

## SECURITIES AND EXCHANGE BOARD OF INDIA

## ORDER

**UNDER SECTION 11 AND 11B OF THE SEBI ACT, 1992 IN THE MATTER OF V.B. DESAI FINANCIAL SERVICES LTD. AGAINST M/s PATEL INVESTMENTS.**

1.0 SEBI had asked BSE to look into the trading pattern of certain NBFCs whose share prices showed movement in the secondary market. BSE inter alia conducted investigation into the trading of the scrip of VB Desai Financial Services Ltd (VB Desai) and submitted its report. BSE reported that fundamentals of the scrip i.e., its profits and EPS do not justify the price rise and the buyers/sellers in the scrip are connected to the company as their names appear as top share holders/Directors of the company.

1.1 Based on this preliminary information, detailed 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.

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

1.3 M/s Patel Investments (hereinafter referred to as 'Patel'), a registered sub broker, had dealt in the scrip on account of M/s Ace Finance and had purchased approximately 17,000 shares of 'VB Desai'. He has also dealt in small quantities on behalf of other retail clients.

**SHOW CAUSE NOTICE .**

2.0 A show cause notice dated July 22, 2003 was issued to Shri Mohit Patel of M/s Patel Investments whereby the findings of investigations and the alleged violation of Section 12 of SEBI Act read with Rule 3 of SEBI (Stock Broker and Sub Broker) Regulations, 1992 were communicated. Vide the aforesaid Show Cause Notice, M/s Patel Investments was asked to show cause as to why appropriate directions under Section 11B of Securities and Exchange Board of India Act, 1992, prohibiting it from buying, selling or dealing in securities in any manner for a particular period should not be passed.

**REPLY TO SHOW CAUSE NOTICE.**

3.0 A reply dated July 25, 2003 was received from M/s Patel Investments. In its reply, it was submitted that whatever earlier stated in the statement during the investigation that value of their transaction was within the normal trading range of 'Suketu' and all being delivery based, he did not enquire further. Patel Investments further submitted that when the broker was asked not to deal in the scrip, he stopped 'Suketu' from dealing with the scrip. He further submitted that he had no personal interest except for his brokerage, in so far as the scrip is concerned.

**HEARING AND WRITTEN SUBMISSIONS.**

4.0 An opportunity of hearing was granted to M/s Patel Investments in adherence to 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 parties related to this case had sought for adjournment, the matter was heard on October 29, 2003 at 4.30 p.m. Shri Mohit Patel, proprietor, had represented Patel Investments. He had stated that there was nothing to submit further than whatever had been stated during the investigations.

**FINDINGS.**

5.0 I have carefully considered the findings of investigation as communicated in the show cause and the reply and submissions of Patel Investments (Patel), a registered sub broker of RBK Share Broking Ltd. (RBK). He had dealt in the scrip from settlement 42 to 45 of 1999-2000 on account of Ace Finance and has in all purchased 17,000 shares. He was also found to have dealt in small quantities on behalf of other retail clients. Settlement wise dealings of Patel are given below:

| Ultimate Client  | Sett.No. | Buy  | Sell | Net   |
|------------------|----------|------|------|-------|
| Praful R Gandhi  | 40       | 0    | 1100 | -1100 |
| Jatin Gandhi     | 42       | 0    | 200  | -200  |
| Kamlesh J Shroff | 42       | 4000 | 0    | 4000  |
| Kamlesh J Shroff | 42       | 3000 | 0    | 3000  |
| Kamlesh J Shroff | 43       | 3000 | 0    | 3000  |
| Kamlesh J Shroff | 43       | 2000 | 0    | 2000  |
| Kamlesh J Shroff | 45       | 8000 | 0    | 8000  |
| Seema kapadia    | 46       | 0    | 200  | -200  |
| Himanshu siriya  | 46       | 0    | 200  | -200  |
| S.V.Satpute      | 48       | 1000 | 0    | 1000  |
| S.V.Satpute      | 50       | 0    | 600  | -600  |

|         |    |       |      |       |
|---------|----|-------|------|-------|
| P.Doshi | 50 | 0     | 200  | -200  |
|         |    | 21000 | 2500 | 18500 |

5.1 I find that the Statement of Shri Mohit Patel, proprietor, Patel Investments had been recorded during the investigation. He had stated that the registration was surrendered in 2001 and that presently he was in the automobile business. However, he also said that he was a director with Opulent Broking Pvt. Ltd., member BSE with about 18% holdings including that of his family members. Patel's client Ace Finance is a sole proprietorship firm of Shri Suketu Kapadia (Suketu), registered as a sub-broker affiliated to Kamlesh J Shroff. Ace Finance had dealt for Kamlesh Shroff in the scrip of VB Desai as revealed from the documents submitted by Ace Finance. Thus, I find, that the ultimate client of Patel Investments was Kamlesh Shroff. Suketu had known Shri Kepal Patel as a friend and college mate. Kepal Patel is a cousin of Mohit Patel. In view of their relationships, I presume that Shri Suketu Kapadia of M/s Ace Finance had used his connections to put through transactions on behalf of Shri Kamlesh Shroff. It was through M/s Patel Investments, that M/s Ace Finance put through its transactions.

5.2 I find that Shri Mohit Patel has admitted to the investigating officials that Suketu used to bring clients on whose behalf he has executed transactions, in which case part of brokerage was passed on to Suketu. Shri Mohit Patel also had admitted that Suketu's clients were not registered with him as clients. During the hearing before me, Shri Mohit Patel also stated that he has nothing more to say than what was stated by him on oath during the investigation.

5.3 As a registered sub-broker, Patel Investments should have dealt only for ultimate clients registered with him. Thus, Patel's dealings for Ace Finance knowing fully well that Ace Finance was not the ultimate client but was dealing for others, which is in violation of SEBI Circulars No.SMD/Policy/CIR/3 and 11/97 dated 31.3.1997 and 21.5.1997 respectively. Patel has thus violated SEBI circulars and also aided and abetted violation of Section 12 of SEBI Act read with Rule 3 of SEBI (Stock Brokers and Sub-Brokers) Rules, 1992. As mentioned earlier at para 5.1, Patel Investments is no longer a registered sub-broker.

5.4 I find that in the instant case, violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 have already been established against Shri Kamlesh Shroff and M/s Maxworth Finlease. Whereas Patel Investments had purchased the shares of VB Desai for Kamlesh Shroff, it was well aware of the acts of Kamlesh Shroff as evident from the relation of Shri Mohit Patel with Shri Suketu Kapadia of Ace Finance.

6.0 Therefore, in exercise of the powers conferred upon me in terms of Section 19 read with Section 11 And 11B of the SEBI Act, 1992, I hereby prohibit Patel Investments and its proprietor Shri Mohit Patel 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 11<sup>th</sup>, 2004**