

**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 AKASH FABRICS PRIVATE LIMITED.**

1.0 Investigation was conducted by SEBI in 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). Investigations revealed that Akash Fabrics Private Ltd was one of the main selling clients who had traded in the scrip of KSIL through M/s. Renaissance Securities Ltd. (hereinafter referred to as RSL).

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

**SHOW CAUSE NOTICE**

2.0 On the basis of the findings of the investigation, a show cause notice dated March 24, 2003 was issued to M/s Akash Fabrics Private Ltd. ( hereinafter referred to as "AFPL") whereby the findings of investigation 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, AFPL was asked to show cause as to why appropriate directions under section 11 and 11D of the SEBI Act, 2002 should not be passed against it including directions to cease and desist from such activities of entering into manipulative trades in future.

2.1 Reply has been received from AFPL vide their letter dated April 07, 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 AFPL was against any principal. It has also denied that the trading done by AFPL 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 AFPL 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 AFPL 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 AFPL (the selling client), and DPL, (the buying client) 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 carefully considered the findings of investigation as communicated in the show cause notice and the submissions made by AFPL, during the hearing held on November 12, 2003. I find that majority of trades were done by two brokers namely RSL and RR Chokhani Share and Stock Brokers (hereinafter referred to as RRC). Since the brokers were found to have been involved in the price rigging of the scrip, BSE had imposed a fine of Rs. 25000/- each on both the broker as per the norms laid down by the Disciplinary Action Committee (DAC) of the Exchange. The said fine was subsequently paid by AFPL to its broker, RSL. This is evident from the statement given by Shri Abhay Dhupal, authorized representative for AFPL and Ledger A/c of the broker RSL where the amount of fine of Rs.25,000 is seen to have been debited to the Account of his client AFPL.

4.1 On an analysis of the client details submitted by the brokers, it was observed that AFPL and M/s Deluxe Polymers Ltd. (hereinafter referred to as DPL) were the main clients who had traded the shares of KSIL. These trades were done through brokers RRC and RSL. The total no. of shares sold by AFPL were 1200 and total no. of shares purchased by DPL were 1500.

4.2 I have also noted that between February 15, 1999 to March 15, 1999, the total volume of shares traded was 1600 during which period the price had gone up from Rs. 120 to Rs. 180/-. I find that AFPL (seller) was involved in 75% of the total traded volume and the counter party i.e. DPL (buyer) had traded in 94% of the total traded volume. AFPL was the counter party seller of all the purchases made by DPL.

4.3 I find that AFPL 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 AFPL 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                              |               |                           |

From the above details, it can be concluded that AFPL and DPL are interconnected as the same set of distinctive numbers of shares were delivered and no shares were purchased from the market. It is also seen that AFPL and DPL are connected with the promoters of the company KSIL. They also share common address with the promoters of the company.

4.4 SEBI issued summons to AFPL and recorded the statement of Shri Abhay Dhumal, its authorized representative on November 12, 2002 wherein Shri Dhumal admitted that AFPL is a group company of KSIL. I also find that during the investigation, when asked about the abnormal rise in the price of the scrip during the relevant period, AFPL 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 Dhumal admitted that as all these entities are group companies, they had entered into trades in order 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, I find that AFPL and its broker RSL had put in token trades in the scrip of KSIL at arbitrary prices ranging from Rs. 120/- to Rs. 195/-. While putting in these trades, AFPL was aware that its group company i.e. DPL 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 of 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. These trades were entered by AFPL at successively higher prices and this resulted in raising the price of the scrip of KSIL. This has resulted in their violating the provisions 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 some days, AFPL and DPL 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 Akash Fabrics Private Ltd. from dealing in securities for a period of two years.

5.1 This order shall come into force with immediate effect.

**Place : Mumbai**

**Date : February 17<sup>th</sup>, 2004**

**A.K.BATRA**

**WHOLE TIME MEMBER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**