

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 29 (3) OF SEBI (STOCK BROKERS & SUB BROKERS) REGULATIONS, 1992 AGAINST M/s. SMK SHARES AND STOCK BROKERS PVT. LTD. MEMBER , BSE .

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 is also found that the volumes in the scrip of 'ARBL' were approximately 50,000-60,000 shares 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. SMK Shares and Stock Brokers Pvt. Ltd., Member, Mumbai 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 investigation 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 dealt in the scrip of ARBL in settlement no. 47 of BSE . The said transactions were executed on the behalf of its client, Shri Harinarayan Bajaj . The trading of the broker member on behalf of the above client are as under :

SMK Shares & Stock Broking Pvt. Ltd.

Trading, Delivery and Carry forward (Badla) Position of

Amara Raja Batteries Ltd. From Aug 2000 to March 2001

Settl. No.	Purchase	Sales	C/f	Delivery
<u>A-47</u>	50,000	30,000	20,000	Nil
<u>A-48</u>	Nil	Nil	20,000	Nil
<u>A-49</u>	Nil	Nil	18,000	2,000
<u>A-50</u>				
<u>03.09.2001</u>	10,000	Nil	30,000	(2,000)
<u>Total</u>	60,000	30,000		0

Shri Dinesh S. Khemka, Director of the broker member stated that one Shri Shashikant Modi, who is known to the Directors of the broker member for the last 5 years introduced Shri Harinarayan Bajaj to the broker member. The broker member stated that they had done purchases for Shri Harinarayan Bajaj in Settlement No.47 and another in Settlement No.50 and was not aware about the dealings of its client with other brokers except for the dealings in JCL Securities Ltd., in small quantity. The broker member further

stated that they had taken an amount of Rs. 13,11,000/- towards margin from Harinarayan Bajaj before executing the transactions for him. The broker member also informed that they had filed an arbitration case against Shri Harinarayan Bajaj in BSE in addition to the FIR lodged with EOW, Mumbai and had also sent a legal notice to Shri. Harinarayan Bajaj .

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 Act, 1992, 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 Harinarayan Bajaj had failed to exercise due skill and care in its dealings.

(2) The broker member had allowed the client, Shri. Harinarayan Bajaj to take position which is beyond the clients financial capabilities."

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 April 2, 2002 interalia stated before the Enquiry Officer that they had not undertaken any proprietary trades in the scrip of ARBL and had only undertaken carry forward transactions only between settl No.A-47 to A-50 while Shri Bajaj and his son were trading in the scrip of ARBL since August 2000 onwards. Further, the broker member stated that they had taken an initial margin @ 10% and traded only for four settlements.

An opportunity of personal hearing was granted by the Enquiry Officer to the broker member on May 09, 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 SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 and recommended to direct the broker member to be cautious in future.

Subsequently, SEBI sent a notice dated June 21, 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 June 27, 2002 stated that the Enquiry Officer that they had not undertaken any proprietary trades in the scrip of ARBL and had only undertaken carry forward transactions only between settlement No.A-47 to A-50 while Shri Bajaj and his son were trading in the scrip of ARBL since August 2000 onwards. Further, the broker member stated that they had taken an initial margin @ 10% and traded only for four settlements. The broker member also stated that Mr. Bajaj had fulfilled all the obligations till the market crashed and there was no outstanding from Mr. Bajaj upto settl No.50. It is also stated by the broker member that they had exercised due care & skill in executing the transactions of Shri Harinarayan Bajaj. The broker member not opted for making submission before me.

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 traded in 4 settlements for Shri Harinarayan Bajaj. The broker member had purchased 60,000 shares sold 30,000 shares in settlement no.A-47 to A-50 for its client Shri Harinarayan Bajaj . The broker member also allowed its client to carry forward shares from settlement No.A-47 to A-50 and picked up delivery of 30000 shares and the same were sold in settlement No.52 of BSE. It is observed that the broker member had given high exposure to Shri Harinarayan Bajaj by executing a buy order of 10000 to 50000 shares in each of the settlements in ARBL. In view of the facts that the broker member had to initiate legal proceedings against its client , I feel that the broker should be more cautious in future in its dealing in the securities market.

In view of the above circumstances and by considering the reply given by the broker member in its letter dated June 27, 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 direct M/s SMK Share & Stock Brokers Pvt. Ltd., Member, The Stock Exchange, Mumbai 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

Place : Mumbai

Date :