

SECURITIES AND EXCHANGE BOARD OF , MUMBAI

ORDER

AGAINST M/S. PRABHUDAS LILLADHER PRIVATE LIMITED, MEMBER, THE STOCK EXCHANGE, MUMBAI (SEBI REGISTRATION NO. INB 010502855) UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002.

Whereas, an investigation was conducted into the unusual price movement in the scrip of Sawaca Communications Limited (hereinafter referred to as SCL) during the period 01.10.99 to 31.03.00 and it was brought out that the price of the scrip went up from Rs. 19.35/- per share in 01.10.99 to a high of Rs. 106.00/- per share on 04.01.00, and,

whereas, there was nothing in the fundamentals of SCL nor there was any corporate developments which could have justified the steep movement in the scrip of SCL, and,

whereas, M/s. Prabhudas Lilladher Pvt. Ltd., Member, The Stock Exchange, Mumbai, (hereinafter referred to as 'the member') had dealt in the scrip of SCL for Shri Mahendra Shah through its sub-broker M/s. Jyotish Bhogilal Stock Broking Pvt. Ltd. (hereinafter referred to as JBSPL). A total of 2,14,600 shares were purchased and 4,29,800 shares were sold through JBSPL, and,

whereas, an enquiry officer was appointed vide an order dated 13.05.03 to inquire into the role of the member for its dealings in the scrip of SCL for its ultimate client, Shri Mahendra Shah through its sub-broker JBSPL and to inquire into the violation of the Code of Conduct for Stock Brokers prescribed in Schedule II of Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 and Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, and ,

whereas, the enquiry officer after inquiring into the violations of the member had submitted a report dated 20.09.04, concluded that the member has failed to exercise due skill, care and diligence and has therefore violated the Code of Conduct for Stock Brokers prescribed in Schedule II of Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992. Therefore, the enquiry officer recommended that the member be censured, and,

whereas, a show cause notice dated 27.09.04 was issued to the member annexing a copy of the enquiry report asking it to reply within 15 days or else it would be presumed that the member had no explanation to offer and SEBI would be free to take such action as it deems fit, and,

whereas, a reply dated 14.10.04 was received from the member stating that the member at no point of time could have known that JBSPL was dealing for and on behalf of an unregistered sub-broker connected with the management of SCL, and,

whereas, the issue for consideration is whether the member is guilty of violating the provisions of the provisions of the Code of Conduct for Stock Brokers prescribed in Schedule II of Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992, by virtue of its carrying out the deals for its ultimate client Shri Mahendra Shah.

I have considered the enquiry report dated 27.09.04 and the reply of the member dated 14.10.04 to the findings in the enquiry report.

I have noted that Shri Mahendra Shah is the main manipulator in the scrip of SCL. The member had traded a total of 7,01,400 shares in the scrip of SCL. Of this, a total of 5,62,400 shares have been dealt by the member through JBSPL for Shri Mahendra Shah constituting about 80% of the volumes dealt with by the member in the scrip of SCL.

The member has submitted that it had ensured that JBSPL was registered as their sub-broker as and when they were directed by the stock exchange. Also, it had no means or chance to ensure that the transactions in the scrip put through by its sub-broker were for an unregistered sub-broker acting on behalf of Shri Mahendra Shah, the main manipulator in the scrip of SCL.

I do not agree with the submission of the member after considering the volume of transactions that the member has put through for the ultimate client through itself and its sub-brokers. JBSPL alone contributing about 80% of all the deals in the scrip of SCL would have raised doubts in the minds of any prudent individual. An intermediary with intricate knowledge of the market and its activities having allowed the transactions to be carried on without any clue only shows the lack of diligence on its part in the performance of business activities. Also, the member cannot escape the responsibility of not being able to track the activities of its sub-broker, since that would amount to a principal calling off its responsibility towards its agent.

Therefore, I am inclined to agree with the view of the enquiry officer that the member has violated the Code of Conduct for Stock Brokers prescribed in Schedule II of Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 by carrying on transactions in the scrip of SCL for Shri Mahendra Shah through its sub-broker JBSPL.

Now, therefore, in exercise of powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with regulations 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby censure M/s. Prabhudas Lilladher Private Limited, member, The Stock Exchange, Mumbai (SEBI Registration No. INB 010502855).

Place: Mumbai
Date: 18.01.2006

MADHUKAR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA