

SECURITIES AND EXCHANGE BOARD OF INDIA

DIRECTION UNDER SEC. 11B OF SEBI ACT, 1992 READ WITH REG 12 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 1995 AGAINST SHRI NAGRAJ KUNDAR, IN THE MATTER OF SOUNDCRAFT INDUSTRIES LTD

Sound Craft Industries Ltd. (herein after referred to as SIL) was incorporated on 22.01.1985 with Registered and Corporate Office at Narayan Building, 23, Lakhamshi Napoo Road, Dadar (East), Mumbai – 400 014. As per the Annual Report and other records submitted by the company, it has been stated that SIL is mainly engaged in the business of exporting diamonds, precious stones, granites, computer software and hardware (CD Roms), electronics etc., to the Middle East, West Asian and African Countries. Shri Rajkumar Chairai Basantani (hereinafter referred to as "Shri Basantani") is the chief promoter of SIL along with his wife Ms Seema Basantani. SIL was earlier known as Sound Craft Marketing Products and Finance Limited.

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 with effect from 05.10.1995 and has been operating from Mumbai and has no branches.

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 (hereinafter referred to as Shri Kundar), Shri Suhas Patil, and Shri. Yogesh Panchal had indulged in manipulating the trading of the scrip. A show cause notice dated 18.12.2001 was issued to Shri Kundar asking him as to why action should not be taken against him for violating regulation 4 (a), (b) and (d) Securities and Exchange Board of India (Prohibition of Fraudulent and unfair trade practices relating to securities Market) Regulations, 1995 (hereinafter referred to as "the Regulations") under S.11B of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "the Act") read with regulations 11 and 12 of the Regulations. He did not reply to the show cause. Once again, the show cause notice was sent to Shri Nagraj Kundar on 08.03.02, which was also not replied by Shri Kundar.

A personal hearing was fixed for 19.07.2002 and was informed to Shri Kundar vide letter dated 04.07.2002. Shri Kundar did not attend the hearing held on 19.07.2002. However, a letter dated 19.07.2002 was received by SEBI on 22.07.2002 through fax where in which Shri Kundar requested for the hearing to be postponed as he would not be able to attend the same on the given date i.e., 19.07.2002.

Based on the investigation I find that -

Shri Kundar, 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., a sub-broker of M/s Betala Stock Broking Ltd, member NSE. At BSE, Shri Kundar 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 Kundar, it is noted that Shri Suhas Patil made payments on behalf of Shri Nagraj Kundar during the period under consideration. The following are the instances wherein Shri Suhas Patil had issued cheques to M/s Keynote Capitals Ltd. and M/s Subecha Sec. Pvt. Ltd. against the debit balance (s) of Shri Kundar.

Date	Cheque No.	Amount (in Rs.)	Chques issued by Shri Suhas Patil against the debit balance of Shri Kundar issued to
22/01/1999	80804	20000	KEYNOTE
20/04/1999	80816	32709	-DO-
24/05/1999	80820	439000	-DO-
15/06/1999	80807	55000	SUBECHEA SEC

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 Kunder was introduced to M/s Keynote Capitals Ltd. by Shri Rajesh Sharma, an employee of the Member.

As per the NSE report, Shri Kunder has given the contact telephone number of Smt. Seema Basantani, wife of Shri Basantani. Shri Basantani later on clarified to the investigating team that the telephone number relates to his broking outfit at Khar. As per the details furnished by Vysya Bank Ltd., Shri Basantani introduced Shri Kunder's account with the bank/branch. This shows the relationship of Shri Kunder with Shri Basantani. On perusal of Bank account of Shri 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. This in all probability could be the consideration received by Shri Kunder from the brokers /sub brokers which were passed on to the Member.

As per the NSE report, the names of Shri Kunder and Ms. Jaya Kunder having the address of 12, Jumbo Darshan, Kol Dongri, Andheri, Mumbai appeared in the client list of Shri Rajkumar.C. Basantani. The address matched with the address furnished by Shri Kunder to Vysya Bank. Bandra West Branch.

Shri Kunder was a common client in the books of M/s Keynote Capitals Ltd and M/s Subecha Sec. Pvt. Ltd., a sub broker of M/s Betala Stock Broking Ltd. He had played a crucial role along with Shri Suhas Patil in facilitating Shri Basantani in the exercise of creating / generating artificial volumes in the scrip. It appeared from the records that Shri Kunder was simultaneously putting both buy and sell orders in the scrip through the above mentioned brokers so as to generate artificial volume. For instance, on 23.12.1998 at 15:08:06, he bought 1000 shares through Betala Stock Broking Ltd. whereas he has sold the said shares at the same time through M/s Keynote Capitals Ltd. Many of such trades were executed by Shri Kunder was on a large scale through brokers / sub-brokers as mentioned above. These trades wherein simultaneous buy and sell quotes are entered are essentially for generating artificial volumes in the scrip and creating false market. These transactions account for 12% of transactions of Keynote Capitals and 22% in the case of Betala Securities Ltd.

In the light of the funds movement explained above and the trading practices followed by the client, it is clear that Shri Kunder had acted as a front entity to the Member and is clearly guilty of aiding and abetting Shri Basantani in creating artificial market for the scrip of SIL.

Shri Kunder has 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 said conduct of Shri Kunder is, therefore, detrimental to the interest of the investors and the securities market.

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

Adequate opportunity was given to Shri Nagraj Kunder to rebut the charges. He neither replied to the show cause nor attended the hearing. In view of the same, no further opportunity is warranted.

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 Nagraj Kunder 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