

SECURITIES & EXCHANGE BOARD OF INDIA

ORDER

ORDER AGAINST M/s PRAMOD KUMAR JAIN SECURITIES PVT LTD UNDER SECTION 11B OF SEBI ACT, 1992 IN THE MATTER OF MOREPEN LABORATORIES.

CO/ /2002/IES/FUTP

Investigations were conducted by SEBI into the alleged market manipulation in the scrip of Morepen Laboratories Ltd (hereinafter referred to as MLL). The scrip which had been quoting at around Rs. 125 in January, 1999, had gone up to around Rs. 176 in March, 1999 and further to about Rs. 567 in June, 1999. Investigations revealed that Jem Fiscal Ltd which had dealt through Pramod Kumar Jain Securities Pvt Ltd had entered into structured deals with Ketan Shah with a view to create artificial liquidity in the scrip of MLL. The orders for Ketan Shah were executed through Prajay Investments, an associate of Pramod Kumar Jain Securities Pvt Ltd. Investigations had also revealed that Pramod Kumar Jain Securities Pvt Ltd failed to act professionally and ensuring confidentiality of the dealings of its clients.

Upon consideration of the findings of investigation, SEBI issued a show cause notice to Pramod Kumar Jain Securities Pvt Ltd vide letter dated December 11, 2000. In the aforesaid show cause notice, Pramod Kumar Jain Securities Pvt Ltd was alleged to have failed to act professionally and ensuring confidentiality of the dealings of its clients and hence was asked to show cause as to why a warning should not be issued under Section 11B of the SEBI Act, 1992. Copies of all the relevant documents which were relied upon by SEBI were also sent to Pramod Kumar Jain Securities Pvt Ltd along with the show cause notice. By the above show cause notice, SEBI asked Pramod Kumar Jain Securities Pvt Ltd to reply within 15 days of the receipt of the show cause notice failing which, it will be presumed that they have nothing to say with regard to the same.

A reply to the show cause notice was sent by Pramod Kumar Jain Securities Pvt Ltd on 27th December 2000 refuting the allegations made under the show cause notice for the reasons mentioned therein. It was stated in the said letter that Mr. Ketan N. Shah, Proprietor of M/s. K. N. Traders, started working on NSE Terminal of their associate concern, M/s. Prajay Investments Pvt. Ltd. from June / July 1999. Within a short period, it was observed that he was almost dealing only in Morepen Lab. Ltd. When they had realized that something was wrong, Prajay Investment Pvt. Ltd. had stopped dealing with M/s. K. N. Traders., i.e., from August 1999.

It was further stated in their reply that Mr. Ketan N. Shah had admitted to SEBI that he had known Shri Nazeer Hakeem for two years and had also introduced him to Alpik BBK Finance through his friend / client Mr. Amit, which according to them would prove that both of them had known each other during the period when those deals under investigation were carried out.

In their reply, it was further said that M/s Prajay Investment Pvt. Ltd. had discontinued the dealings with M/s. K. N. Traders in August 1999 just within two months from when their dealings had started with M/s K.N.Traders. However, it was said that M/s Pramod Kumar Jain Securities Pvt Ltd had become aware of their pre-planned dealings only after the investigation of SEBI and thus they have realized that their platform had been misused as a medium. In fact the repetitive quantity (10000 / 20000 to be precise) and very short period of trades, according to them should prove their connection to each other.

Further, the admission of Shri Ketan N. Shah that he had got information of dealings of Jem Fiscal Ltd. from the employees / dealers of M/s Pramod Kumar Jain Securities Pvt Ltd and based on that he had dealt in Morepen Lab Ltd. on NSE, they said are totally false. According to them, the investigation of SEBI which brings out the repetitive quantity (10000 / 20000 to be precise) and very short timing of two consecutive trades, makes clear that both of them had pre-planned the dealings jointly to introduce artificial liquidity in Morepen Lab Ltd. and for their mutual benefit. It was further stated that they got confirmed of the style of their dealings only after the investigation by SEBI . It was also added that after 15th May 2000, having come to know about the investigation report of SEBI , we discontinued the business of Jem Fiscal Ltd. also.

M/s Pramod Kumar Jain Securities Pvt Ltd has also submitted in their reply that the very fact of immediate discontinuing business with M/s. K. N. Traders in August 1999, by Prajay Investment Pvt. Ltd. after having got a feeling of fishy transactions, proves that they were neither party to such deals nor were they interested in such deals. It was also said that they being a medium level broker, having various clients coming to them in Trading / Dealing Room, it was practically difficult to have control on such clients and keep high level of confidentiality. Also, it was said that the level of confidentiality which SEBI indicated was required at the level of big brokers who were dealing for Institutional clients.

M/s Pramod Kumar Jain Securities Pvt Ltd said that the statement i.e., "Jem Fiscal Ltd. was dealing in Morepen Lab Ltd. on phone on BSE, while Mr.Ketan Shah proprietor of M/s.K. N. Traders worked with M/s.Prajay Investment on NSE terminal and might have taken advantage of Morepen Lab Ltd. transactions, without our knowledge." had been made by them in view of the statements made by Mr.Nazeer Hakeem and Mr.Ketan N. Shah in their respective admissions,

As per the reply of M/s M/s Pramod Kumar Jain Securities Pvt Ltd , the statements made by Ketan Shah and Jem Fiscal regarding leakage of information from the office of M/s Pramod Kumar Jain Securities Pvt Ltd was just an eye-wash . They again repeated that keeping in view of the deals transacted and reversed in short duration everytime and of fixed round quantity i.e. 10000 or 20000 between the two fixed brokers was a clear cut proof of their preplanned dealings.

It was mentioned that Shri Pramod Kumar Jain was an Engineer and MBA from IIM Calcutta with further qualifications of Cost Accountant and Company Secretary and that he had not bought the BSE Membership card from the open market, but was allotted the membership card in Professional category in April, 1988 by the Stock Exchange,

Mumbai. The said membership was later on converted into Corporate Membership in 1998. They also said that during the tenure of their Membership of more than 12 years neither has any such incidence ever happened nor had they encouraged / promoted any activity which was against the interests of the Capital Markets. They had asked SEBI to take a lenient view in the matter.

Thereafter, an opportunity of hearing was granted was granted to K&A on September 17, 2001 vide our letter dated August 31, 2001. Shri Pramod Kumar Jain had attended the hearing on the said date.

Investigations have revealed that there were repeated matches in trades executed on NSE between two brokers viz. Alpik BBK Finance Ltd. (hereinafter referred to as Alpik) and K&A Securities Ltd. (hereinafter referred to as K&A). The matches were observed between two particular clients of these brokers. While Jem Fiscal was the client at Alpik, KN Trades (Proprietor-Ketan Shah and who dealt through Prajay Investments) was the client at K&A. Though these trades were executed in the normal segment, the same seems to have been done on the basis of some prior understanding between the parties at the time of entering these orders and it is also found that these trades were structured trades and had been entered in order to give an impression of high liquidity in the MLL scrip.

It is seen that on July 2, 1999 order for purchase of 10,000 shares was given by Alpik at 10.21:23 and the counter party for this trade was K&A. At 10.22:23, i.e., within a minute, this transaction was reversed which means that K&A gave purchase order and as against this, the counter party which was selling was Alpik. Within a minute both these parties gave the impression of high liquidity in the shares without actually purchasing or selling even a single share but the price was taken up. Similarly, on July 5, 1999, Alpik had given a purchase order of 10,000 shares and the counter party was again K&A. This order was given at 10.56:36. Similarly, within a minute or so, i.e. at 10.57:46, the transaction was put in reverse order, where K&A was the buyer and Alpik was the seller. A similar pattern was noticed on July 6, 9, 12, 14, 16, 20, 23, 26, 27, 28, 29 and August 2, 1999. The proximity of the orders and the continuous matching of the transactions between the same parties clearly shows that these deals were structured deals entered with a view to create artificial liquidity in the scrip.

Also, it has been found that Shri Ketan Shah had admitted under oath that he had put his trades knowing fully well about the trades of Jem Fiscal. The information on the trades of Jem Fiscal was obtained from the employees/ dealers of the brokers through whom Jem Fiscal had dealt. When questioned about the matching trades, Shri Nazir Hakeem of Jem Fiscal stated that he felt that somebody was aware of the orders placed by Jem Fiscal and might have taken advantage of this and passed on the information to the counter-party i.e. KN Traders, who in turn, placed corresponding orders.

It is seen that M/s Jem Fiscal had dealt through M/s Pramod Kumar Jain Securities at BSE. Further Ketan Shah had dealt through its associate company Prajay Investments at NSE (one trading terminal of K & A was given to Prajay Investments). In the course of statement recorded under oath, Mr.Jain had stated that they had dealt for K N. Traders. It was also admitted that Jem Fiscal was their client since October, 1998 and had been

trading mainly in MLL scrip between January and October, 1999. Mr.Jain had also said that they had discontinued dealing for K. N. Traders on BSE as the same had clashed with the interest of Jem Fiscal. It was the contention of Shri.Jain that they did not want two of their clients dealing in the same scrip through them.

Regarding the matching trades, Shri Jain stated that Shri Ketan Shah used to come to their dealing room and used to sit and watch both the terminals. It was possible that during such time he could have been noticing the deals on BSE terminal done by their dealer on phone by Jem Fiscal and may have been taking advantage by doing simultaneous deals on NSE (through the terminal of K&A Securities) without being noticed by their office staff.

Leakage of client's trading information by the stock broker goes against the objectives of screen based fair trading. Such leakage would help unscrupulous persons to manipulate the market. Therefore, M/s Pramod Kumar Jain Securities had failed to act professionally and also had failed to ensure that the confidentiality of the client's dealing are maintained.

Therefore, I, G.N.Bajpai, in exercise of the power conferred under section 4 (3) of SEBI Act read with section 11 and 11B of the SEBI Act hereby warn M/s. Pramod Kumar Jain Securities Pvt Ltd Securities Ltd. not to repeat the above conduct and ensure that they act professionally and maintain the confidentiality of the dealings of the clients, in future, failing which it will be liable for penal consequences in terms of the SEBI (Stock Broker and Sub-brokers) Regulations, 1992.

Place : Mumbai

G. N. BAJPAI

**Date :January 06,
2003**

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA