

SECURITIES AND EXCHANGE BOARD OF INDIA

DIRECTION UNDER SEC. 11B OF SEBI ACT, 1992 READ WITH REG 12 OF SEBI (PROHIBITION OF FRAUDULANT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS AGAINST SHRI. RAJKUMAR C BASANTANI, PROMOTER, SOUND CRAFT INDUSTRIES LTD.

Sound Craft Industries Ltd. (herein after referred to as SIL) was incorporated on 22nd January, 1985 with Registered and Corporate Office at Narayan Building, 23, Lakhamshi Napoo Road, Dadar (East), Mumbai – 400 014. Shri Rajkumar C Basantani (hereinafter referred to as Shri Basantani) is the chief promoter of SIL along with his wife Ms Seema Basantani. Shri Basantani is also the sole proprietor of M/s Rajkumar Chainrai Basantani, (hereinafter referred to as "the Member") individual trading member operating on the Capital Market Segment of the National Stock Exchange of India.

As a part of market surveillance operations, NSE observed phenomenal rise in price and traded volumes in the scrip of SIL during the period December 1998 to July 1999. The closing price as on 22.12.98 was Rs. 265/- with average volume of 6, 171 shares. The scrip price moved upwards to touch Rs. 291 as on 31.12.1998. For the period 01.01.1999 to 09.02.1999, the price moved in the narrow band of Rs. 290 to Rs. 309. Thereafter, there was a steady movement in the scrip price and as on 05.03.1999, the closing price of SIL recorded at NSE was Rs. 339/-. At NSE, the scrip was in No Delivery from settlements 1999016N to 1999018N (i.e., from 21.04.1999 to 11.05.1999). SIL had come out with a 1:3 bonus during April 1999. The ex-bonus date for the scrip was 21.04.1999 and the record date for the bonus was fixed on 20.05.1999.

For the period 22.12.1998 to 31.12.1998 the average traded volume in the scrip at NSE was 6, 171 shares. For the period 01.01.1999 to 09.02.1999 the average traded volume in the scrip was 5, 896 shares. Thereafter, the volumes in the scrip suddenly showed increasing trend and as on 18.02.1999 the traded volumes in the scrip was 12, 100 shares. For the period February 1999 to March 1999, the average traded volume was in the range of 12, 000 shares. The volumes subdued during the 3rd week of March 1999 and for the period 10.03.1999 to 20.04.1999 the average traded volume in the scrip was 6, 165 shares. The volumes once again started increasing from the last week of April 1999 and to the later part of May 1999.

At BSE, there has been corresponding increase in the scrip price and volume during the above-referred period. The scrip of SIL was in a no-delivery period at BSE from 26.04.1999 to 14.05.1999. The price, which was in the range of Rs. 274/- as on the first week of December 1998, touched a high of Rs. 350/- during April 1999. The volumes too increased substantially between the period December 1998 to June 1999.

It can therefore be seen from the above that the scrip of SIL witnessed movement both in terms of price and volume during the period December 98 to July 99 and this was observed uniformly at both the exchanges viz. BSE and NSE. In light of the above, an investigation was ordered to be conducted by SEBI into the affairs relating to dealing in the shares of SIL vide Order dated 31.08.2000

A detailed investigation was conducted and the investigation report dated 29.12.2000 was submitted. In the said report it was found that Shri Basantani along with Shri. Dinesh Patel, Shri Nagraj Kundar, Shri Suhas Patil and Shri. Yogesh Panchal who were the main clients had indulged in manipulating the trading of the scrip. Based on which a show cause notice dated 18.12.2001 was issued to Shri Basantani communicating the findings of the investigations and asking him as to why action should not be taken for violating regulation 4 (a), (b), and (d) of Securities and Exchange Board of India (Prohibition of Fraudulent and unfair trade practices relating to capital Market) Regulations, 1995 (hereinafter referred to as "the Regulations") under sec.11B of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "the Act") read with Reg 11 and 12 for the Regulations. Shri Basantani responded to the said show cause notice vide his letter dated 09.01.2002, stating that he has some pressing business on hand because of which he was unable to respond to the above mentioned show cause notice and requested for extension of three weeks but no reply was filed even after three weeks. Another opportunity was provided to Shri Basantani vide show cause notice 13th March, 2002, which Shri Basantani failed to reply. A personal hearing before the Chairman SEBI was fixed for 19.07.2002 at 3. 30 pm and was intimated to Shri Basantani vide letter dated 04.07.2002. Shri Basantani's representative attended the hearing on his behalf.

Subsequently a letter dated 22.07.2002 was filed recording the submissions made by him during the hearing on 19.07.2002 which are as follows

"This is with reference to our hearing held in Your office at Mittal Court, B Wing, First floor, 224, Nariman Point, Mumbai - 400021 at around 3.15 p.m. on 19th July, 2002.

We apologize for the absence of Mr. Rajkumar C. Basantani, who was indisposed on that day for medical reasons.

We would like to reiterate the facts which were put forward to you and debated upon during the hearing :

That the Company, SOUNDCRAFT INDUSTRIES LMTED (herein after referred as SIL) was in no way financially involved with the brokers / sub-brokers as a part of circular trading as alleged.

No financial involvement of the Company was found even after detailed examination by your esteemed organization.

The Company SIL, has not had a single complaint from any investor / Shareholder / Member to SEBI in connection with the price rigging or circular trading resulting in an artificial financial loss which could be attributed to the above mentioned charges as alleged.

The Company has always rewarded its Shareholders / Investors handsomely by way of Dividends and Bonuses over a long period of Time. It has an excellent track record in terms of growth and profit sharing with its Members.

The Company's share price has consistently gone up over a period of time and even at present in this scenario is presently trading at RS. 80 - 82 per share having a face value of Rs. 2/- each. This shows the depth the Company has and the solid Investor confidence it enjoys in the market. Any artificial means to support its price would not even have sustained over a few months whereas here it has gone up substantially over the years. This in itself is proof enough of the strength the Company has and justifies the fact that it was not involved financially or otherwise with the brokers to boost its share price.

The Chairman being a non-executive director of the Company is professionally managed with a sound and encouraging compliance of corporate governance and is not involved in the micro level working of the Company could not have gained in any way by this circular trading as his stake remained the same without any dilution or addition in the shareholding of the Company during the period. Even as of date it is still at the same level as it was a couple of years back.

SIL's directors have not enriched themselves by trading in its shares, at the cost of others.

The Company cannot be held responsible for people speculating on personal levels for personal gains through brokers / sub brokers.

The Company is widely held Listed Public Limited Company having various categories of members such as Financial Institutions and Mutual Funds namely General Insurance Corporation of India, The New India Assurance Company Limited, Unit Trust of India and Foreign Financial Institutions namely Kuwait Investment Authority Fund No. 202, Stichting Pensioenfond ABP, and Indo Cam Hong Kong Ltd A/c. Indian 21st Century Fund, Private and Public Bodies Corporates and General Individual Public who constitute a substantial holding as against Mr. Rajkumar Basantani who holds 11.22% of equity shares in the Company.

Besides the Company also consists large number of lenders such as banks and financial institutions debtors and creditors whose interests are also vested in the Company. In this perspective we request you to kindly look our Company as a separate individual entity other than Mr. Rajkumar Basantani and take a positive and constructive view accordingly.

Sir, in the light of the above facts we humbly request you to take kind, lenient and positive view,

We hope for fair justice so that the reputation and goodwill the Company enjoys in the market is not hampered in any way and continue to earn the much needed valuable foreign exchange for the Country which we have been doing since the last so many years."

I have carefully gone through the facts and circumstances of the case I find that: -

At BSE, the top five members who were very active in the scrip of SIL had generated 90% to 95% of the total volume in the scrip during the period under consideration. At NSE, the combined volume generated by the top five trading members in the scrip was around 96% to the total trading volume recorded in the scrip at the exchange. The trading in the scrip of SIL was concentrated among top five trading members, prominent traded broking entity being the Member i.e., M/s. Rajkumar Chainrai Basantani, with an average trading volume of around 35% of total volume traded at NSE in the settlements covered during the period under investigation. Shri Basantani also being the promoter of SIL had shown inexplicable interest in the scrip during the period under consideration. The stock broking arm of Shri Basantani was ostensibly misused in as much as fictitious trades were generated so as to generate volumes in the scrip and artificially inflate the scrip price.

The volumes recorded at these exchanges have been termed as abnormal in view of the fact that at both the exchanges the scrip was not very active prior to December 1998. In some of the settlements, a set of brokers contributed 100% volume at the exchange. This indicated that there was no general market interest in the scrip and the volumes generated in the scrip by a few set of brokers appeared to be artificial so as to possibly induce or create interest in the minds of the ordinary investors to trade / invest in the scrip.

The transactions were squared off either by the end of the day or by the end of the settlement period. On an average, the over all net delivery obligation of the brokers at the exchange was hardly 1% of the total volume at the exchange. For instance, in settlement No. 8, the total gross volume of the members at NSE was 1, 36, 400 shares (both buy and sell) where as the net delivery obligation at the exchange was just 400 shares, which constitutes 0.02% of the gross volumes. This type of trading pattern was seen unanimously employed by all the brokers / clients of both NSE and BSE during the period of investigations.

The same set of clients who had traded in the scrip of SIL through NSE members also enrolled as clients to the BSE top traded members and traded in the scrip. The timing of the introduction of these clients to the members of BSE and NSE suggested that most of the clients were introduced to the members on or around December 1998. These clients were introduced to the members / sub brokers either by Shri Rajesh Sharma (who is a key employee of the Member) and / or Shri Vinod Hingorani who was an employee of the Member and currently a director on the board of SIL. Authorized representative on behalf of the clients in his statement given to the investigating team on 20.12.2000 confirmed the above fact.

The clients who had traded in the scrip of SIL through the BSE and NSE members have furnished their contact telephone number as 6481355. This telephone number incidentally is also the telephone number of the Member. Even in their acknowledgement given to the courier authorities in respect of the letters / Summons issued to them, these clients chose to furnish this number as their contact reference. When the Member was queried on the subject matter, the Member stated that he did not wish to comment any thing. This clearly indicates the role played by the clients in the subject matter and their relationship with Shri Basantani.

Some of these clients hailed from places such as Jogeshwari, Mira Road etc. However, these clients have chosen to open their bank accounts at places such as Corporation Bank Khar West, Vysya Bank Bandra etc. Incidentally, SIL and the Member also maintained account(s) with these banks/branches. The records further revealed that some of the clients were introduced to the above banks on or around December 1998 and by none other than Shri Basantani.

The above mentioned clients mainly traded in the scrip of SIL during the stated period. This clearly establishes that the clients were enrolled primarily to trade in the scrip in which Shri Basantani is interested.

The connection of the aforementioned clients with Shri Basantani was evident from the manner in which funds flow had taken place from the account of Shri Basantani (Current Account No 385 maintained with M/S. Vysya Bank 32nd Road, Bandra West Branch) to the account (s) of these clients (either directly or indirectly). The bank records collected from the clients also revealed that the clients have transferred the funds to the account of Shri Basantani (CA 385) after they received the pay out proceeds from the brokers. The study of the funds flow / bank account submitted by the clients revealed that the real destination of the payments / receipts in respect of their dealings in the scrip of SIL have come from an account none other than that of Shri Basantani. A few instances of fund transfers that had taken place from the account of Shri Basantani (CA 385) to the account of these clients are enumerated as under:

- ₹ On 22.01.1999 an amount of Rs 20, 000 was transferred from CA 385 (of Shri Basantani) to SB A/c 16799 maintained by Shri Suhas Patil with M/s Vysya Bank, Bandra. On the same day, Shri Suhas Patil issued a cheque for Rs 20,000 favoring M/s Key note Capitals Ltd. against the pay in towards the dealings in the scrip of SIL of Shri Nagraj Kundar (client of Keynote Capitals)
- ₹ On 05.04.1999 an amount of Rs 60, 000 was transferred from CA 385 to SB A/c 16799 of Shri Suhas Patil. Shri Suhas Patil issued a cheque for Rs 61, 000 favoring M/s Sharedeal Consultants, BSE member (towards the dealings of Shri Dinesh Patel in the scrip of SIL)
- ₹ On 10.05.1999 an amount of Rs 1, 30, 000 was transferred from the account of Shri Basantani (CA 385) to the account of Shri Suhas Patil (SB 16799). On the same day Shri Suhas Patil issued a cheque for Rs 1, 30, 070 favoring M/s MP Vora Securities Ltd (towards his dealings in the scrip of SIL with MP Vora Securities). Shri Suhas Patil was a client of M/s MP Vora Securities, BSE and had dealt in the scrip through the BSE member.
- ₹ On 27.02.1999 and 04.03.1999 an amount of Rs 1, 64, 000 and Rs 1, 30, 000 was seen credited into the account of Shri Dinesh Patel with Corporation Bank Khar West Branch (SB 8779). M/s Sharedeal Financial and Consultants, BSE Member issued these cheques to Shri Dinesh Patel after the pay out at BSE. (Shri Dinesh Patel traded in the scrip of SIL at BSE through Sharedeal Consultants). On 04.03.1999, an equivalent amount was seen transferred from the account of Shri Dinesh Patel (SB 8779) to the account of Shri Basantani which suggests that that pay out proceeds were passed on to Shri Basantani.
- ₹ Shri Dinesh Patel, residing at Roopalane, Chandanwadi, Kalbadevi, Mumbai – 400 002 was registered as a client of the Member and M/s Share deal Consultants Pvt Ltd., Member, BSE. He dealt in the scrip through the aforesaid two members. As per the details furnished by the Member, Shri Dinesh Patel is the only client for whom they had traded in scrip of SIL during the referred period.

On perusal of Shri Dinesh Patel's bank accounts, it was observed that he had issued cheques from his Corporation Bank A/c (Khar West Branch) to Shri Basantani during the month of March 1999. The details of these cheques issued are as follows:

DATE	CHEQUE NO.	AMOUNT (Rs.)
04.03.1999	746399	150000
06.03.1999	783321	200000
20.03.1999	789322	125000

The details of the above cheques were not appearing in the Ledger statement of Shri Dinesh Patel in the books of the Member which suggests that these cheques were issued by Shri Dinesh Patel to Shri Basantani after he received the proceeds (after pay out at BSE) from M/s Sharedeal Consultants of BSE. It appeared from the records submitted by M/s Sharedeal Consultants that they had made payments to Shri Dinesh Patel against his credit balance, which was utilised by Shri Dinesh Patel to issue cheques to Shri Basantani. This indicates the interest of Shri Basantani behind the transactions of Shri Dinesh Patel with Share Deal Consultants, BSE. It is clear from the above that Shri Dinesh Patel dealt in the scrip of SIL through Sharedeal Consultants, BSE solely on behalf of Shri Basantani.

Shri Dinesh Patel has issued a cheque for Rs. 1, 60, 000 (from his Corporation Bank account, Khar west) to M.P. Vora Shares & Secs. Pvt. Ltd., against the debit balance of Shri Suhas Patil (who was a client of MP Vora). Similarly, Shri Suhas Patil has issued the following cheques from his bank account maintained with Vysya Bank, Bandra West Branch to M/s Share Deal Financial & Consultants Pvt. Ltd., BSE against the debit balances of Shri Dinesh Patel. The cheques issued from the account of Shri Suhas Patil favouring M/s Sharedeal Consultants are as under:

DATE	CHEQUE NO.	AMOUNT (Rs.)
14.12.1998	70739	20000
07.01.1999	70740	70000
24.03.1999	80812	26000

The top traded brokers / members of BSE and NSE confirmed that in respect of SIL they had accepted third party cheques on a few occasions. As per the ledger statement of Shri Dinesh Patel, furnished by the Member the credit balance standing against the name of Shri Dinesh Patel was adjusted against the debit balance of Shri Suhas Patil with other brokers. In other words, cheques were seen issued by the Member to Shri Suhas Patil against the credit balance of Shri Dinesh Patel e.g., the following instances

Date	CHEQUE NO.	AMOUNT (Rs.)
22/01/1999	40655	20000
04/05/1999	45043	39000

The pay in obligations of Shri Suhas Patil was met by Shri Basantani in the above manner. The fund transfers also took place directly between the Member and Shri Suhas Patil.

As per the records submitted by the company, Shri Dinesh Patel was eligible for bonus shares in the bonus issue announced by SIL during April, 1999. It clearly appeared that Shri Dinesh Patel only acted as front to the Member as regards dealings in the scrip of SIL.

Shri Suhas Patil residing at No 1, Cosmos Building, Khar (W), Mumbai traded through DGP Securities. Ltd., NSE and M/s M.P. Vora Shares & Securities Ltd., BSE. As per the information furnished by M/s DGP Securities. Ltd and M.P. Vora Shares and securities Pvt. Ltd., Shri Suhas Patil was the only client who has traded in the scrip of SIL through them during the period. Therefore, the total transactions of the above brokers in SIL can be treated as the transactions of Shri Suhas Patil. Shri Rajesh Sharma who is a key employee of the Member introduced Shri Suhas Patil to M/s DGP Securities Ltd, NSE.

As explained in the paragraph mentioning about the role of Shri Dinesh Patel, Shri Suhas Patil had issued cheques from his bank account (maintained with Vysya Bank Bandra West Branch) against the debit balances of Shri Dinesh Patel with M/s Sharedeal Financial Consultants, BSE. Similarly, Shri Dinesh Patel had issued cheques to M/s M.P. Vora Shares and Securities Pvt. Ltd. against the debit balance of Shri Suhas Patil. A perusal of the respective accounts of Shri Suhas Patil and Shri Dinesh Patel revealed payments/ transfers from the account of the Member prior to the transactions made by them. This indicated the relation ship of Shri Suhas Patil with Shri Dinesh Patel and also the fact that the Member is ultimately interested in the transactions of both Shri Suhas Patil and Shri Dinesh Patel.

Shri Suhas Patil had received payments and also issued cheques to the Member through his bank account maintained with Vysya Bank, Bandra West Branch. A perusal of this account indicated that Shri Suhas Patil had received credits from the account of the Member and simultaneously, he issued cheques to various members / entities / individuals who have dealt in the scrip of SIL during the period under investigation. Instances of such fund transfers received from the account of the Member and simultaneous payments made by Shri Suhas Patil to various brokers /entities etc are explained as under:

Cheques Recd By Suhas Patil From RCB	Amount (in Rs.)	Corresponding Cheques Issued by Suhas Patil to various entities	Cheque No.	Amount (in Rs.)
40655	20, 000	Keynote Capitals Ltd.,	80804	20,000
42385	2, 00, 000	Ramila Jain	80805	2, 00, 000
43958	60, 000	Sharedeal Financial Con.	80814	61, 000

43960	25, 000	DPG Securities	80815	23, 691
45055	1, 30, 000	M. P. Vora Shares and securities	80819	1, 30, 070
46136	1, 40, 000	DGP Securities	86141	1, 40, 000
45091	36, 000	M.P. Vora Shares	86144	36, 000
45097	50, 000	Subecha Securities	86145	55, 000

Shri Suhas Patil had received the following cheques from M. P. Vora Shares and Securities and the same was passed on to the Member and other entities.

Cheques Recd. By Suhas Patil From various entities	Amount (in Rs.)	Corresponding cheques Issued by Suhas Patil to Various entities	Cheque no.	Amount (in Rs.)
M.P. Vora Shares & Sec. Pvt. Ltd.	9, 33, 312	Subecha Secs P L	80807	55, 000
		Jain Investments	80808	83, 330
		Rajkumar C Basantani	80809	8, 00, 000
M.P. Vora Shares & Securities	6, 48, 574	Rajkumar C Basantani	80811	6, 00, 000

The above transactions clearly explain the role played by Shri Suhas Patil and his relationship with the Member. It also indicates that funds were transferred from the account of the Member to the account of Shri Suhas Patil who in turn made payments to various other entities who dealt in SIL (presumably to meet the pay in obligation of these entities). Some instances were also noticed wherein the Member used to issue cheques to M.P. Vora Shares & Sec. P Ltd. directly against the debit balance of Shri Suhas Patil, the details of which are furnished below:

Cheque issued by RCB to M.P. Vora DIRECTLY against the debit balance of Suhas Patil Cheque No.	Date	Amount
43872	31/03/1999	250000
43979	15/04/1999	981.5
43990	15/04/1999	600000

In light of above fund transfers that have taken place, the role played by Shri Suhas Patil is apparently clear. It is also clear that the Member has masterminded all the transactions in the scrip of SIL and the clients merely played a supportive role.

Shri Nagaraj Kunder, residing at D-63, Punarvasu, Sector III, Shrishti Complex, Mira Road traded in the scrip through M/s Keynote Capitals Ltd., Member, NSE and also through M/s Subecha Sec. Pvt. Ltd., an unregistered sub-broker of M/s Betala Stock Broking Ltd, member NSE. At BSE, Shri Kunder traded in the scrip once again through M/s Subecha Securities Pvt Ltd., who were registered sub-brokers of M/s SVS Securities P Ltd., Member, BSE.

On perusal of bank records/statements submitted by Shri Nagaraj Kunder, it appeared that Shri Suhas Patil made payments on behalf of Shri Nagaraj Kunder during the period under consideration. The following are the instances wherein Shri Suhas Patel had issued cheques to M/s Keynote Capitals Ltd. and M/s Subecha Sec. Pvt. Ltd. against the debit balance (s) of Shri Nagaraj Kunder.

Date	Cheque no.	Amount (in Rs.)	Chques issued by Shri Suhas Patil against the debit balance of Shri Nagaraj Kunder - issued to
22/01/1999	80804	20, 000	KEYNOTE
20/04/1999	80816	3, 2709	-DO-
24/05/1999	80820	4, 39, 000	-DO-
15/06/1999	80807	55, 000	SUBECHA SECURITIES

The account statement of Shri Suhas Patil revealed that Shri Suhas Patil had received equivalent payments from the Member prior to issuing these cheques to Keynote Capitals and Subecha securities. Shri Nagaraj Kunder was introduced to M/s Keynote Capitals Ltd. by Shri Rajesh Sharma, an employee of the Member. Shri Nagaraj Kunder has given the contact telephone number of Smt. Seema Basantani, wife of Shri Basantani. This telephone number relates to the Member's broking outfit at Khar. Shri Basantani also introduced Shri Nagaraj Kunder's account with the Vysya bank. This shows the relationship of Shri Nagaraj Kunder with Shri Basantani. On perusal of Bank account of Shri Nagaraj Kunder with M/s ICICI Bank, Mira Road Branch, it was observed that Shri Kunder had issued a high value cheque for Rs.4,00,000 in favour of the Member.

Shri Nagaraj Kunder and Ms. Jaya Kunder having the address of 12, Jumbo Darshan, Kol Dongri, Andheri, Mumbai appeared in the client list of the Member. The address matched with the address furnished by Shri Nagaraj Kunder to Vysya Bank, Bandra West Branch.

Shri Nagaraj Kunder appeared as a common client in the books of M/s.Keynote Capitals Ltd and M/s Subecha Sec. Pvt. Ltd. It appeared that he along with Shri Suhas Patil had played a crucial role in facilitating Shri Basantani in the exercise of creating / generating artificial volumes in the scrip. It appeared from the records that Shri Nagaraj Kunder was simultaneously putting both buy and sell orders in the scrip through the terminal of the Member in order to generate artificial volumes in the scrip. Such fictitious

trades were observed on a large scale from the terminal of the Member and the client code indicated the name of Shri Nagraj Kundar.

Shri Yogesh Panchal residing at B.N. Shukla Chawl, No.1, Room No. 10, Subash Nagar, Jogeswari, Mumbai, had traded in the scrip through M/s.Subecha Sec. Pvt. Ltd. an unregistered sub-broker of M/s Betala Stock Broking Ltd., NSE. The following instances of fund transfers were noted from his bank account maintained with Vysya Bank, Bandra Branch to Shri Basantani.

DATE	CHEQUE NO.	AMOUNT (IN RS)
05/06/1999	76221	93, 000
29/06/1999	76222	4, 53, 000

As per the details submitted by M/s Subecha Sec. Pvt. Ltd., Shri Yogesh Panchal had only offered shares in auction and he has not traded regularly in the SIL during the period under consideration.

As per the bank records of Vysya Bank Bandra West Branch, Shri Vinod Hingorani, the director of M/s Soundcraft Industries Ltd, introduced the account of Shri Yogesh Panchal to the bank. The Savings Bank A/c was opened on 27.08.1998 i.e., just before the spurt in volumes and price was witnessed. Shri Nagraj Kundar who has traded substantially in the scrip of SIL introduced Shri Yogesh Panchal to M/s Subecha Sec. Pvt. Ltd. Shri Yogesh Panchal had dealt with the Member and had stopped trading through him from March, 1997.

In light of the above, it is clear that Shri Yogesh Panchal is having clear nexus with the directors of SIL and was acting as front entity to Shri Basantani and Shri Vinod Hingorani. He was enrolled as a client to exclusively offer the shares of SIL in the auctions and the beneficiary in this case is Shri Basantani himself.

On analysis of the order logs in the scrip of SIL, it was observed that the Member, used to place orders with huge volumes at a substantially lower price in comparison with the ruling price / last traded price at the NSE. Similarly, the Member also used to place sell orders of huge volume at substantially higher rate than the ruling price/last traded price. This was consistently observed in respect of the orders placed by the Member in the scrip during the period under consideration. The purpose behind such transactions was to create artificial liquidity/volume in the scrip of SIL, which is substantiated from the manner in which the orders were executed. The scrip price was conveniently maintained by employing the above exercise. The Member misused the circuit filter mechanism of the exchange to the best of their advantage. Generally, these orders (of huge quantities) were placed at a price near to the price bands for the day decided by the stock exchange. Most of the times, these orders were not executed. For instance, on 1st March, 1999 at NSE, there were 4 buy orders for 52, 100 shares at below Rs. 320/- and 3 sell orders for 28, 900 shares above Rs. 355/-. However, the average price quoted on 1st March, 2000 was Rs. 335/- with a gross volume of 28, 600 shares recorded at the exchange on that day. The study of order logs by the investigating team revealed plenty of instances of such type of orders put by the Member. The above trading practice is intended to create artificial depth so as to misguide the genuine investors who innocently trade in the scrip of SIL.

It is further observed that the Member placed voluminous buy as well as sell orders in the scrip during the period of scrutiny and most of the orders did not result into trades. In some cases large orders were intentionally placed by the Member on or around the opening session. These orders were placed by the Member for large quantities obviously to misguide the genuine investors. A study of the unexecuted orders in the scrip of SIL made by the investigating team during the investigation period revealed that orders to the tune of approximately 20, 70, 000 shares in the account of the Member did not result into trades during the referred period. The gross turnover of the Member in the scrip of SIL during the period under consideration was around 8, 00, 000 shares. From the above, it was clear that the Member had manipulative intentions behind these transactions and the only motive was to generate artificial volume in the scrip which will also facilitate a slow movement in terms of scrip price. The above clearly indicates the role played by the Member in the creation of artificial market for the scrip of SIL.

Analysis of the trading pattern in the scrip revealed that top five brokers of BSE and NSE had formed a Cartel and indulged in "circular trading" in scrip so as to create artificial market in the scrip and also to maintain the price quote. 'Circular trading' is established if commonalty of clients and their nexus with the promoters is proved. In this case there was ample evidence including funds flow from the account of Shri Basantani to the accounts of the clients to suggest that 'circular trading' in the scrip had taken place. During the period under investigation, on an average the Member has contributed 62.3% of the gross volume at NSE in connivance with other members (buy / sell). In some settlements his role was more than 70% of the total volume generated at the Exchange. For instance in settlement no. 8, he has contributed 80.33% of the gross volume of the exchange along with other members such as Keynote, Betala Securities and DGP Securities. This type of trading pattern shows the apparent interest of the Member in increasing /maintaining the price and volumes for the scrip. This is further substantiated from the fact that the clients of the counter party brokers are directly / indirectly related to the key player i.e., the Member. The flow of funds from the account of Shri Basantani to the account of these clients and vice versa are clear indications of the relationship between the parties. The fact that the buy orders placed by one broker getting consistently matched with the corresponding sell order placed by other brokers gives clear indications of the circular trading that has taken place in the scrip during the referred period. It is clear that the trades

were done primarily to maintain the price level in the scrip and to create artificial liquidity /market. The Member is clearly guilty of indulging in "Circular Trading" in the scrip in connivance with other members of NSE such as Keynote Capitals, Betala Securities etc.

It was observed that some of the members of BSE and NSE executed transactions in the scrip, which are fictitious in nature whereby both buy and sell orders in the scrip were executed by the same member apparently for the same client and at the same time. The dealer who had punched the buy and the sell order for the related transaction was also the same implying that these are fictitious transactions essentially to generate artificial volumes. These type of transactions were seen executed on a large scale at NSE and the Member indulged in these type of transactions on a significant note. In some of the settlements the percentage of such type of transactions executed by the Member was alarmingly high. A few instances of such type of transactions are shown below:

- a) In settlement No 1999006 a transaction for 100 shares was seen executed wherein both buying and selling member was M/s Rajkumar Chainrai Basantani and the client (both buying and selling) was Shri Dinesh Patel. This transaction was seen executed at 10 hrs.02 min. 52 secs.
- b) In settlement No 1999017 12 separate transactions for a total of 2200 shares was seen executed wherein both buy and sell member was shown as M/s Rajkumar Chainrai Basantani and the client (buy and sell) was Shri. Dinesh Patel. This transaction was seen executed at 11 hrs, 7 minutes and 45 secs. The above are only a few instances of such transactions that were observed at NSE. The records revealed that there were large number of such transactions that was executed in the above manner from the counter of the Member and these transactions cannot be attributed as squaring of nature. In a squaring off transaction there must be two transactions at different times which may involve two members or atleast two clients with one member. Some of these transactions were seen initially placed at rates slightly higher than the previous days closing rate. For instance, a transaction for 500 share of SIL took place between the Member (both buying and selling) for the same client, Shri Dinesh Patel, on 31.12.1998 at 10:07:50 at Rs. 295 whereas the last traded price was Rs.288. 5 (on 30.12.1998) 15:15:70. These type of trades normally took place at rates on or round the last traded price. However, as cited above, some transactions took place at substantially higher than the last traded price. These transactions were entered to create artificial liquidity and influence the judgement /mind set of the genuine investors by generating trading interest in the scrip.

It is observed that at NSE, there were numerous occasions of the buy orders of a particular member broker getting matched with the sell orders of the other members. The time lag between the buy and sell order of two members was very less i.e., few minutes and sometimes-even seconds. This was consistently seen in the case of orders put by the Member and M/s Key Note Capitals at NSE. For example, M/s Key note capitals Ltd., had put a sell order for 2, 500 shares on 3rd March, 1999 at 11 hrs-23-min 10 secs. The Member absorbed the total order with a buy order at 11-24-05 on the same date. There is hardly a gap of 45 seconds between these two orders. Since the clients of Keynote Capitals and the Member are related to the key operator i.e., Shri Basantani, it can very well be construed that 'circular trading' in the scrip has taken place on a large scale. These type of transactions are intended to create artificial volume and maintain the scrip price. The modus operandi was that these orders through the brokers are placed simultaneously either by a single person / entity or say two persons jointly acting in concert with M/s Rajkumar Chainrai Basantani.

During the period under consideration since the delivery based business was less very few auctions in the scrip had taken place at both BSE and NSE. A few auctions that had taken place in the scrip were as a result of short sellers being trapped. The persons / entities who have offered the shares in the auctions were the same clients who had traded in the scrip of SIL i.e., S/Shri Nagraj Kunder, Yogesh Panchal Suhas Patil, Dinesh Patel etc and whose link with the Member has been clearly established. It can therefore be said that the promoter of SIL by adopting the above tactics might have induced short selling in the scrip as can be seen from the manner in which the auctions in the scrip had taken place during the period.

There is no difference between the Member and Shri Basantani as far as the transactions covered hereinabove are concerned as it is a concerted action. Further, the Member also being the chief promoter of SIL is very much vitally interested in the promotion of the scrip of his company. This was easily facilitated through his stock broking arm.

The clients mentioned above have acted hand-in-glove with the Member in the manipulative practices and it was patently noticeable from the scrutiny of the bank account of the Member that fund flow had taken place consistently to the accounts of these clients prior to the placement of transactions in the scrip. The other indicators such as common introducer, common telephone number only substantiate the finding that these clients were merely acting as front to the Member.

Shri Basantani only asked for time to reply to the show cause notice but did not reply to the show cause notice served on him. Even in the written submissions made vide letter dated 22.07.2002 the submissions were more on pleading SIL not guilty, which was never a charge. It was submitted that SIL and Shri Basantani should be viewed as separate entities and that SIL should not held responsible for the acts of Shri Basantani.

From the aforesaid discussion, I find that Shri Basantani has indulged in manipulative trading by creating artificial volumes and price in the scrip of SIL and interfered with the smooth functioning of the market. He has acted in a manner which erodes the confidence of the investors and adversely affects the integrity and healthy growth of the securities market.

In view of the facts and circumstances stated above, I come to a conclusion that Shri Basantani has violated the provisions of Regulation 4 (a), (b) and (d) of the Regulations.

Therefore, in the interest of the investors and the securities market and in exercise of the powers conferred upon me under sub section (3) of section 4 of the SEBI Act, 1992 read with sec 11B and regulation 12 of the said Regulations, I hereby direct Shri Rajkumar C Basantani to restrain from dealing in securities for a period of 3 years.

PLACE: MUMBAI

DATE: 16th September, 2002

GN BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA