

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

In the matter of directions to M/s Vrushti Financial Services Pvt. Limited under section 11 read with 11B of the SEBI Act and the SEBI (Fraudulent & Unfair Trade Practices relating to the Securities Market) Regulations, 2003 in the matter of public issue of M/s Natural Expo Agro Industries Limited

1.0 M/s. Vrushti Financial Services Pvt. Limited (hereinafter referred to as "Vrushti") is a company incorporated under the Companies Act, 1956 having its registered office at 4, Mayur Apartments, Paldi, Near Mahalaxmi Char Raasta, Ahmedabad – 380 007.

1.1 M/s.Natural Expo Agro Industries Ltd. (hereinafter referred to as "NEAL") is a public limited company with its registered and corporate office at 9th Floor, Galav Chambers, Near Sardar Patel Statue, Sayaji Gunj, Vadodara, Gujarat 390005. NEAL came out with a public issue of Rs. 275 lacs in February-March, 1996. The issue for 77 lakh equity shares of Rs.10/- each for cash aggregating to Rs.770 lakhs opened on 3.5.95 and closed on 6.5.95. Several complaints were received regarding delay in transfer of shares and manipulation of price of the shares. A preliminary investigation by SEBI showed that there was a delay in transfer of shares as well as in the dispatch of shares after transfer. It was also noted that trading in the share was suspended by The Stock Exchange, Mumbai (BSE) on some days on account of abnormal increase in the price. In view of the above, investigation was ordered into the affairs relating to dealing in shares in respect of public issue by NEAL, its lead manager, Registrar to the issue and other persons/intermediaries associated with the public issue, vide order dated 30.1.97.

2.0 The report on investigation was submitted to SEBI on 18.4.2002. The investigations revealed inter alia that:

a. NEAL did not receive the minimum required subscription to the public issue and the same was subscribed only to the extent of 14% and NEAL did not receive any real consideration and also utilized the proceeds of the public issue for arranging subscription and for circumventing the requirement of minimum subscription.

b. 6 Lakh shares which had arrears of call money were traded in the market through various brokers. The prices of the scrip went up abnormally due to the cornering of shares coupled with artificial scarcity of stock through intentional delay in transfer of shares. Vrushti had aided and abetted one D.K. Dalal and the promoters of NEAL in manipulating the price of the scrip of NEAL.

2.1 Show cause notice was issued to Vrushti and its directors on 27.9.02; however, the company failed to submit any reply. Further, opportunities of hearing were granted to the firm and its partners on 26.2.2003 and 27.2.2003. Vrushti and its directors chose not to attend the hearings and make submissions on the allegations made in the show cause notice. I find that adequate opportunity has been granted to Vrushti and its directors. Therefore, I am of the view that no further opportunity is necessary and it would be in the interest of justice, if I proceed further in the matter.

3.0 The following issues arise for consideration –

3.1 Whether Vrushti had aided, abetted and indulged in manipulation of the price of the scrip of NEAL.

3.1.1 In the course of investigation, it was noted that on BSE the opening price of the scrip was Rs.19 on 7.3.95 and went up to Rs.50 on 18.7.95. After being in the range of Rs.30 to Rs.50 till 1.9.95, the price fell to Rs.15 on 18.9.95. It varied in the range of Rs.26 and 50 between 25.9.95 and 8.12.95. The opening price on 4.1.96 was Rs.48. Thereafter, the price of the scrip showed an increasing trend and went up to Rs.88.75 on 20.2.96. It then showed a continuous downtrend to end at Rs.9.25 on 13.5.96.

3.1.2 On NSE, the opening price of the scrip was Rs.15.50 on 26.6.95, and went upto Rs.51 on 24.7.95. After being in the range of Rs.30 to Rs.46 till 31.8.95, the price fell to Rs.19.50 on 14.9.95. It varied in the range of Rs.25 and 51 between 25.9.95 and 22.12.95. The opening price on 2.1.96 was Rs.46. Thereafter, the price of the scrip showed an increasing trend and went up to Rs.84 on 8.2.96. It then showed a continuous downtrend to end at Rs.11 on 15.5.96.

3.1.3 The major brokers who dealt in the scrip of NEAL were Galav Finance and Investments Pvt. Ltd (GFIL), Raj Investments and Manyog Investments Ltd as per details furnished by Mangal Keshavlal, member BSE.

The dealings of GFIL and Raj Investments are as under:

Entity	Settl. No.	Buy	Sell	Net
GFIL	18	4700	100	4600
	19	77400	82000	-4600
	20	10500	10500	0
	21	271700	271700	0
	22	274200	212600	61600
	23	93100	47400	45700
	24	3600	0	3600
	74	400	0	400
	78	32300	0	32300
	Total	767900	624300	143600
Raj Inv	21	4100	0	4100
	22	13200	13200	0
	23	7700	0	7700
	77	13200	0	13200

	Total	38200	13200	25000
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It is admitted by Vrushti that deliveries of shares transacted by GFIL and M/s Raj Investment was taken by them.

3.1.4 Vide order dated _____, I have held that M/s GFIL and Raj Investments have aided and abetted Shri D K Dalal and the promoters of NEAL in manipulating the price of the scrip. In view of the above, I find that Vrushti has aided, abetted and connived with D.K. Dalal and the promoters of NEAL in manipulating the price of the scrip of NEAL and in creating an artificial market for the same.

3.2 In this regard, I note that Regulation 4 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995 (hereinafter referred to as "the said regulations") provided that:

"Prohibition against Market Manipulation

4. No person shall –

- (a) effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of securities and thereby inducing the sale or purchase of securities by any person ;
- (b) indulge in any act which is calculated to create a false or misleading appearance of trading on the securities market;
- (c) indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions;
- (d) enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress, or cause fluctuations in the market price of securities ;
- (e) pay, offer or agree to pay or offer, directly or indirectly, to any person any money or money's worth for inducing another person to purchase or sell any security with the sole object of inflating, depressing, or causing fluctuations in the market price of securities.

3.3 I further note that Regulation 5(1) of the said regulations provided that:

"Prohibition of misleading statements to induce sale or purchase of securities

5. (1) No person shall make any statement, or disseminate any information which-

- (a) is misleading in a material particular; and
 - (b) is likely to induce the sale or purchase of securities by any other person or is likely to have the effect of increasing or depressing the market price of securities, if he makes the statement or disseminates the information-
- (i)
- (ii) he knows, or ought reasonably to have known that the statement or information is misleading in any material particular."

3.4 I also note that Regulation 6 of the said regulations provided that:

"Prohibition on unfair trade practice relating to securities

6. No person shall –

- (a) in the course of his business, knowingly engage in any act, or practice which would operate as a fraud upon any person in connection with the purchase or sale of, or any other dealing in, any securities
- (b) on his own behalf or on behalf of any person, knowingly buy, sell or otherwise deal in securities, pending the execution of any order of his client relating to the same security for purchase, sale or other dealings in respect of securities.

Nothing contained in this clause shall apply where according to the clients instruction, the transaction for the client is to be effected only under specified conditions or in specified circumstances;

- (c) Intentionally and in contravention of any law for the time being in force delays the transfer of securities in the name of the transferee or the dispatch of securities or connected documents to any transferee.

3.5 In view of the above, I find that Vrushti has acted in violation of Regulations 4, 5(1) and 6 of the said regulations.

3.6 In this regard, I note that the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to securities market) Regulations, 2003 (hereinafter referred to as "2003 Regulations") which were notified on 17.7.2003, have replaced the said regulations; however, Regulation 13 of the 2003 regulations provides that –

"13. Repeal and saving

- (1) ...
- (2) Notwithstanding repeal of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, any violation of regulations 3, 4, 5 and 6 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to securities market) Regulations, 1995 shall be investigated and proceeded against in accordance with the procedure laid down in these regulations.

(3) Notwithstanding repeal of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, any investigation pending, at the commencement of these regulations shall be continued and disposed of in accordance with the procedure laid down in these regulations.

Therefore, I proceed to issue directions under Regulation 11 of 2003 regulations.

4.0 In view of the above, it is necessary that appropriate directions be issued by SEBI in the interest of investors and the safety and security of the capital market. Therefore, in exercise of the powers conferred on me under Section 4(3) read with Section 11 and 11B of the SEBI Act and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, I , hereby direct that M/s Vrushti Financial Services Pvt. Ltd and its Directors, namely Shri Shailesh Thakkar and Shri Keyoor M. Bakshi shall dissociate themselves from the capital market for a period of 5 years and that the aforesaid persons shall not deal in securities in any manner whatsoever for a period of 5 years.

This order shall come into effect immediately.

Date : September 5, 2003

Place: Mumbai

G.N. BAJPAI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA