

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 Markets) Regulations, 1995 AGAINST M/S HEMANGI VINIMOY PVT 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 Pattiyar 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.

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. Hemangi Vinimoy Pvt. Ltd. M/s. Hemangi Vinimoy Pvt. Ltd was asked to show cause as to why suitable directions including such directions debaring/prohibiting M/s. Hemangi Vinimoy Pvt. Ltd from dealings in securities market for a suitable period should not be issued u/s 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. It was also advised to submit necessary records/evidences which it may like to adduce in support of its reply within 21 days from the date of receipt of the show cause notice. The notice sent to M/s Hemangi Vinimoy Pvt Ltd returned undelivered with remarks, "incomplete address".

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. Hemangi Vinimoy Pvt Ltd vide letters dated October 1, 2002, November 21, 2002 and December 4, 2002. All these letters returned undelivered with remarks "incomplete address". In the absence of any other address and taking into consideration the role played by the entity, it was decided to pass the orders against M/s Hemangi Vinimoy Pvt Ltd ex-parte.

4.1 I have carefully considered the findings of the investigation. M/s. Hemangi Vinimoy Pvt. Ltd. having its registered office at 12, N. S. Road, Calcutta had sold 8,200 shares through Sabari Stocks, Member, MSE. All the shares sold by M/s. Hemangi Vinimoy Pvt. Ltd. were offered in auctions. M/s. Hemangi Vinimoy Pvt. Ltd. had offered these shares in the auction held on March 15, 1996 at Madras Stock Exchange @ Rs. 112.15 per share. The broker had not paid any amount to M/s. Hemangi Vinimoy Pvt. Ltd., its client towards its offer in the auction. Instead, it was seen that Sabari Stocks passed a journal entry on December 05, 1996 in favour of PPTL for an amount of Rs. 9,19,158/-. The representative of DSQ Holdings Ltd. and PPTL, during the investigation has denied on oath having any sort of connection with M/s. Hemangi Vinimoy Pvt. Ltd. However, the credit in the account of M/s Hemangi Vinimoy is found to have been adjusted against the debit standing in 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 have observed that M/s Hemangi Vinimoy Pvt Ltd had offered 8,200 shares of DSQB in the auctions conducted by Madras Stock Exchange (MSE) and that these shares were auctioned by M/s Hemangi Vinimoy Pvt Ltd on March 15, 1996 through M/s Sabari Stocks, Member, MSE. M/s Hemangi Vinimoy Pvt Ltd was found to have been introduced to the broker by the associates of Shri Dinesh Dalmia (who is the promoter of DSQB). The records produced by M/s Sabari Stocks also indicated that the credit in respect of the shares auctioned by M/s Hemangi Vinimoy Pvt Ltd was transferred to the account of Pillaiyar Pattiyar Textiles Ltd.(a promoter group company of DSQB) by way of journal entry.

4.4 It is pertinent to note that although the scrip was actively traded on the floor of CSE, M/s Hemangi Vinimoy Pvt 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 Hemangi Vinimoy Pvt Ltd offered the shares in the auctions at substantially higher price and thereby earned profit. This method of continuous offloading by M/s. Hemangi Vinimoy Pvt Ltd and Dalmia and his companies buying the shares 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 Hemangi Vinimoy Pvt 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 Hemangi Vinimoy Pvt 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 Hemangi Vinimoy Pvt 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 Hemangi Vinimoy Pvt Ltd..

1. Therefore, in exercise of powers conferred upon me under Section 4(3) read with Section 11 B of SEBI Act and Regulations 11 and 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 , I hereby direct M/s.Hemangi Vinimoy Pvt 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 : 08-04-03