

SECURITIES AND EXCHANGE BOARD OF INDIA

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. HARBINGER TRADING COMPANY PRIVATE LIMITED, 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. It was found from the investigations that M/s. Harbinger Trading Co. Pvt. Ltd. (hereinafter referred to as 'Harbinger') had traded in the scrip of SRL, both on the exchange and off the market, thereby being a party to creation of artificial volumes in the scrip. It was also seen that most of the transactions done by them 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 Harbinger 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 then, 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. Harbinger submitted a reply vide their letter dated 30.06.03, 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 and that the transactions were done only as a temporary means of funding CFL Securities/Tropical Securities and Investment Pvt. Ltd., as they were facing hardships for a long time. They further stated that they had not committed any violations intentionally.
7. An opportunity of hearing was given to Harbinger before me, on 21.04.04, on which date Shri Deepak Shah, Director, Harbinger, appeared before me and reiterated their submissions in the reply as specified above. I proceed to analyse the issues based on the facts brought out in the investigation and the submissions made by Harbinger in their reply at the time of hearing before me.

ISSUES FOR CONSIDERATION AND FINDINGS

8. I observe from the investigations that Harbinger had traded in the shares of SRL through 3 brokers, namely, M/s CFL securities Ltd., M/s Tropical Securities & Investments Ltd. and M/s Lallubhai Ranchhoddas, during the investigation period. I have also noted that they had accounted for a majority of the trading in SRL during the said period. The transactions carried out by Harbinger in the scrip of SRL with/through the brokers of BSE/NSE are as below:

Name of the Broker	Sett. No.	Buy	Sell	Net
M/s. CFL Securities Ltd.	21	4,57,000	2,39,900	2,17,100
	22	3,74,900	2,39,900	1,35,000
	23	2,79,700	0	2,79,700
	27	2,55,000	0	2,55,000
	28	10,000	0	10,000
	30	10,000	10,000	0
	31	2,49,002	2,49,002	0
	32	2,27,351	40,550	1,86,801
	33	1,86,002	2	1,86,000
	34	10,000	0	10,000
	35	1,25,100	100	1,25,000
	36	10,000	0	10,000
Total		21,94,055	7,79,454	14,14,601
M/s. Tropical Securities	08	2,39,800	2,39,800	0
and Investment Pvt. Ltd.	09	2,39,800	2,39,800	0
	10	3,37,400	2,79,700	57,700
	11	90,400	100	90,300
	12	35,000	0	35,000
	13	7,500	0	7,500
	14	450	450	0
	16	1,00,001	0	1,00,001
	17	10,000	10,000	0
	18	1,10,000	10,000	1,00,000
	19	2,49,000	1,17,350	1,31,650
	20	90,550	0	90,550
	21	80,000	0	80,000
	22	55,000	0	55,000
Spot –	31/05/00		5,300	-5,300
Spot –	01/06/00		67,000	-67,000
Spot –	06/06/00		50,000	-50,000
Spot –	08/06/00		40,000	-40,000
Spot –	13/06/00		35,000	-35,000
Spot –	21/06/00		7,500	-7,500
Spot –	28/06/00		85,000	-85,000
Spot –	04/07/00		16,000	-16,000

Spot –	12/07/00		1,00,000	-1,00,000
Spot –	12/07/00		84,000	-84,000
Spot –	12/07/00		1,55,000	-155,000
Spot –	19/07/00		10,000	-10,000
Spot –	25/07/00		1,00,000	-100,000
Spot –	09/08/00		50,000	-50,000
Spot –	17/08/00		80,000	-80,000
Spot –	23/08/00		35,000	-35,000
Spot –	25/08/00		20,000	-20,000
Total		16,44,901	18,37,000	-1,92,099
M/s. Lallubhai Ranchodas	10	0	25,000	-25,000

9. The transactions entered into by Harbinger through M/s. CFL Securities Ltd. & M/s. Tropical Securities & Investment Pvt. Ltd. with the following brokers have been matched/structured:

a. Details of structured transactions of M/s CFL Securities Ltd. with DGP Securities Ltd.

(Client: Asha Devi Beriwalla and DGP Research A/c.)

Order Date	Order Trade	Qty.	Buy Order Time	Order No.	Buying TM	Buy Order Volume	Price	Sell order time	Sell order no.	Selling TM	Sell order vol.	Sell order price
29/5/00	340419	50000	13:12:56	200005290513010	CFL	50000	20.25	13:12:29	200005290512988	DGP	50000	20.25
29/5/00	340742	50000	13:13:09	200005290513534	CFL	50000	20.25	13:13:09	200005290513542	DGP	50000	20.25
29/5/00	341306	35000	13:13:22	200005290513965	CFL	35000	20.25	13:22:22	200005290513977	DGP	35000	20.25
5/7/00	579729	10000	15:12:47	200007050870156	CFL	10000	19.80	15:12:46	200007050870133	DGP	10000	19.80
12/7/00	143449	42000	11:05:13	200007120250951	CFL	42000	19.80	11:05:12	200007120250941	DGP	42000	19.80
12/7/00	143832	42000	11:05:31	200007120251615	CFL	42000	19.80	11:05:31	200007120251612	DGP	42000	19.80
26/7/00	101330	50000	10:21:55	200007260157869	CFL	50000	18.00	11:21:54	200007260157840	DGP	50000	18.00
26/7/00	102005	50000	10:22:11	200007120259012	CFL	50000	18.20	10:22:09	200007120258858	DGP	50000	18.20
26/7/00	102582	50000	10:22:24	200007260159890	CFL	50000	18.30	10:22:24	200007260159855	DGP	50000	18.30
26/7/00	103448	36000	10:22:43	200007260161156	CFL	50000	18.40	11:22:44	200007260161210	DGP	50000	18.40
26/7/00	104230	10000	10:23:04	200007260162561	CFL	39000	18.50	11:23:04	200007260162533	DGP	39000	18.50
2/8/00	90150	50000	10:36:50	200008020172443	CFL	10000	18.40	10:36:49	200008020172399	DGP	10000	18.40
8/8/00	202846	50000	11:26:08	200008080328773	CFL	50000	16.80	11:26:07	200008080328747	DGP	50000	16.80
8/8/00	203792	50000	11:26:37	200008080330097	CFL	50000	16.85	11:26:37	200008080330092	DGP	50000	16.85
18/8/00	331042	50000	13:23:42	200008180563562	CFL	10000	16.80	13:23:42	200008180563535	DGP	1000	16.80
23/8/00	677449	39000	15:17:20	200008230978216	CFL	25000	16.85	15:17:20	200008230978195	DGP	25000	16.85
23/8/00	678057	50000	15:17:32	200008230978939	CFL	25000	16.90	15:17:32	200008230978961	DGP	25000	16.90
23/8/00	678654	50000	15:17:44	200008230979678	CFL	25000	16.80	15:17:44	200008230979636	DGP	25000	16.80

23/8/00	679346	10000	15:18:01	200008230980 657	CFL	25000	16.85	15:18:00	200008230980 633	DGP	25000	16.85
23/8/00	699290	10000	15:25:14	200008231004 932	CFL	25000	16.85	15:25:14	200008231004 919	DGP	25000	16.85
30/8/00	623836	25000	14:54:22	200008300921 685	CFL	10000	17.85	14:54:22	200008300921 659	DGP	10000	17.85

As is evident from the above table :

- i) CFL Securities Ltd. has entered into structured transactions with M/s. DGP Securities Ltd.
- ii) The buying client for these trades was Harbinger (through CFL Securities).
- iii) These orders have been placed at almost the same time and for the same quantity and the same rate.

b. Details of structured transactions with Rosy Blue Securities Pvt. Ltd.

(Client: Tropical Securities & Investment Pvt. Ltd.)

Order Date	Order Trade	Qty.	Buy Order Time	Order No.	Buying TM	Buy Order Volume	Price	Sell order time	Sell order no.	Selling TM	Sell order vol.	Sell order price
3/7/00	471829	5000	14:58:12	200007030722 808	CFL	5000	20.35	14:58:12	200007030722 830	Rosy	5000	20.35
3/7/00	472297	10000	14:58:27	200007030723 391	CFL	10000	20.35	14:58:27	200007030723 399	Rosy	10000	20.35
3/7/00	472789	10000	14:58:42	200007030723 969	CFL	10000	20.25	14:58:43	200007030723 993	Rosy	10000	20.25
3/7/00	473369	10000	14:59:03	200007030724 775	CFL	10000	20.20	14:59:03	200007030724 763	Rosy	10000	20.20
3/7/00	474076	10000	14:59:33	200007030725 821	CFL	10000	20.25	14:59:36	200007030725 889	Rosy	10000	20.25
3/7/00	474876	5000	15:00:12	200007030727 091	CFL	5000	20.30	15:00:13	200007030727 110	Rosy	5000	20.30
4/7/00	351664	5000	13:39:39	200007040557 111	CFL	5000	19.40	13:39:40	200007040557 115	Rosy	5000	19.40
4/7/00	352027	15000	13:39:58	200007040557 595	CFL	15000	19.45	13:39:57	200007040557 575	Rosy	15000	19.45
4/7/00	352306	10000	13:40:12	200007040557 947	CFL	10000	19.40	13:40:13	200007040557 959	Rosy	10000	19.40
4/7/00	352659	11000	13:40:31	200007040558 464	CFL	11000	19.45	13:40:31	200007040558 473	Rosy	11000	19.45
4/7/00	352990	9000	13:40:50	200007040558 961	CFL	9000	19.40	13:40:51	200007040558 980	Rosy	9000	19.40
4/7/00	353257	15000	13:41:07	200007040559 81	CFL	15000	19.45	13:41:07	200007040559 393	Rosy	15000	19.45
4/7/00	353448	15000	13:41:20	200007040559 700	CFL	15000	19.40	13:41:20	200007040559 797	Rosy	15000	19.40
4/7/00	353805	20000	13:41:39	200007040560 179	CFL	20000	19.45	13:41:39	200007040560 191	Rosy	20000	19.45
4/7/00	401221	25000	14:18:29	200007040624 433	CFL	25000	20.00	14:18:29	200007040624 458	Rosy	25000	20.00
4/7/00	401548	25000	14:18:46	200007040624 995	CFL	25000	19.80	14:18:45	200007040624 980	Rosy	25000	19.80
4/7/00	402135	25000	14:19:12	200007040625 802	CFL	25000	19.75	14:19:13	200007040625 808	Rosy	25000	19.75
4/7/00	402559	30000	14:19:34	200007040626 448	CFL	30000	20.05	14:19:33	200007040626 410	Rosy	30000	20.05

- i. CFL Securities has entered into 18 structured transactions amounting to a total of 2,55,000 shares with Rosy Blue Securities Ltd.
- ii. All these orders were executed by CFL on behalf of Harbinger. The other side of the transactions was executed by Rosy Blue Securities Pvt. Ltd. for Tropical Securities & Investments Ltd.
- iii. The orders for all the above deals have been placed at the same time at the same price for the same quantity.

c. Details of structured transactions with Ventura Securities Ltd.

(Client: Globex Financial Services Ltd.)

Order Date	Order Trade	Qty.	Buy Order Time	Order No.	Buying TM	Buy Order Volume	Price	Sell order time	Sell order no.	Selling TM	Sell order vol.	Sell order price
17/5/00	284387	100000	13:26:30	200005170465730	CFL	100000	19.90	13:26:29	200005170465719	Ventura	100000	19.90
17/5/00	284728	100000	13:26:47	200005170466092	CFL	100000	19.85	13:26:47	200005170466082	Ventura	100000	19.85
17/5/00	284915	17000	13:27:07	200005170466503	CFL	17000	19.80	13:27:07	200005170466492	Ventura	17000	19.80

- i) A total of 3 structured deals have been executed between CFL Securities and Ventura Securities Ltd. amounting to a total of 2,17,000 shares.
- ii) The client for these trades was also Harbinger on one side.
- iii) These orders have been placed at almost same time and for the same quantity and the same rate.

d. Details of structured transactions with PNR Securities Ltd.

(Client: Tropical Securities & Investment P. Ltd.)

Order Date	Order Trade	Qty.	Buy Order Time	Order No.	Buying TM	Buy Order Volume	Price	Sell order time	Sell order no.	Selling TM	Sell order vol.	Sell order price
13/7/00	42391	55000	10:06:33	200007130071981	CFL	55000	20.00	10:06:33	200007130072015	PNR	55000	20.00
13/7/00	43335	100000	10:06:50	200007130073687	CFL	100000	20.00	10:06:50	200007130073694	PNR	100000	20.00

- i) CFL Securities Ltd. has entered into 2 structured transactions with M/s. PNR Securities Ltd.

- ii) The buying client for these trades was Harbinger Trading through CFL Securities and Tropical Securities & Investment Ltd. was the selling client. Both the clients are related to each other.
 - iii) These orders have been placed at almost same time and for the same quantity and the same rate.
- 10. As observed from the submissions made by Harbinger, I understand that the transactions, as detailed above, were a part of an effort to raise temporary funds for meeting the pay-in obligations of M/s CFL Securities Ltd. and M/s Tropical Securities and Investments Pvt. Ltd., who were facing a funds crunch at that time. The methodology by which these transactions had been carried out and the manner in which funds had been routed is as follows:
 - i. Tropical had a block of (approx. 2,35,000) shares of SRL and instead of selling them in the open market, they had arranged funding through M/s. Aditi Dalal/Harbinger Trading, who in turn arranged spot funding from different entities and these clients who had provided funding on the basis of SRL shares, sold these shares through different brokers of BSE/NSE to Tropical itself, by way of matched transactions as shown in the tables above.
 - ii. In each of the above transactions, the selling client on the exchange had funded the off market transaction of Harbinger. The selling client would buy shares of SRL from Harbinger in off market deals and immediately on receipt of the shares in their account, enter into a reverse transaction on the stock exchange, thereby creating an obligation on Tropical to return the monies lent by them to Harbinger.
- 11. In view of the above, Harbinger has been 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/CFL 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. The said transactions have created a false/misleading appearance of trading in the scrip of SRL, which is not in accordance with the normal cycle and nature of transactions carried out at the stock exchange.

12. From the above, I conclude that harbinger has been responsible for creation of artificial volume and misleading appearance of trading in the market; put to risk the exchange mechanism by transferring/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).....

13. 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."*

14. I find that Harbinger was 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 Harbinger, whose conduct is found to be detrimental to the interest of investors and the securities market.

ORDER

15. 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. Harbinger Trading Company Pvt. Ltd. be restrained from accessing the securities market and prohibited from buying, selling or dealing in securities, directly or indirectly, for a period of six months.

16. 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