

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER UNDER SECTION 11B READ WITH SECTION 11 OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AGAINST INDO SHARES & FINTRADE LTD IN THE MATTER OF EONOUR SOFTWARE LTD

Background

1.0 Eonour Software Ltd was originally promoted as Mikugura Software Ltd. The company was taken over by Shri R. Karthik from its previous promoters in the month of November 1999. In terms of Regulation 10 of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, Shri Kartik made a public announcement of open offer to the shareholders of the company 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 the company. The name of the company following the takeover, was changed to Eonour Software Ltd. The shares of the company were 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 the company. Listing of the shares at MSE and BSE was done after the takeover by the new management. After the takeover, the registered office of the company changed from Indore to Chennai.

1.1 The scrip of Eonour Technologies Ltd witnessed substantial movement both in terms of price and volume at BSE during the period June 2000 to December 2000. The scrip of ETL spurted from Rs. 520 as on 12th June, 2000 to reach Rs. 634.75 as on

07th July, 2000. Prior to this period the scrip of ETL had witnessed substantial movement in Madhya Pradesh Stock Exchange, Indore wherein the price spurted from Rs. 31 in December 1999 to around Rs. 400 by March 2000. In view of the substantial price movement in the scrip, SEBI had ordered investigations into the alleged price manipulation in the scrip of ETL vide Order dated 30th April, 2001.

- 1.2 The investigation relates to the period June 12, 2000 to July 07, 2000 and based on the investigation conducted by the BSE w.r.t an alert. Price went up from Rs. 520 to Rs. 634.75. It was observed by BSE that Hakeem Auto Ltd, Jem Fiscal Ltd, F.T Traders, K.N Traders, Prashant Traders were ultimate clients dealing in the scrip through different brokers and all the clients were apparently connected to each other. It was also observed by the BSE that the clients were involved in circular trading. The clients had entered into transactions with multiples brokers of the BSE to create an impression of liquidity. The clients were also among the top ten shareholders of the company.
- 1.3 The details submitted by M.P Stock Exchange for the period December 01, 1999 to July 31, 2000 showed that substantial quantity of shares were traded at the exchange during the period December 01, 1999 to March 14, 2000. After March 14, 2000 no trades were reported at the exchange and the exchange has given a confirmation to this effect. Incidentally, it is observed from the records submitted by the Stock Exchange, Mumbai that the scrip was listed on the exchange on March 13, 2000. 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. The MP Stock Exchange was confirmed that prior to December 1999, the scrip was thinly traded and the price was in the range of Rs. 18/- to Rs. 30/- per share.

1.4 As per the information provided by the BSE, it is observed that the broker has been declared defaulter by the BSE. The broker has traded on behalf of M/s K.N Traders in the scrip of Eonour Software Ltd. The client and broker both have not submitted the details of their trading in the scrip. However, from the trading details submitted by the exchange it is observed that the broker has purchased and sold 15,300 shares. It is also observed from the investigation report submitted by the exchange that M/s K.N Traders was the client of the broker in settlement number 12 BSE. It may therefore, be assumed that all the transactions of Indo Shares & Fintrade were for K.N Traders only. SEBI vide its letters dated 14.6.01, 21.6.01, 23.7.01 and 23.11.01 advised the broker to appear before the investigating authority. However, the broker failed to do so.

1.5 Pursuant to the above, a show cause notice dated 08.05.2003 was issued asking the broker as to why an action under Section 11B of SEBI Act read with the provisions of Regulations 11 & 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995 should not be initiated. In reply to this, the broker submitted a letter dated 20.5.03 stating that he had been declared defaulter by the BSE and due to the closure of office and change in address they had not received the earlier letters issued by SEBI and also requested SEBI to provide the copies of such letters. SEBI vide its letter dated 27.6.03 provided the copies of the earlier letters as sought by the broker. Further, vide the said letter, SEBI also advised the broker to file reply within

14 days from the date of receipt of the letter. Whereas, the broker vide his letter dated _____ requested for more time for filing its reply and time was granted upto September 05, 2003 for filing reply to the show cause notice dated 08.05.2003 issued by SEBI. However, the broker has neither filed any reply nor sought extension of time for filing its reply.

- 1.6 In the interest of natural justice, SEBI vide its letter dated 17.9.03 granted an opportunity of personal hearing in the matter before me on 03.10.03. Vide the said letter, it is also stated that in case of failure to attend the hearing, it will be presumed that the broker has no further submissions to make and the hearing would be proceeded further on the basis of material available on record. However, the broker failed to appear for the said hearing.

2.0 Issues for consideration and findings

- 2.1 I have examined the material available on record. The broker and the client viz. K.N Traders have failed to submit the details of the trading in the scrip of Eonour Software Ltd. I note that from the trading details submitted by the BSE that the broker had purchased and sold 15,300 shares in the scrip of Eonour Software Ltd on behalf of his client M/s K.N Traders. It is also noticed from the investigation report submitted by the exchange that M/s K.N Traders was a client of the broker in settlement no. 12 of BSE which gives rise to the assumption that all the transactions of the broker were for K.N Traders only.
- 2.2 The client of the broker along with the associates / entities connected with the client were trading in the scrip and more than 90% trading in the scrip was done by the entities_____. Further, the clients had shown no inclination of picking up or giving

delivery. It was also seen during the course of investigations that they did not seem to have any kind of financial capability to trade in such huge quantity. The broker should have been more diligent in its dealing especially when a client is trading in illiquid scrip and squaring off the position on the same day without much profit or loss. In view of the above, it can be concluded that the broker has failed to exercise due skill and care therefore violated the provisions of Clause 1 to 4 of Code of Conduct, read with Regulation 7 of Securities and Exchange Board of India (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as 'said Regulations').

2.3 As already mentioned in the report, the volumes in the scrip started going up from the second week of June 00 and the broker has traded for the clients when his clients along with entities acting in concert were trading in the scrip and creating artificial volumes. It may, therefore, be concluded that the broker has aided and abetted the clients in creating a false and misleading appearance of trading in the scrip. The broker is therefore, also guilty of violating the provisions of Regulations 4(b) and (d) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995. The broker has also failed to appear before the investigating authority inspite of several notices issued by SEBI in this regard.

2.4 In view of my findings mentioned hereinabove, I conclude that the broker has failed to exercise due skill and care as a responsible market intermediary. I also find that the broker had failed in responding to the letters dated 14.06.2001, 21.6.2001, 23.07.2001, 08.05.2003, and 2003 issued by SEBI. I also note that the broker has neither appeared before me for the personal

hearing on 03.10.2003 nor submitted any reply in this regard. I am of the opinion that the conduct of the broker is unbecoming as he has shown utter disregard to the notices issued by the investigating authority. It is also observed that the broker failed to inform SEBI about the change of address. It speaks volumes for the defiant and unbusinesslike conduct of the broker.

- 2.5 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. I note that the defiant conduct of the broker in its failure to respond to the notices issued by investigating authority is highly unacceptable and the said act of the broker attracts penalty. I also note that the broker has failed to inform SEBI about the change of address of its office. I also find that the broker had been declared a defaulter by BSE, consequently, membership of the broker was auctioned by BSE which was purchased by KCG Investment and FIN Ltd during the auction. The membership of the broker was transferred to KCG Investment and FIN Ltd and SEBI has granted registration to KCG Investment and FIN Ltd on 12.4.02. I find that the broker is not a fit and proper person in terms of the Regulations 5(e) of the said Regulations. Since, the broker is no longer a member of the exchange, I feel that it is a fit case to issue directions under Section 11B read with Section 11 of SEBI Act, 1992.

3.0 ORDER :

3.1 I find that the said broker has committed violations as observed above and has not taken due care and diligence in observance and compliance of the statutory requirements in conduct of its business as a stock broker. I am of the opinion that the conduct of the broker is detrimental to the interest of investors and also to the securities market.

Therefore, in exercise of the powers conferred upon me by virtue of sub section (3) of section 4 of the Securities and Exchange Board of India Act, 1992 read with Section 11 and 11B of SEBI Act, 1992, I hereby order that M/s Indo Shares and Fintrade Ltd, an erstwhile broker of BSE, be debarred from associating with the securities market and prohibited from buying, selling or dealing in securities for a period of 5 years.

This order shall come into force with immediate effect.

A.K BATRA

BROKER

SECURITIES AND EXCHANGE BOARD OF INDIA

DATE : 05.12.2003

PLACE : Mumbai

