

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: DR. K. M. ABRAHAM, WHOLE TIME MEMBER

ORDER

DIRECTIONS UNDER SECTIONS 11, 11(4) AND 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992, IN THE MATTER OF ALLEGED MANIPULATIVE TRADING IN THE SCRIPS OF CALS REFINERIES LIMITED, CONFIDENCE PETROLEUM INDIA LIMITED, BANG OVERSEAS LIMITED, SHREE PRECOATED STEELS LIMITED (NOW KNOWN AS AJMERA REALTY & INFRA INDIA LIMITED) AND TEMPTATION FOODS LIMITED

1. The Securities and Exchange Board of India (hereinafter referred to as SEBI), vide an ex-parte ad interim order dated June 4, 2009 (hereinafter referred to as the Order), in the matter of alleged manipulative trading in the scrips of Cals Refineries Limited, Confidence Petroleum India Limited, Bang Overseas Limited, Shree Precoated Steels Limited (now known as Ajmera Realty & Infra India Limited) and Temptation Foods Limited, *inter alia* directed Eversight Tradecom Private Limited (hereinafter referred to as Eversight) and VSB Investments Private Limited (hereinafter referred to as VSB) not to buy, sell or deal in the securities market directly or indirectly, till further directions as they were *prima facie* found to have played a role in the alleged manipulation. The submissions made by Eversight and VSB are considered in the later part of this order. An opportunity of personal hearing was granted to VSB (on July 21, 2009) and Eversight (on August 20, 2009), when Mr. Vinay Chauhan, Advocate made submissions on their behalf.

2. I have considered the objections filed by Eversight and VSB, the oral submissions made on behalf of them during the hearing and other material available on record. The limited issue for consideration at this juncture is, whether the directions issued by SEBI, vide ad interim ex-parte order dated June 4, 2009 need to be continued, revoked or modified in any manner, in so far as it relates to Eversight and VSB. The circumstances which led to the passing of the Order and the *prima facie* role of various persons including Eversight and VSB in the alleged market manipulation have been explained in detail in the said Order. SEBI had noticed certain inter-linkages between various entities and the Maniar Group (as defined in the Order) in the form of off-market transactions as well as banking transactions and synchronized trades, as mentioned in the Order. The preliminary findings led to a *prima facie* inference that the acts of 'connected clients' (as defined in the Order) had caused increased market traded volumes and such volumes would have induced other genuine investors to deal in such securities. Eversight, vide letter dated July 17, 2009 *inter alia* stated that it had not received any funds for the transactions in the said three scrips from Mr. Ketan Parekh or other entities, as alleged in the Order. It further stated that the day to day working of Eversight was managed by its director, Mr. Peeyush Jain, the other director being Mr. Adish Jain. Eversight denied the allegation that it was a part of/connected to any entity that had executed trades in the scrips as named therein. Eversight also stated that its trades were independent and miniscule in quantity to influence the market. According to Eversight, it had met its delivery obligation from its own stock and had not borrowed any stock to meet its delivery obligation. Eversight also stated that the quantity of trades that got executed with Mr. Sudhir Jain and Beejay Investment & Financial Consultants Private Limited were miniscule in quantity. It stated that, during May 2008-2009, there may have been several calls exchanged between one of its directors, Mr. Peeyush Jain (mobile no. 9432344356) to his niece, Ms. Surabhi Jain (mobile

no. 9930290001). It was submitted that the exchange of calls between Mr. Adish Jain and his cousin sister Ms. Surabhi Jain were 'social calls'. Eversight denied indulging in any off market transactions.

3. Mr. Vinay Chauhan, Advocate appeared on behalf of Eversight on August 20, 2009 and *inter alia* submitted that though, Eversight made an application in respect of the preferential allotment of warrants of Maruti Securities Limited (MSL), it did not pay any consideration and that no warrants were allotted to it. He further denied the allegation that Eversight was connected with the other applicants of the proposed allotment of MSL. The learned counsel also stated that his client was not connected to Mr. Ketan Parekh/Maniar group entities as alleged in the Order. Further, according to him, the trades of Eversight in the shares of TFL, Bang Overseas Limited (BOL) and Shree Precoated Steels Limited (SPSL) were in the ordinary course of its business and were done from its own funds or by obtaining margin funding from the stock brokers. He further submitted that Eversight did not indulge in any off market transfers. In respect of the allegation of synchronized trades, he contended that Eversight was not aware of the counter parties and that the said orders matched in the ordinary course. In respect of the telephone calls exchanged between Ms. Surabhi Jain and Eversight, it was submitted that they were social calls. Eversight, vide letter dated August 20, 2009 also filed written submissions.

4. As per the Order, Eversight was one of the top three buyers and sellers in the shares of TFL, among the connected clients along with Beejay Investment & Financial Consultants Private Limited and Mr. Sudhir Jain. Their total buy and sell, in the shares of TFL during the relevant period accounted for 64.40 % and 57.20% respectively. It was alleged that Eversight had executed four synchronized trades in the shares of TFL for 77,000 shares, the

counterparties being Mr. Sudhir Jain, Beejay Investment & Financial Consultants Private Limited and Ms. Surabhi Jain. It is not in dispute that Mr. Sudhir Jain is the director of Beejay Investment & Financial Consultants Private Limited. He is also a close relative of Ms. Surabhi Jain. I note that Eversight, apart from being an applicant in respect of the proposed preferential allotment of warrants of MSL along with other entities, had also executed synchronized deals wherein the counterparties were Beejay Investment & Financial Consultants Private Limited, Mr. Sudhir Jain and Ms. Surabhi Jain. Incidentally, all of them were found to be the applicants to the proposed allotment of warrants by MSL and have been identified as 'connected clients' in the Order. Besides, Ms. Surabhi Jain, Ms. Samta Jain (mother of Ms. Surabhi Jain), Mr. Sudhir Jain (Director of Beejay Investment & Financial Consultants Private Limited) and Mr. Vicky Kothari (Director of Stupendors Traders Private Limited-one of the connected clients) were found to be the relatives of Mr. Adish Jain and Mr. Peeyush Jain, directors of Eversight. Eversight was also found to have indulged in one synchronized trade for 10,000 shares of SPSL with Chandra Financial Services Private Limited (CFSPL), another connected client. It also executed synchronized trades in the shares of TFL. In respect of the alleged synchronized trades, Eversight contended that the same were executed through its stock broker in the ordinary course of its business. According to it, only a part of its entire order matched with the connected clients. However, it is an undisputed fact that in certain instances, the counter parties were found to be amongst the connected clients. On a perusal of the reply of Eversight, it is noted that Eversight had stated that part of the shares had been picked by other persons other than the alleged connected clients. As per the said statement, the quantity picked by others was very miniscule (809 & 162 shares) in respect of certain trades in the shares of TFL. This can lead to the only logical inference that the majority of the shares involved in such synchronized trades were matched with the other 'connected clients'. At this stage, after considering the

case and the circumstances, *prima facie* it cannot be said that the trades were in the normal course. On the other hand, it appears to have been matched with the connected clients to create artificial liquidity, as mentioned in the Order. I note that Eversight had also bought and sold 39,023 and 9,529 shares of BOL respectively. Besides, Eversight had also bought and sold 161503 and 37192 shares, respectively of SPSL. The trade details including the counter party concentration and synchronized trades of Eversight had been explained in detail in the Order. It was also observed that telephone calls were exchanged between Eversight and Ms. Surabhi Jain. Eversight replied that the same were 'social calls'. Eversight and Ms. Surabhi Jain, among others, were found to be the applicants in the proposed allotment of warrants of MSL. It is also noted that telephone calls were exchanged between Eversight and Mr. Vardarajan, Managing Director of MSL (one of the connected clients). It is seen that Eversight and Ms. Surabhi along with other connected clients had traded in the identified scrips as mentioned in the Order. There were synchronized and matched trades executed between it and Ms. Surabhi Jain, similar to the synchronised trades between the other connected clients. In this context, the contention of Eversight that the telephone calls exchanged between it were 'social calls' is not convincing. I find that, this is a case where a set of persons/entities who had applied for the warrants of MSL earlier, were also found to have traded (including synchronized trades) among themselves. Further, MSL was also found to have traded heavily in the identified scrips, involved in matched transactions and indulged in off-market transactions, with the other connected clients. On considering the manner in which the said trades were executed in the said scrips coupled with the relationship of Eversight with the counterparties, it becomes difficult to accept the contention of Eversight that its trades were executed in the ordinary course of business, at this stage.

5. VSB filed its objections vide letter dated June 19, 2009 and subsequently an opportunity of hearing was granted to it on July 21, 2009. Mr. Vinay Chauhan, Advocate represented VSB and made submissions on the lines of the aforesaid reply. As per the Order, VSB was found to have bought 20,00,000 shares of Cals Refineries Limited (CRL) during the relevant period and had sold 30,00,000 shares of Confidence Petroleum India Limited (CPIL). It had also purchased 20,000 shares of BOL. Further, it bought 1,46,470 shares and sold 2,00,199 shares of SPSL. VSB was alleged to have indulged in synchronized trades with MSL in the shares of CPIL. It was averred that VSB did not make any market purchases in the shares of CPIL, but had sold substantial shares during the relevant period. It was noticed that, between January 29, 2008 and February 13, 2008, one of the connected clients, Kundan Leasing and Finance Private Limited (KLFPL) made off-market transfer of shares of CPIL to VSB. In view of the same, it was alleged that VSB had entered into off-market trades with other connected clients to meet the delivery obligations arising out of its sell trades. As said earlier, VSB had sold 30,00,000 shares of CPIL in the market during the relevant period. It is noted that in many instances, certain connected clients had only sold shares on BSE without there being prior market purchases. The connected clients that had done market sales without any market purchases were allegedly able to meet their market delivery obligations through off-market receipt of shares from other connected clients. This enabled certain connected clients to make market sales without making corresponding market purchases. It was alleged that the connected clients were accommodating each other in their common objective of creating artificial trading volume in the scrips. VSB has not disputed the receipt of shares in off-market from KLFPL. The contention of VSB is that they had requested KLFPL to provide a loan in order to meet its margin requirement. According to it, KLFPL had agreed to lend 30,00,000 shares of CPIL on a stock lending arrangement. In terms of the understanding, the said shares would be returned

within three months. VSB claimed that, it had transferred the said shares to its stock broker and contended that the Non Banking Finance Company (NBFC)/stock broker sold shares lying with it as margin, including the shares of CPIL on various dates, as it was unable to provide further securities/fund towards replenishing the margin to them.

6. In respect of the synchronized trades in the shares of CPIL on March 14, 2008, VSB contended that the said sale was carried out in its account by the NBFC consequent to the margin short fall and that it had no role in deciding the scrip/quantum/date/time/price. However, it is noted from the reply of VSB that the number of shares of the identified scrips allegedly sold by the NBFC/stock broker were substantial in number when compared to the other scrips mentioned therein. This coupled with the off market receipt of shares of CPIL from one of the connected clients creates suspicion. VSB has not disputed the receipt of shares of Confidence from KLFPL through off market transfers. Subsequently, the shares have been sold in a synchronized manner and the counter party to such trades was found to be MSL. It was observed that a number of synchronized trades were executed between them. In such circumstances, the claim of VSB in respect of the off market transfer and the subsequent sale is difficult to accept, at this stage. I also note that Investmart Financial Services Limited (the NBFC) clarified to SEBI that that even though they had made margin calls for the period from January 23, 2008 till February 08, 2008, VSB had no margin shortfall for the period February 11, 2008 to March 3, 2008. The NBFC further clarified that the sale of shares of CPIL was not 'forced sale' on account of margin shortfall of VSB and stated that VSB had executed the sale transaction to clear the shortfall. The above issues would be scrutinized by the ongoing investigation. With regard to the contention that the directions under Sections 11B and 11(4) of Securities and Exchange Board of India Act, 1992 cannot be issued for penalizing the persons, I find that the same

is not tenable as SEBI is empowered to issue directions including interim directions as expressly provided for, under Section 11(4) thereof, for protecting the interest of the investors and to safeguard the integrity of the securities market.

7. The available material on record justifies the continuation of the directions passed against the above noticees, under the ad interim ex- parte order dated June 4, 2009, till the completion of the investigation. Needless to say, their role or involvement in the manipulation would be reviewed after the investigations are completed when they will be heard afresh at the stage of the final disposal of the quasi judicial proceedings initiated against it in this case.

8. In view of the foregoing, I, in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Sections 11, 11B and 11(4) thereof, hereby confirm the directions against Eversight Tradecomm Private Limited and VSB Investments Private Limited issued vide the ad-interim ex-parte order dated June 4, 2009, in the matter of alleged manipulative trading by certain connected entities in the scrips of Cals Refineries Limited, Confidence Petroleum India Limited, Bang Overseas Limited, Shree Precoated Steels Limited (now known as Ajmera Realty & Infra India Limited) and Temptation Foods Limited.

DR. K. M. ABRAHAM
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SECURITIES AND EXCHANGE BOARD OF INDIA

PLACE: MUMBAI
DATE: JANUARY 25, 2010