

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

AGAINST M/s. J. G. A. SHAH SHARE BROKERS PRIVATE LIMITED, MEMBER, THE STOCK EXCHANGE, MUMBAI WITH SEBI REGN No. INB 010995237 UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.

BACKGROUND

1. M/s Vision Technology India Limited (herein after referred as 'VTIL') was incorporated in 1992 as a public limited company. It has been promoted by Shri B.S. Ranga and B.Ranga Vasanth. The company came out with a public issue in 1994 and was listed on BSE on 10th May 1994. The company is involved in the business of processing of Cine and Television films, video films, etc. It owns and operates a full-fledged motion picture laboratory in Bangalore. The company is also involved in undertaking marketing support services for various companies and manufacturing and marketing various consumer goods and durables.
2. The scrip of VTIL is listed on The Stock Exchange, Mumbai (BSE), Madras Stock Exchange (MSE), Ahmedabad Stock Exchange (ASE) and Jaipur Stock Exchange (JSE) apart from Bangalore Stock Exchange (BgSE), being the regional exchange of the company.
3. Securities and Exchange Board of India received a complaint from one Shri A. K. Puri alleging *inter-alia* that the company is ignoring the provisions of Companies Act, 1956, Securities Contract (Regulations) Act, 1956, Listing Agreement executed with the exchanges. It also stated that the price of the scrip had gone up substantially. Based on the complaint, the exchanges were requested to furnish details relating to trading in the scrip and details about the preferential allotment made by the company.
4. The case was initiated by Securities and Exchange Board of India based on the investigation carried out by the stock exchanges for the time period December 01, 1999 to March 31, 2000. In that time period, a sudden spurt in the price and volume of the captioned company was observed by BSE. At the Stock Exchange, Mumbai, it was observed that the price of the scrip increased from Rs. 4.00 as on 12.10.1999 to a peak of Rs. 650.00 on 07.03.2000 and thereafter there was steep fall in the price of the scrip. Further from the price volume statement submitted by BSE, it was observed that between 12.10.1999 and 29.11.1999, there wasn't any major price movement in the scrip. From 30.11.1999 to 07.03.2000, the price of the scrip increased from Rs.14.00 to Rs.650.00 and thereafter there was a fall in the price of the scrip. It can therefore be said that the scrip price witnessed movement mainly during the period end of November 1999 to March 2000 and the trading in the scrip during this period was observed mainly at BSE and BgSE. BgSE further informed that the exchange had imposed a special margin of 100% in the scrip of VTIL w.e.f. January 13, 2000 and the same was imposed till the end of investigation period i.e. March 31, 2000.
5. While carrying out preliminary investigation, SEBI observed that M/s. Vivenasri Financial Services Ltd. (herein after referred as 'VFSL') and M/s. Harsha Pranav Securities Pvt. Ltd. (herein after referred as 'HPSPL') were predominant traders in the scrip of VTIL during the period October 99 to March 2000. It is observed that these clients have enrolled themselves with many brokers of BSE and/or their sub-brokers and traded in the scrip of VTIL at the same point of time. M/s. J. G. A. Shah Share Brokers Pvt. Ltd. (herein after referred as 'JGA Shah' or "the member" with SEBI Regn No. INB 010995237) was one of the top members who dealt with the scrip on the basis of gross purchases and gross sales during the period December, 1999 to March 2000 on BSE.

ENQUIRY REPORT AND FINDINGS

6. Based on the above, SEBI vide its order dated 12.12.2002 had ordered an enquiry in respect of JGA Shah, Member, BSE, for its dealing with respect to the scrips of VTIL. The Enquiry Officer had submitted his report on the above matter on 31.08.04. The conclusions of the enquiry officer in his report are as follows:
 - a. There was no rationale in the allegation made by the investigating officer that the member has failed to exercise due skill, diligence and care over the dealings of its sub-broker in the scrip, by placing orders in illiquid scrip and has thus violated the provisions of the Code of Conduct as specified in Schedule I of Regulation 7 of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.
 - b. JGA Shah is guilty of violating the provisions of Regulation 4(a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulation, 1995.

In view of the above findings, the Enquiry Officer has recommended suspension of certificate of registration of JGA Shah for a period of ten days.

SHOW CAUSE NOTICE AND REPLY

7. Pursuant to the above, a notice dated 02.09.04 was issued to JGA Shah asking them to show cause as to why its certificate of registration should not be suspended for a period of ten days. JGA Shah had replied vide its letter dated 20.09.04 to the said show cause notice. The submissions made by JGA Shah in its reply are as follows:
- Actually the price was influenced by other brokers by quoting Rs. 17/- higher than the previous rate. It is also clear from the report of the investigator officer as reproduced in the report of enquiry officer that the consecutive buy orders placed by Active fin stock in clearing no. 36 increased the price of the scrip from Rs. 623/- to Rs 640/- at 10:29:49. It also appears that in Clg. No. 531, NVS Brokerage influenced the price was from Rs. 630/- to Rs. 644.90 from 10:29:58 to 10:33:26, by placing consecutive buy orders. It further appears that at around 15:33:20, 2000 shares were added to the BOLT in Clg. No. 36 which has influenced the price from 618/- to 635/-. Therefore, it is ex-facie erroneous to conclude that we have influenced the price from Rs. 618/- to Rs. 640/-.
 - The only factor in the whole of the enquiry held against us is that our sub-broker added order at Rs. 640/-, when the shares were available at Rs. 636/- and in turn influence the price of the shares from Rs. 636 to Rs. 640/-. In this regard, we now submit that when Yash Stock Brokers Pvt. Ltd. (hereinafter referred to as Yash) entered the order at Rs. 640/- the prevailing price was Rs. 636/-. From the trade log of that day, it appears that they had till 15:53 outstanding sell position of 2600 shares of VTIL. Therefore, they must have hoped that at the end of the day they would square off the transaction at the lower price. Contrary to their view, the price of the scrip started moving up. Undoubtedly the price at that moment was Rs. 636/- but he available quantity was only 100 shares. The next sell orders were for 200 & 100 shares at Rs. 636/90 & 637/40 respectively. Thereafter, the required number of shares were offered for sale only at Rs. 640/-. The sub broker could have technically speaking instead of single order of 2600 shares at 636/90, 100 shares at 637/40 and balance 2200 shares at Rs. 640/-. However, they placed order at Rs. 640/- to ensure that they get the desired quantity of shares. This statement will also reveal that this order got matched with pending orders of several counter parties resulting into 18 trades. This would clearly establish that the price was not influenced by the order but clearly several sell orders for that price were pending in the system for execution.

In view of the above submissions, JGA Shah had put forth that suspension of their certificate of registration as recommended by the Enquiry officer would not be justified.

ISSUES FOR CONSIDERATION

- I have considered the recommendations in the Enquiry report and have also noted the submissions of JGA Shah pursuant to the said report. I have noted that the Enquiry officer has not found the member guilty of violating the provisions of the Code of Conduct as specified I Schedule II of Regulation 7 of the SEBI (Stock Broker & Sub-brokers) Regulations, 1992. In this regard, the Enquiry Officer has observed that the daily market volumes prior to 02.02.00 was ranging from 40,400 to 1,35,000 shares. It is a fact that the market volume in Phase II of the transactions wherein the first substantial purchase transaction of 18,600 shares and 21,600 shares was carried out for Yash Stock Brokers Pvt. Ltd. on 02.02.00, was 5 times more than the market volume in Phase I. But this being an observation in hindsight, the observation of the Investigation Officer that the scrip of VTIL was illiquid and thereby JGA Shah has violated the provisions of the Code of Conduct as specified in Schedule II of Regulation 7 of the SEBI (Stock Broker and Sub-broker) Regulations, 1992 is not tenable.
- I however note that the Enquiry Officer has found the member guilty of violating the provisions of Regulation 4 (a) of SEBI (Prohibition of Fraudulent & Unfair Trade Practices relating to Securities Market), 1995. This has been so done by the Enquiry Officer in agreement with the finding of the Investigation Officer that the purchase order placed by the sub-broker, Yash had influenced the price of the stock on 07.03.00. Yash had placed the order for purchase of shares of VTIL at a rate of Rs. 640/- when the prevailing rate was Rs. 636/- in the market. Further, I agree with the findings of Enquiry Officer that those who indulge in manipulative, fraudulent and deceptive transactions, or abet the carrying out of such transactions which are fraudulent and deceptive, disturb the market equilibrium and harm the interest of the investors. The member therefore needs to improve upon the systems keeping its aforesaid role in mind.

ORDER

- Taking in to account observation in relation to the trades carried out by J. G. A. Shah Share Brokers Pvt. Ltd., I am of the view that the penalty of ten days recommended by the Enquiry Officer is warranted. Therefore, in exercise of the powers conferred upon me by virtue of Section 19 of the Securities and Exchange Board of India Act, 1992 read with regulations 13 (4) and 13 (6) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I direct that certificate of registration of J. G. A. Shah Share Brokers Pvt. Ltd., SEBI Regn No. INB 010995237, Member, The Stock Exchange, Mumbai, be suspended for a period of 10 days.

This order shall come into effect after the expiry of three weeks from the date of the order.

PLACE: MUMBAI
DATE : 23.12.2005

MADHUKAR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA