

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATIONS 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKETS) REGULATIONS, 2003 READ WITH SECTION 11 AND 11B OF THE SEBI ACT, 1992 IN THE MATTER OF V.B. DESAI FINANCIAL SERVICES LTD. AGAINST M/s SAI DHWANI INVESTMENTS PVT. LTD.

1.0 An investigation was conducted by SEBI into the affairs relating to buying, selling and dealing in the shares of M/s. V B Desai Financial Services Ltd. (hereinafter referred to as "VB Desai") for the period October 04, 1999 to May 31, 2000.

1.1 Investigations revealed that Shri Kamlesh Jitendra Shroff, son of Shri Jitendra Ratilal Shroff, promoter of VB Desai and nephew of Shri Pradip Ratilal Shroff, Managing Director of VB Desai was the main person behind the trading activity in the scrip throughout all the settlements during the investigation period. He had used a number of brokers, sub brokers (both registered and unregistered) as well as acquaintances to buy and sell in the scrip of VB Desai in the market, thereby creating illusion of trading, artificial volume and price rise in the scrip.

1.2 M/s Sai Dhvani Investment Pvt. Ltd. (hereinafter referred to as "Sai Dhvani"), had purchased shares of 'VB Desai' from Maxworth Finlease, the broking outfit of Shri Kamlesh Shroff, in various off-market transactions and sold through others.

SHOW CAUSE NOTICE

2.0 A show cause notice dated July 22, 2003 was issued to Sai Dhvani whereby the findings of investigations and the alleged violation of Regulation 4(a) to (d) SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, Section 12 of SEBI Act read with Rule 3 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992, were communicated. Vide the aforesaid show cause Sai Dhvani was asked as to why directions including prohibiting it from buying, selling or dealing in the securities market in any manner for a particular period should not be passed.

REPLY TO SHOW CAUSE NOTICE.

3.0 No reply was received from M/s Sai Dhvani Investment Pvt. Ltd.

HEARING

4.0 An opportunity of hearing was granted to Sai Dhvani in adherence to the principles of natural justice. The hearing was initially scheduled on October 01, 2003, which was communicated to him vide letter dated September 22, 2003. Since the other persons / entities had sought for adjournment, the matter was finally heard on October 29, 2003 at 5.00 p.m. M/s Sai Dhvani was represented by Mr. Pramod Kadam. He submitted that they had nothing to say more than what was stated in the statements recorded during investigation.

FINDINGS

5.0 I find that M/s Sai Dhvani has purchased 61,600 shares from Maxworth Finlease in various off-market transactions and sold the same in the market through sub-brokers Leo Securities, Prime Securities and Surtaj Assets & Capital (30,000 shares) and through un-registered sub broker R S Associates (31,600 shares). These details were found in the trading details submitted by Sai Dhvani and also in the statements recorded by SEBI during the investigation of Shri Pramod Kadam, representative of M/s Sai Dhvani.

5.1 I also find that M/s Sai Dhvani had done short selling of 25,000 shares in the market and later, bought them in off-market transaction from M/s Maxworth Finlease. All the shares of 'B Desai' had been bought by Sai Dhvani, at rates higher than the rate at which they have been sold in the market. Thus M/s Sai Dhvani seems to have incurred loss in all these transactions. This suggest that fictitious transactions were entered into by M/s Sai Dhvani on behalf of Shri Kamlesh Shroff, which it had admitted during the hearing before me. Therefore, M/s Sai Dhvani is found to have entered into transactions which were calculated to create false and misleading transactions in securities and hence, guilty of violating Regulation 4(b) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995

5.2 Statement of Shri Pramod Kadam, Director, M/s Sai Dhvani was recorded during the investigation. When questioned why he had done short selling, he stated that the shares had been delivered to him in advance for sale in the market by Shri Kamlesh Shroff and Shri Jitendra Shroff and that he had known them for the last five years. When further questioned as to why a broker, who was having his own broking outfit had approached him for selling the shares, and why he had undertaken the transactions at a loss to himself and how the loss was to be compensated, he could not comment anything.

5.3 I find from the above that M/s Sai Dhvani had sold the shares in the market for its client Shri Kamlesh Shroff and had entered into off-market transactions with M/s Maxworth Finlease solely for the purpose of hiding the identity of its client. The fact that M/s Sai Dhvani had offloaded the shares in the market on behalf of Shri Kamlesh Shroff which he had purchased in off-market transactions with M/s Maxworth Finlease, the broking outfit of Shri Kamlesh Shroff, which means that indirectly M/s Sai Dhvani was involved in the transaction of shares for the purpose of manipulating the price thereby inducing the sale / purchase of securities. The fact that all the above activities were done by M/s Sai Dhvani to fulfill the manipulative intent of M/s Kamlesh Shroff indicates that he had full knowledge of the nature of the activities which were in violation of the regulations.

5.4 Regulation 4(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 reads as follows:

"No one shall 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"

Therefore, I find M/s Sai Dhwani is guilty of violating Regulation 4(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. Also M/s Sai Dhwani is found to have acted as a sub broker without being registered, the same being violative of Section 12 of SEBI Act read with Rule 3 of SEBI (Stock Brokers and Sub Brokers) Rules, 1992. The said provision mandates that no stock broker or sub broker shall buy, sell or deal in securities unless he holds a certificate granted by the Board under the Regulations.

6.0 Therefore, in exercise of the powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition Of Fraudulent And Unfair Trade Practices Relating To Securities Markets) Regulations, 1995 and Section 11 And 11B of the SEBI Act, I hereby prohibit M/s Sai Dhwani Investment Pvt. Ltd from dealing in securities for a period of one year.

6.1 This order shall come into force with immediate effect.

A.K.BATRA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA

Place : Mumbai

Date : February 11th, 2004