

ORDER AGAINST M/s AMIN MULANI, MEMBER PUNE STOCK EXCHANGE, SEBI REGISTRATION NO. INB 110973416 UNDER REGULATION 13(4) SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 IN THE SCRIP OF HOME TRADE LTD.

WTM/GA/25/IVD/10/05

1.0 Background

1.1 M/s Amin Mulani (hereinafter referred to as 'the said broker') is a member of Pune Stock Exchange (hereinafter referred to as 'PSE') and a Stock Broker registered with the Securities and Exchange Board of India (hereinafter referred to as "SEBI") under certificate of registration No. INB 110973416.

1.2 Investigation

An investigation was conducted into the offer for sale and subsequent trading in the shares of M/s Home Trade Limited (hereinafter referred to as "HTL") by SEBI. The said investigations inter alia revealed that:-

- (a) HTL made an offer for sale for 59,90,250 shares @Rs.50/- each during the period October 27-30, 1999. Subsequent to the said open offer, the shares of HTL were listed on the Pune Stock Exchange (PSE) and Bangalore Stock Exchange (BgSE).
- (b) Shri Ketan Sheth, the promoter director of HTL and his associates who held large shareholding in HTL made applications for 24,30,000 shares (around 40.56% of the open offer) and were allotted 24,17,850 shares. The payment for these shares was made by Ketan Sheth and his associates out of the proceeds of the said open offer which they received through a circuitous route.
- (c) The allotment to Shri Ketan Sheth and his associates also led to a substantial part of the floating stock in the scrip of HTL being in the hands of the promoters/directors and associates of HTL.
- (d) After listing on the PSE, the price of the scrip showed a sharp increase from November 1999 to March 2000 rising from Rs.250/- to Rs.800/-. The sharp rise in the price of the scrip was attributed to circular trading in the shares of HTL amongst members of PSE including the said broker. It was also observed that buy and sell orders were placed by the said broker and other members of PSE at a rate much higher than the prevailing market price or the last traded price at the instance of Mr. Veerkar and Mr Rajneesh, employees of HTL, who introduced majority of the clients to the said broker and other brokers and also placed orders.
- (e) It was observed that the gross purchases and sales by the said broker as a percentage of total purchases and sales in the scrip of HTL for the three financial years accounted for significant volumes in PSE as under : -

Financial Year	Gross Purchases (Broker)	Gross Purchases in PSE	% of Total Purchases	Gross Sales (Broker)	Gross Sales in PSE	% of Total Sales
1999-2000	36200	161800	22.37	42100	160800	26.18
2000-2001	44500	729200	6.10	25000	729200	3.43
2001-2002	0	509785	0	0	509785	0

- (f) It was further observed that clients were not known to the said broker and that he did not maintain Client Registration forms for those clients. Some of the clients in respect of whom the irregularities were observed were:

- (i) Chakeshwari Finance
- (ii) Giltedge
- (iii) DTC Securities
- (iv) Indira Mehta,
- (v) Rajnish,
- (vi) Kirti Mehta,

- (vii) Simps Developers,
- (viii) Nilesh Kankaria,
- (ix) Meghana Patel

2.0 Enquiry Proceedings

- 2.1 In the light of the findings of investigation, an Enquiry Officer was appointed vide order dated 09.08.2002 under Regulation 28(1) of the SEBI (Stock Broker & Sub Broker) Regulations, 1992 (hereinafter referred to as "Broker Regulations") to enquire into the affairs of the said broker particularly in respect of trading in the shares of HTL. The enquiry officer issued show cause notice to the said broker under Regulation 6(1) of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulation, 2002 (hereinafter referred to as "Enquiry Regulations") on 28.3.2003.
- 2.2 The said broker submitted his reply and made submissions before the enquiry officer. The Enquiry Officer after considering the material on record and reply submitted his report dated 29.08.2003 recommending that the certificate of registration of the said broker be suspended for a period of 18 months.
- 2.3 In his report, the enquiry officer has come to the following findings :
- a. The said broker alongwith M/s. Yatin Shah, Shobha Investments and Harish Kadam had contributed 82% of the gross purchases and sales and 90% of the volume during the period 10.12.1999 to 20.1.2000.
 - b. The said broker alongwith M/s. Yatin Shah, Shobha Investments and Harish Kadam had indulged in Circular trading and thereby manipulated the price of the scrip of HTL.
 - c. The said broker had thereby violated Clauses A(1) to (4) of the Code of Conduct of Stock Brokers prescribed in Schedule II of the Broker Regulations and also Regulations 4(a) to (c) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995 (hereinafter referred to as "FUTP Regulations").

3.0 Show cause notice and Hearing

- 3.1 Show cause notice was issued to the said broker on 9.09.2003 advising him to show cause why penalty including the penalty recommended by the enquiry officer should not be imposed.
- 3.2 The said broker submitted the reply to the show cause notice and made submissions vide letter dated 4.11.2003. In the said letter, the said broker made the following submissions:
- a. The said broker submitted that the trading system at PSE is totally computerized and he, as a, member was operating from a Wide Area Network (WAN) System and other brokers mentioned in the report were operating from a Local Area Network (LAN) System. Therefore, it was impossible to collectively rig the price of the scrip.
 - b. The said broker submitted that the clients used to call them up and find out about the prevailing rate of HTL and place orders accordingly. They used to either buy or sell at the prevailing rates and they as a broker merely acted according to the instructions without knowing who the counterparty broker or client was. They used to receive payments and delivery and used to make the same in time.
 - c. In respect of placing orders at rates higher than prevailing market rates, the said broker submitted that the decision was made by the clients and he had no role to play in the same. There were no filters or warning about the price rise from PSE and therefore they were not in a position to know the percentage rise in price in a day or in a settlement or even over a period of time. Hence, they submitted that they could not be blamed for the rise in price.
 - d. The said broker submitted that PSE was a very small exchange and there were hardly 3 active scrips being traded during the period under investigation. It was necessary to introduce more and more scrips if the exchange was to survive, therefore, they took initiative and started trading actively in the scrip of HTL. They submitted that they did not do any wrong while trading in the scrip.
 - e. In respect of maintenance of client registration forms and client introduction forms, the said broker submitted that they had maintained the same only in respect of 50 to 60% of the clients but these were misplaced by them.
- 3.3 An opportunity of hearing was given to the said broker on 03.12.2003. Shri Amin Mulani appeared and submitted that the allegations made against them are not true and the same does not entail any action against them. The said broker was given seven days time to file written submissions and the same was received at SEBI on 5th December 2003.
- 3.4 Subsequently, the broker was given a fresh opportunity for personal hearing before me in accordance with the principles of natural justice. Broker was called upon to avail personal hearing on 31.08.2005, though he failed to appear for the hearing.

4.0 Consideration of issues

- 4.1 I have considered the report of the enquiry officer, the reply and submissions made by the said broker and other material on record. The issues that arise for consideration are dealt with as under:

(a) Whether the said broker had indulged in circular trading in the scrip of HTL

I note that the said broker along with Yatin Shah, Shobha Investments, and Harish Kadam contributed significantly to the volumes in the scrip during the period 10.12.1999 to 20.1.2000 wherein the price of the scrip had increased from Rs.280/- to Rs.720/- against low volumes. The details of trading by the said broker and other stock brokers are as under:

Broker	Yatin Shah		Shobha Investments		Amin Mulani		Harish Kadam		Total of 4 brokers		Total volume in the exchange	% of volume of 4 brokers vis-à-vis exchange	
Set No.	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell		Buy	Sell
39	3500	3800	0	0	2700	3600	100	100	6300	7500	9100	69.23	82.42
40	5200	4400	2500	3000	1500	600	2500	3000	11700	11000	13500	86.67	81.48
41	700	1600	1800	1800	2000	1900	1700	1700	6200	7000	9700	63.92	72.16
42	1600	1300	2300	1400	800	2600	1200	1200	5900	6500	9500	62.11	68.42
43	2600	2100	1800	2200	2600	2200	3900	4300	10900	10800	11900	91.60	90.76
44	1400	900	2100	2700	3400	2000	1900	2100	8800	7700	10100	87.13	76.24
									49800	50500	63800	78.06	79.15

I note that the aforesaid 4 brokers had contributed to 82% of the gross purchase and sales and 90% of the volumes during the period 15.11.1999 to 31.3.2000. The price of the scrip had also increased steeply during this period from Rs.270/- to Rs.815/- on average volumes of 2000 shares per day.

I note that the said broker in their statement dated 29/7/2002 stated that they have dealt in the scrip of HTL right from 15/11/1999 i.e. the date on which the shares of HTL were listed. The transactions were undertaken in the name of Mr. Chaitanya Parikh who was their employee and was related to Mr. Ketan Seth, broker of Pune Stock Exchange. They have stated that Mr. Seth asked them whether they would deal in the scrip of HTL. Further, Mr Seth sent Mr. Veerkar and Mr. Rajnish to their office at Pune. They also stated that Mr. Veerkar and Mr. Rajnish used to give in advance the names of the clients for whom the trades had to be executed. The said broker also submitted that the first trade was executed in the name of Chaitanya Parikh, employee of broker since the client details were not furnished by Mr. Veerkar and Mr. Rajnish.

I note that it was also in the knowledge of the said broker that Mr. Veerkar and Mr. Rajnish used to trade with other brokers in the scrip of HTL as per his statement. It was further admitted by the broker that Mr. Veerkar or Mr. Rajnish placed the orders, though Chakeshwari Simps Developers, Giltedge, Maniram, DTC Securities, Indira Mehta, Rajnish, Kirti Mehta who traded in the scrip of HTL were purported to be the clients. It was also admitted that either Mr. Veerkar or Mr. Rajnish used to give/ receive payments and deliveries for these clients. The said broker knew that Mr. Veerkar and Mr. Rajnish were employees of HTL. I also note that it was also admitted by the said broker that apart from Mr. Veerkar, Mr. Rajnish and Mr. Ketan Seth, he did not meet any of the aforesaid clients.

I note that as per the statement dated 29.07.2002, the said broker placed orders for purchase at a higher rate than the ongoing market rate as under at the instance of Mr. Rajnish / Mr. Veerkar.

Date	Time	Sale/Purchase	No. of shares	Rate	Market rate at that time	Counter party broker
4/1/2000	11:00 am	Purchase	100	568	552	247
---do---	1:07 pm	Purchase	200	578	572	110
---do---	2:16 pm	Purchase	100	578.25	578	110
---do---	2:16 pm	Purchase	200	578.50	578.25	77
---do---	2:47 pm	Purchase	100	581	578.50	77
10/1/2000	1:04 pm	Purchase	300	614	595	247
10/1/2000	1:52 pm	Purchase	200	617.50	613.50	99
---do---	2:49 pm	Purchase	200	621.50	618.75	91
---do---	3:07 pm	Purchase	300	624.75	621.50	247
---do---	3:27 pm	Purchase	200	631	627.50	91
13/1/2000	12:04 pm	Purchase	200	647.50	644	247
---do---	12:04 pm	Purchase	200	649	647.50	91
17/1/2000	11:38 pm	Purchase	300	677.75	674.50	91
17/1/2000	3:11 pm	Purchase	200	689	686.75	247
---do---	3:11 pm	Purchase	200	691.50	686.75	247
18/1/2000	11:15 am	Purchase	100	692	689	77
19/1/2000	11:10 am	Purchase	300	700.50	692	77
---do---	2:47 pm	Purchase	400	708	704.50	Amin Mulani

---do---	3:03 pm	Purchase	300	708.50	708	247
20/1/2000	10:45 am	Purchase	300	716.75	714.50	91
---do---	11:24 am	Purchase	300	722.50	719.50	Amin Mulani
---do---	12:02 pm	Purchase	100	729.90	722.25	247
---do---	12:02 pm	Purchase	200	729	727.90	8

77= Yatin Shah & Co.

91 = Shobha Investments

247 = Harish Kadam

I find from the pattern of trading between the said broker and M/s. Yatin Shah, Shobha Investments and Harish Kadam and also from the manner in which the said broker placed orders on behalf of his clients that there is a preponderance of possibility that the said broker and other brokers were involved in circular trading. This view is reinforced by the fact that the said broker and other broker were counterparties to each other and they accounted for most of the trading undertaken in the scrip during the said period.

In their reply, the said broker had not refuted this possibility and had rather confined his submissions to the fact that the trading system was computerized and that they acted merely upon instructions of their clients. I find the explanations and submissions of the said broker not satisfactory, besides skirting the issue and hence I find that the said broker had indulged in circular trading and manipulation of the price of scrip of HTL.

(b) Whether the said broker has violated the provisions of the act, rules or regulations

I note that the Regulation 4 (a) (b) (c) of the FUTP Regulations provides as under;

"No person shall –

- a. effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of securities, and thereby inducing the sale or purchase of securities by any person;*
- b. indulge in any act, whether 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".*

From the analysis of the data *supra* it will be seen that the broker had *indirectly taken part* in transactions in the shares of HTL

Broker's *intention of artificially raising the price* of scrip is evident from the pattern of his trades as shown in table on page 8 above as well as from his knowledge about the persons placing orders on behalf of the clients. Broker admitted that he had placed purchase orders at a higher rate than the ongoing market rate under the instructions of Mr Rajinish / Mr Veerkar. Besides, broker was aware that both these persons placing orders on behalf of the putative clients had close nexus with the management of Home Trade Limited.

It is normal in the securities market to sell the scrip when a higher price is offered to book profit. By offering higher price to the seller broker *had induced the sale* of the shares. Similarly, by offering as well as purchasing at higher and higher price in each subsequent transaction the broker had given the wrong impression about the liquidity of the scrip in the market. Hence, the conduct of the broker is in clear violation of Clause (a) of Regulation 4 of FUTP Regulations.

The aforesaid transactions of the broker *created misleading appearance* in the trading in the scrip by rigging the price of HTL scrip from Rs.280/-to Rs.720/- per share whereas the price rise was without any significant change in the business/performance of the company. Hence, the transactions of the broker are in violation of Clause (b) of Regulation 4 of FUTP Regulations.

Broker indulged in transaction which resulted *in projection of the price* of HTL scrip as abovementioned. Transactions of the broker *were not genuine trade transactions* due to the following reasons;

- a) Broker along with three other members of PSE named Shoba Investments, Amin Mulani and Harish Kadam were involved in circular trading of HTL scrip among themselves as shown in table on page 7 above.
- b) Trades of the broker along with his counterparty brokers contributed more than 82% of the gross purchase and 90% of the total traded volume of HTL scrip during the period of maximum price rise. i.e., 15.11.1999 to 31.03.2000.

- c) Clients were introduced by Mr. Veerkar who in turn introduced himself as a close associate of management of HTL. Besides, the broker did not meet the clients.

Hence, the broker has violated Clause (c) of Regulation 4 of FUTP Regulations.

Code of Conduct for stock brokers reads as under:

A. General.

- (1) *Integrity: A stock broker shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.*
- (2) *Exercise of due skill and care : A stock broker shall act with due skill, care and diligence in the conduct of all his business*
- (3) *Manipulation : A stock broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.*
- (4) *Malpractices : 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.*
- (5) *Compliance with statutory requirements : A stock broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.*

According to Webster's dictionary *integrity* means 'an unreduced or unbroken completeness or totality' or 'moral soundness'. Broker entered into the trades in the scrip of HTL with the knowledge that it was the management of the Home Trade Limited which was purportedly trading on behalf of the clients and the same evidences the lack of integrity on the part of a registered Stock Broker. The said conduct of the broker is in violation of Clause A (1) of the Code of Conduct. Broker had admitted the same in his statement dated 29.07.2002 as given in page 5 of the Enquiry Report. The same is reproduced as under;

"It was further admitted by the member that the orders were placed by Mr.Veerkar or Mr Rajnish though the clients were Chakeshwari , Simps Developers, Giltedge, Maniram , DTC Securities, Indira Mehta, Rajnish, Kirti Mehta who traded in the scrip of HTL. It was also admitted that either Mr. Veerkar or Rajnish used to give/receive payments and deliveries for these clients. The member knows that Mr. Veerkar and Mr. Rajnish are employees of HTL. It is also admitted that apart from Mr. Veerkar, Mr. Rajnish and Mr. Ketan Seth, the member did not meet any of the aforesaid clients."

Broker's failure in observing the Know Your Client norms and acceptance of orders from a third party on behalf of clients substantiate the fact that the broker has failed to *exercise due skill and care* in conducting his business. The said conduct of the broker is in violation of Clause A (2) of the Code of Conduct.

By trading in the scrip of HTL at higher and higher prices than the ongoing market rate the broker has *manipulated the price* of the scrip in the market which distorted the market equilibrium by raising the price of the scrip without any significant change in the financial outlook of the company. The said conduct of the broker is in violation of Clause A (3) of the Code of Conduct.

Indulging in circular trading with other brokers of the PSE with the intention to create artificial volumes in the scrip of HTL amounts to *malpractice* on the part of a registered stock broker which is in violation of Clause A(4) of Code of Conduct of brokers.

Broker has violated Regulation 4 of SEBI (FUTP) Regulations, 1995 as aforesaid. In addition, he has failed to maintain client registration forms and client introduction forms, which fact had been admitted by the said broker. I note that a stock broker is required to obtain registration forms from clients and also obtain introduction. These instructions have been given by SEBI vide circulars issued from time to time under Section 11 of the SEBI Act. By failing to comply with the directions given in the said circulars, broker has failed to comply with statutory requirements and thereby violated Clause A (5) of the Code of Conduct.

I also note that Regulation 7 of the Broker Regulations provides that a stock broker shall at all times abide by the provisions of the Code of Conduct. Thus, I find that the said broker has violated Regulation 7 of the Broker Regulations.

(c) Whether the penalty recommended by the enquiry officer is appropriate in the facts and circumstances of the case

I have found that the said broker has indulged in manipulation of the price of the scrip of HTL and failed to maintain records such as client registration and client introduction forms. The said violations constitute violations of the broker regulations, the code of conduct for stock brokers and also of the FUTP Regulations.

The act of manipulating prices by circular trading has far reaching consequences on the safety and integrity of the securities market. I find that by that act, the said broker alongwith other brokers mentioned hereinbefore had attempted to defraud investors in the securities market for their personal gain. By their acts, they had artificially increased the price of HTL to unreasonable levels which were unsustainable given the performance of the company or its economic fundamentals.

I find that it is necessary in the interest of the securities market and for better regulation of the market and as a measure of investor protection that stock brokers such as the said broker be restrained from carrying on activities as an intermediary for a given period. Therefore, I agree with the recommendation of the enquiry officer.

5.0 Order

In view of the above, I, in exercise of powers conferred on me under Section 19 of the SEBI Act read with Regulation 13(4) of the enquiry regulations and Regulation 11 of the FUTP Regulations, 2003 do hereby suspend the certificate of registration bearing No.INB110973416 granted to M/s Amin Mulani for a period of 18 months.

This order shall come into effect 21 days after the date of the order.

Date : 24.10.2005

Place : MUMBAI

G.ANANTHARAMAN

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA