

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 CEEKAY HOLDINGS PVT. LTD., MEMBER, NATIONAL STOCK EXCHANGE OF INDIA LTD., IN THE MATTER OF MOREPEN HOTELS LTD.

Background

1. M/s. Ceekay Holding Pvt. Ltd. (hereinafter referred to as 'CHL') is registered with the Securities and Exchange Board of India (hereinafter referred to as 'SEBI') as a stock broker and is a member of the National Stock Exchange of India Ltd. (hereinafter referred to as 'NSE').

2. The shares of Morepen Hotels Ltd. (hereinafter referred to as 'MHL') were listed for trading on BSE and National Stock Exchange of India Ltd. There was a major spurt in price and volumes traded at these exchanges during the period August to December, 2000 ('said period'). It was observed that :

i. During the one year period of August, 1999 to July, 2000, the total volume traded at BSE was 74,700 shares, as against which, approximately 19 lac shares were traded in the period august-December, 2000. The average quantity traded during the one year preceding the said period was in the range of 100-2800 shares per day, as against which, the average quantity traded during the investigation period was in the range of 18,000 to 25,000 shares per day.

ii. Similarly, at NSE, the volumes in the scrip during May-August, 2000, were in the range of 200 to 500 shares. However, after August 25, 2000, the volumes went up manifold and were in the range of 18,000 to 25,000 shares per day.

iii. The price of the share at BSE, which was Rs. 193.30 as on 25.08.2000, rose to Rs. 264.25 on 09.09.2000 and fell to Rs. 138.95 on 27.11.2000. A similar pattern was noticed at BSE.

iv The delivery volumes during the said period were less than 1% of the total traded volume on the exchanges.

v The P/E ratio of MHL was not on par with the rest of the hotel Industry and hence the shares price did not appear to be justified, on the basis of fundamentals.

vi SEBI's investigation revealed that 80% of the volumes traded during the period June-December, 2000 were contributed by a handful of brokers of the exchange. It was found that the clients of these brokers, who were linked/connected to each other, had acted in concert through selected members of the exchanges and were involved in circular trading in the shares of MHL.

vii It was further observed that most of these clients had squared off their positions; not only at the end of the settlement, but also at the end of each day. It was found that the spurt in volumes was entirely contributed by the said "clients", as more than 90% of the trades were done by these entities, by entering into transactions which were "circular" in nature, the details of whose trades are as follows:

Sr. No.	Name of the Entity	Purchases	Sales	Gross
1.	M/s. Jem Fiscal Ltd.	10,37,800	10,32,001	20,69,801
2.	M/s. F. T. Traders	8,54,800	8,52,200	17,07,000
3.	M/s. K. N. Traders	6,26,226	6,26,226	12,52,452
4.	Prashant Investment	66,300	66,300	1,32,600
5.	K. P Investment	5,94,900	5,95,300	11,90,200
6.	S. M. Investment	3,04,000	3,04,000	6,08,000
7.	N. N. Investment	3,65,500	3,65,500	7,31,000
8.	Hakeem Auto Ltd.	6,610	4,100	10,710
	Total	38,56,136	38,45,627	77,01,763

3. CHL was one of the brokers who had traded extensively in the shares of MHL, for one of the "clients" during the said period. An enquiry officer was appointed to conduct an enquiry into the contravention/s alleged to have been committed by the said broker, while dealing in the scrip of MHL and for possible violations of the provisions of the SEBI (Stock Brokers and Sub-Brokers) Rules and Regulations, 1992 (hereinafter referred to as the said Regulations) and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (hereinafter referred to as "the PFUTP Regulations") and Rules, Bye laws and Regulations of NSE.

4. The enquiry officer, after conducting an enquiry in accordance with the provisions of regulation 13 of the Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002 (hereinafter referred to as 'the Enquiry Regulations'), submitted a report dated 30.04.04 and recommended that a minor penalty of warning imposed on CHL.

SHOW CAUSE NOTICE

5. Pursuant to the receipt of the Enquiry report, a show cause notice dated 06.05.04 was issued to CHL, along with a copy of the enquiry report, advising them to show cause as to why the penalty, as recommended by the Enquiry Officer, should not be imposed on them. CHL submitted his reply to the said show cause notice, vide letter dated 21.5.04, wherein they had submitted that :

i. The percentage of volume in MHL was not more than 2-4% of their total volumes.

ii. They were doing institutional business and had never been involved with any unfair trade practices. During the said period, the closing price of the scrip touched a low of Rs. 68.60 on August 04, 2000 and a high of Rs. 95.00 on September 12, 2000 on BSE whereas at NSE the scrip touched the lowest price of Rs. 67.40 on August 08, 2000 and a high of Rs. 96.15 on September 06, 2000.

FINDINGS

6. I have considered the contents of the Enquiry Report, the show cause notice, the replies and submissions of the broker. My findings with respect to the allegations leveled against CHL are as under.

7. I have noted that CHL had traded in the scrip of MHL on behalf of 3 clients, namely, M/s. F. T. Traders, M/s. Jem Fiscal Ltd. and Mrs. Alka Parag Shah. However, the main client of Ceekay Holdings Pvt. Ltd. during the period of investigation was M/s. F. T. Traders and their trading in the scrip is given as under:

Settl. No.	Gross Purchases	Gross Sales	Net
37	24,500	24,500	0
38	8,100	8,100	0
39	6,700	6,700	0
40	4,700	4,700	0
41	5,500	5,500	0
42	9,400	9,200	+ 200
43	11,600	11,200	+ 400
44	5,200	5,400	- 200
45	7,700	7,800	-100
46	15,200	15,500	- 300
47	11,400	11,100	+ 300
48	9,800	10,800	- 1000
49	12,600	12,000	+ 600
50	10,800	10,500	+ 300
51	11,400	11,900	- 500
52	10,200	9,700	+ 500
53	11,300	11,800	- 500
Total	1,76,100	1,76,400	-300

8. The other client, namely, M/s. Jem Fiscal Ltd. has purchased 10,500 shares and sold 9,600 shares of MHL through CHL during the period of investigation.

9. It is evident, from the trading pattern of the F. T. Traders that the client was squaring off most of his positions at the end of settlements and at times has picked up and given delivery of nominal 100-500 shares.

10. I have observed that the volumes in the scrip started going up from the last week of August 2000 and CHL had traded for the client continuously during the said period, a time when his client, along with other entities acting in concert, were trading in the scrip and creating artificial volumes in the scrip.

11. I note that CHL had executed trades for M/s. FT Traders and Jem Fiscal, 2 of the entities that had accounted for over 90% transactions during the investigation period, for a total purchase of 1,76,100 shares from Settlement no.37 to 53 and 10,500 shares respectively. Most of these transactions were squared off, with a negligible portion of the purchases resulting in delivery. I have noted the submissions of CHL that it had collected requisite margins, that the said clients were also dealing in other scrips, that the clients had never defaulted and that they were not aware about certain clients acting in concert or any abnormality in the trades by the clients.

12. I have observed that the client of CHL had traded in significant quantities through CHL. I have also observed that the said client had mostly squared off its positions, taking delivery of insignificant quantities of shares, if at all. I have also noted the observation of the investigating team that the bills of the said client ran into several pages, most of them pertaining to their transactions in MHL.

13. A prudent stock broker ought to have questioned the motives of the client and stopped trading for them, considering that the volumes in the scrip shot up only from August and the client was trading in significant quantities, without taking delivery of the shares.

Instead, CHL continued trading for the client across 17 settlements, which resulted in building up of artificial volumes and price in the scrip of MHL. Unsuspecting innocent investors would be trapped by such false appearance of trading in securities. This would be detrimental to the interest of investors and the orderly development of the securities market.

14. In view of the above, I don't see any valid reason to differ with the detailed findings of the enquiry officer or the recommendation made regarding the quantum of penalty to be imposed. I am fully convinced that the member should have exercised due care and caution while dealing in the shares of MHL. Therefore, I am convinced that CHL has failed to exercise due skill and care in terms of Clause A(2) of the Code of Conduct as specified in Schedule II read with Regulation 7 of the said regulations. I find that it is a fit case to issue a warning to the broker.

ORDER

15. Therefore, in exercise of the powers conferred upon me by virtue of Section 19 of the SEBI Act, 1992, read with Regulation 13(4) of SEBI (Procedure For Holding Enquiry By Enquiry Officer And Imposing Penalty) Regulations, 2002, I hereby pass an order issuing a warning to M/s. Ceekay Holdings Pvt Ltd., member, NSE, to the effect that the broker should be careful in future and exercise due care and diligence in the conduct of its affairs as a capital market intermediary. I also direct the broker to note that any instances of violations or non-compliance of the Securities and Exchange Board of India Act and the Rules and Regulations, in future, shall be dealt with stringently.

A K Batra

DATED : 25th October, 2004

WHOLE TIME MEMBER

PLACE : MUMBAI

SECURITIES AND EXCHANGE BOARD OF INDIA