

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 29 (3) OF SEBI (STOCK BROKERS & SUB BROKERS) REGULATIONS, 1992 AGAINST M/s. SESHANKA SECURITIES PVT. LTD. MEMBER , NATIONAL STOCK EXCHANGE.

M/s Amara Raja Batteries Ltd. (hereinafter referred to as 'ARBL') , which was initially incorporated as a private limited company in 1985 and the same was subsequently converted into a public limited company in the year 1990. 'ARBL' came out with a public issue in the year 1991 and the shares of 'ARBL' got listed on The Stock Exchange, Mumbai (BSE), National Stock Exchange (NSE), Hyderabad Stock Exchange Ltd. (HSE) and Calcutta Stock Exchange Association Ltd. (CSE). The price of the scrip of 'ARBL' at BSE was Rs.91/- in the first week of October, 2000 and went up to Rs.205/- on January 1, 2001 and further touched a high of Rs.320/- on March 8, 2001.

On March 9, 2001, BSE closed the normal trading at 2 p.m. to facilitate the Badla session and the price at that time was Rs.308.40/-. On that date NSE was functioning till 4.30 p.m. and the price of the scrip fell to Rs.266.75/- and therefore on March 12, 2001, BSE adjusted the price of various scrips to that of NSE including that of 'ARBL'. The price of 'ARBL' further fell down and thereafter touched a low of Rs.78.50/- on March 19, 2001. It was also found that the volumes in the scrip of 'ARBL' were approximately 50,000-60,000 per day in October , 2000 and went up to around 8-15 lakhs shares per day in the month of February and first week of March, 2001 at both BSE & NSE. The average trading in the scrip of 'ARBL' from January to March 2001 went to the extent of 10-15 lakhs shares per day and this constituted approximately 30% of the free floating stock of 'ARBL' .

Securities and Exchange Board of India (SEBI) received complaints regarding the market manipulations / irregularities in the trading in the scrip of 'ARBL' and therefore, SEBI ordered a detailed investigations in the matter to enquire into the alleged violations of the provisions of SEBI(Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 and SEBI (Stock Brokers & Sub Brokers) Regulations, 1992 and other Regulations and the role played by various persons / intermediaries including M/s. Seshanka Securities Pvt. Ltd. , Member, National Stock Exchange (hereinafter referred to as "the broker member").

The investigations prima facie revealed that Shri Harinarayan Bajaj and his son, Shri Rahul Bajaj were the predominant traders in the scrip of 'ARBL' during the period August 2000 to March 2001 (hereinafter referred to as "the relevant period"). Their trading has accounted for approximately 30% of the total trading on BSE & NSE and they had absorbed most of the deliveries in the scrip by purchasing and carrying forward their position on BSE. During the relevant period, Shri Bajaj started making use of the different trading cycles of BSE & NSE to shift his position from one exchange to another. It was also found that Shri Harinarayan Bajaj and his son, Shri Rahul Bajaj were shifting positions of approximately 5.5 lakhs shares of 'ARBL' between BSE & NSE in settlement No.1 of NSE and the same was increased approximately to 11 lakhs shares in Settlement No. 9 of NSE. Further, it was found that Shri Bajaj was not having the requisite funds to pay for the deliveries and also for the margins. The investigations also found that when the price of the scrip of 'ARBL' fell down, Shri Bajaj could not purchase any further shares due to lack of funds.

The investigations further revealed that various members of BSE & NSE had aided and abetted Shri Harinarayan Bajaj in creating a false market in the scrip of 'ARBL' and they have failed to exercise due care and skill in their dealings. The broker member had started dealing in the scrip of 'ARBL' from settlement no. 05/2001 to settlement no. 10/2001 of NSE. The above transactions were on behalf of its client, Shri. Rahul Bajaj and the trading details of the broker member on behalf of the client is given as under ;

Trading at NSE:

Trading & Delivery Details of Amara Raja Batteries Ltd. From Aug 2000 to March 2001

Settl. No.	Purchase	Sales	C/f	Delivery
N-5	26,000	26,000	N.A	Nil
N-6	26,000	26,000	N.A	Nil
N-7	23,000	23,000	N.A	Nil
N-8	25,000	25,000	N.A	Nil
N-9	25,000	25,000	N.A	Nil
<u>N-10</u>				
03.09.01	13,000	Nil	N.A	
03.12.01		13,000	N.A	
	1,38,000	1,38,000		Nil

It was stated by the broker member before the investigating authority that they were not aware about the dealings of Shri. Rahul Bajaj with other brokers of BSE & NSE as the same was not furnished in the client introduction form. The broker member also stated

that they have taken an amount of Rs.2.5 lakhs towards margin from Shri. Bajaj before it started trading with the client.

SEBI, therefore, in view of the above facts, vide its order dated January 14, 2002 appointed an Enquiry Officer to enquire into the affairs of the broker member in its dealings in the scrip of 'ARBL' and for the possible violations of the provisions of rules, Bye Laws & Regulations of NSE, provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 and SEBI (Stock brokers and sub brokers) Regulations, 1992.

Accordingly the Enquiry Officer issued a notice dated February 28, 2002 along with the findings of the investigations related to the broker member's alleged involvement in the price manipulation in the scrip of 'ARBL'. The alleged charges leveled by the Enquiry Officer against the broker member were the following :

A (1) "The broker member by virtue of its trading in 'ARBL' on behalf of Shri Rahul Bajaj had failed to exercise due skill and care in its dealings.

(2) The broker member had allowed the client to take position which is beyond his financial capability".

and thereby violated Regulation 7, Schedule II of SEBI (Stock brokers & sub brokers) Regulations, 1992 (hereinafter referred to as the 'said Regulations') .

The broker member vide its letter dated March 25, 2002 interalia stated that they had started dealing with Shri Rahul Bajaj from settlement no.5 onwards and before executing the trades on behalf of the client, they had collected the necessary client registration form alongwith a margin amount of Rs.2.5 lakhs. It was also replied by the broker member that at any point of time, the quantity of shares traded by them was more than 26000.

An opportunity of personal hearing was granted by the Enquiry Officer to the broker member on 27.3.2002 and the Enquiry Officer after conducting the enquiry and after perusing the reply of the broker member and the submissions made on behalf of the broker member found that the broker member is not guilty of violating the code of conduct prescribed under the said Regulation and recommended that a warning may be issued to the broker member .

Subsequently, SEBI sent a notice dated May 13, 2002 under regulations 29 (1) of the said regulations asking it to show cause why the penalty as recommended by the Enquiry Officer not be imposed against it . A copy of the Enquiry Report was also forwarded to the broker member along with the show cause notice . The broker member vide its reply dated May 30, 2002 assured that they shall not allow such deficiencies to take place and will be cautious in their future dealings with the clients. The broker member has not requested for a personal hearing.

I have perused the extracts of the investigation report , the Enquiry Report, the reply filed by the broker member. Due to the transactions of Shri Harinarayan Bajaj and his son Rahul Bajaj, the volumes in the scrip of ARBL went up to around 8-15 lakhs shares per day in the month of February & first week of March 2001 from 50,000 -60,000 shares per day in Oct, 2000. It is observed that the broker member had started dealing with Shri Rahul Bajaj from settlement no.5 onwards and before executing the trades on behalf of the client, they had collected the necessary client registration form alongwith a margin amount of Rs.2.5 lakhs. It is also observed that the broker member did not trade for more than 26,000 shares at any point of time.

However, it is seen that in the client registration form, details of columns pertaining to Annual income and market value of portfolio have not been indicated by the client. Further, it has also been observed that the column pertaining to the introduction of client, Shri Bajaj was left blank though the broker member has admitted that it had no past dealings with the client. In view of this, I feel that the broker member should have insisted for the said details and introduction of the client from a known person otherwise client registration becomes only a formality rather than an exercise of due skill and care in introducing a client to the market.

In view of the above, by considering the assurances given by the broker member in its written submissions dated May 30, 2002 , I agree with the recommendations given by the Enquiry Officer and therefore under the provisions conferred upon me under Section 4 (3) of SEBI Act, 1992 and under Regulation 29(3) of SEBI (Stock Brokers & Sub Brokers) Regulations, 1992, I, hereby warn M/s Sheshanka Securities Pvt. Ltd., Member, National Stock Exchange to be careful and cautious in future and any repetition of such acts shall be viewed seriously.

G.N. BAJPAI
CHAIRMAN
SECURITIES AND EXCHANGE BOARD OF INDIA