

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. TROPICAL SECURITIES AND INVESTMENT PRIVATE LIMITED, MEMBER, THE STOCK EXCHANGE, MUMBAI, IN THE MATTER 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. Tropical Securities and Investment Pvt. Ltd. (hereinafter called as 'Tropical'), were examined. It was seen that Tropical had dealt extensively in the shares of SRL.

ENQUIRY REPORT AND FINDINGS

5. An enquiry was initiated into the involvement of Tropical in trading in the shares of SRL. The Enquiry Officer submitted his report on the above matter on 27.01.04. The violations as put forth by the Enquiry Officer in his report are as follows:
 - a. *Tropical Created Artificial volumes (that Contributed more than 80.0% volume on BSE on gross basis) and also aided and abetted its related clients.*
 - b. *Tropical acted in concert with related client(s) in the:*
 1. *Creation of false market or misleading appearance of trading in the market, and,*
 2. *Execution of transactions that are not genuine trade transactions.*
6. The Enquiry Officer concluded that Tropical had thus 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 Clause A (2) & A(4) of Regulation 7 of the SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992 and hence recommended suspension of certificate of registration of Tropical for a period of two months.

SHOW CAUSE NOTICE AND REPLY

7. Pursuant to the receipt of the enquiry report, a notice dated 11.02.04, was issued to Tropical asking them to show cause as to why their certificate of registration should not be suspended for a period of two months. Tropical had replied vide its letter dated 27.02.04 to the said show cause notice. The primary contentions put forth by Tropical in its reply are as follows:
 - a. There was no intention at any time to create artificial volumes, price rigging, misleading the trading pattern, structural dealing etc.,
 - b. The methodology adopted for funding was only a temporary funding arrangement to meet their pay-in obligation in time, as part of the efforts to survive in the midst of hardships.
 - c. Their BSE terminal had been deactivated since November, 2001 and no business had been conducted since then.
 - d. The violations of provisions of SEBI, if any, were unintentional.
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./ Spot	Buy	Sell	Net
Harbinger Trading Co. Pvt. Ltd.	08	239800	239800	0
	09	239800	239800	0
	10	337400	279700	57700
	11	90400	100	90300
	12	35000	0	35000
	13	7500	0	7500
	14	450	450	0
	16	100001	0	100001
	17	10000	10000	0
	18	110000	10000	100000
	19	249000	117350	131650
	20	90550	0	90550
	21	80000	0	80000
	22	55000	0	55000
Spot –	31/5/00		5300	-5300
Spot –	01/06/00		67000	-67000
Spot –	06/06/00		50000	-50000
Spot –	08/06/00		40000	-40000
Spot –	13/06/00		35000	-35000
Spot –	21/06/00		7500	-7500
Spot –	28/06/00		85000	-85000
Spot –	04/07/00		16000	-16000
Spot –	12/07/00		100000	-100000
Spot –	12/07/00		84000	-84000
Spot –	12/07/00		155000	-155000
Spot –	19/07/00		10000	-10000
Spot –	25/07/00		100000	-100000
Spot –	09/08/00		50000	-50000
Spot –	17/08/00		80000	-80000
Spot –	23/08/00		35000	-35000
Spot –	25/08/00		20000	-20000
Total		1644901	1837000	-192099
C. T. Sidhwani	08	83000	83000	0
Globex Financial Ser. L.	08	11000	11000	0
	10	100000	0	100000
	17	4450	0	4450

	18	10000	4450	5550
Total		125450	15450	110000
Shashank Patel (HUF)	08	3300	3300	0
	10	97500	0	97500
Total		100800	3300	97500
Shashank C. Patel	08	169200	24000	145200
	09	226300	226300	0
	10	50000	226300	-176300
	19	0	4100	-4100
Total		445500	480700	-35200
Bhavna Corporation	19	40550	40550	0
	20	0	40550	-40550
Total		40550	81100	-40550
Purusarth Trading Co. Pvt. Ltd.	03/07/00	0	50000	-50000
	04/07/00	0	189000	-189000
Total		0	239000	-239000

11. On BSE, large volumes were observed on 25 trading days during the period under investigation. On such days, majority of the volume was due to matched deals. A comparison of the day volume and volume due to such matched deals on each of these 25 days is as follows:

Date	Volume	Qty traded through matched deals	%age of total volume
15.05.2000		130700	
19.05.2000	242500	239200	98.64
23.05.2000	240313	239800	99.79
25.05.2000	13500	13500	100.00
26.05.2000	227200	226300	99.60
29.05.2000	13800	13500	97.82
30.05.2000	226800	226300	99.78
31.05.2000	18400	18300	99.45
01.06.2000	79000	79000	100.00
02.06.2000	280000	279700	99.89
06.06.2000	51300	50000	97.46
08.06.2000	40300	40000	99.25

13.06.2000	35300	35000	99.15
28.06.2000	85850	85000	99.00
12.07.2000	100011	100000	99.99
19.07.2000	10486	10000	95.36
21.07.2000	10801	10000	92.58
25.07.2000	110000	110000	100.00
28.07.2000	10400	10000	96.15
01.08.2000	241600	240900	99.71
04.08.2000	117850	97350	82.60
07.08.2000	40882	40550	99.19
09.08.2000	50000	50000	100.00
17.08.2000	80025	80000	99.97
23.08.2000	35700	35000	98.04
25.08.2000	20000	20000	100.00

12. Most of these matched transactions were executed by M/s. Tropical and were either cross deals (Broker code : 650 and shown in Bold format in the table below) i.e. deals taking place at the office of M/s. Tropical for two of its clients or matching it with other brokers. I have also noted that a large portion of the matched transactions with other brokers has taken place with a broker M/s. Pawankumar Parmeshwarlal (Broker code : 550 and shown in Italics format.).

	Buy				Sell				Trade	
Date	Me m	Time	Order Qty	Rate	Me m	Time	Qty	Rate	Time	Qty
5/15/2000	650	12:17:36	11000	20.3	650	12:17:36	11000	20.3	12:17:36	11000
	650	12:18:31	1100	20.3	650	12:18:30	1100	20.3	12:18:31	1100
	650	12:21:10	8300	20.3	650	12:21:09	8300	20.3	12:21:10	8300
	650	12:21:46	3300	20.2	650	12:21:52	3300	20.2	12:21:52	3300
	650	12:56:06	24000	20.4	650	12:56:06	24000	20.4	12:56:07	24000
	650	14:36:36	83000	20.3	650	14:36:35	83000	20.3	14:36:37	83000
Total										130700
5/19/2000	650	12:08:51	83000	21.3	650	12:08:50	83000	21.3	12:08:51	83000
	650	12:09:33	11000	21.35	650	12:09:33	11000	21.35	12:09:33	11000
	650	12:11:38	145200	21.3	650	12:11:40	145200	21.3	12:11:40	145200
Total										239200
5/23/2000	650	10:06:15	13500	22.25	650	10:06:15	13500	22.25	10:06:15	13500

	650	10:07:08	100000	22.25	650	10:07:08	100000	22.25	10:07:09	100000
	650	10:07:39	100000	22.25	650	10:07:38	100000	22.25	10:07:40	100000
	650	10:08:01	26300	22.25	650	10:08:02	26300	22.25	10:08:03	26300
Total										239800
5/25/2000	650	15:07:02	13500	21	650	15:07:02	13500	21	15:07:02	13500
5/26/2000	650	14:21:36	226300	21.15	650	14:21:37	226300	21.15	14:21:37	226300
5/29/2000	650	12:41:30	13500	20.5	650	12:41:29	13500	20.5	12:41:30	13500
5/30/2000	650	13:04:20	226300	20.85	650	13:04:20	226300	20.85	13:04:20	226300
5/31/2000	650	11:32:23	5300	20.9	550	11:32:48	5300	20.9	11:32:49	5300
	650	14:56:01	10000	20.75	406	14:56:01	10000	20.75	14:56:02	10000
	650	14:56:27	3000	20.75	406	14:56:26	3000	20.75	14:56:27	3000
Total										18300
6/1/2000	650	12:39:57	10000	20.75	406	12:39:57	10000	20.75	12:39:57	10000
	650	12:40:28	2000	20.75	406	12:40:28	2000	20.75	12:40:28	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
Total										79000
6/2/2000	650	13:03:26	13500	20.5	650	13:03:27	13500	20.5	13:03:27	13500
	650	13:04:58	100000	20.5	650	13:04:58	100000	20.5	13:04:58	100000
					650	13:05:18	0	19		
	650	13:07:24	16000	20.45	650	13:07:24	16000	20.45	13:07:24	16000
	650	13:39:21	97500	20.35	650	13:39:20	97500	20.35	13:39:21	97500
	650	13:39:58	50000	20.35	650	13:39:52	50000	20.35	13:39:59	50000
	650	13:41:00	2700	20.5	650	13:41:00	2700	20.5	13:41:01	2700
Total										279700
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
Total										50000
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

Total										40000
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
Total										35000
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
Total										85000
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
Total										100000
7/19/2000	650	14:26:34	10000	18.5	550	14:26:45	10000	18.5	14:26:45	10000
7/21/2000	650	13:04:02	4450	18.55	650	13:04:02	4450	18.55	13:04:03	4450
	650	13:04:34	5550	18.6	650	13:04:35	5550	18.6	13:04:35	5550
Total										10000
7/25/2000	650	10:02:05	10000	18	474	10:02:09	10000	18	10:02:09	10000
	650	10:02:32	10000	17.9	474	10:02:33	10000	17.9	10:02:33	10000
	650	10:02:48	10000	18.1	474	10:02:49	10000	18.1	10:02:49	10000
	650	10:03:03	10000	18	474	10:03:04	10000	18	10:03:04	10000
	650	10:03:19	10000	18	474	10:03:20	10000	18	10:03:20	10000
	650	10:25:12	25000	18	474	10:25:12	25000	18	10:25:13	25000
	650	10:25:33	25000	18	474	10:25:34	25000	18	10:25:34	25000
	650	12:37:04	4450	17.55	650	12:37:03	4450	17.55	12:37:04	4450
	650	12:38:15	5550	17.55	650	12:38:12	5550	17.55	12:38:15	5550
Total										110000
7/28/2000	650	14:57:47	10000	17.6	650	14:57:47	10000	17.6	14:57:48	10000
8/1/2000	650	12:39:26	40550	17.65	650	12:39:25	40550	17.65	12:39:26	40550
	650	12:40:01	18300	17.7	650	12:40:01	18300	17.7	12:40:02	18300
	650	12:40:51	9550	17.65	650	12:40:50	9550	17.65	12:40:51	9550

	650	13:18:27	50000	17.7	650	13:18:26	50000	17.7	13:18:27	50000
	650	13:19:07	50000	17.65	650	13:19:05	50000	17.65	13:19:07	50000
	650	13:19:36	50000	17.75	650	13:19:35	50000	17.75	13:19:37	50000
	650	13:20:15	22500	17.55	650	13:20:15	22500	17.55	13:20:16	22500
Total										240900
8/4/2000	650	15:14:32	47000	17.25	650	15:14:32	47000	17.25	15:14:33	27000
	650	15:15:00	18300	17.25	650	15:15:01	18300	17.25	15:15:01	18300
	650	15:15:38	40550	17.25	650	15:15:38	40550	17.25	15:15:39	40550
	650	15:16:52	11500	17.3	650	15:16:57	11500	17.3	15:16:58	11500
Total										97350
8/7/2000	650	14:37:38	40550	16.95	650	14:37:38	40550	16.95	14:37:39	40550
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
Total										50000
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
Total										80000
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
Total										35000
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
Total										20000

13. It is clear from the above table that the transactions were a result of orders that were introduced into the system at the same time or with a difference of a few seconds, the price and quantity being the same in each case.
14. I have observed that the above transactions were a part of an exercise undertaken by Tropical, on behalf of its related entities, namely, M/s CFL Securities Ltd., M/s Harbinger Trading Co. Pvt. Ltd. and M/s Aditi Dalal, who

were in need of funds. The modus operandi followed by the involved entities are as under:

- a. Tropical would sell shares on spot/off market basis to various entities and would receive funds immediately.
 - b. The entities, who bought the shares on spot/off market basis, would in turn sell them on the exchange through other broking entities- M/s. Pawankumar Parmeshwarlal, M/s Lallubhai Ranchoddas, M/s. PNR Securities Ltd. etc. to Tropical itself, by way of matched transactions (as detailed above at para 12) immediately, in order to safeguard the financing made available by these entities to Tropical.
 - c. Thus, these entities would sell the shares bought from Tropical, to Tropical itself, on the stock market, through various brokers, ostensibly to create an obligation on the part of Tropical to return the monies financed. 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. 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. A scrutiny of the Demat account statement furnished by Tropical showed that demat credits were made to entities who were not its clients. It appears that Tropical was making adjustment for its related client as far as delivery of shares was concerned.
15. Thus, Tropical has mis-utilised and put to risk the stock exchange mechanism by transferring/mirroring its/its clients' off-the-market financing transactions, on to the exchange system, in an inappropriate manner and in doing so, they have also created artificial volumes in the market.

16. An analysis of the above said facts and the submissions lead me to the following conclusions regarding the transactions of Tropical in the scrip of SRL:
- a. Acting in concert with the clients and aiding and abetting them in executing transactions that are not genuine.
 - b. Being a party to creation of artificial volumes in the scrip of SRL.
17. By virtue of the above, I conclude that Tropical 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 and Schedule II Clause A (2) & A(4) of Regulation 7 of the SEBI (Stock Brokers & Sub-Brokers) Regulations,1992 which read 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)"*

Schedule II Clause A

- 1.*
- 2. A stock-broker shall act with due skill, care and diligence in the conduct of all his business.*
- 3.*
- 4. A Stock Broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock broker shall not involve himself in*

excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

Thus, the said broker is liable for action under regulation 13(1)(a) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.

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 Tropical in the transactions which are prohibited can not be allowed as such transactions are likely to have a detrimental effect on the functioning of the securities market.
19. I find that Tropical 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. Hence, I agree with the recommendation of the Enquiry Officer that the registration of Tropical be suspended for a period of two months.

ORDER

20. 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 Regulations 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. Tropical Securities and Investments Pvt. Ltd., member, BSE, be suspended for a period of two months.

21. This order shall come into force immediately 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