

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 ACE FINANCE.

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, 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. Investigations further found that, M/s Ace Finance, a registered sub-broker who had surrendered its registration by November 2000, had dealt essentially on behalf of its client Shri Kamlesh Shroff through Patel Finance and Patel Investments

SHOW CAUSE NOTICE

2.0 A show cause notice dated July 22, 2003 was issued to Shri Suketu Kapadia of M/s Ace Finance whereby the findings of investigations and the alleged violation of 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 Notice, M/s Ace Finance 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 Shri Shirish Kapadia, father of Shri Suketu Kapadia had replied on behalf of Shri Suketu Kapadia, Proprietor of Ace Finance denying the violations alleged against him. It was mentioned in the reply that Shri Suketu Kapadia of Ace Finance was out of India and hence, the reply furnished by his father under his instructions. Shri Suketu Kapadia was stated to have been registered Sub-broker since 1997, with Shri Kamlesh Shroff. In November 2000, it was stated that the registration as a sub-broker has been surrendered.

3.1 It was also submitted that since Shri Kamlesh Shroff has closed down his business, he had to find another broker and therefore, had started doing business with Shri Kapel Patel of Patel Investments. According to Shri Suketu Kapadia, the alleged violations happened due to circumstances beyond his control.

HEARING AND WRITTEN SUBMISSIONS.

4.0 An opportunity of hearing was granted to Shri Suketu Kapadia 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. The other parties related to the case of V B Desai had sought for adjournment and finally the matter was heard on October 29, 2003 at 5.00 p.m. No one had come representing M/s Ace Finance. In fact, during the hearing, it had been mentioned by the other parties that it was Ace Finance who had done the alleged transactions on behalf of Shri Kamlesh Shroff and that they were absconding.

FINDINGS.

5.0 I have carefully considered the findings of investigation, show cause notice, reply by M/s Ace Finance. I find that Ace Finance had dealt essentially on behalf of its client Shri Kamlesh Shroff through Patel Finance and Patel Investments in settlements no. 40 to 50 of 1999-2000 also settlement no. 4 of 2000-01 and has bought 81,800 shares and sold 2,500 shares. His settlement wise position is given below:

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

P.Doshi	Patel Investment	50	0	200	-200
Kamlesh J Shroff	Patel Finance	4	60800	0	60800
			81800	2500	79300

5.1 I find that the Statement of Shri Suketu Kapadia, Proprietor, Ace Finance had been recorded during the investigation. He had stated that he was a registered sub broker in personal name with broker M/s Maxworth Finlease of Shri Kamlesh J. Shroff, which registration he had surrendered in 2000. He further stated that Shri Kamlesh Shroff used to ask him to put through his trades and due to his relationships he could not refuse. Shri Suketu Kapadia, while questioned as to how he continued to act for clients without a valid registration, stated that although he did not want to lose his clients and was hopeful of getting another main broker to register himself, he was forced to surrender his sub brokership in October-November 2000, since his plans did not materialise.

5.2 M/s Ace Finance had acted in its role as buying sub-broker on behalf of Shri Kamlesh Shroff. Thus the shares offloaded by M/s Maxworth in the market were subsequently purchased by him alone.

5.3 I find that at the time of dealing in the scrip of VB Desai, Ace was not registered as a sub broker but had dealt on behalf of clients. Ace is thus guilty of violating Section 12 of SEBI Act read with Rule 3 of SEBI (Stock Brokers and Sub-Brokers) Rules, 1992, SEBI Circulars No.SMD/Policy/CIR/3 and 11/97 dated 31.3.1997 and 21.5.1997 respectively. Ace Finance is no longer a registered intermediary.

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 M/s Ace Finance and its proprietor Shri Suketu Kapadia 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