

ORDER UNDER REGULATION 29(3) OF THE SEBI(STOCK BROKERS AND SUB-BROKERS) REGULATIONS, 1992 AGAINST M/S MALINI SANGHVI SECURITIES PRIVATE LIMITED:- MEMBER-BSE, IN THE CASE OF BARODA AGRO INDUSTRIES LIMITED.

Baroda Agro Industries Ltd (BAIL) made private placement of shares in 1992, and it had applied to the CCI for the permission to come out with public issue. In the meantime, CCI was scrapped and SEBI was constituted. The company made a fresh application to SEBI for coming out with a public issue and approval was granted on 19.11.93. Consequently, the company came out with a public issue for 27,00,000 equity shares for Rs.10/- at par which opened on 17/3/94 and closed on 21/3/94, the earliest closing date. Out of the issue of 27,00,000 shares offered to public, 648000 shares were reserved for preferential allotment to NRIs/Persons of Indian Origin residing abroad, on repatriation basis.

Complaints were received from some investors alleging market manipulation in the scrip of M/s.Baroda Agro Industries Ltd by a group of brokers acting in collusion with the management of the company. Further, it was stated by the complainants that they had sold their shares in the market and given deliveries, but the same were returned by the stock exchange as “bad deliveries” on the ground that the said shares were ‘non-transferable’ as they belong to promoters quota and therefore were subject to “lock-in”. The investors stated that they had purchased the said shares in 1992 on a firm allotment basis and at that point of time, they were told that the shares were freely tradable and transferable once the company came out with public issue in 1994. The shares of the company were listed on the Bombay Stock Exchange, which gave trading permission with effect from 30.8.94. The complaining investors had sold their shares in the month of March-April '96.

On receipt of these complaints, BSE was asked to look into trading pattern of the scrip and identify whether there had been any broker(s) who have dealt heavily in the scrip, which has resulted in the scrip posting abnormal gains. Whether the people who had offered shares in the auction were the same or were in any way linked to the buying brokers or the management of the company. Whether any connection existed between the management of the company and these brokers based on the trading and payment details of these brokers.

It was also decided to stop the pending auctions till the investigations are complete.

It was stated in the report of BSE that initially the price of the scrip was ruling in the range of Rs.13 to 17. On October 24, 1994, the scrip registered a price of Rs.32.50 on the BSE. In the next settlement, the price again came down to Rs.13. Subsequently the price rose and the scrip was trading in the range of Rs.22 to Rs.47 till the month of March '95. Further, the price went upto Rs.110. Due to this steep hike, the trading in the scrip was suspended with effect from July 31,1995 vide BSE notice No.5590/95 dated July 29,1995.

The report also indicated that Malini Ajit Sanghvi was one of the brokers who had major dealings in the scrip of BAIL. Inquiries with Malini Sanghvi revealed that their trading in the scrip of BAIL was only on behalf of Mr.Anil Gandhi. It was stated that they have executed trades in the scrip of BAIL from January 26,1995 i.e Sett.No.1994/37 till June 30, 1995 i.e Sett No.1995/08. The trade details as submitted by Mr.Ajit Sanghvi for the above mentioned period are as summarized in the following table:

Sett.No	Shares Purchased	Shares Sold	Delivery Recd.	Auction Qty Recd.	Pending Auction
3494	14000	3200	6000	4800	0
0295	5000	0	1600	3400	0
0395	500	0	0	300	200
0595	2000	0	1800	0	200
0695	13800	5000	2300	1400	4100
0795	16500	0	7800	2300	6400
0895	27100	100	15100	700	11200

At the time of suspension of the scrip, it appeared that M/s.Malini Ajit Sanghvi had an outstanding purchase position of 70600 shares.

It was observed that M/s.Malini Ajit Sanghvi continuously purchased shares from settlement no 34/94 to settlement no. 8/95 at the rate of Rs.35.75 to Rs.84.26. They had purchased the shares despite not receiving entire deliveries at the end of each settlement and also in the auctions. As a result of this, their purchase position was open after each successive settlement. At the same time, it appeared that the broker was not insisting on getting timely payment from his client also for the purchases made. The broker it seems that knew that he will either be getting shares in the auction or will get a close out at a higher rate for his purchases in the scrip. Therefore, without insisting on timely payments for purchases from the client, he kept on purchasing shares.

Efforts were made to find facts with Mr.Anil Gandhi who had dealt through various brokers but it was of no avail. Mr.Gandhi did not appear despite several reminders and despite efforts by Saurashtra Stock Exchange where he was a member. The exchange suspended his trading rights for not co-operating with the SEBI investigations. It was suspected that Mr.Anil Gandhi rigged the price of BAIL from Rs.30 to Rs.110/- and Malini Sanghvi assisted and knowingly helped Mr.Gandhi in this price manipulation. In view of this, enquiry proceedings were initiated against M/s.Malini Sanghvi for prima facie violations of Clause A1,A2,A3,A4 and A5 of the Code of Conduct specified in Schedule II, compliance of which is mandatory in terms of Regulation 7 of the SEBI (Stock broker and Sub-Broker) Regulation 1992 . It was contended before the Enquiry Officer that the net outstanding purchase position of the broker was only 24,300 shares and not 70,600 shares as made out in the show cause notice. It was also pleaded that since they had credit balance of the client they did not ask for the payment from the client. Enquiry Officer held that there was no adequate material to show that Mr.Anil Gandhi was connected with the management of BAIL and that the sub-broker was aware of the manipulative operations of his client Shri. Anil Gandhi. There was no evidence to

suggest that sub broker knowingly helped his client in price manipulation. The enquiry officer however, considering the fact that Mr.Anil Gandhi was allowed to trade in large quantities in the scrip of BAIL, recommended that a warning be issued to M/s.Malini Sanghvi, asking them to be careful.

Consequent upon this, a show cause notice as required under Regulation 29(1) of SEBI (Stock Broker and Sub Brokers) Rules and Regulations, 1992, enclosing a copy of the enquiry report was issued to the broker. The broker was called upon to show cause as to why action as deemed appropriate by the Board should not be taken against it. The broker was also advised to submit their reply, if any, within 21 days of the receipt of the show cause failing which it will be presumed that it has no explanation to offer.

The broker replied to the show cause vide their letter dated 08/02/2002 stating that the enquiry officer has not found anything against them and have requested for ignoring of the recommendation of the Enquiry Officer. They have also requested for a personal hearing with the Chairman.

The broker was given an opportunity for personal hearing before me. Shri. Ajit Sanghvi from the broker company appeared before me on 17/08/2002 and made submissions. Shri. Ajit Sanghvi reiterated the submissions made by the broker earlier in writing. The broker requested that proceedings be dropped as no case has been made out against them by the Enquiry Officer.

I have carefully examined the reply of Mr.Ajit Sanghvi, material and evidence available on record and submissions made by them from time to time and during the course of personal hearing. I agree with the findings and recommendation of the enquiry officer. I find that M/s Malini Sanghvi had not been acting in careful and diligent manner and allowed Mr.Gandhi to deal in a substantial way. Mr.Gandhi dealing through various brokers cornered a large quantity of shares. However, I find that Mr.Anil Gandhi was issued a warning as it was contended by him before the then Chairman, SEBI that he had acted as an investor who took delivery of the shares purchased and did not indulge in any speculative activity in the scrip of BAIL. I find from the records that a warning was issued to Mr.Gandhi. In the light of the totality of the facts, I hereby issue a warning to M/s.Malini Sanghvi and direct that the broker be cautious in future while dealing in shares and securities and that they should adhere to all the Rules, Regulations, Circulars and Guidelines issued by SEBI strictly and any violation of SEBI Act and its Regulations in future would be viewed seriously.

G N BAJPAI
CHAIRMAN
SECURITIES AND EXCHANGE BOARD OF INDIA

Date : 5th November, 2002
Place: Mumbai

