

SECURITIES AND EXCHANGE BOARD OF INDIA**ORDER****UNDER REGULATION 13 (4) OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.****AGAINST M/S PRABHAT INVESTMENTS, MEMBER, DELHI STOCK EXCHANGE, IN THE MATTER OF VATSA WORLD LTD****BACKGROUND**

1. Vatsa World Limited (hereinafter referred to as "VWL") was incorporated as a private company named as Ongoing Advertising and Packing Pvt Ltd, which was converted into a public company on 20th February 1996 and on 19th June 2001 the name was changed to VWL. Subsequently VWL acquired the business of Little Kingdom Edutech Ltd, an educational technology based company and adopted its name.
2. The shares of VWL are listed for trading on the Delhi Stock Exchange (hereinafter referred to as "DSE"). DSE, on observing a significant variation in the price of scrip of VWL, conducted an investigation and submitted a report to the Securities and Exchange Board of India (hereinafter referred to as "the SEBI"). DSE had inter-alia made the following observations:
 - i. The price of the scrip increased from Rs.12.50 on April 9, 2001 to Rs.43.05 on July 10, 2001.
 - ii. The increase in price was not accompanied by a corresponding increase in trading volume.
 - iii. The entire trading was concentrated amongst 8 members of the exchange.
 - iv. Most of the trades were squared off and there was only one instance of delivery during the entire trading period spread over 15 settlements.
 - v. The scrip of VWL was traded for 33 days with 26,700 shares being traded i.e an average of 810 shares per day.

Some of the members or their clients were suspected to be related to the company. Hence, DSE suspected possible price manipulation and insider trading by the company, its promoters or associates.

3. Based on the investigation report of DSE, SEBI had ordered an investigation in May 2002 to look into the possible irregularities in the trading of the scrip of VWL. During the course of investigations it was observed that M/s. Prabhat Investments (hereinafter referred to as "the said broker") had traded for its client, M/s Hi-Electric Engineering Co Pvt Ltd (hereinafter referred to as "Hi-Elec") from 9th April 2001 to 6th July 2001, during which the price of the shares of VWL had increased from Rs. 12.50 to Rs. 38. Hi-Elec is one of promoters of SRG Infotech Ltd (hereinafter referred to as "SRG"), which is an associate of VWL, with same address as given to DSE from time to time.

4. Hence, it was alleged that the said broker had violated clause A (2-5) of the Code of Conduct specified in the Schedule II reg 7 of Securities and Exchange Board of India (Stockbroker and sub-broker) Regulations, 1992 (hereinafter referred to as "the Broker Regulations") and rule 4 (b) of Securities and Exchange Board of India (Stockbroker and sub-broker), Rules, 1992.

ENQUIRY PROCEEDINGS

5. In view of the above, SEBI, vide order dated 24th July 2003 appointed an Enquiry Officer (hereinafter referred to as "the Enquiry Officer") under Regulation 5 (1) of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as "the Regulations") to enquire into possible violations of inter alia, Broker Regulations.

6. As required under regulation 6 of the Regulations, Enquiry Officer had issued a show cause notice dated 11th September 2003 to the said broker to show cause as to why action should not be initiated for violations mentioned therein.

7. The said broker, vide letter dated 26th September 2003, replied to the said show cause notice, inter-alia submitting as follows:

- i. All trades that had taken place through it on behalf of Hi-Elec were done on DSE terminal and not off the floor transactions.
- ii. The said broker pleaded ignorance about the scrip being illiquid and Hi-Elec being a promoter of SRG. They submitted that it was not possible for them to check whether the client is related to company in which he is trading.
- iii. The said broker submitted that it had no intention of manipulating the price of the scrip. Further the trade was only in 7,500 plus shares for which the brokerage received was only 10 paisa.

8. The Enquiry Officer, after considering the submissions of the broker, submitted his report dated February 13, 2004 recommending a penalty of suspension of certificate of registration of Member for a period of two months.

SHOW CAUSE NOTICE AND HEARING

9. A show cause notice dated 20th February 2004 was issued to the said broker, communicating the findings of the Enquiry Officer and advising them to show cause as to why the recommendation of the Enquiry Officer should not be accepted. The said broker did not respond to the notice.

CONSIDERATION OF ISSUES

10. I have carefully considered the facts of the case and the findings of the Enquiry Officer. I have observed that the said broker did not respond to the show cause notice dated 20th February 2004. In view this, the submissions made by the said broker in response to the show cause notice served by the Enquiry Officer, submissions made during personal hearing before Enquiry Officer and written submissions made pursuant to the hearing are taken as final. My findings in this regard are as under.

11. I find that during the period from April 9, 2001 to July 10, 2001, the scrip was traded only on 33 days and the total number of shares traded was only 26700. The average traded volume per day works out to about 810 shares. In many of the trading days there were only one or two trades in the scrip. Thus, it is clear that there was very little trading interest in the scrip.

12. During the said period, the price of the scrip increased from Rs. 12.50 on April 09, 2001 to Rs. 43/- on July 10, 2001. The increase in price was not accompanied by a corresponding increase in trading volume and the entire trading was concentrated amongst 8 members of the exchange. Most of the trades were squared off and there was only one instance of delivery during the entire trading period spread over 15 settlements.

13. I find that the trades of the said broker were as under :

Sr. No.	Settlement No. / Date	Client Name	Buy Quantity	Price	Sell Quantity	Price
1.	09-04-01	Hi-Electric Engg.	Nil	Nil	500	12.50
2.	10-04-01	Hi-Electric Engg.	300	9.50	Nil	Nil
3.	12-04-01	Hi-Electric Engg.	200	9.55	Nil	Nil
4.	25-04-01	Hi-Electric Engg.	Nil	Nil	100	8.00
5.	27-04-01	Hi-Electric Engg.	100	7.00	Nil	Nil
6.	30-04-01	Hi-Electric Engg.	Nil	Nil	200	6.50
7.	03-05-01	Hi-Electric Engg.	200	5.00	Nil	Nil
8.	23-05-01	Hi-Electric Engg.	Nil	Nil	500	6.50
9.	24-05-01	Hi-Electric Engg.	500	8.00	Nil	Nil
10.	25-05-01	Hi-Electric Engg.	Nil	Nil	500	10.00
11.	28-05-01	Hi-Electric Engg.	500	10.85	Nil	Nil
12.	29-05-01	Hi-Electric Engg.	Nil	Nil	200	11.00
13.	31-05-01	Hi-Electric Engg.	200	13.00	Nil	Nil
14.	01-06-01	Hi-Electric Engg.	Nil	Nil	500	12.50
15.	05-06-01	Hi-Electric Engg.	Nil	Nil	500	11.15
16.	06-06-01	Hi-Electric Engg.	1500	10.13	Nil	Nil
17.	08-06-01	Hi-Electric Engg.	Nil	Nil	1000	10.63
18.	20-06-01	Hi-Electric Engg.	Nil	Nil	800	13.75

19.	21-06-01	Hi-Electric Engg.	Nil	Nil	500	17.15
20	22-06-01	Hi-Electric Engg.	1300	19.25	Nil	Nil
21.	25-06-01	Hi-Electric Engg.	1100	21.57	Nil	Nil
22.	27-06-01	Hi-Electric Engg.	Nil	Nil	2000	25.20
23.	28-06-01	Hi-Electric Engg.	1100	27.10	Nil	Nil
24.	29-06-01	Hi-Electric Engg.	Nil	Nil	200	28.95
25.	04-07-01	Hi-Electric Engg.	500	33.50	Nil	Nil
26.	06-07-01	Hi-Electric Engg.	Nil	Nil	500	38.00
	TOTAL		7500		8000	

14. The said Member had executed, on behalf of his client Hi-Elec, purchase transactions of 7,500 shares and sale transactions of 8,000 shares from 9th April 2001 to 6th July 2001, which amounted to 58% of gross quantity traded in the scrip, which was illiquid. During this period, the share price of VWL increased from Rs. 12.50 to Rs. 38.00. The said client had squared off his transactions in most of the settlements. He did not have a net buy position in any settlement and his net sale position in any settlement did not exceed 500 shares.

15. The broker had traded in an illiquid scrip. While trading in an illiquid scrip he should have exercised more skill and care, as trading in an illiquid scrip may create volumes, which may in turn induce innocent investors into trading in the scrip. Only one client trading in the scrip and mostly squaring off his transactions should have alerted the Member.

16. I find that it has also been established that the client of the said broker was related to the management of VWL. The said broker, I observe, has agreed before the investigating authority that the client may have executed the trades with an intention of manipulating the price of the shares.

17. In view of the above, I find that the said member has failed to exercise due skill and care and has thus violated clause A (2) & (5) of Code of Conduct prescribed for stock brokers in the Brokers Regulations.

ORDER

18. Therefore, in exercise of powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with regulation 13(4) of the Regulations, I hereby impose a minor penalty of suspension of certificate of registration of M/s. Prabhat Investments for a period of two months.

19. This order shall come into effect immediately upon the expiry of three weeks from the date of this order.

A.K.BATRA

PLACE : MUMBAI

WHOLE TIME MEMBER

DATE : AUGUST 31, 2004

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