(e) any act or omission amounting to manipulation of the price of a security;"*

9. The following facts were the basis on which the aforementioned violations were alleged vis-à-vis the noticees:-

- i) As per the KYC documents with Axis Bank, Nariman Point Branch, Mr. Jitendra Kumar Jain, Mr. Rajendra Kumar Ranka and Mr. Prakash Chand Jain are the directors of Manan Trading Pvt. Ltd. The correspondence address of Manan Trading Pvt. Ltd as per KYC is 325, Amrut Diamond House, Opera House, Mumbai-400004 and mobile number 9930975952 has been mentioned on the KYC. As per the service provider, mobile number 9930975952 does not belong to any of the directors of Manan Trading Pvt. Ltd
- ii) As per the KYC documents with Axis Bank, Nariman Point Branch, Mr Rajendra Kumar Ranka is the proprietor of Prachi Gems. Mr. Rajendra Kumar Ranka is also the director of M/s Manan Trading Pvt. Ltd. having account with Axis Bank, Nariman Point Branch.
- iii) The account statement of Om Associates revealed that Om Associates was allegedly involved in "layering" of crores of rupees, a money laundering technique designed to conceal the origin of funds through a web of complicated transactions. It was observed that immediately prior to transfer of Rs. 10 lakhs to Mr. Amol Kokane on September 10, 2008, Om Associates had received credits from several entities including M/s. Chandan Gems and other entities such as M/s. Shree Earthmovers and Land Developers, M/s. Balaji Corporation, M/s. Shakti Trading Co., M/s. Om Corporation, M/s. Gayatri Gems, M/s. Raj Traders, M/s. Kanchan Impex, M/s. Sarita Diamond, M/s. Bhairav Diamond, M/s. Harish Metal and Tubes, M/s. Paras Steel India, M/s. Ferro N Alloys, M/s. Chandan Gems, M/s. Shree Forge Industries, M/s. R.S.

Enterprise and Mr. Pravin Babulal Jain. A trail of these accounts further revealed that funds were being rotated through all these accounts as well as through a large network of their connected accounts in a complex circuitous manner.

- iv) It is observed that Manan Trading Pvt. Ltd. and Prachi Gems have undertaken financial transactions with M/s. Chandan Gems, who in turn, have directly transacted with Om Associates. Hence, the financial transactions with Om Associates indicated the involvement of many entities in the manipulation including Manan Trading Pvt. Ltd. and Prachi Gems.

10. Prachi Gems and Manan Trading Pvt. Ltd. submitted their replies to the SCNs vide letters dated September 16, 2013 and September 12, 2013 respectively.

11. Prachi Gems has made the following submissions:-

- a. The ledger clearly shows that its total turnover during the relevant period was more than Rs. 2 crores. This sum is far greater than the amounts of Rs. 10 lakhs which was ultimately transferred.
- b. The amount of Rs. 10 lakhs was transferred in general course of business of trading in diamonds.
- c. No funds had been received from Mr. Nirmal Kotecha.
- d. There is no evidence on record to show that funds were transferred by us on the instructions of Mr. Nirmal Kotecha.
- e. Prachi Gems has no connection/nexus/relation with the Nirmal Kotecha.
- f. Prachi Gems had no knowledge about any alleged manipulation being masterminded by Mr. Nirmal Kotecha.
- g. Prachi Gems has not provided any funds to any entities with the intent of routing/ channelling the amount in the stock market and the funds transferred by it was repayment of the sum paid to Prachi Gems by M/s. Chandan Gems.
- h. Prachi Gems has not dealt in the scrip of PSTL.

- i. Prachi Gems has no role in the rise of share prices in the scrip of PSTL.
- j. Prachi Gems had no role in publishing and fabricating the forged SEBI letter.
- k. Prachi Gems has been erroneously clubbed into being a part of a “large network” based on mere suspicious banking transactions, which is further based on mere conjunctures.
- l. Prachi Gems has always complied with all the applicable laws and never in the past any action, whether penal or otherwise, has been taken against it by any regulatory authority.

12. Manan Trading Pvt. Ltd. has made the following submissions:-

- a. The transfer of Rs. 20 lakhs from Manan Trading Pvt. Ltd. to Chandan Gems was merely a repayment of Rs. 20 lakhs to them, which was received by Manan Trading Pvt. Ltd. on December 31, 2008.
- b. The funds were transferred in the general course of business of trading in diamonds.
- c. Manan Trading Pvt. Ltd. had not received any funds from Mr. Nirmal Kotecha.
- d. There is no evidence on record to show that funds were transferred by us on the instructions of Mr. Nirmal Kotecha.
- e. The funds were transferred by us to Chandan Gems after a period of period of 3 months and 18 days from the date on which the funds were actually transferred by Om Associates to Mr. Amol Kokane
- f. Manan Trading Pvt. Ltd. had no connection with the Nirmal Kotecha.
- g. Manan Trading Pvt. Ltd. did not provide any funds to the entities with the intent of routing/ channeling the amount in the stock market and the funds transferred by us were nothing but the repayment of the sum paid to us by M/s. Chandan Gems.
- h. Manan Trading Pvt. Ltd. has not dealt in the scrip of PSTL.
- i. Manan Trading Pvt. Ltd. had no role in the rise of share price in the scrip of PSTL.

- j. Manan Trading Pvt. Ltd. did not have any role in publishing and fabricating the forged SEBI letter.
- k. Manan Trading Pvt. Ltd. had no knowledge about any alleged manipulation being masterminded by Mr. Nirmal Kotecha.
- l. Manan Trading Pvt. Ltd. has been erroneously clubbed into being a part of a “large network” based on mere suspicious banking transactions, which is further based on mere conjunctures.
- m. Manan Trading Pvt. Ltd. has always complied with all the applicable laws and never in the past any action, whether penal or otherwise, has been initiated/taken against us by any regulatory authority.

13. Further, vide letters dated October 22, 2013, the noticees have submitted that the documents and material relied on by SEBI in the SCNs do not show that the funds transferred by the noticees to Chandan Gems had ended up in the securities market. It has also been submitted that the bank account statements of Chandan Gems and Om Associates show that they received funds from entities other than the noticees as well, and that therefore it would be far-fetched to allege that the noticees were responsible for the ultimate transfer of funds to Amol Kokane.

14. The allegation against the noticees is that they have carried out financial transactions with Chandan Gems, which in turn has directly transferred funds to Om Associates, and Om associates transferred Rs. 10,00,000/- to Amol Kokane's account which was being used by Nirmal Kotecha for the purpose of executing transactions in the scrip of PSTL in the securities market. Considering the submissions of the noticees and the material available on record I find that the noticees had neither traded in the scrip of PSTL, nor directly transferred funds to Om Associates. Though the financial transactions entered into between the noticees and Chandan Gems were alleged to have taken place during the period when the manipulation in the scrip of PSTL took place, it is noted from the contentions of the noticees that the impugned transactions were genuine business transactions with Chandan Gems. Further, during the hearing before me on



October 24, 2013, the counsel representing the noticees submitted that the bank statements of Chandan Gems showed that Manan Trading Pvt. Ltd. had transferred the funds to Chandan Gems *after* September 10, 2008, the day on which Om Associates is alleged to have transferred the funds to Amol Kokane's account. In the absence of concrete evidence of fund flow from the accounts of the noticees to the account of Nirmal Kotecha or entities associated with him, I am inclined to accept the contentions of the noticees. At this juncture it is pertinent to mention that at the relevant point of time when the interim order dated April 23, 2009 was issued against the noticees, preliminary findings did provide sufficient grounds to suggest that the noticees were a part of a larger conspiracy as discussed in the preceding paragraphs. Considering the nature and magnitude of the violations, SEBI had to intervene in the matter to protect the interests of investors, and the safety and integrity of the securities market. Therefore, considering the financial transactions and also attending circumstances such as common addresses shared by the noticees with certain other entities alleged to be involved in the conspiracy, SEBI was justified in issuing directions at the interim stage. However, I observe that sufficient evidence has not been brought forth to show that the funds that were transferred by Manan Trading Pvt. Ltd. and Prachi Gems to Chandan Gems were used for further transfer to Om Associates.

15. I also observe that Prachi Gems and Manan Trading Pvt. Ltd. have already undergone debarment in terms of SEBI's interim order dated April 23, 2009, till the grant of stay vis-à-vis Prachi Gems and Manan Trading Pvt. Ltd. by the Hon'ble Securities Appellate Tribunal vide orders dated April 4, 2012 in Appeal Nos. 51 and 52 of 2012 respectively. The proprietor of Prachi Gems, Mr. Rajendra Ranka, who is also one of the directors of Manan Trading Pvt. Ltd., as well as Mr. Jitendra Jain and Mr. Prakash Jain, two other directors of Manan Trading Pvt. Ltd., have been undergoing debarment since April 23, 2009 when SEBI's interim order was passed.

## **ORDER**

16. In view of the above, I, in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Sections 11, 11(4) and 11B thereof, hereby revoke, vis-à-vis M/s. Prachi Gems (PAN:ACRPR7932F), M/s. Manan Trading Pvt. Ltd. (PAN: AADCM5896J), and their directors/proprietors, namely, Mr. Rajendra Ranka, Mr. Jitendra Jain and Mr. Prakash Jain, the directions contained in SEBI's order dated April 23, 2009,s with immediate effect.
17. Copies of this order shall be served to the respective stock exchanges and depositories.

Date : 11/11/2013  
Place: Mumbai

**S RAMAN**  
**WHOLE TIME MEMBER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**