

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER UNDER SECTION 11B of the SEBI Act, 1992 read with Regulation 11 AND 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 AGAINST M/S BKG MANAGEMENT SERVICES LTD

CO/ /2003/IES/FUTP

1.1 Investigation was undertaken by SEBI after receiving complaints against M/s.DSQ Biotech Ltd alleging price manipulation and insider trading in the scrip. Substantial price movement accompanied by surge in volumes was witnessed in the scrip of DSQ Biotech Ltd. (hereinafter referred to as 'DSQB') during the period June 1994 to December 1994 and again after the closure of the rights issue during the period June 1995 to March 1996. During the period June 1994 to December 1994 the scrip price of DSQB rose significantly from Rs.20 (June 1994) to touch a high of Rs.92 (during September 1994). Similarly, the scrip moved up from Rs.37 during July 1995 and touched a high of Rs.112 by the end of November 1995. Investigations brought out that substantial quantities of shares of DSQB were auctioned at Madras Stock Exchange (MSE) at very high rates. During both the periods mentioned above there was also a surge in volumes particularly at MSE, Calcutta Stock Exchange (CSE) and Bombay Stock Exchange (BSE).

1.2 Investigations brought out that the company was earlier known as Usha-Te Biotech Industries Ltd and the DSQ Management took over the company during April 1994. Prior to April 1994, the scrip was illiquid and was not actively traded on the stock exchange. The scrip of DSQB witnessed hectic trading activity only after the DSQ Group took over the existing business of Usha-Te Biotech. The analysis of the trading activity in the scrip during the above mentioned investigation period indicated that substantial purchases in the scrip of DSQB were made by the group companies of DSQB from the market, which resulted in the creation of artificial scarcity of floating stock in the scrip. Investigations revealed that large quantities of shares of DSQB were purchased from the market through the group companies of DSQB viz.. DSQ Holdings Ltd. (earlier known as Square D Holdings Ltd.) and Pillaiyar Pattiyaar Textiles Ltd (PPTL).

1.3 Investigations also revealed that during the aforementioned periods, there were several other entities (mostly based at Calcutta) who had acquired significant quantities of shares of DSQB and were acting in concert with the management of DSQB. Investigations brought out that the purchases by the group companies of DSQB during the above stated two periods were made with a view to create artificial / false market in the scrip of the company and this also contributed to the steep price movement, which have taken place in the scrip during the two periods referred above. Investigation disclosed that Shri Dinesh Dalmiya and DSQB had played a significant role in the price manipulation of the scrip prior to the rights issue and also immediately after the closure of the said issue.

2.1 A show cause notice was issued vide letter dated June 28, 2002 alleging violation of Regulation 4(a), (b) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 against M/s BKG Management Services Pvt. Ltd. M/s BKG Management Services Pvt. Ltd was asked to show as to why suitable directions including issuing such directions debarring/prohibiting it from dealings in securities market for a suitable period should not be issued by SEBI under Section 11B of SEBI Act, 1992 read with Regulations 11 & 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market), Regulations, 1995. M/s BKG Management Services Pvt. Ltd was asked to submit its reply supported by necessary records/evidences which it may like to adduce in support within 21 days from the date of receipt failing which it will be presumed that it had no explanation to offer in the said matter and SEBI would be constrained to pass appropriate orders. No reply was received from M/s BKG Management Services Pvt. Ltd.

3.1 An opportunity of oral hearing was granted on 28.10.2002 and 18.12.2002 and the same was communicated to M/s BKG Management Services Ltd vide letters dated October 1, 2002, November 21, 2002 and December 4, 2002. In response to SEBI's letter dated 21.11.2002, M/s. BKG Management Services Ltd sent a reply vide their letter dated 16.12.2002 wherein it has been stated that M/s.BKG Management Services Ltd is not an associate of the DSQ Group. It has also said that, the credit amount lying due to it was adjusted against purchases & sales of shares, as per its books of account. It had also produced copy of its ledger for the financial year 1995-96 and 1996-97 and asked that the reply be treated as its submission in response to the letter intimating about the hearing.

4.1 I have gone through the findings of the investigation and the submissions of M/s B.K.G. Management Services Ltd. M/s B.K.G. Management Services Ltd. having its registered office at 36, Strand Road, Ground Floor, Room No. 15 A, Calcutta is found to have purchased 28,400 shares and sold 17,200 shares during the period investigated. Out of the sales mentioned, the client offered 14,900 shares in the auctions (10,800 shares @ Rs. 112.75 on 01.02.96 and 4,100 shares @ Rs. 113.75 on 01.03.96). These shares were offered through M/s Sabari Stocks at MSE. The broker has not made any payments to the client for the auctions. Instead, the auction proceeds was partially adjusted against the old debit balance which the client had with the broker and the rest i.e. Rs. 11,78,271/- has been transferred in the account of PPTL on December 5, 1996 by means of a journal entry. The representative of DSQ Holdings Ltd. and PPTL, during the investigation denied on oath having any sort of connection with M/s BKG Management Services Ltd. However, as can be seen from the facts mentioned above, the credit which should have been passed on to the credit of M/s B.K.G. Management Services Ltd. was passed on to the account of PPTL. Therefore, the statements made by DSQB and PPTL cannot be relied upon since the records indicate otherwise.

4.2 I have noted that the purchases in the scrip by the group companies of DSQB during the above stated two periods were made with a view to create artificial/false market in the scrip of the company and this also contributed to the steep price movement, which have taken place in the scrip during the two periods referred above. It was established during the course of investigations that the promoter of DSQB (through the group companies) manipulated the price of the scrip during both the periods by continuously buying on the exchanges, which resulted in squeezing of the floating stock. The analysis of the floating stock position in the scrip of DSQB indicated that DSQB was a closely held company with substantial shareholding concentrated in the hands of the promoter group. The continuous buying further reduced the available floating stock in the scrip.

4.3 I also observed that M/s BKG Management Services Ltd had purchased 28,400 shares and sold 2300 shares of DSQB during the period June 1995 to December 1995 through M/s Sabari Stocks, member, Madras Stock Exchange (MSE). M/s BKG Management Services Ltd was found to have been introduced to the broker by the associates of Shri Dinesh Dalmia (who is the promoter of DSQB). It was further revealed during the course of investigations that 14,900 shares of DSQB were offered in the auctions conducted by MSE. These shares were offered by M/s BKG Management Services Ltd in the auctions during February 1996 and March 1996 through M/s Sabari Stocks, MSE. The records produced by M/s Sabari Stocks further indicated that the credit in respect of the shares auctioned by M/s BKG Management Services Ltd was transferred to the account of Pillaiyar Pattiyar Textiles Ltd. (a promoter group company of DSQB).

4.4 It is pertinent to note that although the scrip was actively traded on the floor of CSE, M/s BKG Management Services Ltd (being a Calcutta based entity) chose to enroll as client of the MSE broker exclusively to offer the shares in auction. While it was observed that the promoter group companies of DSQB were continuously buying the shares from the market during the above referred two periods, which has squeezed the available floating stock in the scrip, M/s BKG Management Services Ltd had offered the shares in the auctions at substantially higher price and thereby earned profit. This method of continuous offloading by M/s.BKG Management Services Ltd and Dalmia and his companies buying in the auctions was indicative of their nexus and price manipulation in the scrip. Moreover, it was also observed that the broker with whom M/s BKG Management Services Ltd had dealt with had adjusted the credit in respect of the auction proceeds to the account of Pillaiyar Pattiyar Textiles Ltd., which is the group company of DSQB.

4.5 It is clear from the above discussion that M/s BKG Management Services Ltd has aided and abetted the promoter of DSQB in the price manipulation of the scrip in violation of the provisions of Regulation 4(a) (b) and (d) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market), Regulations, 1995. The violation committed by M/s.BKG Management Services Ltd is detrimental to the safety and orderly development of the securities market and it erodes the confidence of investors. Therefore, the same warrants regulatory interference to prevent repetition of such violations by M/s.BKG Management Services Ltd.

4.6 Therefore, in exercise of powers conferred upon me under Section 4(3) read with Section 11 B of SEBI Act and Regulation 11 and 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 , I hereby direct M/s.BKG Management Services Ltd. not to access the capital markets or deal in securities for a period of two years. This order shall come into force with immediate effect.

G N Bajpai
Chairman
Securities and Exchange Board of India

Place : Mumbai
Date : April 08, 2003