WTM/RKA/ISD/147/2016

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

DISPOSAL OF THE REPRESENTATIONS OF KETAN RAMANLAL SHAH HUF AND VINAY RAMANLAL SHAH HUF – IN THE MATTER OF ILLIQUID STOCK OPTIONS

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1. Securities and Exchange Board of India ("SEBI"), vide an *ad interim ex-parte order* dated August 20, 2015 (hereinafter referred to as "*interim order*"), restrained 59 entities, including Vinay Ramanlal Shah HUF (PAN- AABHV9007P) and Ketan Ramanlal Shah HUF (PAN - AACHK9724K), (hereinafter referred to as "*debarred clients*"), from buying, selling or dealing in securities, either directly or indirectly, in any manner, till further directions.

2. The *debarred clients*, through their authorised representative, IC Legal (Advocates & Solicitors), represented to SEBI vide letters dated November 4, 2015 and January 19, 2016 that they had kept shares as margin with their stock brokers viz. Edelweiss Broking Limited, Angel Broking Private Limited and Dharamshi Securities Private Limited. The *debarred clients* claimed that some of these shares belong to their relatives and are lying with the stock brokers. However, on account of the *interim order*, the *debarred clients* are unable to return the shares to their relatives.

3. In support of their aforesaid claims, the *debarred clients*, *inter alia,* have submitted the following documents:

   a. Transaction statements for transfer of shares from the relatives' demat accounts to *debarred client's* demat accounts;
   b. Delivery Instruction Slips for transfer of shares; and
   c. Contract notes for purchase of shares by the relatives.

4. SEBI vide separate letters dated February 8, 2016 to the two *debarred clients*, inter alia, had permitted the following:

   "...

   a. to subscribe to units of the mutual funds including through SIP and redeem the units of the mutual funds so subscribed;

   b. to avail the benefits of corporate actions like rights issue, bonus issue, stock split, dividend, etc.

   c. to sell the securities lying in your demat accounts as on the date of the interim order, other than the shares of the companies which are suspended from trading by the concerned stock exchange, in orderly manner

under the supervision of the stock exchanges so as not to disturb the market equilibrium and deposit the sale proceeds in an interest bearing escrow account with a nationalized bank.

d. the sale proceeds lying in the aforesaid escrow account shall be dealt with and utilised under the supervision of the concerned stock exchange as provided hereunder:-

- *the sale proceeds may be kept in a fixed deposit with a nationalized bank or may be utilised for subscription to units of the mutual funds which shall always be held in the demat form and if such units are redeemed the proceeds thereof shall be credited to the aforesaid escrow account or may be utilised for subscription to the units of mutual funds;*

Explanation: For the purposes of determining the portfolio value of the entities, the value of portfolio of securities lying in the demat account/s (individual and joint both) on the date of the interim order after excluding the value of shares that have been suspended from trading as on the date of the communication shall be considered. For NBFCs and stock brokers the value of portfolio shall exclude the value of clients' securities lying in their demat accounts.

e. The aforementioned window for sale of shares lying in respective portfolio shall be withdrawn if you execute any trade beyond those mentioned in point (3) above. The aforesaid reliefs shall be subject to the supervision of exchanges and depositories. The concerned depositories/ exchanges may be contacted in this regard."

5. The *debarred clients*, through their authorised representative, IC Legal, vide letters dated March 28, 2016 and March 30, 2016 reiterated their request. Further, vide letters dated August 29, 2016 and September 12, 2016, the *debarred clients* have provided the following documents in support of their claims:

   a. Certificate by Chartered Accountant inter alia certifying the following (along with relevant enclosures):

   "We have verified the Books of Accounts and other records of our client produced before us and based on the examination of the records, this is to certify that the following shares were purchased by the concerned relative/ connected entity and ultimately the shares were transferred to the demat account of our client and the said shares have ever since not returned to the concerned relative/ connected entity; This is to certify that our client has pledged shares of relative/ connected entity with the Stock Broker/ commodity Broker /NBFC as collateral securities in our client's account maintained with them. Details are provided in Annexure.

   Further, we have verified the books of accounts and other records of client's relative/ connected entity and certify that the shares shown against their names in Annexure are owned by them and are properly

recorded in their respective Books of Accounts and shown in their return of income filed with the income tax department."

b. Undertaking from the *debarred clients*, inter alia stating the following:

"I, hereby state and undertake that information relevant to our letter dated 12.09.2016 and the details provided to the statutory auditors are true and correct to the best of our knowledge and belief and that 'we have not suppressed any material fact. Further we state and undertake that in case if any discrepancy/deviation is observed in our submissions during the course of continuing examination/ investigation by SEBI then we would be liable for appropriate action for misrepresentation of facts or wrongful declaration."

c. List of securities belonging to relatives, lying in the *debarred clients'* demat accounts with the stock brokers and/ or lying as margin with the stock brokers:

Shares of Vinay Ramanlal Shah HUF				
Sl. No.	**Scrip Name**	**Quantity**	**Ownership, as per client/ CA certificate**	**Shares are lying**
1	Delta	25521	Shah Coal Pvt. Ltd.	As margin with Angel Broking Private Limited
2	DB Realty	37678	Shah Coal Pvt. Ltd.	As margin with Angel Broking Private Limited
3	FSL	100000	Vinay Shah	As margin with Angel Broking Private Limited
4	MCX Ltd.	24350	Shah Coal Pvt. Ltd.	As margin with Angel Broking Private Limited
5	MCX Ltd.	4372	Vinay Shah	As margin with Angel Broking Private Limited
6	Neyeli Lignite	100000	Vinay Shah	As margin with Angel Broking Private Limited
7	NIIT Limited	85000	Vinay Shah	As margin with Angel Broking Private Limited
8	PTC Finance	50000	Vinay Shah	As margin with Angel Broking Private Limited
9	MCX Ltd.	7000	Vinay Shah	In debarred client's Demat Acc. No. 1203230000587956 with Edelweiss Securities Limited
10	TV 18 Broadcast Network	200000	Shah Coal Pvt. Ltd.	In debarred client's Demat Acc. No. 1203230000587956 with Edelweiss Securities Limited

11	TV 18 Broadcast Network	112686	Vinay Shah	As margin with Edelweiss Broking Limited
		152314		In debarred client's Demat Acc. No. 1203230000587956 with Edelweiss Securities Limited
Shares of Ketan Ramanlal Shah HUF				
Sl. No.	**Scrip Name**	**Quantity**	**Ownership, as per client/ CA certificate**	**Shares are lying**
1	Bombay Burma Trading	5000	Ketan Shah	As margin with Angel Commodities Broking Pvt. Ltd.
2	Bombay Burma Trading	5000	Vinay Shah	As margin with Angel Commodities Broking Pvt. Ltd.
3	Bombay Burma Trading	1000	Yogini Shah	As margin with Angel Commodities Broking Pvt. Ltd.
4	Bombay Burma Trading	1000	Parul Shah	As margin with Angel Commodities Broking Pvt. Ltd.
5	Balakrishna Industries	9000	Ketan Shah	As margin with Angel Broking Private Limited
6	Coal India	5400	Shah Coal Pvt. Ltd.	As margin with Angel Commodities Broking Pvt. Ltd.
7	DB Realty	37500	Shah Coal Pvt. Ltd.	As margin with Angel Commodities Broking Pvt. Ltd.
8	EIH Limited	25000	Vinay Shah	As margin with Angel Broking Private Limited
9	India Bulls Reality	150000	Vinay Shah	As margin with Angel Broking Private Limited
10	Jyoti Structure	110000	Ketan Shah	As margin with Angel Broking Private Limited
11	MCX Ltd.	54026	Vinay Shah	As margin with Angel Broking Private Limited
		10500		As margin with Angel Commodities Broking Pvt. Ltd.
12	NTPC	50000	Vinay Shah	As margin with Angel Broking Private Limited
13	NIIT Limited	91868	Vinay Shah	As margin with Angel Commodities Broking Pvt. Ltd.
14	Nirvikara Paper Mills Limited	1000	Ketan Shah	As margin with Angel Broking Private Limited
15	Pipavav	30000	Vinay Ramanlal	As margin with Angel Broking Private

	Defence and Offshore		Shah HUF	Limited
16	Pipavav Defence and Offshore	10000	Kunal Shah	As margin with Angel Commodities Broking Pvt. Ltd.
17	Pipavav Defence and Offshore	10000	Ketan Shah	As margin with Angel Commodities Broking Pvt. Ltd.
18	Pipavav Defence and Offshore	10000	Vinay Shah	As margin with Angel Commodities Broking Pvt. Ltd.
19	Reliance Power	35233	Shah Coal Pvt. Ltd.	As margin with Angel Broking Private Limited
20	Reliance Power	3200	Purvi Shah	As margin with Angel Broking Private Limited
21	SKF Bearings	5000	Vinay Shah	As margin with Angel Broking Private Limited
22	Triveni Engeneering	100000	Ketan Shah	As margin with Angel Broking Private Limited
23	DB Realty	72000	Shah Coal Pvt. Ltd.	In debarred client's Demat Acc. No. 1203230000587941 with Edelweiss Securities Limited
24	MCX	10000	Vinay Shah	In debarred client's Demat Acc. No. 1203230000587941 with Edelweiss Securities Limited
25	United Spirits	2000	Shah Coal Pvt. Ltd.	As margin with Edelweiss Broking Limited
26	Capital First	7900	Aditi Shah	As margin with Dharamshi Securities Private Limited
27	SKF Bearings	5000	Vinay Shah	As margin with Dharamshi Securities Private Limited

6. Given the significant number of transactions and the complexity involved in purchase of shares by the relatives in multiple tranches through different stock brokers (dating back to 2008 as well), transfer of shares by the relatives to the *debarred clients* through multiple layers (through 3-4 entities) and in some instances return of shares from stock broker's margin account to *debarred client's* demat account, spanning over a number of years (e.g. 2008-2015), only sample instances were verified. Based on the sample instances verified, I note that:

   a. As per copies of trade bills/ contract notes generated by the stock broker, the relatives had purchased the shares as early as in 2008.

b. *Prima facie*, the said relatives' demat accounts are jointly held by the constituents of the HUF (i.e. *debarred clients*) and their immediate relatives.

c. The relatives transferred the shares either directly to the *debarred clients'* demat account or through multiple entities.

d. In some instances, the *debarred clients* have placed the shares as margin with their respective stock brokers and in some instances had retained the shares in their demat account.

7. The coparceners of the HUFs (i.e. *debarred clients*) are as follows:

Constituents of Vinay Ramanlal Shah HUF (Client 1)		**PAN**
Karta	Vinay Ramanlal Shah	AACPS4765J
Coparceners	Yogini Vinay Shah	ABHPS9967J
	Kunal Vinay Shah	BMPPS2312K

Constituents of Ketan Ramanlal Shah HUF (Client 2)		**PAN**
Karta	Ketan Ramanlal Shah	AACPS4763Q
Coparceners	Parul Ketan Shah	AACPS1558F
	Rohan Ketan Shah	CFZPS1558F

8. Based on the submissions of the *debarred clients*, I further note that the relatives from whom the shares have been acquired, are constituents of the HUF (i.e. the *debarred clients*) or the immediate relatives' viz. brother/ daughter. Details are placed below:

Sl. No.	**Name of the relative**	**PAN**	**Relation with Client**
1	Vinay Ramanlal Shah	AACPS4765J	Karta of Client 1 & brother of Karta of Client 2
2	Kunal Vinay Shah	BMPPS2312K	Coparcener of Client 1 & Son of Karta of Client 1
3	Ketan Ramanlal Shah	AACPS4763Q	Karta of Client 2 & brother of Karta of Client 1
4	Purvi Vinay Shah	AQQPS9586D	Daughter of Karta of Client 1
5	Aditi Vinay Shah	DCKPS0924N	Daughter of Karta of Client 1
6	Yogini Vinay Shah	ABHPS9967J	Coparcener of Client 1 & Wife of Karta of Client 1
7	Shah Coal Private Limited	AADCS9231R	Directors – Karta of Client 1 & Karta of Client 2

9. Considering the aforesaid submissions and documents brought on record, in terms of the common relief granted vide confirmatory order no. WTM/RKA/ISD/102/2016 dated August 22, 2016 read with clarification no. WTM/RKA/ISD/107/2016 dated August 24,

2016 in the said matter, I, hereby, allow the *debarred clients* viz. Vinay Ramanlal Shah HUF and Ketan Ramanlal Shah HUF to return the shares to their relatives subject to:

a. the relief/relaxation granted in terms of paragraph 38(b)(ii) of the order no. WTM/RKA/ISD/102/2016 dated August 22, 2016 read with paragraph 2(b)(ii) of the clarification no. WTM/RKA/ISD/107/2016 dated August 24, 2016, i.e., upto 25% of the value of the portfolio* as on the date of the *interim order* or the amount in excess of the profit made/ loss incurred, whichever is higher;

b. Undertaking being furnished, to the depositories, by each relative of the *debarred clients*, to whom the shares belong and are being returned to, that in the event of misrepresentation of facts or wrongful declaration, he/she/it would be liable for appropriate action in accordance with law including bringing back the shares or the money which he/she/it would have realised by the sale of shares and he/she/it shall do so forthwith.

*The portfolio value with respect to the *debarred clients* will include the value of securities in the demat account/s including the value of securities lying in the respective stock brokers' margin account

10. The aforesaid shall be subject to the supervision of the depositories and shall be without prejudice to the findings of pending investigation in the matter.

11. All the representations of the *debarred clients* in this regard are accordingly disposed off.

Sd/-

DATE: OCTOBER 18th, 2016
PLACE: MUMBAI

RAJEEV KUMAR AGARWAL
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA