

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002, AGAINST SMT SHEFALI KHAJANCHI, MEMBER, MPSE.

- 1.0 Smt. Shefali Khajanchi is a member of Madhya Pradesh Stock Exchange (hereinafter referred to as MPSE) and registered with Securities and Exchange Board of India (hereinafter referred to as SEBI) vide registration no. INB 070161318.
- 1.1 An enquiry officer was appointed vide Order dated 18.02.02 for conducting enquiry into the affairs of Shefali Khajanchi, member of MPSE, vis-à-vis her dealings in the scrip of Eonour Software Ltd (hereinafter referred to as ESL) and possible violation of the provisions of the following :-
- (a) Rules, Bye-laws and Regulations of Madhya Pradesh Stock Exchange.
- (b) Provisions of the Securities and Exchange Board of India Act, 1992, the Securities and Exchange Board of India (Stock Brokers and sub Brokers) Regulations, 1992.
- (c) Provisions of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade practices relating to Securities Market) Regulations, 1995.

2.0 Background and investigation by SEBI :

- 2.1 ESL was originally incorporated on May 06, 1992 in the name of Mikugura Software Limited with its registered office located in Indore, Madhya Pradesh. The main object of the company was to develop system software and application software. In January 1996, ESL came out with a public issue of 12,50,000 shares of Rs. 10/- each at a premium of Rs.20/- per share aggregating to Rs. 375 lac. As per the prospectus, the shares of Mikugura Software Ltd. were proposed to be listed at M. P. Stock Exchange (MPSE) and Ahmedabad Stock Exchange (ASE).
- 2.2 ESL was taken over by Shri R. Karthik from its previous promoters in the month of November 1999. Shri R. Karthik in terms of Regulation 10 of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 made an open offer to the shareholders of ESL and paid Rs. 33/- per share for the fully paid up shares and Rs. 8.25 per share for the partly paid up shares of ESL. These were evident from the open offer document made in line with the provisions of SEBI (Substantial Acquisition of Shares & Takeovers) Regulations, 1997. The name of Mikugura Software Ltd, following the takeover, was changed to Eonour Software Ltd. The shares of ESL are listed on Ahmedabad Stock Exchange (ASE), Madras Stock Exchange (MSE), The Stock Exchange, Mumbai (BSE) and M. P. Stock Exchange, which is the regional exchange of ESL. Listing of the shares at MSE and BSE was done after the takeover by the new management. After the takeover, the registered office of ESL changed from Indore to Chennai.
- 2.3 The public holding in ESL excluding Other Body Corporates is approximately 6.3 lac shares constituting approximately 21% of the paid up capital of ESL. Further, out of total 1248 shareholders, only 4 shareholders were holding approximately 79% of the equity capital. This shows that the shares of company are in limited hands.
- 2.4 It was observed that 5 shareholders collectively were holding 26,12,700 shares constituting approximately 87% of the paid up share capital of ESL as on February 10, 2000. It was also observed that Shri Karthik R. the main promoter of the company was holding 22,44,200 shares of ESL constituting approximately 75% of the paid up capital of ESL.
- 2.5 A perusal of the trading details from December 01, 1999 to July 31, 2000, shows that no trading was reported at ASE during the said period. However at M. S. E., the scrip was listed on February 28, 2000 and the trading permission was granted on February 29, 2000. The first trade on the exchange was reported on March 06, 2000 at a price of Rs. 419/-. The total quantity traded during the period under investigation, at the exchange was only 1,500 shares and the highest price it touched at the exchange was Rs. 492/-. The scrip of ESL was not traded at NSE during the period June 2000 to December 2000.
- 2.6 Substantial quantity of shares were traded at Madhya Pradesh Stock Exchange during the period December 01, 1999 to March 14, 2000. After March 14, 2000 no trades were reported at the exchange. Incidentally, it is observed that the scrip was listed on the Stock Exchange, Mumbai, on March 13, 2000. From the price volume details as submitted by MPSE, it is observed that the price of the scrip, which was Rs. 31.50 on December 01, 1999 rose to Rs. 401/- on March 09, 2000. Prior to November 1999, the scrip of ESL was not actively traded and the scrip was considered highly illiquid. In the Madhya Pradesh Stock Exchange, prior to December 1999, the scrip was thinly traded and the price was in the range of Rs. 18/- to Rs. 30/- per share.
- 2.7 At The Stock Exchange, Mumbai the first trade was reported on June 12, 2000 (although listed on March 13,2000) and the price was Rs. 520/- which went up to Rs. 634.75 on July 07, 2000. It was noticed that the clients were connected to each other. It is observed that a total of 2,22,600 shares were traded on the exchange. The maximum quantity traded on the exchange on a particular day during the period was 11,700 shares on June 22, 2000. It was observed that the total purchases/quantity traded during the aforementioned period were 2,22,600 shares.
- 2.8 At M. P. Stock Exchange, a total of 2,47,100 shares were traded during the period December 01, 1999 to March 14, 2000. It was observed that trading in the scrip was concentrated among 7 brokers of the exchange who have traded in the scrip during the period December 1999 to March 2000 and their names alongwith their positions are as under:

Name of Broker	Purchases	%age of Total	Sales	%age of Total	Gross
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Mohan Malpani, President, MPSE	65,900	26.67	66,300	26.83	132200
Shaifali Khajanchi	65,600	26.55	65,500	26.50	131100
Ravindra Khajanchi	57,100	23.10	56,800	22.99	113900
Dilip Bhandari	30,100	12.18	30,100	12.18	60200
Vijay Vyas	23,100	9.34	23,100	9.34	46200
Anil G. Bhandari	4,000	1.61	4,000	1.61	8000
Sharad Bhandari*	1,300	0.52	1,300	0.52	2600
Total	2,47,100	100.00	2,47,100	100.00	494200

* Sharad Bhandari has also traded in the scrip prior to December 1999.

2.9 It is observed from the trading details collected that all the trading done in the scrip during the aforementioned period has been contributed by the above mentioned brokers only. The scrip price had moved from Rs. 31/- on December 01, 1999 to Rs. 402/- on March 09, 2000. These brokers, without actually taking or giving delivery, have jacked up the price of the scrip at M. P. Stock Exchange. They have also reversed the position amongst themselves and indulged in rampant "Circular Trading" in the scrip so as to register artificial volumes and also to jack up the price of the scrip. The brokers have done the trades in their own account.

3.0 Role of Smt. Shefali Khajanchi:

3.1 Smt. Shefali Khajanchi is a proprietary member of M. P. Stock Exchange. Shri Ravindra Khajanchi is the husband of Smt. Shefali. Shri Ravindra Khajanchi is also the member of MPSE and gave statement on behalf of his wife. During the course of investigation, both the members had traded in the scrip of Eonour Software Ltd. mainly in their own accounts and have also done some transactions in the account of clients. However, more than 95% of the transactions in the scrip were done in their own accounts and were of square off in nature.

3.2 Trading details of Shaifali Khajanchi are as follows :

Name of Broker	Sett.	Purchases	Sales	Net	Gross
Shaifali Khajanchi	37	16,400	16,400	0	32,800
	38	11,900	11,900	0	23,800
	39	8,700	8,700	0	17,400
	40	5,100	5,100	0	10,200
	41	4,300	4,300	0	8,600
	42	7,100	7,100	0	14,200
	43	3,600	3,600	0	7,200
	44	1,800	1,800	0	3,600
	45	900	900	0	1,800
	46	2,100	2,100	0	4,200
	47	1,800	1,500	300	3,300
	48	1,400	1,200	200	2,600
	49	200	400	-200	600
	50	0	200	-200	200
	51	300	300	0	600
Total		65,600	65,500	100	1,31,100

3.3 The trading details of Shri Ravindra Khajanchi are as follows:

Name of broker	Sett.	Purchases	Sales	Net	Gross
Ravindra Khajanchi	37	19,000	19,000	0	38,000
	38	4,700	4,700	0	9,400
	39	4,200	4,200	0	8,400
	40	2,800	2,800	0	5,600
	41	2,600	2,600	0	5,200
	42	7,800	7,800	0	15,600
	43	3,600	3,600	0	7,200
	44	2,600	2,600	0	5,200
	45	2,800	2,800	0	5,600
	46	2,000	2,000	0	4,000
	47	2,300	2,200	100	4,500
	48	1,400	1,400	0	2,800
	49	400	400	0	800
	50	600	400	200	1,000
	51	300	300	0	600
Total		57,100	56,800	300	1,13,900

3.4 Apart from clientele business which was negligible (given delivery/received delivery from clients), all the other transactions were in the nature of square off. Shri Ravindra Khajanchi stated that he had transacted mainly for earning jobbing income arising out of price difference. He had also transacted in the name of his wife and this was also for the same reason. He was then confronted by the fact that many of the transactions were matched with that of his wife's card,. Shri Khajanchi stated that active members at the exchange were very few and it was possible that the "Saudas" may match with that of his wife as well. He added that he had no intention on his part to match the transactions with Shaifali Khajanchi.

- 3.5 During the course of investigation, Shri Ravindra Khajanchi was asked that the price of the scrip had moved up from Rs. 31/ in December 1999 to Rs. 400/- in March 2000 and why it should not be inferred that he alongwith other members of the exchange were responsible for creating artificial market. In reply to this, Shri Khajanchi stated that during the period under consideration many of the software companies were performing well and prices of almost all the software companies were going up continuously. They therefore did not notice any abnormal price rise in this scrip.
- 3.6 Shri Ravindra Khajanchi further added that performance of the company for the quarter ended December 1999 was excellent and profits had gone up by approx. 500%. Shri Khajanchi was also asked to give the amount of profit of both the firms (memberships) while dealing in the scrip, to which he stated that the details of their profit/loss has already been submitted alongwith the trading details. It is observed from the records submitted by him that the quantum of profit most of the time was less than Rs. 1000/- per settlement and in some settlements they have also incurred losses. It is clear that the consideration element in such cases have been adjusted outside the scope of the books.
- 3.7 Shri Ravindra Khajanchi was also confronted on the fact that almost 50% of the transactions in the scrip during the period under consideration was contributed by him alongwith the trading of his wife. In the light of above, it was asked during course of enquiry as to why it should not be inferred that he had created artificial volumes in the scrip and had jacked up the price of the scrip. Shri Khajanchi stated that though he is giving statement on behalf of his wife as well, but he is not related to day to day trading done in his wife's card.
- 3.8 Shri Ravindra Khajanchi submitted that at the time of executing the orders in the scrip he was not aware about the trading volume of the exchange. He was asked to comment on the fact that very few brokers were trading in the scrip and they were responsible for creating artificial market and entering the transactions, which were circular in nature. In reply to this, Shri Khajanchi stated that at MPSE, for the last few years, the business was more or less square off in nature in all the scrips. Further, only 10-12 brokers of the exchange were active at the time of executing the transactions in this scrip. He stated that it may look circular to investigating team but it was very common for them.
- 3.9 Shefali Khajanchi's trading in this scrip contributed to 26.53% of the trading on the stock exchange and Shri Ravindra Khajanchi's trading in the scrip constituted approximately 23.05% of the trading volume at the exchange and they together contributed to approximately 50% of the total trading in the scrip of the exchange and most of his transactions were matching either amongst themselves or with Shri Mohan Malpani. It was also noted and confirmed by Ravindra Khajanchi that the profit made by him was always in the range of Rs. 200/- to Rs. 1000/- per settlement and in many of the settlement they have incurred losses. However, the price of the scrip was continuously going up and touched Rs. 400/- in March 2000.

4.0 ENQUIRY REPORT AND RECOMMENDATION :

- 4.1 The enquiry officer, after conducting the enquiry as per the prescribed procedure submitted a report dated 31.7.03 and recommended a penalty of suspension of certificate of registration of the broker for a period of six months.

5.0 SHOW-CAUSE NOTICE, HEARING AND BROKER'S REPLY

- 5.1 Pursuant to the submission of enquiry report, a show cause notice dated 12.8.03 was issued to the broker along with a copy of the enquiry report. The broker submitted a reply vide letter dated 29.8.03. An opportunity of personal hearing was granted to the broker on 10.10.03. The broker appeared before me and admitted having committed mistakes and pleaded for a lenient view in the matter. The broker vide her letter dated 29.8.03, inter alia, submitted that she had traded in the scrip of Eonour Software Ltd for jobbing profits only and she has not earned significant amount of profit. She also submitted that matching of transactions with the trading transactions of her husband is only a coincidence. She further submitted that transaction of merely 65,600 shares of a big company in 15 settlements cannot make it to be liquid. She further submitted that she had no intention to violate any provisions of law and pleaded for a sympathetic view in the matter.

6.0 CONCLUSIONS

- 6.1 I have carefully considered the material available on record and also the submissions made by the broker vide his letter dated 29.8.2003. My findings are as follows :-
- 6.2 Smt. Shefali Khajanchi had traded more than 95% of the transactions in the scrip of ESL mainly on her own account and the balance transactions were executed for the clients. Smt Shefali Khajanchi executed a total purchases of 65,600 shares and sale of 65,500 shares from Settlement No.37 to 51 with a very negligible delivery of shares.
- 6.3 Smt Shefali Khajanchi has submitted during the course of enquiry that she had transacted mainly for earning jobbing income arising out of price difference and 5 – 10% of the total volumes executed by him were for clients numbering around 10. She further submitted that she used to square off the transactions in the same settlement and as far as the clients transactions are concerned, they were executed on delivery basis. However, she admitted that she was aware that trades were being executed by some of the brokers in the same scrip and that active members at the exchange were very few and it was possible that saudas may be matched. Smt Shefali Khajanchi further submitted that the trades were executed on the basis of results of the company and at that time there was a boom in the software stocks and therefore she did not notice any abnormal price rise in the scrip. Smt Shefali Khajanchi also submitted that she is in the broking business since 1990 and her record is clean, therefore, a lenient view may be taken in the matter.
- 6.4 I find that the submissions of Smt Shefali Khajanchi are not convincing. She has traded mainly on her own account in the scrip of ESL alongwith few other brokers of MPSE. The scrip price has moved from Rs.31/- in December 1999 to Rs.400/- in March 2000. Prior to November 1999 the scrip was not actively traded and the scrip was highly illiquid. A set of brokers, who without actually taking or giving delivery have artificially created the volumes and raised the price of the scrip to an abnormal level by indulging in circular trading. It is significant to note that all these brokers have executed transactions on their own account.
- 6.5 The investigation report has brought out that many of the transactions of Smt Shefali Khajanchi matched with that of her husband Shri Ravindra Khajanchi's transactions. Though she has stated that she was trading in the scrip of ESL on the basis of

its fundamentals, it is observed that the quantum of profit most of the time was less than Rs.1,000/- per settlement and in some settlements she has incurred losses. Smt Shefali Khajanchi alongwith her husband has contributed around 50% of the total volumes in MPSE and most of her transactions were matched with her husband or with Shri Mohan Malpani, another member of MPSE.

- 6.6 The scrip has been made liquid by putting artificial volumes and price by few connected brokers including Smt Shefali Khajanchi. These brokers have entered into continuous speculative transactions without any genuine interest in giving or taking delivery of shares. This has resulted in creation of artificial volumes and price rise in the scrip which has otherwise no interest from the general investors.
- 6.7 I find that only few brokers in concert were able to indulge in circular trading i.e. buy and sell transactions with each other, squaring off positions and reversing trades either on the same day or same settlement, making the net receivables and deliverable positions either nil or in negligible quantities and created a false and misleading appearance of trading on the securities market in the scrip of ESL.
- 7.0 6.8 The conduct of Smt Shefali Khajanchi is detrimental to the interest of investors and the orderly development of the securities market. Smt Shefali Khajanchi has, therefore failed to exercise due skill and care in terms of Clause A(1) to (4) of the Code of Conduct prescribed for stock brokers, in Schedule II in terms of Regulation 7 of Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992. She has also indulged in acts calculated to create a false and misleading appearance of trading in the scrip of ESL and entered into purchases and sale of securities not intended to effect transfer of beneficial ownership but to inflate the price of the scrip. These acts are in violation of Regulation 4(b) and 4(d) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995. Regulations 4(b) and 4(d) read as follows :-

"4. No person shall -

(b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market.

(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."

- 6.9. Regulation 7 of the said Regulations provides that the stock broker holding the certificate shall at all times abide by the Code of Conduct as specified in Schedule II. Further, Clause A (5) of Schedule II provides that a stock broker shall abide by all the provisions of the Act and the Rules, Regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him. In view of my conclusions mentioned hereinabove, I am convinced that the said broker is guilty of having violated,

- (a) the provisions of clauses A(1) to A(4) of the Code of Conduct as specified in Schedule II read with Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992,
- (b) the provisions of Regulation 4(b) &(d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 the conditions of registration specified in Rule 4(b) of the SEBI (Stock Brokers and Sub-brokers) Rules, 1992,

- 7.0 In view of the above, I do not find any reason to differ with the findings of the enquiry officer. I am also convinced that the said broker is liable for action under regulation 13(1)(b) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.

- 7.1 Under section 11 of the SEBI Act, SEBI can take measures to protect the interests of investors and to regulate the securities market, inter alia by registering and regulating the working of stock brokers. Further, the Code of Conduct specified in Schedule II of the said Regulations also provides for the minimum standards for the working of the stock brokers. If the regulatory requirements are violated by the stock brokers without attracting any action, the measures taken by SEBI for regulation of the stock brokers would be rendered nugatory and the regulatory function would be jeopardized. It is to be noted that indulgence of the said broker in the transactions which are prohibited can not be allowed especially when such transactions are likely to have a detrimental effect on regulation of the securities market.

8.0 ORDER :

- 8.1 I find that the said broker has committed violations as observed above and has not exercised due care and diligence in the observance and compliance of the statutory requirements pertaining to the conduct of her business as a stock broker. Looking to the aforesaid violations committed by the said broker, I am convinced that, in the interests of the securities market and in order to safeguard its integrity, penal action is warranted. I am satisfied that a penalty of suspension of certificate of registration for a period of six months would be adequate and would meet the ends of justice.

- 8.2 Therefore, in exercise of the powers conferred upon me by virtue of section 19 of the Securities and Exchange Board of India Act, 1992 read with regulations 13 (4) and 13 (6) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 I hereby order that the certificate of registration no. INB 070161318 of Smt Shefali Khajanchi, a member of the Madhya Pradesh Stock Exchange be suspended for a period of six months.

This order shall come into force on the expiry of three weeks from the date of this order.

DATE : 29.10.03

PLACE: Mumbai

A K BATRA

MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA