

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.

AGAINST M/S PAWANKUMAR PARAMESHWARLAL, MEMBER, THE STOCK EXCHANGE, MUMBAI, IN THE CASE OF M/S SURYA ROSHNI LTD.

BACKGROUND

1. The shares of M/s Surya Roshni Ltd. were listed for trading at Delhi Stock Exchange (DSE), National Stock Exchange (NSE), The Stock Exchange, Mumbai (BSE), Bangalore Stock Exchange (BgSE), Ahmedabad Stock Exchange (ASE), Madras Stock Exchange (MSE).
2. A case was initiated by SEBI on January 11, 2001, based on an investigation report submitted by NSE, wherein the trading pattern of SRL for the time period July 26, 2000 to September 05, 2000 was examined. However, in view of large trading volumes prior to this period, NSE was requested to extend the scope of their investigation and forward a comprehensive report. NSE conducted another investigation for the period May 17, 2000 to September 05, 2000 (earlier period included) and submitted the report to SEBI on August 31, 2001. Since the scrip was also listed and traded on BSE, it was also requested to investigate the matter and submit its report to SEBI. BSE submitted its investigation report to SEBI on June 10, 2002.
3. For the same time period i.e. from May 17, 2000 to September 05, 2000, Bangalore, Ahmedabad and Madras Stock Exchange reported nil trading; the trading details received from DSE showed trading to have taken place only on one day i.e. April 18, 2000.

4. Based on the identification of brokers by NSE and BSE in their reports, the trading details of 8 brokers, including M/s. Pawankumar Parameshwarlal (hereinafter referred to as 'the said broker') were examined. It was found that the said broker had dealt extensively in the shares of SRL, at BSE.

ENQUIRY REPORT AND FINDINGS

5. An enquiry was initiated into the involvement of the said broker in the trading in the shares of SRL. The Enquiry Officer submitted his report on 03.02.04. The violations of the said broker, as put forth by the Enquiry Officer, in his report, are as follows:

- a. *The said broker, in concert with its related clients-M/s. P. L. Choudhary & Co., Mrs. Sabitaridevi Choudhary and Ms. Sarita Choudhary (hereinafter referred to collectively as 'the said clients'), appeared to have misutilised/put to risk the stock exchange mechanism, by transferring/mirroring their off the market financing transactions, on to the exchange system, thereby safeguarding their and their clients interests by settlement guarantee fund of the exchange.*
- b. *Aided the said clients- to create artificial volumes in the market (Contributed more than 12.0% on gross basis at BSE) and because this continued for a long period of time, the said clients cannot disabuse themselves from the charge that they were aware of the fact that the shares being sold by them were being purchased by the entities to whom the financing was made available. The said broker, in concert with the said clients, has therefore violated the provisions of Regulation 4 (b) and 4 (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and its trading activities appear to be prejudicial to the interests of investors and securities market.*

6. In view of the above findings, the Enquiry Officer had recommended suspension of certificate of registration of the said broker for a period of two months.

SHOW CAUSE NOTICE AND REPLY

7. Pursuant to the above, a notice dated 12.02.04 was issued to the said broker, asking them to show cause as to why their certificate of registration should not be suspended for a period of two months. The said broker had replied vide its letter dated 14.02.04 to the said show cause notice. The primary contentions put forth by the said broker, in its reply, are as follows:
- i. M/s. P. L. Choudhary & Co., Mrs. Sabitaridevi Choudhary & Ms. Sarita Choudhary are related to them and that they had effected sales for these 3 entities.
 - ii. All the transactions were through the BOLT system and delivery took place in all the cases through them, on the pay-in day itself, except for two occasions when Mrs. Sabitaridevi Choudhary delivered shares directly to BOI Shareholding.
 - iii. The price of the shares had remained constant during the period when they were dealing in the shares of SRL.
 - iv. They had not financed M/s. Tropical Securities Ltd. (member, BSE), as alleged by SEBI.
 - v. There was no misutilisation of the stock exchange mechanism as all the rules were abided by and proper margins had been paid to the exchange.
 - vi. All the transactions referred to in the enquiry report were executed by the client Shri P. L. Choudhary, either on his own behalf or on behalf of

the other two clients and hence he should be held responsible for the transactions, not the broker.

- vii. The transactions constituted only 12.0% on a gross basis at BSE, which is very negligible.

In addition to the above submissions, the said broker had cited the earlier orders passed against them by SEBI, in the matter of VXL Instruments Ltd. and Ceat Ltd. where only a warning had been issued to them and had pleaded that SEBI may condone their fault, if any, in the present case also.



8. In view of the facts and circumstance of the matter and taking into account the submissions made by the said broker in response to the show cause notice issued to them, it was not deemed necessary to grant a personal hearing to the said broker.

ISSUES FOR CONSIDERATION

9. I have examined the material available on record, including the contents of the enquiry report, the show cause notice and the reply to the show cause notice. My findings with respect to the said matter are as under.
10. I understand that the trades executed by the said broker for their clients are as under:

Name of the client	Sett. No.	Buy	Sell	Net
P. L. Choudhary	10	0	67000	-67000
	11	0	40000	-40000
Total		0	107000	-107000
Sarita Choudhary	10	0	5300	-5300
	11	0	50000	-50000
	14	0	40000	-40000
	16	0	50000	-50000
	17	0	10000	-10000

	20	0	50000	-50000
	21	0	80000	-80000
	22	0	25000	-25000
Total		0	310300	-310300
Sabitaridevi Choudhary	12	0	35000*	-35000*
	13	0	7500	-7500
	14	0	45000@	-45000@
	16	0	50000	-50000
	22	0	30000	-30000
Total		0	167500	-167500
<i>*Shares directly given to BOI Shareholding, Clearing house of BSE</i>				
<i>@ 44,000 shares directly given to BOI Shareholding, Clearing house of BSE.</i>				

11. Details of trades, where the counterparty was M/s Tropical Securities & Investment Pvt. Ltd., are as under:

Date	Buy				Sell				Trade	
	Mem	Time	Order Qty	Rate	Mem	Time	Qty	Rate	Time	Qty
5/31/2000	650	11:32:23	5300	20.9	550	11:32:48	5300	20.9	11:32:49	5300
6/1/2000	650	13:53:23	3500	20.05	550	13:53:17	3500	20.05	13:53:23	3500
	650	13:53:41	4000	20.1	550	13:53:41	4000	20.1	13:53:41	4000
	650	14:47:17	25000	20.5	550	14:47:12	25000	20.5	14:47:17	25000
	650	14:48:40	15000	20.55	550	14:48:39	15000	20.55	14:48:40	15000
	650	14:49:06	10000	20.6	550	14:49:05	10000	20.6	14:49:06	10000
	650	14:49:49	9500	20.65	550	14:49:47	9500	20.65	14:49:49	9500
6/6/2000	650	12:43:37	15000	20.5	550	12:43:47	15000	20.5	12:43:48	15000
	650	12:44:25	20000	20.5	550	12:44:28	20000	20.5	12:44:28	20000
	650	12:49:05	15000	21	550	12:49:07	15000	21	12:49:08	15000
6/8/2000	650	14:51:44	10000	20.8	550	14:51:24	10000	20.75	14:51:45	10000
	650	14:52:01	10000	20.8	550	14:51:36	10000	20.8		
	650	14:52:14	0	20.9					14:52:14	10000
	650	14:52:30	10000	21	550	14:52:08	10000	20.9		
	650	14:53:15	5000	21	550	14:52:36	10000	21	14:52:36	10000
	650	14:53:48	5000	21	550	14:53:03	5000	21	14:53:16	5000
	650	14:53:48	5000	21	550	14:53:48	5000	21	14:53:49	5000
6/13/2000	650	14:36:06	10000	20	550	14:36:05	10000	20	14:36:06	10000
	650	14:36:22	10000	20.1	550	14:36:23	10000	20.1	14:36:24	10000

	650	14:36:38	15000	20.25	550	14:36:39	15000	20.25	14:36:40	15000
6/28/2000	650	14:30:20	15000	20	550	14:30:19	15000	20	14:30:21	15000
	650	14:30:40	10000	20	550	14:30:39	10000	20	14:30:40	10000
	650	14:31:39	10000	20.05	550	14:31:32	10000	20.05	14:31:39	10000
	650	14:31:59	5000	20.05	550	14:31:53	5000	20.05	14:32:00	5000
	650	14:34:52	5000	20.25	550	14:34:52	5000	20.25	14:34:53	5000
	650	14:35:15	7000	20.25	550	14:35:11	7000	20.25	14:35:15	7000
	650	14:35:38	10000	20.4	550	14:35:27	10000	20.4	14:35:39	10000
	650	14:35:59	9000	20.5	550	14:35:54	9000	20.5	14:36:00	9000
	650	14:36:26	8000	20.75	550	14:36:39	8000	20.75	14:36:39	8000
	650	14:36:59	6000	20.9	550	14:37:00	6000	20.9	14:37:00	6000
7/12/2000	650	11:27:30	20000	20	550	11:27:26	20000	20	11:27:30	20000
	650	11:27:51	20000	20	550	11:27:48	20000	20	11:27:51	20000
	650	11:28:08	10000	20	550	11:28:07	10000	20	11:28:09	10000
	650	15:12:09	15000	20	550	15:12:05	15000	20	15:12:09	15000
	650	15:12:39	15000	20	550	15:12:36	15000	20	15:12:40	15000
	650	15:13:12	10000	20	550	15:13:05	10000	20	15:13:12	10000
	650	15:13:25	10000	20	550	15:13:25	10000	20	15:13:25	10000
7/19/2000	650	14:26:34	10000	18.5	550	14:26:45	10000	18.5	14:26:45	10000
8/9/2000	650	12:18:36	10000	18	550	12:18:36	10000	18	12:18:37	10000
	650	12:19:57	15000	18.25	550	12:19:54	15000	18.25	12:19:58	15000
	650	12:20:17	10000	18.3	550	12:20:17	10000	18.3	12:20:18	10000
	650	12:20:35	15000	18.35	550	12:20:36	15000	18.35	12:20:37	15000
8/17/2000	650	13:37:55	20000	17.5	550	13:37:56	20000	17.5	13:37:56	20000
	650	13:38:11	15000	17.5	550	13:38:11	15000	17.5	13:38:12	15000
	650	13:38:27	10000	17.5	550	13:38:26	10000	17.5	13:38:27	10000
	650	13:38:42	5000	17.5	550	13:38:50	5000	17.5	13:38:51	5000
	650	13:39:06	12000	17.5	550	13:39:08	12000	17.5	13:39:08	12000
	650	13:39:24	8000	17.5	550	13:39:23	8000	17.5	13:39:24	8000
	650	13:40:10	10000	17.5	550	13:40:11	10000	17.5	13:40:11	10000
8/23/2000	650	14:51:24	10000	17.3	550	14:51:34	10000	17.3	14:51:35	10000
	650	14:51:51	20000	17.5	550	14:51:49	20000	17.5	14:51:52	20000
	650	14:52:39	5000	17.5	550	14:52:31	5000	17.5	14:52:40	5000
8/25/2000	650	11:38:31	10000	17.9	550	11:38:32	10000	17.9	11:38:32	10000
	650	11:38:47	10000	18	550	11:38:47	10000	18	11:38:47	10000

12. It is evident from the above table that :

- i. Pawan has entered into a series of structured transactions with Tropical.

- ii. The order times i.e. time at which the buy and sell orders were placed were almost the same, the difference between the placement of the orders being mere seconds.
 - iv. The price and the quantity ordered in most of the trades have also been the same.
 - v. Almost all the shares sold by the said broker (Clearing No. 550) have been purchased by Tropical. (Clearing No. 650).
13. Further, on scrutiny of the demat accounts of the two brokers, it was observed that the shares sold by the said broker and purchased by Tropical for its clients (as reproduced at paras 11 and 12 above), were transferred to the demat account of the clients of the said broker, who in turn transferred the shares to the account of the said broker, who then delivered the same shares in the pay-in of the next settlement. Thus, the same set of shares was being circulated repeatedly.
14. I have observed that the above transactions were a part of an exercise undertaken by the 3 clients of the said broker to finance Tropical. The inter-linkages and the modus operandi followed by the involved entities are as under:
- a. The clients who had dealt in the share of SRL namely, Shri P. L. Choudhary, Mrs. Sabitaridevi Choudhary and Ms. Sarita Choudhary are related to the said broker. Shri P.L. Choudhary is his father, Mrs. Sabitaridevi Choudhary is his wife and Ms. Sarita Choudhary is his daughter in law.
 - b. Tropical would sell shares of SRL to the three “clients” on spot/off market basis and the 3 clients would make payments to Tropical for the shares so bought. Immediately, in order to safeguard the financing made available by these clients to Tropical, the clients would sell the shares bought from

Tropical, to Tropical itself, on the stock market, through the said broker, ostensibly to create an obligation on the part of Tropical to return the monies financed. [As seen from the table at para 12 above, in almost all the trades executed by the said broker on behalf of the three clients, the counterparty broker was Tropical, a fact which goes on to verify point (b) above.]

- c. Therefore, the shares, originally bought from Tropical on a spot basis, would revert to Tropical, through the stock exchange settlement system. This cycle of financing and thereafter entering into matched transactions to safeguard own interest continued settlement after settlement, during the period of investigation.
 - d. As regards the financing of Tropical, it was understood that Tropical [on behalf of its related entities, M/s. CFL Securities Ltd., M/s. Harbinger Trading Co. Pvt. Ltd. and Ms. Aditi Dalal] was in need of funds and would therefore sell shares on spot/off market basis to various entities and would receive funds immediately. The entities, who bought the shares on spot/off market basis, would in turn sell the shares on the exchange through the broking entities, including the said broker, among others. The trading that took place on the exchange would thus mirror the financing arrangements crystallised outside the exchange as spot/off market deals, resulting into matched/structured transactions, as shown above.
 - e. At BSE, the bulk of these transactions took place with Tropical on one side and the said broker on the other. As already stated above, Tropical sold shares to the clients of the said broker on spot/off market basis. To safeguard the financing made available by these clients to Tropical, the clients immediately sold these shares on the market through the said broker. The shares would thus flow back from the said clients to Tropical.
15. Thus, the said broker, in concert with the said clients has mis-utilised and put to risk the stock exchange mechanism by transferring/mirroring the clients' off-the-market financing transactions, on to the exchange system, in an inappropriate

manner, by utilizing the comfort cum security of the Settlement Guarantee Fund of the exchange, which is intended for genuine trade transactions. In doing so, they have also created artificial volumes in the market.

16. Thus, I see from the above that there is a clear cut case of the following violations on the part of the said broker:

- a. Acting in concert with its related clients in misutilising/put to risk the stock exchange mechanism by transferring/mirroring their off the market financing transactions, on to the exchange system.
- b. Being a party to creation of artificial volumes in the shares of SRL over an extended period.

17. By virtue of the above, the said broker, in concert with its clients, has contravened the provisions of Regulation 4 (b) and 4 (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 which reads as under :

"4. No person shall-

- a)*
- 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)"*

18. Under section 11 of the SEBI Act, SEBI can take measures to protect the interests of investors and to regulate the securities market inter alia by

registering and regulating the working of stock brokers. If the regulatory requirements are violated by the stock brokers without attracting any action, the measures taken by SEBI for regulation of the stock brokers would be rendered nugatory and the regulatory function would be jeopardized. It is to be noted that indulgence of the said broker in the transactions of the type mentioned above cannot be allowed; as such transactions are likely to have a detrimental effect on the functioning of the securities market.

19. I find that the said broker has been responsible in creating artificial volumes in the shares of M/s Surya Roshni Ltd., as observed above and has not taken due care and diligence in observance and compliance of the statutory requirement in conduct of its business as a stock broker. Looking into the violations committed by the said broker, I am satisfied that it is necessary to impose a penalty on the said broker. The same also becomes necessary given that the said broker has already been cautioned on two earlier occasions regarding his lack of compliance with respect to the code of conduct and has also been advised to ensure strict compliance with the same.
20. I have noted that the enquiry officer has recommended imposition of a penalty of suspension of two months on the said broker. However, considering the submissions made by the said broker that the transactions were not substantial, constituting only 12.0% on a gross basis at BSE and also that prima facie price manipulation of the scrip has not taken place, I feel a penalty of one month, as against the two months, as suggested by the Enquiry Officer, will meet the ends of justice.

ORDER

21. Therefore, in exercise of the powers conferred upon me by virtue of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 13 (4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby order that the certificate of Registration of M/s. Pawankumar Parameshwarlal, member, The Stock Exchange, Mumbai, be suspended for a period of one month.
22. This order shall come into force with effect on expiry of three weeks from the date of the order.

A.K.BATRA

PLACE : MUMBAI

DATE : SEPTEMBER 29 , 2004

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA