

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 GLIX MERCHANTS PRIVATE 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 Glix Merchant Pvt Ltd. M/s Glix Merchant Pvt Ltd was asked to show as to why suitable directions including issuing such directions debarring/prohibiting M/s Glix Merchant 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.

3.1 M/s Glix Merchant Pvt Ltd submitted its reply dated 29/07/2002 in response to the show-cause notice by SEBI. In its reply, it had said that the company was not involved in the market activities with any intention for any price movement in the scrip of DSQB during the period June, 1994 to December, 1994 and June 1995 to March 1995 as alleged in the show cause notice. It was also said that their company was not a group company of DSQB. Also it said that it has no connection with any group companies of DSQB nor has it acted in concert with any group company of DSQB to create artificial / false market in the scrip of DSQB which led to its price movement. It had also said that the Company was introduced to M/s.Sabari Stocks by M/s. Pillaiyar Pattiyar Textiles Ltd. (PPTL) and it was all during the directorship of Mr.Susanta Parida who subsequently resigned on 18.6.96 and under the circumstances, it said, they are unable to explain how their company had come into contact with M/s PPTL to make it an introducing party at M/s.Sabari Stocks.

2. Regarding the findings of SEBI in the investigation report about the transaction of sale of 12800 shares of DSQB through M/s.Sabari Stocks, M/s Glix Merchant Pvt Ltd submitted that the same is true and correct to the extent that the company has received a sum of Rs.12,50,000 towards sale proceeds of 11100 shares vide DD No.895481 dated 9.2.96 and the balance amount of Rs.191444 receivable from M/s.Sabari Stock towards sale of 1700 shares of DSQB was transferred to account of M/s.PPTL on December 5, 1996 through a journal entry. It was also said that the same was a very old transaction and they confirmed on the basis of correspondences available with them, that subsequently there was some dispute between M/s.PPTL and Sabari Stocks as stated to them by M/s.PPTL and due to which M/s.Sabari Stock had not paid them the balance amount of 191444 and latter on transferred the same to the account M/s.PPTL as it was their introducing party.
3. It was also said by M/s Glix Merchant Pvt Ltd that after much persuasion and various reminders given by them, the aforesaid amount of Rs.191444 had been subsequently realized by way of Rs.190000/- on 31st July, 1998 vide Cheque no.909717 drawn on Centurion Bank Ltd. and Rs.1444/- on 16th September, 1998 vide Cheque no.909726 drawn on Centurion Bank Ltd. They further said that they had no malafide intentions to engage into any fraudulent and unfair trade practices relating to securities market. According to them, the connection alleged by SEBI between DSQ and them, is based on the transfer of Rs.191444/- to the account of PPTL by M/s.Sabari Stock which they submitted was out of genuine business transaction and was merely because of the fact they had been introduced to M/s.Sabari Stocks by M/s.PPTL and that there had been some dispute between M/s PPTL and Sabari.

4.1 An opportunity of oral hearing was granted to M/s Glx Merchant Pvt Ltd on 28.10.2002 and 18.12.2002 and the same was communicated to M/s Glx Merchant Pvt Ltd vide letters dated October 1, 2002, November 21, 2002 and December 4, 2002. However, no one appeared on behalf of M/s Glx Merchant Pvt Ltd . Since there was a request for another opportunity for hearing from the company DSQ Biotech, a further hearing was granted on 14.12.2002 which was postponed to 18.12.2002 and the same was communicated vide letter dated 4.12.2002. Glx Merchant Pvt Ltd submitted another reply vide their letter dated December 17, 2002, maintaining their earlier stand taken in the subject matter.

5.1 I have carefully considered the findings of the investigation as well as the reply of M/s Glx Merchant Pvt Ltd . M/s. Glx Merchants Pvt. Ltd., having its registered office at 92 B Chittaranjan Avenue, 2nd Floor, Calcutta 12 had sold 12,800 shares through M/s Sabari Stocks, MSE. All the shares sold by M/s Glx Merchant Pvt Ltd were through auctions (11,100 shares on 01.02.96 @ 112.75 and 1,700 shares on 15.03.96 @ 112.15). The broker is found to have paid an amount of Rs. 12,49,500 to the clients through a Demand Draft drawn on Bank of Baroda, E. C. Street Branch, Chennai on February 09, 96 for 11,100 shares. The balance amount of Rs. 1,91,542/- for 1,700 shares offered on March 15, 1996 were transferred in the account of PPTL on December 05, 1996 through a journal entry. The representative of DSQ Holdings Ltd. and PPTL, during the investigation had denied on oath any sort of connection with Glx Merchants Pvt Ltd. However, the credit in the account of Glx Merchants has been adjusted against the debit standing in the account of PPTL. Therefore, the statement made by DSQB and PPTL cannot be relied upon since the records indicate otherwise.

5.2 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.

5.3 I also observed that M/s Glx Merchant Pvt Ltd had offered 12,800 shares of DSQB in the auctions conducted by MSE during February 1996 and March 1996 and that these shares had been offered by M/s Glx Merchant Pvt Ltd through M/s Sabari Stocks, member, Madras Stock Exchange (MSE). It is also seen that M/s Glx Merchant Pvt Ltd had 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 further indicated that a part of the credit amount in respect of the shares auctioned by M/s Glx Merchant Pvt Ltd was transferred to the account of Pillaiyar Pattiyar Textiles Ltd.(a promoter group company of DSQB) by means of a journal entry.

5.4 It is pertinent to note that although the scrip was actively traded on the floor of CSE, M/s Glx Merchant 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 periods June 1994 to December 1994 and during July 1995 to November 1995 which had squeezed the available floating stock in the scrip, M/s Glx Merchant Pvt Ltd had offered the shares in the auctions at substantially higher price and thereby earned profit. This method of continuous offloading by M/s.Glx Merchant Pvt 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.Glx Merchant Services Pvt Ltd had dealt with is found to have adjusted the credit in respect of the auction proceeds to the account of Pillaiyar Pattiyar Textiles Ltd., which is the group company of DSQB.

5.5 It is clear from the above discussion that M/s Glx Merchant Services 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.Glx Merchant 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.Glx Merchant Pvt Ltd.

6.0 Therefore, in exercise of powers conferred upon me under Section 4(3) read with Section 11 B of SEBI Act as also Regulations 11 and 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995, I hereby direct M/s.Glx Merchants 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 : April 08, 2003