

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

AGAINST SHRI SANJAY GARG AND MRS SAPNA GARG UNDER REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO THE SECURITIES MARKET) REGULATIONS, 2003 READ WITH SECTION 11 and 11B OF THE SEBI ACT, 1992

1.1 M/s Alfavision Securities and Finance Limited was incorporated as a private limited company on June 2, 1994 and engaged mainly in lease and hire purchase syndication, arranging bill discounting and bridge loan against public issue/ right issue, financial consulting, preparation of feasibility reports, inter-corporate deposits and investments. Subsequently on September 30, 1994, it was converted into a public limited company and changed its name from M/s Alfavision Securities and Finance Limited to M/s Alfavision Overseas (India) Limited, (hereinafter referred to as 'the company') on October 12, 1998 on account of the change in the main object of the company from financial activities to trading and other activities.

1.2 The scrip of the company which is listed on the Madhya Pradesh Stock Exchange (hereinafter referred to as 'MPSE') and the Stock Exchange, Mumbai. (hereinafter referred to as 'BSE') was suspended from trading at the MPSE from March 14, 2001 to April 17, 2001 on account of complaints regarding non-redressal of investor grievances.

1.3 The Securities and Exchange Board of India (for brevity's sake referred to as 'SEBI') also received complaints alleging delay on the part of the company in the dematerialization of the shares of the company as well as rejection by the company of the shares sent by the shareholders for transfer on flimsy grounds. The complaints against the company were examined. Based on the records available, it was observed that the company had, in several cases of the shareholders, delayed the process of dematerialization of shares beyond the stipulated time of 15 days. Complaints were further received by SEBI regarding the price manipulation in the scrip of the company. Hence these complaints were forwarded to the BSE with an advice to conduct an investigation into the trading of the scrip on the exchange and examine the possibility of manipulation of the price of the scrip due to the delay in the dematerialization of the shares of the company. Thereafter BSE submitted the investigation report covering the period from November 6, 2000 to January 5, 2001.

1.4 The said report inter-alia noted that the price of the scrip at the BSE increased from Rs. 4.60 as on November 06, 2000 to Rs.19.15 as on December 29, 2000. The report further stated that major volumes in the scrip had been created by the sub-brokers of one of its member called MPSE Securities Ltd. These sub-brokers were also the members of MPSE. However amongst the said sub-brokers, major volumes were found to have been created by M/s Ravi Vishu Securities Ltd (for brevity's sake referred to as RVSL), an entity stated to be connected to and an associate of the company. The report also noted certain instances where the trades of related persons were found to have matched. Based on these reports, it was surmised that there was a possibility that these trades were fictitious and meant to create artificial volumes and increase the price of the scrip of the company. The report further noted that the ultimate clients of MPSE Securities and the other brokers who had traded in the scrip during the said period were connected or associated with the company.

2.1 In view of the above facts, Chairman, SEBI ordered on March 22, 2002, a formal investigation into the affairs relating to the buying, selling or dealing in the shares of the company. Pursuant to the same, information was called for from the persons who had carried out major transactions in the scrip of the company. Summons were issued under section 11(3) of the SEBI Act, 1992 (hereinafter referred to as the Act) to the clients, brokers and the personnel of the company to appear on October 4, 2000 before the investigating authority at the office of the MPSE, Indore. Some of the summons issued to the clients could not be delivered as the address given by their broker was incorrect. The Managing Director of the company, Mr. Vishnu Prasad Goyal appeared before the Investigating Officer along with the Principal Officer of the company and their statements were recorded. Although summons were issued to Mr. Dinesh Kumar Sharma, Asst Company Secretary of the company, he did not appear before the investigating officer despite being informed of the same.

2.2 Summons were also issued to RSVL and its directors, Mr. Sanjay Garg and Sapna Garg to appear on October 4, 2000 before the investigating authority at the office of the MPSE, but they did not appear. However, they submitted a letter requesting for leave of absence to visit an ailing relative outside Indore. They further mentioned that they were deputing a person to appear on their behalf before the investigating authority. The letter submitted by them did not mention the name of the person who had been deputed to represent them before the investigating authority. In the absence of the information regarding the person deputed to represent on behalf of the deponents, the statement of the person carrying those letters was recorded. He identified himself as Mr. Birendra Singh S/o Harish Chandra Singh. It was found that the said person worked for M/s Brijesh Atre & Co., practising Company Secretary. He did not know either about Mr. Sanjay Garg, Ms. Sapna Garg, or RSVL and stated that he had no idea regarding their dealings in the scrip of the company.

2.3 Further, information was called from the exchanges as regards the transactions carried out by the brokers on gross basis and net basis, while the order log and trade log of trades in the scrip of the company was analyzed to ascertain the element of market manipulation in the trading of scrip of the company. Information was also called from Intime Spectrum Registry Ltd to examine the issue of the dematerialization of the company as well as from the Central Depository Services (I) Ltd and National Securities Depository Ltd (for brevity's sake referred to as the 'CDSL' and 'NSDL' respectively). On perusal of the same, it was noted that the price of the scrip of the company which was put under compulsory dematerialized trading for all investors with effect from October 30, 2000, started rising immediately thereafter.

3.1 Based on the findings of the investigation, a notice dated June 9, 2003 was issued by SEBI to Sanjay Garg, his wife and the company asking them to show cause as to why suitable directions be not issued under regulation 11 of the SEBI(Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market)Regulations, 1995 read with Section 11 & 11B of the SEBI Act, 1992 including a direction to debar them from accessing the capital market for a particular duration. They were directed to reply to the said notice within 21 days of the receipt thereof failing which it would be presumed that they have nothing to say in the matter and that SEBI would be free to take such action as deemed fit.

3.2 Shri Sanjay Garg and Smt Sapna Garg vide their letter dated July 3, 2003, inter alia submitted that although Sanjay Garg was offered the post of Chief Executive, he did not join the company and hence they had no relationship with the company. Furthermore, since Indore was a small city, it was very easy to find a connection between clients. On the said basis it could not be stated that they have traded in concert with the company or had any connection with it. They further denied that RSVL and the company had a common address. They further requested that a personal hearing be granted to them. Accordingly they were advised to appear before me for a personal hearing held on September 9, 2003. On the said date, Mr Vijesh Atre, Practicing Company Secretary appeared on behalf of Shri Sanjay Garg and his wife and reiterated the submissions made earlier by them in their reply to the show cause notice.

4.1 I have carefully considered the facts and circumstances of the case and the material available on record which includes the facts leading to the investigations, findings of investigation as communicated in the show cause notice dated June 09, 2003 submissions made on behalf of Shri Garg and his wife in their reply dated July 03, 2003 and during the hearing held before me.

4.2 On a cumulative analysis of the same, I have noted that a nexus clearly exists between Shri Sanjay Garg, his wife and the company and the persons who carried out several transactions in the scrip of the company including RSVL, which held upto 11% stake in the capital of the company. The following details bring out that linkage.

- As per the distribution schedule filed by the company with the stock exchange in terms of the filing requirement under the Listing agreement, RVSL held upto 11% stake in the capital of the company.

- The address of the administrative office of RVSL and address of the registered office of the company are given as "Goyal House", 81, Janki Nagar Main, Indore – 452 001. This address of the company is also mentioned in the application cum master form received by CDSL and NSDL from the company. Further in the letter addressed by RVSL to SEBI, it was observed that its administrative office is given as 81, Janki Nagar (Main), Indore – 452 001.

- One of the directors of RSVL, Mr. Sanjay Garg, was found to be the Chief Executive of the company and was also listed as the Chief Executive of the company in the application cum master form received by CDSL. In the form submitted to NSDL also, Shri Sanjay Garg was mentioned as the compliance officer of the company. Both the forms were signed by Mr. Vishu Prasad Goyal, who is the Managing Director of the company.

- The client-broker agreement of Mr. Sanjay Garg with RVSL was witnessed by Mr. Dinesh Kumar Sharma, company secretary of the company. Mr. Sanjay Garg entered into the agreement with RVSL on November 28, 2000, just before starting trading in the scrip of the company.

- Mr. Sanjay Garg and Sapna Garg, both had traded through MPSE Securities Ltd and Sanjay Baxi, a member of BSE. As per the client agreement form, the husband of Sapna Garg is Sanjay Garg. Address of Sanjay Garg and Sapna Garg was similar i.e. 60/61, Neelambar Apt. Shrinagar Main Indore.

- Ms. Sapna Garg is one of the directors of RVSL. In spite of being a director of a sub-broker, she traded through two other sub-brokers M/s Gunjan Securities Pvt. Ltd and Mr. Sharad Bhandari of MPSE Securities Ltd and through Sanjay Baxi. The client-broker agreement of Ms. Sapna Garg with Mr. Sharad Bhandari was witnessed by Mr. Dinesh Kumar Sharma, company secretary of the company.

- Mohanlal Garg, who also was found to have traded in the scrip of the company through the sub-broker of Bharat C. Bagri, Shakti Finsec Limited, was seen to have the same address as that of Mr. Sanjay Garg and Sapna Garg i.e. 60/61, Neelambar Apt. Shrinagar Main Indore. The client-broker agreement of Mr. Mohanlal Garg with the sub-broker M/s Shakti Finsec Pvt. Ltd. was witnessed by Mr. Dinesh Kumar Sharma, company secretary of the company. Mr. Mohanlal Garg entered into an agreement with the sub-broker only on November 17, 2000, just before he started trading in the scrip of the company.

- Rajesh Agrawal and Dharmendra Agrawal had traded in the scrip of the company through RVSL. As per the client registration application form of Mr. Dharmendra Agrawal with RVSL, Mr. Dharmendra Agrawal has been introduced by Rajesh Agarwal. Further, the name of the witness of Sanjay Garg, in the client agreement form submitted with RVSL was mentioned as Rajesh and the signature of Rajesh matched with that of the introducer of Dharmendra Agarwal i.e. Rajesh Agarwal. Hence, it appeared that Rajesh Agarwal & Dharmendra Agarwal knew each other and both of them knew Sanjay Garg, and thereby both of them were connected/associated with the company and had traded in the scrip through RVSL.

- Pradeep Joshi had traded in the scrip of the company through RVSL. As per the client registration application form of Mr. Pradeep Joshi with RVSL, Mr. Pradeep Joshi had been introduced by Mr. Shakti. Further, it was noted in the client agreement form of Sanjay Garg with RVSL, that Mr. Shakti had put his name and signature on behalf of RVSL. Hence, it appeared that Mr. Pradeep Joshi was connected/associated with Sanjay Garg/RVSL and the company.

- Dinesh Kumar Sharma who traded in the scrip during the period under investigation through Dilip Bhandari, a sub-broker of MPSE Securities Ltd, was the Company Secretary of the company till November 8, 2000. Moreover, Mr. Dinesh Kumar Sharma witnessed the client-broker agreements of Mr. Sanjay Garg, Ms. Sapna Garg and Mr. Mohanlal Garg.

- Shyam Sharma had traded in the scrip of the company through RVSL. The address of Shyam Sharma was shown similar to that of Mr. Dinesh Kumar Sharma mentioned in the client registration form with the sub-broker Dilip Bhandari. Hence, it appeared that Shyam Sharma was related to Mr. Dinesh Kumar Sharma and hence to the company.

- Mr. Baliram Yadav had traded in the scrip of the company through Gunjan Securities, another sub-broker of MPSE Securities Ltd. The name and signature of Baliram Yadav in the client registration form with Gunjan Securities matched with the signature put on the copy of Annual Report and letters sent by the company. Mr. B.R. Yadav had signed as the authorized signatory of the company which could lead one to infer that he was an employee of the company.

4.3 Thus a nexus between the company, RSVL, Sanjay Garg and Sapna Garg among other persons is clearly established. I find that a majority of the transactions in the scrip of the company were executed by the officials of the company, Shri Sanjay Garg, Smt Sapna Garg and the Indore based clients who are linked to Sanjay Garg/Sapna Garg/Company. It is also noted that these clients have also executed transactions through RVSL, in which Shri Sanjay Garg and Ms Sapna Garg are the directors. I have also noted

that the total transactions executed by RVSL on behalf of these clients was 40248 shares, which accounted for 55% of the trading volume of total market volume during the relevant period. I find that these clients have traded amongst themselves and created artificial volumes and price in the scrip. The transactions of the above mentioned related clients were large as compared to the total market transactions in the scrip during the relevant period and executed with an intention to create artificial volumes and to increase the price of the scrip. I refer to some of the instances as given under:

(a) On November 17, 2000 at 10:09:58, trade for 500 shares @ Rs. 6.95 was executed between RVSL on behalf of Rajesh Agrawal and Bharat Bagri on behalf of Shri Mohanlal Garg. RVSL had entered the order at 10:05:54 while Mohanlal Garg through Bharat C. Bagri had entered order at 10:09:58 i.e. within a time difference of only 4 min 4 Sec. With this trade the price increased from Rs. 5.60/- to Rs. 6.95/- i.e. by Rs. 1.35, a 24% rise from the previous closing rate.

(b) On November 21, 2000 at 12:49:20 the first and only trade of the day was executed for 200 shares @ Rs.10.30 between Mohanlal Garg (through Bharat Bagri, sub-broker of Shakti Finsec) and Sapna Garg (through Sharad Bhandari, sub-broker of MPSE Sec. Ltd.). The trade prior to this trade was executed at Rs 8.65. With this trade the price increased from Rs 8.65 to Rs 10.30 i.e., by Rs.1.65, a 19% price rise as compared to the last closing rate.

(c) On November 27, 2000 at 10:08:22 the first trade of the day was executed for 400 shares @ Rs. 11.20 was a cross deal of MPSE Securities, between sub-broker Sharad Bhandari on behalf of Pradeep Joshi and sub-broker, RVSL on behalf of Rajesh Agarwal. With this trade the price of the scrip rose from Rs.10.20 to Rs. 11.20 i.e., by Rs.1.00 (10% rise as compared to the last closing rate of Rs. 10.20 on November 24, 2000). Subsequently, all the trades during the day were executed at this price of Rs. 11.20.

(d) On November 28, 2000 at 10:24:54 the first trade of the day was executed for 100 shares @ Rs. 11.70 was a cross deal of MPSE Securities, between sub-broker Sharad Bhandari on behalf of Pradeep Joshi and sub-broker, RVSL on behalf of Rajesh Agarwal. With this trade the price of the scrip rose from Rs.11.20 to Rs. 11.70 i.e., by Rs.0.70 (6.25% rise as compared to the last closing rate of Rs. 11.20 on November 27, 2000).

4.4 From the above, and the fact that both Sanjay Garg and Sapna Garg are the directors of sub-broker RSVL and along with the clients who had linkages with them, had done large transactions through RSVL in the scrip of the company, the nexus between the company, RSVL, Sanjay Garg and Sapna Garg among other persons is clearly established. Moreover the contention of Shri Sanjay Garg of not being associated with the company is untenable in view of the fact that his name was appearing on the records of CDSL and NSDL during the investigation proceedings in October 2002.

4.5 The fact that the nexus was established for the purpose of market manipulation in the scrip of the company, gains further strength from the fact that these persons acting in concert, executed manipulative trades in the scrip of the company through RSVL a sub-broker of MPSE Securities, by projecting a price of the shares of the company which was not the market determined price. The same is apparent from the fact that once the price was increased from Rs.3 to Rs.16 through manipulative trades, Shri Sanjay Garg and Sapna Garg, among others, were sold at a higher price.

4.6 Further, manipulation of the price of the scrip was enabled by the company by taking more than 15 days to process the dematerialization requests of its shareholders, thereby reducing the floating stock in the market which hampered the true price discovery in the market. This led to the creation of volumes and price rise in the scrip of the company immediately after the scrip was put under the category of compulsory dematerialized trading. It is to be noted that as per agreement entered by an issuer company with the depository, the company is required to process the dematerialization within 15 days. Despite the same, in the case under consideration, the dematerialization process was delayed beyond 15 days.

4.7 From the records, I have further noted that Sanjay Garg and Ms. Sapna Garg, the directors of RSVL, did not appear before the Investigating Authority at Indore for recording of statements in connection with the investigation process. Furthermore although during the course of investigation, several clarifications were sought from Shri Sanjay Garg and his wife, in connection with their dealings in the scrip, there was a deliberate attempt on their part not to appear before the investigating authority. Hence clarifications on trading details of RSVL and the relationship of their clients in the scrip of the company, the association of the company and RVSL could not be obtained from them. On account of the non-compliance by Ms. Sapna Garg with the summons issued by SEBI, clarification of her trading through a different trading member could not be asked. This showed that there was an attempt not to co-operate and to delay the investigation proceedings. I have also noted that the principal officer of the company, Ms. Divya Gupta who appeared before the Investigating officer at Indore, stated that she did not know Mr. Sanjay Garg and RVSL. Yet Shri. Sanjay Garg is the Chief Executive and Compliance officer of the company and the address of the company is shown to be identical to that of its Chief Executive and Compliance officer in the application cum master form submitted by the company to CDSL and NSDL in September 2000. Both the forms were signed by Mr. Vishu Prasad Goyal, who is the Managing Director of the company. From the above, it is apparent that neither did Shri Garg nor did the company intend to co-operate with the investigation proceedings.

4.8 Although a statement was made by the company during the investigation process that the maximum time taken by it for dematerialization requests was 10 days, on going through the records, I have noted that it is otherwise. In some instances, the time taken by the company for processing the dematerialization request is around 395 days (13 months), whereas the company, in their reply to the show cause notice, stated that the delay in dematerialization was due to the non-availability of staff and new concepts.

Mr Garg has also supported the said contentions of the company. Notwithstanding the same, these reasons cannot substantiate the long delay in processing the dematerialization requests.

4.9 From the above and based on the facts available, it is apparent that the Chief Executive and Compliance Officer of the company, Shri Sanjay Garg, along with the Indore based clients who are linked to Sanjay Garg, Sapna Garg and the Company, executed manipulative trades in the scrip of the company through RSVL a sub-broker of MPSE Securities of which Sanjay Garg and Sapna Garg were the directors of RSVL. RSVL incidentally held 11% of the equity capital of the company.

4.10 It is relevant to note the applicable provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995. Regulation 4(a), (b) and (c) reads as under :

"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;"

4.11 From the conduct of Sanjay Garg and Sapna Garg, it can be inferred that the same is not in accordance with sound market principles. These persons acting in concert with other entities, carried out substantial transactions in the scrip of the company and violated the provisions of Regulations 4(a), (b) and (c) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.

4.12 It is to be noted that persons who operate in the market, are required to maintain high standards of integrity, promptitude and fairness in the conduct of their business dealings. People, who indulge in manipulative, fraudulent and deceptive transactions, or abet the carrying out of such transactions which are fraudulent and deceptive are not fit or proper persons to operate in the market.

4.13 Accordingly, in view of the facts and circumstances of the case and the blatant violations by these persons of the provisions formulated by SEBI for the protection of the investors, I find that a direction restraining them from operating in the capital market for a period of 2 years would be adequate. The passing of such an order would be necessary for the regulation of the persons operating in the capital market and the development thereof as well as the protection of the investors.

5.1 In view of the above, in exercise of the powers conferred on me under Section 19 of the Securities and Exchange Board of India Act, 1992, read with Regulation 11 of the SEBI (Prohibition of fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003 and Sections 11 and 11B of the SEBI Act, 1992, I hereby prohibit Sanjay Garg and Sapna Garg from buying, selling or dealing in securities, in any manner, directly or indirectly for a period of two years.

5.2 This order shall come into force with immediate effect.

A.K.BATRA

DATE : OCTOBER 21, 2003

WHOLE TIME MEMBER

PLACE: MUMBAI

SECURITIES AND EXCHANGE BOARD OF INDIA