

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER AGAINST M/s CHIRAG INVESTMENT., (PROPRIETOR : SHRI DHIRENDRA LILADHAR RAJA), MEMBER PUNE STOCK EXCHANGE, SEBI REGISTRATION NO. INB110955511 UNDER REGULATION 13(4) SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 FOR THE IRREGULAR TRANSACTIONS IN THE SCRIP OF HOME TRADE LTD.

WTM/GA/26/1VD/10/05

1.0 **BACK GROUND**

- 1.1 M/s Chirag Investment (hereinafter referred to as the 'broker') is a member of the Pune Stock Exchange (hereinafter referred to as 'PSE') and is registered with the Securities and Exchange Board of India (hereinafter referred to as 'SEBI') as a Stock broker under Section 12 of SEBI Act, 1992 with Registration Number INB110955511.
- 1.2 The scrip of Home Trade Ltd.(HTL) was listed at Pune Stock Exchange(PSE) and Bangalore Stock Exchange(BgSE). The scrip was listed at Pune Stock Exchange on November 15, 1999 at Rs 250/- and at BgSE on November 16, 1999 at Rs.275. There was a very sharp price rise in the scrip both at PSE and BgSE. The prices reached Rs.315 within two weeks i.e. by December 06, 1999. Thereafter, there has been a burgeoning increase in the prices of the scrip as under:

Date	Price in Rupees
December 30, 1999	525.00
January 31, 2000	735.00
March 31, 2000	809.00
May 05, 2000	874.00

The maximum rise in the price of the scrip took place between November 16, 1999 and March 31, 2000 when the price moved from Rs.275 to Rs.815/-. Thereafter the price fell to Rs. 640/- in September 25, 2000. Subsequently, the face value of the shares changed to Rs. 2/- and the price went up from a level of Rs. 123/- on September 26, 2000 to Rs.171/- during February 2001. The scrip continued to trade at around Rs. 150/- till September 14, 2001 and thereafter in the range of Rs. 170/- till January 2002.

- 1.3 Thus during the period of investigation i.e. April 1, 2000 to December 2001 (hereinafter referred to as the period under consideration), two different periods of trading were identified as follows :

a) 1st April 2000 to 31st March 2001

Name of the Broker	Buy qty	% to the total vol. at exchange	Sell qty	% to the total vol. at exchange
Shrine Investments	153900	22.05	154400	22.12
Shoba Investments	143200	20.52	139500	19.99
Yatin Shah & Co.	122100	17.50	102300	14.66
Kabu Invest.Services	105900	15.17	105900	15.17
Trimty Invest.	75200	10.78	75200	10.78
Vinod Kumar Jaggnath	62100	8.90	62100	8.90
Amin Mulani	24600	3.52	44100	6.32
Total	687000	98.44	683500	97.44

From the above it is clear that these 7 brokers mentioned above have constituted about 98% of the total volume in this scrip at Pune Exchange.

b) 1st April of 2001 to 31st December 2001

Name of the Broker	Buy qty	% to the total vol. at exchange	Sell qty	% to the total vol. at exchange
Shoba Investments	75100	17.59	75100	17.59
Yatin Shah & Co.	60300	14.13	56100	13.14
Kabu Invest.Services	47500	11.13	47500	11.13
Trimty Invest.	41100	9.63	41100	9.63
Shrine Investments	37400	8.76	39700	9.30

Kanchan Investments	34500	8.08	32400	7.59
Sharad B Shah	28600	6.70	24900	5.83
Clever Investments	21300	4.99	21300	4.99
Chirag Investments	19600	4.59	16400	3.84
CR Kulkarni	16700	3.91	16300	3.82
Ramesh G Shah	12300	2.88	13000	3.05
PL Pushpalakshmi C&C	13200	3.09	13100	3.07
Jagannath Vinod Kumar	5300	1.24	6300	1.48
Total	412900	96.72	401400	94.45

From the above it is clear that these 12 brokers mentioned above have constituted more than 90% of the total volume in this scrip at Pune Exchange.

It is also seen that brokers Shoba Investments, Shrine Investments, Yatin Shah, Trimty Investments and Kabu Investments have dealt in a major way during the period 2000 to 2001 and 1st April 2001 to 31.12.2001.

- 1.4 Investigation was conducted by SEBI into the affairs of buying, selling and dealings in the scrip of HTL by the members of PSE and BgSE including the said broker under the provisions of SEBI Act and its regulations. Investigations revealed that a set of brokers at PSE and BgSE including the said broker were involved in creation of abnormally high volumes, circular trading, price manipulation and false markets thereby contravening the provisions of SEBI Act and regulations including SEBI (Stock Brokers and Sub-brokers) Regulations, 1992. Investigation brought out the role played by these brokers including the said broker in price rise during the period of investigation through a phalanx of clients introduced by the itinerant and trusted employees of HTL. It was also alleged that the broker failed to observe the 'Know Your Client' norms.

2.0 APPOINTEMENT OF ENQUIRY OFFICER

- 2.1 On completion of investigations, enquiry officer was appointed vide order dated 28.5.2003 under Regulation 5(1) of SEBI (Procedure for Holding enquiry by enquiry officer and imposing penalty) Regulations, 2002 to enquire into the alleged irregular transactions of the broker in the scrip of HTL.
- 2.2 I have noted that a Show Cause Notice encompassing alleged violation of Clause A(2), A (3-4) and B(1) of Schedule II under Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations 1992; Clauses (a), (b), and (c) of Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair trade Practices relating to Securities Market) Regulations 1995 was issued to the Broker under Regulation 6 (1) of the regulation by the enquiry officer and that the broker submitted his reply and appeared for personal hearing. The enquiry officer conducted the enquiry in terms of the regulation and the broker was given a fair and reasonable opportunity to make his submissions.
- 2.3 After considering the reply and the submissions made, the Enquiry officer submitted his report dated November 10, 2004. The Enquiry Officer observed that the broker contributed significantly to the traded volumes during the period under consideration in the scrip of HTL in his own account and for client viz. Smt. Rupa Devi Dugar, who was a stranger and was introduced for the first time by the her husband and these trades were executed for Raj Singhi, an employee of HTL. Further, the broker did not assess the financial capabilities and networth while failing to exercise due diligence in admitting the client. The Enquiry Officer recommended a minor penalty of censure under regulation 13(1) (a) (iv) of the regulation.

3.0 CONSIDERATION OF THE ENQUIRY REPORT

- 3.1 After considering the Enquiry report, a Show Cause notice dated November 22, 2004 under regulation 13(2) of the regulation was issued to the Broker enclosing therewith a copy of the Enquiry Report. The broker submitted his reply and comments on the enquiry report vide letter dated December 5, 2004.
- 3.2 Between 1st April of 2001 to 31st December 2001, the gross purchase and sales of the broker in the scrip contributed 4.59 % of the total volume in the scrip in the exchange .The details of purchase and sale by the broker in the scrip of HTL are given as under:

Period	Gross purchases	% to the total buy volume at the exchange	Gross sales	% to the total sell volume at the exchange
01.04.01 to 31.12.01	19,600	4.59	16,400	3.84

It was admitted during the course of proceedings that the broker executed trades for the only client Rupa Devi Dugar in the scrip of Home Trade Ltd. The broker had also traded for 700 shares from his proprietary account. Most of the transactions are

squared off and did not result in deliveries. Although, the client was Smt. Rupa Devi Dugar as introduced by her husband Shri Dugar, actual trades were executed for Shri Raj Singhi, an employee of HTL who vide his statement dated 01.04.2003 admitted that he had traded on the behalf of Smt. Rupa Devi Dugar who is his sister in law.

3.3 The broker had filed the following documents along with the reply dated 26.03.2004:

- 1) The client registration form
- 2) The member client agreement which is undated.
- 3) Income Tax return Form 2D of the client
- 4) Transaction statements regarding the shares transferred/ received to/from the client.
- 5) Letter from Janata Sahakari Bank with details of DD for Rs.37718.75/- payable at Kolkata in the name of the client.

3.4 Discrepancies observed in the KYC form and member-client agreement as per the enquiry report are as follows:

- 1) Annual Income of the client who is housewife was shown as Rs.75,000/- p.a. and the market value of portfolio as 3100 shares involving Rs.80,000/
- 2) No details of the introducer
- 3) The KYC form is not 'witnessed'
- 4) The broker had filed the income Tax form 2D of the client with the annual income shown as 64,610/- .
- 5) The member client agreement is undated

It was submitted by the broker that the deliveries of the shares were received from / to the demat account of the client with Vedika Securities A/c No. 1008630.

3.5 From the materials on record, it emerges that the client was relatively new and hailed from far of place like Kolkata. Further, she traded significantly only in the scrip of HTL and contributed almost 4.59 % of the volume traded at PSE accompanied with a huge surge in price. Thus the trades executed by the broker for his client is exorbitant and appear to be not innocuous transactions but one meant to rig the market as would be evident from the concentrated volume and sharp movement of price. It, therefore, cannot be said that the broker acted in good faith and with due diligence before considering of trading for these clients.

3.6 Considering the materiality of circumstances in their pith and essence and also in the context of what was happening in the market contemporaneously in relation to the scrip of HTL, the plea of innocence is not open to the broker, as he was fully aware of the goings on in the market and the manner in which the clients from a far away Mumbai were planted by the itinerant and the trusted employees of HTL in a manifest bid to jack up the price of HTL shares at PSE. The sequence of material happenings as adumbrated supra clearly establishes that the broker was part of the tout ensemble operating in the market to create a make believe volume and equally ensnaring price rise in the scrip. The factual matrix of the present case has to be appraised in the back drop of what was happening in the market in its murky dynamics as captured above and not in isolation, in as much as the named brokers allowed themselves to be used as a cat's paw by the wily employees of HTL for obvious market manipulation and this thread runs through and underpins the entire gamut of transactions that took place in Pune Stock Exchange in the course of creating artificial market for HTL shares. In the brood of such material circumstances with their insightful portents as to the conduct of the market intermediaries playing the game at the behest of HTL employees, giving a short shrift to the time-tested and mandated requirements of KYC norms, due diligence, verification of financial capabilities and net worth of clients and a host of other reality checks meant to impart transparency and integrity to the market operations against any manipulative assemblage, the inexorable downside cannot be conjured away on the specious plea that the trade executed by the broker constituted a small proportion of the total trade. Any truncated view in such an extraordinary situation detracts a great deal from the gravity of irregularity, when the entire crafty and deceptive exercise of creating artificial market is seen as a whole, in all its manifestations, and with all the attendant consequences.

3.7 The trades by the broker constituted a significant percentage of the volumes at the exchange during the period when there was unusual price rise in the scrip without change in economic fundamentals of the company.

The standard of proof required in a proceeding of this nature is at variance with the standard of proof required in criminal cases. It is sufficient if the preponderance of probabilities suggests towards the indulgence of the delinquent in the misconduct. The strict rules of Evidence Act and proof beyond reasonable doubt are not applicable to a proceeding of this nature. The Supreme Court's decision in Gulabchand vs Kudilal AIR, 1966, SC 1734 and the decision of the Special Court for trial of offences relating to transactions in securities in the matter of National Housing Bank versus ANZ Grindlays Bank, 1998 (2) LJ 153 is relied upon in this regard.

- 3.8 As observed by the Hon'ble SAT in Madhukar Sheth Vs SEBI (Appeal No.46/2002), before executing series of transactions for the client, any prudent broker would have gone a bit far to ascertain the goings around and also would have to normally assess the financial capability of the person for whom he was trading. These transactions appear to be excessive speculation with intention to create artificial volumes in the scrip by a relatively new client.
- 3.9 I note that while recommending the minor penalty of censure, the enquiry officer has considered the submissions made by the broker and there are no further submissions. Therefore, I agree with the recommendations of the Enquiry Officer that the trades executed by the broker for the client, who in fact traded for Raj Singhi, an employee of HTL, resulted in abnormally high volumes of over 4.59 % traded at PSE during the periods under consideration. This led to the creation of false market in the scrip of HTL coupled with surge in price of HTL. Further, failure of the broker to exercise due care and diligence in his dealings with the clients, who were introduced by the employees of HTL, allowed excessive speculation and creation of false market in the scrip of HTL. Thus broker has violated the provisions of Clause A(2), A (3-4), B(1) of Schedule II under Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations 1992; Clauses (a), (b), and (c) of Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair trade Practices relating to Securities Market) Regulations 1995.

4.0 **ORDER**

Now, therefore, in exercise of powers conferred vide Regulation 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby impose a minor penalty of censure in terms of Regulation 13(1)(a) (iv) of SEBI Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations 2002 on M/s Chirag Investment (INB110955511), member Pune Stock Exchange.

This order shall come into effect immediately.

Place: Mumbai	G.Anantharaman
Date: 24.10.2005	Whole Time Member Securities and Exchange Board of India