

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

DIRECTION UNDER SECTION 11B READ WITH SECTION 11(4)(b) OF SECURITIES AND EXCHANGE BOARD OF INDIA, ACT, 1992 READ WITH REGULATION 11 AND 12 OF SEBI (PROHIBITION OF FRAUDULANT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003.

AGAINST M/S. P. L. CHOUDHARY & COMPANY, SMT. SABITARIDEVI CHOUDHARY AND SMT. SARITA CHOUDHARY, IN THE MATTER OF M/S. SURYA ROSHNI LIMITED.

BACKGROUND

1. The shares of M/s Surya Roshni Ltd. (hereinafter referred to as 'SRL') 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. Investigations revealed that M/s. P. L. Choudhary & Co., Smt. Sabitaridevi Choudhary and Smt. Sarita Choudhary (hereinafter referred to as 'Choudharys') had traded extensively in the shares of SRL, both on the exchange and on spot basis, thereby being a party to creation of artificial volumes in the scrip. It was also seen that most of the transactions done on their behalf were matched/structured transactions that mirrored the transactions crystallized outside the exchange mechanism.

SHOW CAUSE NOTICE AND HEARING

5. Pursuant to the investigation, a show cause notice dated 26.05.03 was issued to the Choudharys, asking them to show cause as to why a suitable direction under Section 11B read with Section 11 (4) (b) of SEBI Act, including a direction prohibiting them from dealing in securities for a particular period, should not be issued. It was also mentioned that if they failed to submit any reply within the stipulated period of 15 days, it would be presumed that they had nothing to say in the matter and SEBI would be free to take such action as deemed fit.
6. The Choudharys submitted a reply vide their letter dated 09.06.03, wherein they had submitted that they had not dealt in the shares of SRL with a view to create artificial volume or price fluctuations in the market. They stated that they had dealt in the shares of the company in the manner mentioned, under the assumption that these were normal transactions and that such transactions were done by SHCIL also.

7. An opportunity of hearing was given to the Choudharys before me on 21.04.04, on which date Mr. P. L. Choudhary appeared before me on behalf of the Choudharys and reiterated the submissions in the reply as specified above, orally and in writing. I proceed to analyse the issues based on the facts brought out in the investigation and the submissions made by the Choudharys in their reply and at the time of hearing before me.

ISSUES FOR CONSIDERATION AND FINDINGS

8. I understand that M/s. P. L. Choudhary & Co. is owned by Mr. P. L. Choudhary. He is the husband of Smt. Sabitaridevi Choudhary and father-in-law of Smt. Sarita Choudhary. The brokerage firm M/s. Pawankumar Parmeshwarlal (hereinafter referred to as 'pawankumar'), through whom the Choudharys had done all their transactions in SRL, is run by Mr. Pawankumar Parmeshwarlal, son of Mr. P. L. Choudhary. The said brokerage firm is administered by Mr. P. L. Choudhary, as per his own admission. Thus, the parties to the deals as explained herein below are related among each other.
9. The following tables provide the details of the shares purchased by the Choudharys from Tropical on spot/off-market basis:

M/s. P. L. Choudhary & Co.				
Sr. No	Settlement No	Name of the Broker	Gross Purchases	Rate
1.	A / 10	Tropical	3,500	19.70
			4,000	19.80
			40,000	20.20
			10,000	20.30
			9,500	20.35
2.	A / 11	Tropical	40,000	20.60
Sabitaridevi Choudhary				
Sr. No	Settlement No	Name of the Broker	Gross Purchases	Rate

1.	A / 12	Tropical	35,000	19.85
2.	A/13	Tropical	7,500	21.65
3.	A / 14	Tropical	12,000	19.95
			10,000	20.10
			9,000	20.20
			8,000	20.45
			6,000	20.60
4.	A / 16	Tropical	50,000	19.70
5.	A / 22	Tropical	10,000	17.10
			20,000	17.30
Sarita Choudhary				
Sr. No	Settlement No	Name of the Broker	Gross Purchases	Rate
1.	A / 10	Tropical	5,300	20.70
2.	A / 11	Tropical	5,000	20.35
3.	A / 14	Tropical	25,000	19.70
			15,000	19.75
4.	A / 16	Tropical	50,000	19.70
5.	A / 17	Tropical	10,000	18.25
6.	A / 20	Tropical	50,000	18.00
7.	A / 21	Tropical	80,000	17.20
8.	A / 22	Tropical	5,000	17.30
			20,000	17.70

10. The aforesaid shares, purchased on various dates, on spot/off-market basis, were sold through pawankumar, their broker, immediately on receipt of the shares into the account of the Choudharys. The shares were sold back to Tropical itself or its related entities, on the exchange, the details of which are enumerated in the following table:

Client: M/s. P. L. Choudhary & Co. (Prop.: Shri P. L. Choudhary)				
Name of the Broker	Sett. No.	Buy	Sell	Net
Pawankumar	10	0	67,000	-67,000
	11	0	40,000	-40,000
Total		0	1,07,000	-1,07,000
Client: M/s. Sabitaridevi Choudhary				
Name of the broker	Sett. No.	Buy	Sell	Net
Pawankumar	12	0	35,000	-35,000
	13	0	7,500	-7,500
	14	0	45,000	-45,000
	16	0	50,000	-50,000

	22	0	30,000	-30,000
Total		0	1,67,500	-1,67,500
Client: Smt. Sarita Choudhary				
Name of the broker	Sett. No.	Buy	Sell	Net
Pawankumar	10	0	5,300	-5,300
	11	0	50,000	-50,000
	14	0	40,000	-40,000
	16	0	50,000	-50,000
	17	0	10,000	-10,000
	20	0	50,000	-50,000
	21	0	80,000	-80,000
	22	0	25,000	-25,000
Total		0	3,10,300	-3,10,300

11. All the above transactions carried out by the Choudharys, through Pawankumar, were found to have been matched/structured with Tropical Securities and Investments Pvt. Ltd., member, BSE (Tropical) or its related entities i.e. entities from whom the shares were initially purchased by the Choudharys, on a spot/off-market basis. The table below gives the instances of such matched trades between Pawankumar and Tropical:

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

As can be seen from the table above, almost all the shares sold by Pawankumar have been purchased by Tropical and the time differential

between the placing of purchase and sale order is negligible in most of the transactions, indicating clearly that the orders were sought to be matched with each other.

12. I have observed that the above transactions were a part of an exercise undertaken by the 3 clients of pawankumar to finance Tropical. The same has also been admitted to, by Tropical. The modus operandi followed by the involved entities are as under:
 - a. Tropical would sell shares of SRL to the Choudharys on spot/off market basis and the Choudharys would make payments to Tropical for the shares so bought. Immediately, in order to safeguard the financing made available by them to Tropical, they would sell the shares bought from Tropical, to Tropical itself, on the stock market, through pawankumar, ostensibly to create an obligation on the part of Tropical to return the monies financed. [As seen from the table at para 11 above, in almost all the trades executed pawankumar on behalf of the Choudharys, the counterparty broker was Tropical, a fact which goes on to verify the said charge.]
 - b. Therefore, the shares, originally bought from Tropical on a spot basis, would revert to Tropical itself, 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.
 - c. As regards the financing of Tropical, it was understood that Tropical [on behalf of its related entities] 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.

- d. At BSE, the bulk of these transactions took place with Tropical on one side and pawankumar on the other (acting for the Choudharys). As already stated above, Tropical sold shares to the Choudharys on spot/off market basis. To safeguard the financing made available by them clients to Tropical, the Choudharys immediately sold these shares on the market through pawankumar. The shares would thus flow back from the Choudharys to Tropical.
13. In view of the above, the Choudharys are responsible for creating false and misleading appearance of trading in the market, in the shares of SRL, by rotating the same set of shares through the stock exchange and also for misutilising the stock exchange mechanism, by transferring/mirroring their off the market financing transactions on to the exchange, 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. The submission that this was done for the purpose of raising temporary finance to meet the pay-in obligations of Tropical is of no consequence in the present case, as the stock exchange is meant for genuine transactions and is not a forum for such funding activities.
 14. From the above, I conclude that the Choudharys have been responsible for creation of artificial volume and misleading appearance of trading in the market; put to risk the exchange mechanism by transaferring/mirroring the transactions carried out through off-market deals, on to the stock exchange. Therefore, I hold them guilty of having violated the provisions of Regulation 4 (b) and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 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)
- (e).....

15. I note that Regulation 13 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 reads as under :-

“Repeal and savings

- 13. (1) *The Securities and Exchange Board of India ((Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 is hereby repealed.*
- (2) *Notwithstanding repeal of the Securities and Exchange Board of India ((Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, any violation of regulations 3, 4, 5 and 6 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 shall be investigated and proceeded against in accordance with the procedure laid down in these regulations.*
- (3) *Notwithstanding repeal of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, any investigation pending, at the commencement of these regulations shall be continued and disposed of in accordance with the procedure laid down in these regulations.”*

16. I find that the Choudharys are responsible for creating false and misleading appearance of trading and manipulation in the scrip of SRL. Innocent investors would be induced to trade by such false appearance of trading in the securities market, unless these unscrupulous activities are prevented/contained. In view of my findings mentioned hereinabove, I find that it is a fit case for issue of directions against the Choudharys, whose conduct is detrimental to the interest of investors and the securities market.

ORDER

17. Therefore, in exercise of the powers conferred upon me by virtue of Section 19 read with Sections 11 and 11B of the Securities and Exchange Board of India Act, 1992 read with Regulation 4 (b) and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and Regulation 13 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, I hereby direct that M/s. P. L. Choudhary & Co., Smt. Sabitaridevi Choudhary and Smt. Sarita Choudhary be restrained from accessing the securities market and prohibited from buying, selling or dealing in securities, directly or indirectly, for a period of three months.
18. This direction shall come into force with immediate effect.

PLACE : MUMBAI
DATE : SEPTEMBER 30, 2004

A.K.BATRA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA