

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

DIRECTION UNDER SECTION 11(4) OF THE SEBI ACT, 1992 READ WITH REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003.

AGAINST AADITYA LUXURY HOTELS LTD., IN THE MATTER OF VATSA MUSIC LTD.

BACKGROUND

1. The shares of Vatsa Music Ltd. (hereinafter referred to as 'VML') were listed for trading on NSE. NSE observed the following with respect to the trades in the company's shares :

PERIOD	PRICE BEHAVIOUR
01.01.1998 to end June 1998	Price rose from Rs. 418/- to Rs. 705
01.12.1999 to 24.01.2000	Price rose from Rs.440/- to Rs.1251/-
01.03.2000 to 04.04.2000	Price rose from Rs.1695/- to Rs.4214.85

2. NSE also observed that certain entities suspected to be associates of Vatsa group had dealt in the scrip during the above period. Looking into the price variation and traded volume, NSE concluded that the spurt in the price, accompanied by thin trading and the significant participation of entities close to the Vatsa group in the trading indicated that reasons other than fundamentals may have contributed to the spurt in price.
3. Further, during the period March 01, 2000 to April 04, 2000 the scrip was seen to be touching the daily upper price band of 8% with just one trade per day. In view of the above, NSE noted that certain entities, suspected to be associates of VML, may be attempting to artificially increase the price of the scrip. The scrip was placed under suspension by NSE from April 5, 2000 onwards. In view of the observations of NSE, investigations were conducted by Securities and Exchange Board of India (hereinafter referred to as SEBI) into the dealings in the shares of VML for alleged market manipulations. Investigations have brought out that the share price was manipulated.
4. The price volume data of the scrip on NSE for the period from December 1, 1999 to January 14, 2000 (herein referred to as Period II) and March 1, 2000 to April 4, 2000 (herein referred to as Period III) are reproduced below:

Period II (December 1, 1999 to January 14, 2000)

Date	Opening Price	High Price	Low Price	Closing Price	Traded Quantity
01-Dec-99	440	440	440	440	100
02-Dec-99	404.8	404.8	404.8	404.8	100
03-Dec-99	410	410	380	404	300
06-Dec-99	390	390	390	390	100
07-Dec-99	421	421	421	421	100
08-Dec-99	451	451	451	451	100
09-Dec-99	415	415	415	415	100
10-Dec-99	382	382	382	382	100
13-Dec-99	409	409	390	390	200
15-Dec-99	421	421	421	421	100
20-Dec-99	387.5	389.9	387.5	389.9	200
21-Dec-99	370	383	360	360	500
22-Dec-99	388.8	388.8	388.8	388.8	100

23-Dec-99	419.9	419.9	419.9	419.9	200
24-Dec-99	453.5	453.5	453.4	453.4	200
27-Dec-99	480	489	480	489	400
28-Dec-99	514	528	500	528	900
29-Dec-99	570.25	570.25	570.25	570.25	100
30-Dec-99	615.9	615.9	615.9	615.9	100
03-Jan-00	665.2	665.2	665.2	665.2	200
04-Jan-00	718.45	718.45	718.45	718.45	200
05-Jan-00	775.95	775.95	770	770	3900
06-Jan-00	831.6	831.6	713	714	1000
07-Jan-00	710	771	710	737	2300
10-Jan-00	748	795	730	795	2100
11-Jan-00	858.6	858.6	835	858.5	700
12-Jan-00	870	919	850	850	400
13-Jan-00	870	918	870	918	1000
14-Jan-00	925	990	878	982.5	800

Over a period of one and half months, the scrip had traded for only 29 days and the total number of shares traded was only 16,600. Thus, the average number of shares traded per day works out to 572. On many of the days only 100 shares have been traded signifying merely single trades on those days. During this period, the price of the scrip has increased from Rs.440/- to Rs.982.50 indicating a rise of over 120% in 29 trading days. The low number of trades as well as lack of trading on many days indicates lack of any trading interest in the scrip. From the steep increase in traded price on thin trading volumes it appeared that the trades are not genuine and entered into, maybe, with a manipulative intent.

Period III (March 1, 2000 to April 4, 2000)

Date	Opening Price	High Price	Low Price	Closing Price	Traded Quantity
01-Mar-00	1695	1695	1695	1695	200
02-Mar-00	1830.6	1830.6	1785	1785	1700
03-Mar-00	1765	1900	1765	1900	300
06-Mar-00	1752	1775	1752	1775	500
08-Mar-00	1725	1725	1725	1725	100
09-Mar-00	1805	1805	1805	1805	100
10-Mar-00	1795	1795	1795	1795	100
14-Mar-00	1823	1823	1823	1823	100
15-Mar-00	1900	1900	1810	1810	300
16-Mar-00	1954.8	1954.8	1954.8	1954.8	1
21-Mar-00	2110	2110	2110	2110	1

22-Mar-00	2278	2278	2278	2278	1
23-Mar-00	2460	2460	2460	2460	100
27-Mar-00	2656	2656	2656	2656	1
28-Mar-00	2868.5	2868.5	2868.5	2868.5	1
29-Mar-00	3098	3098	3098	3098	1
30-Mar-00	3345.85	3345.85	3345.85	3345.85	1
31-Mar-00	3613.5	3613.5	3613.5	3613.5	1
03-Apr-00	3902.6	3902.6	3902.6	3902.6	1
04-Apr-00	4214.85	4214.85	4214.85	4214.85	411

The price of the scrip had increased from Rs.1695/- to Rs.4214.85 during March 1, 2000 to April 4, 2000 i.e. an increase of about 150%. During this period the scrip has traded for only 20 days. On most of the trading days, there was only 1 trade in the scrip. On many days only 1 share was traded. Despite lack of trading interest as signified by few number of trades daily, the price of the scrip was increasing by about Rs.200-300 daily during March 16, 2000 to April 4, 2000. It may be noted that NSE had, on March 21, 2000, given a notice of suspension of the scrip from April 5, 2000 for non-compliance of certain clauses of listing agreement. Thus, the price of the scrip has shown an increasing trend despite the notice of suspension given by NSE. In view of the above, it appears that the trading in the scrip was done at imaginary prices and were not genuine. It appears that the trades were entered into with a manipulative intent.

5. Investigations revealed that the prices of the scrip were manipulated by certain entities including Aaditya Luxury Hotels Ltd.(hereinafter referred to as 'Aaditya').
6. On the basis of the aforesaid findings of the investigations conducted by SEBI, a detailed Show Cause Notice (SCN) dated September 24, 2003 was issued to Aaditya. Vide said show cause notice, Aaditya was directed to show cause as to why appropriate direction under section 11(4) of the SEBI Act, 1992 read with Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 including a direction to prohibit it from dealing in Securities for a particular duration should not be passed against them.
7. Aaditya, vide their letter dated October 7, 2003, in reply to SEBI's show cause notice, sought copies of documents relied upon by SEBI. They contended that the same would be helpful for them to prepare a detailed reply to the SCN. Subsequently, vide letter dated 17/11/2003, Aaditya has, inter alia, denied all the charges made against the company and submitted as follows :
 - i. It has restricted its reply to period II i.e. from December 1999 to January 2000, as they are of the view that only this period details are relevant to them.
 - ii. They denied any relation with VML and stated that the only relation that existed between Aaditya and VML is that of a shareholder of the company.
 - iii. They have not been a party to any structured transactions and it's a mere coincidence that there has been a time gap of only a few minutes between buying and selling in certain orders.
 - iv. Though the Memorandum of Association (MOA) of Aaditya has been signed by Bimal Bhat and Pradeep Vakil, they do not have significant role in operations of Aaditya.
 - v. They refuted the charges that they did not furnish reply to some of the queries of SEBI and stated that it had earnestly tried to help SEBI in conducting its investigations.
 - vi. They had not manipulated the price of the scrip and maintained that since they were net sellers in the scrip the allegation of price manipulation does not hold ground.

PERSONAL HEARING

8. An opportunity of personal hearing was granted to Aaditya, which was communicated to them vide letter dated 01.01.04. The hearing was scheduled for 16/01/2004 at 4.00 p.m., but Aaditya expressed its inability to be present for the same vide letter dated 16/01/2004. Further, Aaditya did not seek adjournment or any further hearing in the matter. In view of the same, I proceed to pass this order after duly considering the reply dated 17/11/03 of Aaditya.

CONSIDERATION OF ISSUES AND FINDINGS

9. I have carefully considered the findings of the investigation, charges levied vide Show Cause Notice and the replies received from Aaditya. Aaditya sought copies of the documents relied upon by SEBI, to which SEBI vide letter dated October 14, 2003 informed that the requisite documents were available for inspection at SEBI's office on November 04, 2003. In spite of the requisite opportunity being offered, Aaditya once again requested for the copies of the

documents relied upon by SEBI, taking the pretence that the person appointed by them for inspection of the documents was not capable enough to give the reply as he lacked the expertise for the same. Further, Aaditya had nowhere mentioned specifically the list of documents, copies of which were sought by them. In such a case, I think it becomes very difficult for SEBI to pass on all the documents to them and moreover, I am of the view that requisite opportunities have been given to them for the verification of the documents.

10. As regards Aaditya's contention that they were only a shareholder of VML and did not have any other relationship, I find that :

- i. Memorandum of Association (MOA) of Aaditya has been signed by Bimal Bhatt and Pradeep Vakil, who are the chairmen of VML and Vatsa Corporation Ltd. Respectively.
- ii. Further, VCL and VML are associates.
- iii. Registered office address of Aaditya is the same as that of VML.
 - i. All the signatories to the MOA of Aaditya have the same address as that of VML. Further, Aaditya has purchased the shares of VML from VCL in off-market deal.
 - ii. They were also one of the allottees during a preferential allotment made by VML.
 - iii. Shri. Bimal Bhatt, formerly the Chairman of VML is a director of Aaditya.
- iv. In addition all the trades of Aaditya during period II was executed through Ceekay Holdings Pvt. Ltd. (hereinafter referred to as Ceekay), a member of NSE. It was Bimal Bhatt who had introduced Aaditya to Ceekay.

The reply given by Aaditya that though the MoA of Aaditya has been signed by Bimal Bhatt and Pradeep Vakil, they had no significant role in the operations of Aaditya does not seem to be tenable. Aaditya had received shares from VCL in off-market deal. Further it had been admitted that these shares were utilised to enter into market transactions. Aaditya's functioning from the same address as that of the office of VML/VCL and the fact that Bimal Bhatt introduced Aaditya to Ceekay are enough evidence to show association of Aaditya with VML. It is of no consequence whether Bimal Bhatt or Pradeep Vakil were directly running Aaditya or not.

11. From the above mentioned circumstances it becomes quite evident that Aaditya is not an ordinary shareholder in VML but is an associate.

Aaditya's trades in the period 01.12.1999 to 14.01.2000

12. During the period 01.12.99 to 14.01.2000, the price of the scrip at NSE increased from Rs. 440 to Rs. 982.50 i.e an increase of more than 120% over a period of one and half months. Three brokers (Triveni, Adeshwar and Ceekay) had accounted for 68% of the buy side and 43.37% of the sell side transactions during this period and the three clients, on whose behalf these three brokers had traded in the share of VML, were found to be related to VML. One such broker was M/s Ceekay Holdings Pvt. Ltd. (Ceekay), whose client was Aaditya.

13. It is seen that the trades executed on behalf of the three clients during the period from December 1, 1999 to January 18, 2000 constituted 55.42% and 31.92 % of the traded quantity on the exchange on cumulative buy and cumulative sell basis respectively. Also, in many of these deals it was seen that the time gap between the placing of the buy and sell orders was only a few seconds. The sudden spurt in the price and volumes of VML, in a short duration of eight settlements (i.e. settlement nos. 1999048 to 2000003) and the significant participation of entities close to the Vatsa group in the increased volumes and that too during a period of insignificant corporate developments indicates that reasons other than fundamentals had contributed to the spurt in volumes and price.

14. Ceekay had purchased 3000 shares and sold 4500 shares during settlement nos. 19999051 to 2000003 of NSE. Ceekay was found to have executed 19 trades at prices 5% more than the last traded price on NSE. Ceekay was also found to have structured their deals with Triveni and Adeshwar. Out of the 18 trades identified during this period, wherein the time gap between the placing of buy and sell orders was less than 4 minutes, Ceekay was found to be trading member in 15 trades. These trades had been executed at steadily increasing prices from Rs.615.90 on December 30, 1999 to Rs.980/- on January 14, 2000. All the trades of Ceekay during the above period were executed on behalf of Aaditya.

15. As stated above, Aaditya has purchased 3000 shares and sold 4500 shares during the said period, through Ceekay. The total number of shares traded on NSE during this period was only 17,100 shares. The trades of Aaditya during this period constituted about 22% of the gross traded quantity on the exchange. Since the trades had been executed in a structured manner with the other two brokers namely Triveni and Adeshwar and at steadily increasing prices, it can be inferred that Ceekay and their client Aaditya had intended to rig up the price of the scrip.

16. As regards Aaditya's contention that it had not been a party to any structured transactions and the time gap of few minutes between buying and selling orders is a mere coincidence, I find that one or two deals can be dismissed as mere coincidence. Repetitive occurrence of synchronized transactions cannot be mere coincidence. Moreover, in all such deals of Ceekay, Aaditya was the client. Also, the buying and selling clients were related to each other. All these synchronized deals were done at steadily increasing prices with a view to rig up the price.

Aaditya's trades in the period 01.03.2000 to 04.04.2000

17. During this period, the price of the shares on NSE increased from Rs. 1695 to Rs. 4214.85, with the volumes being merely 3920 shares. In the five settlements during this period, transactions by 2 brokers (triveni and adeshwar) accounted for 45-100% of all trades done on the exchange. During the period from March 1, 2000 to March 22, 2000, Aaditya had sold 401 shares of VML through Shree Adeshwar Securities Pvt. Ltd. at steadily increasing prices. In all the above trades Manorath (another entity connected to VML), acting through Triveni, was the buying client. Hence, these trades cannot be considered to be genuine trades.
18. Shri. Ajit Mahapatro had appeared before the investigating authority on October 17, 2002, representing Aaditya and his statement was recorded. The broker-wise trading of Aaditya as furnished by them is given below:

Name of the Broker	Date	Purchase Qty	Sale Qty
Adeshwar	12.01.2000	-	300
	08.02.2000	600	1300
	29.02.2000	-	300
	07.03.2000	-	100
Total		600	2000
Ceekay	17.08.1999	-	2300
	31.08.1999	-	900
	07.09.1999	700	-
	05.10.1999	100	-
	25.01.2000	-	100
Total		800	3300
Deepkiran	10.04.1999	-	11200
Total		-	11200
Grand Total		1400	16500

19. From the above, during the period from April 1999 to March 2000, Aaditya is stated to have sold 16,500 shares on gross basis and 15,100 shares on net basis. However, as per the data furnished by NSE, for the periods under scrutiny (i.e. December 1, 1999 to January 14, 2000 and March 1, 2000 to April 4, 2000) Aaditya had sold 4901 shares and purchased 3000 shares. Out of the above, during the latter period, Aaditya had sold only 401 shares and had not purchased any shares.

20. A comparison of the trading data of Aaditya, as obtained from Adeshwar and as obtained from Aaditya itself indicates discrepancies in the data furnished. On some of the dates on which Aaditya had claimed to have done the transactions (e.g. February 29, 2000 and March 7, 2000) there were no trades in the scrip of VML on NSE. Also, the data furnished by Aaditya did not match those furnished by NSE while the data furnished by Adeshwar and that of NSE seem to be matching. Thus, it can be inferred that the data furnished by Aaditya was incorrect. Also, Aaditya did not furnish their reply to some of the queries of SEBI. While responding to summons of SEBI, it was incumbent upon Aaditya to furnish correct data. It had been admitted that the data furnished was not correct. Aaditya stated that it would furnish correct data if the same is required by SEBI. These statements taken together brings forth that Aaditya knowingly furnished incorrect data.

21. The data furnished by the broker as well as the client indicates that Aaditya was a net seller in the scrip and on many trading days was the only seller on NSE. When queried about how they had acquired the shares of VML which had been sold in the market by them, the representative of Aaditya stated that they had purchased 97,400 shares of VML from VCL. Aaditya has sold some of these shares in the market. From the data furnished by Adeshwar, it is seen that Aaditya has sold 400 shares during March 2000. Aaditya has sold 100 shares each on March 1, 2000, March 8,

2000 and March 9, 2000. These shares have been sold at successively increasing prices from Rs.1695/- to Rs.1795/-. The trades done by Aaditya on March 8, 2000 and March 9, 2000 are the only transactions in VML on NSE during those days. Further, in all the above sale transactions of Aaditya, the counterparty was Manorath who was buying through Triveni.

22. Further, as per the data furnished by VML, I find that Aaditya appears in the list of top 100 body corporate shareholders of VML as at April 30, 1999 with a holding of 6,81,800 shares. It is seen that both Manorath and Aaditya were major shareholders in VML and both of them had acquired at least a portion of their shares through off-market transactions, either from VML or its associate VCL. In view of the above, I find that Aaditya and Manorath had created trading interest in the scrip with view to dispose off their holdings and also that they had tried to rig up the price of the scrip in order to maximize their revenue from selling their holdings in VML. Further I have also noted that NSE had issued a notice of suspension of trading in the scrip on March 21, 2000 for non-compliance of clauses of listing agreement and for non-redressal of investor complaints. It is unlikely that genuine investors would have purchased the scrip which was under notice of suspension.

23. As regards the contention of Aaditya that they were net sellers and hence could not have possibly manipulated the shares price, I find that Aaditya had both bought and sold the shares. Aaditya's having net sale position does not mean that they did not attempt market manipulation. On many occasions, if Aaditya had not sold the shares, there would not have been any trade in the scrip. Aaditya had co-operated with Manorath and other buyers to create an appearance of trading. Moreover, in most of their sale transactions, the buying client was manorath, who is also an associate of VML. Aaditya has indulged in numerous synchronized deals with other clients related to VML, at steadily increasing prices, thereby rigging up the price of the scrip.

24. In view of the above findings, I hold that the activities of Aaditya are detrimental to the orderly development of and to the integrity of the securities market and adversely affect the interest of innocent investors. Hence, I find Aaditya guilty of violating Regulations 4(a), 4(b) and 4(c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. Thus, I am convinced that, it is necessary to issue an order against Aaditya under Section 11(4)(b) read with Section 11 of SEBI Act.

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ORDER

24. Therefore, in exercise of the powers conferred upon me under section 19 of the SEBI Act, 1992, read with Regulations 11 of SEBI (Prohibition Of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 and Section 11(4)(b) of SEBI Act,1992, I hereby restrain M/s. Aaditya Luxury Hotels Ltd. from accessing the capital market in any manner whatsoever and from buying, selling or dealing in securities for a period of five years.

25. This order shall come into force with immediate effect

A.K.BATRA

PLACE : MUMBAI

WHOLE TIME MEMBER

DATE : AUGUST 31 , 2004

SECURITIES AND EXCHANGE BOARD OF INDIA