

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 11 AND 11 B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT 1992, READ WITH REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO THE SECURITIES MARKET) REGULATIONS, 2003

AGAINST MS. HARBINGER TRADING CO. PVT. LTD., IN THE MATTER OF SHRENUJ & CO. LTD.

WTMN/200/IVD/8/04

1.0 BACKGROUND

- 1.1 Shrenuj & Co. Ltd. (SCL) is an importer of rough diamonds mainly from the Diamond Trading Company (DTC), London, and gets them cut, processed and polished in India and exports them to major international markets. The company exports diamonds and precious stones to many international markets, mainly Japan, the US, France, Belgium, Hong Kong, New Zealand and Germany. SCL is listed on the National Stock Exchange of India Ltd. (NSE). The Stock Exchange, Mumbai (BSE) and Ahmedabad Stock Exchange (ASE).
- 1.2 The price of the shares of SCL rose from Rs. 39 on May 04, 2001 to Rs. 43.70 on May 14, 2001. During the period May 02, 2001 to June 19, 2001, high volumes were observed especially on three days i.e. May 14, 2001, June 04, 2001 and June 15, 2001.

2.0 INVESTIGATION

- 2.1 The scrip was infrequently traded. Observing large volumes in the scrip during the above mentioned period, investigation was conducted and the brokers and the clients were called for ascertaining the reason of trading in comparatively large quantities.
- 2.2 It was observed during the course of Investigations that Harbinger Trading Co. Pvt. Ltd. (HTCL) executed structured deals for 56,800 shares (in which trade for 3800 shares was fictitious) to execute financial transactions through different brokers and undertaken these transactions to meet the financial obligations of the brokers viz., CFL Securities Ltd. – Broker (NSE) and Tropical Securities & Investments Pvt. Ltd. (Broker – BSE) with which it is connected violating regulations 4(b) and 4(c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating To Securities Market) Regulations, 1995. Action may be initiated under section 11 & 12 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995.
- 2.3 It was further observed that HTCL had bought 78,904 shares through the broker Tropical Securities & Investments Pvt. Ltd. which is an associate of HTCL and 3,800 shares through the broker Lallubhai Ranchhoddas Share Brokers Pvt. Ltd.
- 2.4 For the shares HTCL had bought through the above brokers the buy and sell orders were placed in synchronization with each other i.e. with very little time difference of few seconds. On May 03, 2001, HTCL was appearing as both the buying as well as the selling client of the two counter party brokers viz. Lallubhai Ranchhoddas Share Brokers Pvt. Ltd. and Tropical Securities & Investments Pvt. Ltd as given below:

Date of Trade	Traded Time	Traded Qty.	Traded Rate	Buy Time	Sell Time	Buy client name	Sell client name
03-May-01	11:14:33AM	1000	40.25	11:14:32AM	11:14:26AM	Harbinger	Harbinger
03-May-01	11:52:48AM	2800	40.30	11:52:48AM	11:52:43AM	Harbinger	Harbinger

- 2.5 The director of HTCL Mr. Milan Dalal, who is also a director in Tropical Securities & Investments Pvt. Ltd., stated that the purpose behind doing such type of transactions were only to meet with pay-in obligations of Tropical Securities & Investments Pvt. Ltd. in time, as it was passing through various hardships and obstacles in business.
- 2.6 HTCL had traded through the broker Lallubhai Ranchhoddas Share Brokers Pvt. Ltd. On being asked about the fictitious deals it had done for undertaking these in a synchronized manner in a little time gap Mr. Sanjiv R Choksy, Whole Time Director of M/s Lallubhai Ranchhoddas Share Brokers Pvt. Ltd. stated that as Tropical Securities and Investment Pvt. Ltd. was in financial difficulties, they had entered into these transactions to enable them to meet their pay-in obligations.
- 2.7 From the above it is observed that HTCL had executed above trades while matching their orders with those of the clients of Rosy Blue Securities Ltd., SPS Share Brokers Pvt. Ltd.
- 2.8 On being asked about synchronised trades Mr. Naysar Shah, authorised representative of Rosy Blue Securities Ltd. had stated that as Tropical Securities and Investments Pvt. Ltd. had borrowed money from their group concerns and to repay

those loans they sold the shares through Rosy Blue Securities Pvt. Ltd. For these trades HTCL had been buying client and selling clients for these trades were HTCL's associated company Tropical Securities and Investments Pvt. Ltd. and Ms. Aditi Asim Dalal who happens to be wife of one of the directors of Tropical Securities and Investments Pvt. Ltd., Sri Asim Dalal.

3.0 SHOW CAUSE NOTICE AND HEARING

3.1 In light of the findings of investigation, show cause notice dated 12.04.04 was issued to HTCL, directing it to show cause as to why appropriate directions including directions under section 11 read with section 11 B of the SEBI Act, 1992 and Regulation 11 of the FUTP Regulations, 2003, restraining it from the securities market for a particular period should not be issued against it.

3.2 I note that in reply to the said show cause notice HTCL, vide its letter dated 22.04.04 made the following submissions:

1. HTCL submitted that they have entered into series of transactions in the scrip of Shrenuj & Co. with their group associate Tropical Sec & Pvt. Ltd. and M/s Lallubhai Ranchoddas.
2. They submitted that their sole intention of doing these transactions was to create a temporary funding arrangement to meet with BSE/NSE obligations of their group associates, Tropical Sec. & Inv. Pvt. Ltd. and CFL Securities Ltd. respectively. The intention at anytime behind doing these transactions were definitely not to create false and artificial volume or price rigging or structured deals, thereby misleading the trading pattern in the market. They had to resort to this methodology of funding as part of survival of their whole group as they along with their group associates were passing through severe financial hardships during this period and as suggested by our associates. They further submitted that inspite of their efforts to survive NSE (CFL Securities Ltd.) and BSE (Tropical Securities & Inv. Pvt. Ltd.) terminals had been deactivated in the month of October / November 2001 and they were out of business since that time.

A hearing was given to HTCL on 11.06.04.

4.0 CONSIDERATION OF ISSUES

4.1 I have gone through the show cause notice, the reply filed by HTCL and submissions made by its representative during the course of hearing.

The only issue that arises out for consideration is whether Harbinger Trading Co. Pvt. Ltd. indulged in any fraudulent and unfair trade practices.

4.2 Harbinger Trading Co. Pvt. Ltd. (HTCL) executed structured deals for 56,800 shares (in which trade for 3800 shares was fictitious) to execute financial transactions through different brokers and undertaken these transactions to meet the financial obligations of the brokers viz., CFL Securities Ltd. – Broker (NSE) and Tropical Securities & Investments Pvt. Ltd. (Broker – BSE) with which it is connected.

4.3 Tropical Securities and Investments Pvt. Ltd. had borrowed money from their group concerns and to repay those loans they sold the shares through Rosy Blue Securities Pvt. Ltd. For these trades HTCL had been buying client and selling clients for these trades were HTCL's associated company Tropical Securities and Investments Pvt. Ltd. and Ms. Aditi Asim Dalal who happens to be wife of one of the directors of Tropical Securities and Investments Pvt. Ltd., Sri Asim Dalal.

4.4 I note that HTCL bought 78,904 shares through the broker Tropical Securities & Investments Pvt. Ltd. which is an associate of HTCL and 3,800 shares through the broker Lallubhai Ranchhoddas Share Brokers Pvt. Ltd.

4.5 I further note that HTCL had executed matched transactions for 56,800 (in which trade for 3800 shares was without any change in beneficial ownership of the shares) and it is observed that HTCL had created artificial volume in the scrip to execute financial transactions through different brokers and undertaken these transactions to meet the financial obligations of the broker Tropical Securities & Investments Pvt. Ltd. (Broker – BSE) with which HTCL was connected and violated regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995.

4.6 Regulation 4 under Chapter II of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 inter-alia provides as follows:

Prohibition against Market Manipulation

4. No person shall –

- (a) 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;
- (b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market;

- (c) indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions;
- (d) enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress, or cause fluctuations in the market price of securities;
- (e) pay, offer or agree to pay or offer, directly or indirectly, to any person any money or money's worth for inducing another person to purchase or sell any security with the sole object of inflating, depressing, or causing fluctuations in the market price of securities."

4.7 In view of the above, I find that Harbinger Trading Co. Pvt. Ltd. has acted in violation of Regulation 4 (a), (c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 and has created an artificial market for the scrip of Shrenuj & Co. Ltd. and also manipulated the price of the scrip during the period May 02, 2001 to June 19, 2001.

4.8 I am therefore of the view that Harbinger Trading Co. Pvt. Ltd. has acted in such a manner that has placed the interest of investors at risk and also jeopardized the trust of investors in the safety and integrity of the securities market. I find that in the interest of investors in the securities market, it is necessary to restrain entities/persons such as Harbinger Trading Co. Pvt. Ltd. from being associated with the securities market.

4.9 I further note that similar violations have been committed by Harbinger Trading Co. Pvt. Ltd. in the scrip of Ravalgaon Sugar Farm Ltd. also and appropriate orders are being passed for the same.

5.0 Order

5.1 Therefore, I, in exercise of powers conferred on me vide Sections 11(4) and 11B read with Section 19 of the SEBI Act and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, do hereby direct Harbinger Trading Co. Pvt. Ltd. to disassociate itself from the securities market and not to deal in securities for a period of six months.

This Order shall come into effect immediately.

Mumbai

Date:31.08.04

T M Nagarajan

Whole Time Member

Securities and Exchange Board of India