

SECURITIES AND EXCHANGE BOARD OF INDIA

Directions under regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995 read with section 11 and 11B of the SEBI Act, 1992 against Ragavi Investments and it's Proprietor Shri M Jayakumar.

Investigations were conducted by Securities and Exchange Board of India (hereinafter referred to as Board) into the affairs relating to buying, selling and dealings in the shares of M/s. Jindal Iron and Steel Company Ltd. (hereinafter referred to as JISCO) for alleged market manipulation. The price of the scrip of JISCO had touched 12.95 with a volume of 2,06,601 shares on October 19, 2000 while the price of the scrip was Rs.9.70 with a volume of 1,600 shares on October 18, 2000. It was also observed that the price of the scrip was opened at Rs.5.00 on October 19, 2000 and suddenly raised to Rs.12.95 with extraordinary rise in volumes.

Investigations were conducted into the trading pattern of the scrip of JISCO for the period from October 18, 2000 to October 24, 2000 leading to high price and volume volatility in the scrip of JISCO on October 19, 2000. NSE had also received a request from one of their trading member M/s. ISE Securities & Services Ltd. to ascertain their client's namely, Weldeal Shares Pvt. Ltd. claim of punching error occurred on October 19, 2000 in executing trades in the scrip of JISCO.

It was revealed that on October 19, 2000, Ragavi Investments and it's Proprietor Shri M Jayakumar and M/s Weldeal Shares Pvt. Ltd. (WSP) have executed 40 structured deals aggregating 1,90,500 shares of JISCO through the trading members M/s. Coimbatore Capital P Ltd. (CCPL), and M/s. ISE Securities & Services Ltd. (ISS). These deals were executed at the lowest and the highest price for that settlement. Trades for 1,00,000 shares have been executed at Rs.5/- which is 48.45% lower than the previous days closing price and 90,000 shares have been executed at Rs.12.95 which is 33.51% higher than the previous days' closing price.

These structured deals which were executed at the minimum and the maximum prices prevailing on October 19, 2000 is attributed to the sudden increase in the price and the volumes traded in the scrip.

A show cause notice was issued to Shri M Jayakumar, Ragavi Investments as to why suitable action under regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 read with Section 11 and 11B of the SEBI Act, 1992 including a direction to prohibit Shri M Jayakumar, Ragavi Investments from dealing in securities for a period of two years should not be passed. The findings of investigations were also communicated in the aforesaid show cause notice.

Shri Jayakumar vide his letter dt. 16/9/2002 replied to the above show cause. He has stated as follows.

- " 1. As explained in my recorded statement under oath on May 23, 2002, the purchase and sales orders were placed under the instructions of Shri V Balasubramaniam of M/s. Weldeal Shares Pvt Ltd., for the reason stated in the statement.
2. I do not have prior knowledge of Shri V Balasubramaniam's intention to make wrongful gain out of those orders – i.e. to recover the deposits from Coimbatore Stock Exchange Ltd (CoSE) and Inter-Connected Stock Exchange of India Ltd (ISE).
3. No prudent individual like me will entertain such transaction having prior knowledge about the wrongful intention.
4. After inducing me to place such orders and after being badly caught under the hands of regulatory body now Shri V Balasubramaniam is making a false allegation that he had informed me about his intention to recover money from CoSE and ISE just after execution of the trade in the morning on October 19, 2000.
5. I came to know about the wrongful nature of the transaction only when I was told certain enquiries were initiated by the exchange about these transactions.
6. Therefore, I request you not to take any penal action against me since I was totally ignorant of the real intentions behind the operations of Shri V Balasubramaniam."

Pursuant to the above an opportunity of oral hearing was granted to Shri Jayakumar, Ragavi Investments on November 20, 2002. He did not appear for the said hearing. In view of the same a further opportunity was granted to Shri M. Jayakumar vide letter dated November 20, 2002 asking him to submit his submissions, if any, in writing to SEBI within 7 days of receipt of the said letter. A letter dated November 14, 2002 was received by SEBI from

Shri M. Jayakumar on November 20, 2002 after the time scheduled for hearing was over and after the despatch of the above letter. In the said letter he informed that "I have no additional information in this regard. Moreover I am not in business now and also not affordable for the journey. Hence I regret for my absence on November 20th for the personal hearing. Also I request you to waive out any penalties against me." However, no further reply in response to the letter dated November 20, 2002 has been received till date.

I have carefully considered the findings of the investigation and the submissions made by Shri M Jayakumar, Ragavi Investments. I find that

1. R. Vijay Kumar who had introduced Shri M Jayakumar to CCPL was the Managing Director of WSP, a registered sub-broker of ISS and member of Coimbatore Stock Exchange. Therefore, Shri M Jayakumar is apparently related to WSP. From the pattern of placing the orders, it is apparent that WSP was aware of the total quantity for which the buy orders placed by Shri M Jayakumar, though the quantity disclosed was only 5000 shares.
2. WSP's claim that the sell order placed by Shri M Jayakumar was a punching error, prima facie untrue since a client who places sell orders will be looking for the highest price available and will not place an order, at a price, which was 48.45% lower than the previous day's closing price. Later, WSP reversed the positions by placing sell buy orders. These orders were placed at a price, which was 159% higher than the price at which M/s Weldeal had earlier sold the shares and thus incurring heavy losses.
3. In the said deals, Shri M Jayakumar earned a profit of approximately Rs.6, 71,825/- and WSP incurred a loss of approximately the same amount. Hence, it is apparently clear that Shri M Jayakumar along with WSP (related entities) had acted in concert with each other.
4. WSP has been a net seller on October 19, 2000. WSP had to make the delivery of 10,600 shares of JISCO. But as WSP had incurred losses, WSP had to make the payment for the shares. However, WSP neither made delivery of any shares nor any payment for those shares. Similarly, Shri M Jayakumar was a net buyer on that day and Shri M Jayakumar had to receive 10,000 shares and make payment for the same. As Shri M Jayakumar had made a profit, Shri M Jayakumar had not only to receive the shares but also to receive the payment of shares bought. As both Shri M Jayakumar and WSP are related parties, NSE stated that both of them had fraudulent intentions in executing the trades in the scrip.

SEBI summoned Shri M Jayakumar and recorded the statement of Shri M Jayakumar, proprietor of Ragavi Investments under oath on May 23, 2002. In the statement Shri M Jayakumar had stated that

"Ragavi Investments had purchased 100500 shares of JISCO @ Rs.5.00 and sold 90,000 shares at Rs.12.95 & 500 @ Rs.12.65 and had taken delivery of 10,000 shares. Shri M Jayakumar placed the order on the instructions of V. Balasubramaniam of M/s Weldeal Shares Pvt. Ltd. V. Balasubramaniam informed Shri M Jayakumar that he got information that the price of JISCO will fall so place buying order at Rs.5.00. If the order is executed Shri M Jayakumar may take the delivery. Shri M Jayakumar was again told by Shri. V Balasubramaniam to put the sell order for JISCO shares @ Rs.12.95 saying that if this order is matched Shri M Jayakumar may take it otherwise leave it.

After settlement of the trades, Shri V Balasubramaniam demanded money from Shri M Jayakumar. About 1 month later Shri M Jayakumar paid Rs.4.00 lacs to Shri V Balasubramaniam through another person. Shri M Jayakumar did not pay any further amount to Shri V. Balasubramaniam since Shri M Jayakumar was told that certain enquiries were initiated by the exchange about these transactions".

Shri M Jayakumar was working as an authorised assistant with Mr R Vijay Kumar, broker of Coimbatore Stock Exchange and knew Shri V. Balasubramaniam since 1998. V. Balasubramaniam is the reference person for Ragavi Investments as per client introduction form.

SEBI has also summoned M/s Weldeal Shares Pvt. Ltd. (WSP) and recorded the statement of Shri V Balasubramaniam, whole time director of WSP under oath.

WSP is a member of CoSE and a sub-broker of ISS. Mr Shri V. Balasubramaniam submitted that on the morning of October 19, 2000 he had placed a sell order for 1,10,001 shares of JISCO at the rate of Rs.0.00 per share as the system accepts zero as the rate 50% lower to the last closing price for the shares quoted below Rs.10/-. Since the closing price of JISCO on the previous day was Rs.9.70, the lower limit was Rs.4.85 per share. Shri V. Balasubramaniam had told Shri M Jayakumar to place a buy order at Rs.5/- per share. Similarly, in the afternoon, Shri V. Balasubramaniam put a buy order for 1,10,000 shares and told Shri M Jayakumar to put a sell order for Rs.90, 000 shares at Rs.12.95 per share. Shri V. Balasubramaniam did not possess any shares of JISCO when he put the sell order.

Shri V. Balasubramaniam admitted that he had knowingly put these transactions and it was not a punching error. Therefore, though Shri V. Balasubramaniam had written to the exchanges that it was a punching error, Shri V. Balasubramaniam did not ask NSE to reverse the transaction. These transactions were done to recover the deposits kept with CoSE and ISS for his sub-brokership. Shri V. Balasubramaniam was in financial crisis and he needed money immediately. The procedure of refund of deposit from CoSE normally takes about six months and Shri V. Balasubramaniam was not in a position to wait for so long, Shri V. Balasubramaniam resorted to these transactions to recover the money immediately. Shri V. Balasubramaniam conveyed his intention to Shri M Jayakumar immediately after execution of the trade in the morning on October 19, 2000. By doing these transactions, Shri V. Balasubramaniam incurred a loss of Rs.7.05 lakhs while Shri M Jayakumar gained Rs.6.70 lakhs. Shri V. Balasubramaniam told Shri M Jayakumar to pay Rs.3.05 lakhs to CoSE on behalf of Shri V. Balasubramaniam behalf and also requested CoSE to adjust the remaining dues on account of these transactions against his deposit amount with the exchange. Shri V. Balasubramaniam later received from Shri M Jayakumar the balance amount of gain Shri M Jayakumar had made.

Shri V. Balasubramaniam admitted that he had done these transactions with Shri M Jayakumar for making personal gains i.e. to recover WSP's deposit money from CoSE.

This means that Shri M Jayakumar colluded with Shri V. Balasubramaniam of WSP and executed these transactions to tide over Shri V. Balasubramaniam's temporary financial difficulties. It is apparent that these transactions were done with a manipulative intent and in a fraudulent manner. Therefore Shri M Jayakumar has therefore, violated Regulation 3 and 6(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices In The Securities Market) Regulations, 1995.

In the facts and circumstances as discussed above, I, in exercise of the powers conferred upon me under Section 4(3) of the SEBI Act 1992 read with Section 11B and Regulation 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995 debar Shri M. Jayakumar, Ragavi Investments in any capacity whatsoever, from associating with the capital market related activities, dealing in securities, accessing the capital market and associating with any of the intermediaries in the capital market for a period of two years. This order will come into force with immediate effect.

Place: Mumbai

Date: January 11, 2003

Sd/-
G. N. BAJPAI

CHAIRMAN

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