

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 11(4) (b) AND SECTION 19 OF SEBI ACT, 1992 READ WITH REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003 IN THE MATTER OF M/s KSL AND INDUSTRIES LIMITED AGAINST M/s DELUXE POLYMERS LIMITED.

1.0 Investigation was conducted by SEBI into the trading in the scrip of M/s KSL and Industries Ltd [KSIL] (formerly known as Krishna Texport & Industries Limited) during the period February 15, 1999 to May 15, 1999 (hereinafter referred to as 'relevant period'). Two clients, M/S Deluxe Polymers Limited and Akash Fabrics Ltd was found to have traded in the scrip of KSIL. M/s. R R Chokani Share & Stock Brokers Pvt Ltd. (hereinafter referred to as RRC) was the broker for M/S Deluxe Polymers Limited, during the relevant period.

1.1 It was further revealed that the total traded volume during the relevant period was only 2500 shares and the price of scrip during the said period had shot up from Rs. 120 to Rs. 195. Based on the fact that the scrip of KSIL was traded on 18 days out of 58 days of the relevant period, it can be concluded that the scrip of KSIL was infrequently traded. The price of the scrip also had gone up substantially high before the announcement of financial result for the year 1998-99 which was announced on April 23, 1999.

SHOW CAUSE NOTICE

2.0 Based on the findings of investigation, a show cause notice dated March 24, 2003 was issued to M/s Deluxe Polymers Ltd. (hereinafter referred to as "DPL") whereby the findings of investigations and the alleged violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 1995 was communicated to it. Vide the aforesaid Show Cause Notice, DPL was asked to show cause as to why appropriate directions under section 11 and 11D of the SEBI Act, 1992 should not be passed against it including directions to cease and desist from such activities of entering into manipulative trades in future.

REPLIES TO SHOW CAUSE NOTICES.

2.1 DPL had sent its reply vide letter dated April 8, 2003. In its reply, it has submitted that there was no intention to either manipulate the price or cause any loss to the investors. It is further stated that aforesaid Show Cause Notice is also silent about the provisions of law which they had violated, etc. It has denied that any of the acts done by DPL was against any principal. It has also denied that the trading done by DPL was preconceived and intentional or hampering the orderly development of the market. It further denied that the trades were executed with an intention to create false or misleading appearance of trading in the market and that any of shares had been traded in at higher prices.

2.2 With reference to the allegation in the Show Cause Notice that it had offloaded shares which had resulted in creating volumes in the scrip, the same was denied. It has denied having misused the stock exchange mechanism for improper private gains and that any of the trades entered into by DPL with any one was either repetitive or manipulative. It has also submitted that the same were not done with the alleged intention of creating artificial market in violation of any regulation.

HEARING AND WRITTEN SUBMISSIONS.

3.0 An opportunity of hearing was granted to DPL on November 12, 2003 before me, which was communicated vide letter dated November 04, 2003. On the said date, Shri S Deepak, authorized representative for DPL and Akash Fabrics Ltd, i.e., the counter party seller to the trades and Shri A.Rao, its Advocate had appeared before me and made submissions. It was admitted that they have done some mischief, but for the purpose of getting the name of KSIL in the market quotation list of BSE and that the same was not done for the purpose of any manipulation.

FINDINGS

4.0 I have examined the findings of investigation as communicated in the show cause notice and the reply by DPL. On examination of the trading pattern during the relevant period I find that majority of trades were done by two brokers namely, Renaissance Securities Limited (hereinafter referred to as RSL) and R.R.Chokhani Shares & Stock Brokers (P) Ltd. As these brokers were found to have been involved in the price rigging of the scrip, BSE imposed a fine of Rs. 25,000 each on both the brokers as per the norms laid down by the disciplinary Action Committee (DAC) of the Exchange. I also find that the said fine was subsequently paid by DPL to the broker as evident from the statement given by Shri Jayesh Merchant, Authorised representative for M/s Deluxe Polymer and Ledger A/c of the broker, R.R. Chokhani where fine Rs.25,000 is debited to the account of Deluxe Polymers.

4.1 On an analysis of the clients' details submitted by the brokers, I find that DPL and M/s Akash Fabrics Ltd. (hereinafter referred to as "AFL") were the main clients who traded in the shares of KSIL. DPL had purchased 1500 and total no. of shares sold by AFL were 1200. It is queer to note that between February 15, 1999 to March 15, 1999 the total volume of shares traded was only 1600 during which period, the price had gone up from Rs. 120 to Rs. 180/-. I find that DPL was involved in 94% of the total traded volume and the counter party seller i.e. AFL has traded in 75% of the total traded volume. It is also noteworthy that the counter party buyer of all the sales made by AFL was none other than DPL.

4.2 I find that AFL had delivered same set of distinctive numbers of shares to DPL in the trades entered in various settlements. The following table shows the details of the shares delivered by AFL to DPL in different Settlements:

Settlement No. / Dates of Transaction	No. of Shares	Distinctive No. of Shares
48 / 98-99	500	5560601-900
13-02-99 to 19-02-99		3139001-100
		3136101-200

50 / 98-99	300	5560601-800
27-02-99 to 05-03-99		3136101-200
51 / 98-99	300	5560801-900
08-03-99 to 10-03-99		3139001-100
		3140701-800
52 / 98-99	100	3136101-200
15-03-99		
01 / 99-00	100	5560601-700
23-03-99		

4.3 I find that DPL and AFL are interconnected as the same set of distinctive numbers of shares were delivered, and no shares were purchased or sold by DPL from market. It was further seen that both DPL and AFL are connected with the promoters of the company, KSIL. Further DPL share common addresses with the promoters of the company.

4.4 During investigation, SEBI issued summons to DPL and recorded the statement of Shri Jayesh Merchant, the authorized representative on November 12, 2002 wherein Shri Merchant admitted that DPL is a group company of KSIL. When asked about the abnormal rise in the price of the scrip during the relevant period and AFL and DPL (both the group companies) appearing on either side of the trade and also as to how the same set of distinctive numbers of shares were delivered in settlement numbers 44, 48, 50, 51, 52 and 01, Shri Merchant admitted that as all these entities were group companies, the said trades were entered into so as to get the name of KSIL in the market quotation list of BSE and there was no intention to manipulate the price and cause loss to the investors.

4.5 From the aforesaid discussion, I find DPL and its broker RRC had put in token trades in the scrip of KSIL at artificial prices ranging from Rs. 120 to Rs. 195/-. While putting in these trades, DPL was aware that its group company i.e. AFL was the counter party and the trades were thus entered into the system with full knowledge of the entity on the other side.

4.6 It is also pertinent to note that the variation in prices for the shares of KSIL was not reflective of the fundamentals of KSIL nor did it indicate any genuine forces of demand and supply for the shares. These trades were executed with an intention to create false or misleading appearance of trading in the market. According to me, these trades were entered by DPL at successively higher prices and this had resulted in raising the price of the scrip of KSIL which means that the price was artificially hiked. Therefore, I find that DPL has committed violation of Regulation 4(a), (b), and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. As a matter of fact on certain days DPL and AFPL were the only entities trading in the shares of the company.

5.0 Therefore, in exercise of the powers conferred upon me in terms of Section 11(4) (b) and Section 19 of SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, I hereby prohibit M/s Deluxe Polymers Ltd from accessing the securities market and from dealing in securities for a period of two years.

5.1 This order shall come into force with immediate effect.

A.K.BATRA

Place : Mumbai

WHOLE TIME MEMBER

Date : February 17th, 2004

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