

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 11(1), 11B AND 11(4)(b) OF SECURITIES AND EXCHANGE OF INDIA ACT, 1992 IN THE MATTER OF GALAXY BROKING LIMITED, MEMBER BSE (SEBI REGISTRATION NO. INB010882739) AND DEPOSITORY PARTICIPANT OF CDSL (IN-DP-CDSL-294-2005)

WTM/GA/MIRSD/ 46/1/06

1. Background

- 1.1 For quite sometime in the past, sharp rise in the prices of shares of companies with relatively small market capitalization, commonly known as penny stocks have been engaging the attention of SEBI and the stock exchanges namely BSE and NSE. Preliminary investigations into the rise in the share prices of some of these companies within a short period of time have also been conducted by SEBI, BSE and NSE. Based on the findings of these preliminary investigations SEBI has taken action under the powers vested in it under Sections 11B and 11(4)(b) of the SEBI Act 1992 in cases where the price rise was found to be artificial and false market was created in the shares. These actions have been directed against the companies, the promoters who may have enriched themselves by offloading their shares in the market during the period in which the share prices were artificially propped up, brokers who were found to have actively traded in shares of penny stock and against certain groups of inter-connected clients who were found to have aided and abetted the promoters in offloading their shares in the market through a web of off market/market transfers.
- 1.2 It was in the above context that SEBI had decided to conduct specially focused inspections against some of the brokers whose names frequently appeared in the trading of penny stocks and were suspected to have played a significant role in the artificial propping up of share

prices. Galaxy Broking Ltd. (Galaxy) is one such broker whose inspection was taken up by a team of SEBI officials between October 10, 2005 to October 18, 2005. Inspection covered the transaction of the broker in penny stocks for the period March 2005 to September 2005. The major findings of the inspection have been brought out in the following paragraphs:

Brief particulars of Galaxy:

- 1.3 Galaxy is a public limited company which has been a member of BSE since February 06, 1997 and has been trading in the cash segment only. The company has a paid up capital of Rs 34.859 (approx) lakhs and its shareholders are as given in Table 1 and most of the shareholders as given in Table 1 are inter-related.

Table 1 – Shareholding of Galaxy

S. No.	Shareholder's Name	Particulars	No of shares	% (approx)
1.	Shri Zaveri Kishore Ratilal	Nil	1,90,000	5.451
2.	Shri Sanjay M Sanghavi	Director of Galaxy	50,000	1.435
3.	Smt. Shilpa Sanghavi	Wife of Shri Sanjay Sanghavi	50,000	1.435
4.	Shri Sanjay M Sanghavi (HUF)	Director of Galaxy	1,00,000	2.869
5.	Shri Anil Gandhi (HUF)	Director's HUF	4,61,300	13.236
6.	Shri Anil Gandhi	Director of Galaxy	4,800	0.138
7.	Smt Priti Anil Gandhi	Wife of Shri Anil Gandhi	4,95,000	14.203
8.	Mrs. Sudhaben Amrutlal Gandhi	Mother of Shri Anil Gandhi	50,000	1.435
9.	Shri Amrutlal Jivandas Gandhi	Father of Shri Anil Gandhi	1,00,000	2.869
10.	Shri Arvind Mulraj Udeshi	Director of Galaxy	22,400	0.643

S. No.	Shareholder's Name	Particulars	No of shares	% (approx)
11.	Shailesh D Ved	Director of Galaxy	11,200	0.321
12.	Shri Subhash R Ashar	Director of Galaxy	16,000	0.459
13.	Shri Yogesh G Pandya	Director of Galaxy	3,400	0.098
14.	M/s B R Jalan Securities Pvt Ltd.,	Nil	1,55,700	4.467
15.	M/s. Amrut Securities Ltd.,	Wife and father of Shri Anil Gandhi are the director of this company	11,17,000	32.049
16.	M/s. Chintamani Shares & Broking Limited	Anil Gandhi is the director of this company	1,43,000	4.103
17.	M/s Presilco Impex Ltd.,	Anil Gandhi is the director of this company	4,88,400	14.013
18.	Others		27,100	0.770
19.		Total	34,85,300	100.000

1.4 The directors of the company are Shri Sanjay Munhall Sanghavi, Shri Anil Amrutlal Gandhi, Shri Yogesh Girdharilal Pandya, Shri Arvind Mulraj Udeshi and Shri Subhash R Ashar.

1.5 As may be seen from the Table 1 the principal shareholders of Galaxy are also the directors of the broking firms or are the relatives of Shri Anil Amrutlal Gandhi (Director of the company). This is relevant information for the purpose of this order as would be seen from the ensuing paragraphs.

1.6 The total number of clients of Galaxy was seen to be around 1,226.

2. Major findings of inspection

2.1 The major findings of the inspection have been discussed in the following paragraphs :

2.2 During the period covered by the inspection i.e. from March 2005 to September 2005, Galaxy has traded in the shares of 2769 companies on behalf of clients as well as on proprietary basis. Of these, 897 (32.39% of total companies traded) companies could be classified as penny stocks and accordingly such penny stocks trades constitute a significant portion of business of Galaxy.

Turnover of Galaxy in penny stocks

2.3 The total turnover (buy + sell) in penny stocks by Galaxy accounted for 9% of the total turnover of the Galaxy. What is pertinent to note in this context is that although penny stocks appeared to be 9% of the Galaxy's turnover, as borne out by the following Table (See Table 2) the trading volume of Galaxy (buy + sell) has accounted for 6%(approx) of the total trading volume of these shares on the BSE and in some cases even higher. In the case of Global Boards, the Galaxy accounted for 11% of the turnover and in the case of Wellworth the broker accounted for 32%, for Swan Mills the broker accounted for 36% respectively of BSE's turnover in those scrips. Thus, the share of Galaxy in the total transactions on BSE in these shares can by no means be regarded as insignificant for a single broker:

Table 2: Turnover of Galaxy in 19 penny stocks (Turnover wise)

S. No.	Name of the company	Turnover of Galaxy (No. of shares)			Turnover on BSE	% of column 5 / Col. 6
		Sell	Buy	Total (3+4)	Total	
1	2	3	4	5	6	7
1	Global Boards	10607120	3481098	14088218	12,37,23,080	11.38
2	Baffin Engineering	57,39,278	52,81,811	110,21,089	22,99,29,896	4.79
3	Fast Track Entertainment	20,94,129	75,68,991	96,63,120	12,82,42,598	7.53
4	Mega Corporation	20,40,655	33,58,225	53,98,880	12,24,08,704	4.40
5	Prraneta Industries	41,135	13,84,656	14,25,791	12,89,43,088	1.10
6	Shukun Construction	1555074	64070	1619144	404,37,680	4.00
7	Millennium Cybertech	607884	362826	970710	493,84,940	1.96
8	Birla Power	6,11,530	8,50,926	14,62,456	1,90,15,686	7.69
9	Karuna Cables	3,21,592	6,94,799	1,016,391	16,05,00,410	0.63
10	Kirti Finvest	4,86,444	7,17,200	12,03,644	3,14,72,381	3.82
11	Swan Mills	28,215	5,460	33,675	94,601	35.59
12	Intradeco	30,43,524	79,04,214	1,09,47,738	11,61,88,672	9.42
13	IQMS	40,68,474	35,78,106	76,46,580	36,21,90,057	2.11
14	Wellworth	1,85,95,755	1,75,94,227	3,61,89,982	11,34,06,412	31.91
15	Gangotri	87,768	81,891	1,69,659	1,18,35,064	1.43
16	Landmark Leisure	2,05,41,386	16,20,528	2,21,61,914	22,05,78,881	10.04
17	IFSL	2,32,230	1,83,804	4,16,034	63,81,12,075	0.06
18	Ventura	25,17,670	13,56,521	38,74,191	15,35,28,120	2.52
19	Robinson	3,96,300	6,74,600	10,70,900	64,88,200	16.50

It is clear from the above that Galaxy has been one of the major brokers trading in such penny stocks.

Artificial rise in prices of penny stocks traded by Galaxy

2.4 During the inspection period, the share prices of these companies had increased significantly and the increase ranged between 204% to 2150% as is evident from the following Table 3. The financial performance of these companies for the last year shows that all these companies had a none-too-impressive record of profitability, which could not have spurred a sudden spurt in prices of these shares. The fact that all these shares are currently trading at very low prices well below their artificial highs only substantiates the conclusion that the sudden price rise was artificial in nature and was a necessary incident to the creation of a false market. The following Table no. 3 illustrates the above findings.

Table 3: Movement in share prices of the 19 penny stocks during the inspection period

S.No	Name of the company	Share prices on 30.9.20 05	Highest during the inspection period (date)	Trading volume of BSE on that day	Lowest Price during the inspection period	Trading volume of BSE on that day	Percentage change from Lowest price to Highest price(Ap prox.)
1.	Global Boards	4.2	7.9 (29/8/2005)	24,07,902	2.82 (9/5/2005)	2,24,900	280
2.	Baffin Engineering	2.96	5.61 (1/3/2005)	67,58,308	2.75 (2/5/2005)	3,94,936	204
3.	Fast Track Entertainment	9.26	15.39 (16.9.2005)	5,33,320	6.45 (29/3/2005)	24,38,202	239
4.	Mega Corporation (formerly known as Assam Im.)	34.25	44.45(19/9/2005)	44,14,106	11.05(1/3/2005)	16,25,255	402
5.	Prraneta Industries	20.7	22.85 (21/9/2005)	13, 81,122	4.36 (22/3/2005)	97, 06,750	524
6.	Shukun Construction	11.87	18.49 (15/6/2005)	3, 24,700	7.77 (20/4/2005)	1, 25,506	238
7.	Millennium Cybertech	19.47	24 (20/9/2005)	2, 69,600	1.65(9/3/2005)	39,750	1454
8.	Birla Power	47.4	67.65(25/7/2005)	6, 74,786	21.65 (24/3/2005)	19250	312
9.	Karuna Cables	21.4	33.39(19/0	4, 76,595	3.43 (30/03/2005)	37, 59,905	973

			9/2005)				
10.	Kirti Finvest	21.8	27.5(6/9/2005)	250	6.28(1/4/2005)	48,545	438
11.	Swan Mills	1407.95	2015.1(21/9/2005)	4,935	367(4/3/2005)	5	549
12.	IFSL	21.95	35.2(15/9/2005)	92,38,986	13.55(2/3/2005)	5,25,000	260
13.	Ind Tra Deco	1.42	2.6(12/9/2005)	27,93,310	0.3(28/04/2005)	57,440	830
14.	IQMS	1.16	3.44(30/08/2005)	51,34,235	0.16(24/3/2005)	2,34,630	2150
15.	Robinson-	136	230.6(15/6/2005)	51,600	104.15(22/3/05)	2,65,800	221
16.	Wellworth Overseas	1.4	3.9(30/8/2005)	32,29,294	0.9(3/5/2005)	38,550	370
17.	Landmark leisures	2.6	4.46(13/9/05)	36,79,277	0.59(21/4/2005)	45,500	756
18.	Ventura Tex.	2.17	3.28(19/7/2005)	34,81,7400	1.81(4/6/2005)	500	181
19.	Gangotri Textiles	50.28	59.5(29/8/2005)	4,74,784	19.5(28/3/2005)	14,200	305

Common clients of Galaxy trading in penny stocks

2.5 Galaxy has been trading in penny stocks both on behalf of its clients as well as on behalf of its promoter directors. The clients on whose behalf Galaxy has traded in these stocks are not an eclectic population as would have been expected in the case of a broker having a wide clientele. Instead one notices that most of the trading in penny stocks (more than 95% in certain cases) have been concentrated on a few clients only, some of whom such as Amrut Securities, Priti Anil Gandhi, and Anil Gandhi Trading are shareholders of Galaxy and related to the directors of Galaxy itself and other inter-related clients. This is amply elucidated by the following Table 4.

Table 4: Clients on whose behalf Galaxy traded in the shares of Penny stocks.

S. No.	Name of the company	Major clients on whose behalf Galaxy traded	Total turnover of Galaxy in the shares of the company (in no. of shares)	Turnover of the clients in the shares of the company (in no. of shares)	Percentage of client turnover to total turnover (approx)
1.	Baffin Engineering	Anil Gandhi Group*	110,21,089	1,01,01,389	91.65
2.	Global Boards	Anil Gandhi	140,76,118	110,86,038	78.75

S. No.	Name of the company	Major clients on whose behalf Galaxy traded	Total turnover of Galaxy in the shares of the company (in no. of shares)	Turnover of the clients in the shares of the company (in no. of shares)	Percentage of client turnover to total turnover (approx)
		Group			
3.	Shukun Construction	Anil Gandhi Group	27,25,588	10,00,000	36.68
4.	Birla Power	Anil Gandhi Group	1,462,456	875,957	59.89
		Chirag Shah		445,375	30.45
5.	Fast Track Entertainment	Girdharbhai J Vagadia (8/16 ,MK Amin Marg,Patel Building,3 rd Floor ,Office No.30 ,Bora Bazar ,Fort,Mumbai-400001)	96,63,120	5043826	52.19
		Ritedeal		2493385	25.80
6.	Mega Corporation	Ganesh Raut and Group	53,98,880	1,733,025	32.09
		Anil Gandhi Group		205,572	3.8
		Vintel Securities (402,Bluemoon Chambers,28/33 ,Nagindas Master Road,Fort ,Mumbai)		2,887,133	53.47
7.	Prraneta Industries	Girdharbhai J. Vagadia**	14,25,791	13,97,491	98.01
8.	Millennium Cybertech	Stardom Trading ***	10,42,009	348700	33.46
		Anil Gandhi Group		51,953	4.98
		Vintel Securities		2,23,795	21.47
		IFSL Group		47,867	4.59
9.	Karuna Cables	Suresh Pukhraj Jain (Room No.3 ,Ground Floor,Nawab Manzil ,18,Wadia Street ,Tardeo,Mumbai-400034)	1,016,391	721,116	70.94
		IFSL Group Vintel Securities		90,830 60,900	8.93 5.99
10.	Kirti Finvest	Anil Gandhi	1,203,644	473,154	39.31

S. No.	Name of the company	Major clients on whose behalf Galaxy traded	Total turnover of Galaxy in the shares of the company (in no. of shares)	Turnover of the clients in the shares of the company (in no. of shares)	Percentage of client turnover to total turnover (approx)
		Group			
		Darshit Patel (179-2140, Pratixa Apartt, Naranpura, Sabarmati Zone, Ahmedabad - 380054)		506,186	42.05
		Chirag Shah (2871/1, Patni Street, Zaveriward, Relief Road, Ahmedabad - 380001)		156,600	13.00
11.	Dolphin	Chirag Shah	924,732	4,62,165	49.97
		Anil Gandhi Group		4,13,695	44.73
12.	Swan Mills	Anil Gandhi Group	33675	4,320	12.82
		Chirag Shah		2,000	5.93
13.	IFSL	DilipKumar Adukia	416,034	2,16,882	52.13
		Anil Gandhi Group		1,64,450	39.52
14.	IQMS	Chirag Shah	7,646,580	2,155,213	28.18
		Darshit Patel		46,60,809	60.95
		Anil Gandhi Group		3,46,040	4.52
15.	Robinson	SureshKumar P.Jain	1,070,900	2,54,100	23.72
		IFSL Group		90,300	8.43
		Anil Gandhi Group		67,800	6.33
16.	Wellworth	Anil Gandhi Group	36189982	1,95,01,557	53.88
		Chirag Shah		91,08,875	25.16
		Darshit Patel		72,84,050	20.12
17.	Gangotri	Troop Track Electrodes (S-377, School Block, Shakarpur, New Delhi-110092)	169,659	1,65,209	97.37
18.	Intradeco	Chirag Shah	1,0947,738	69,95,563	63.89
		Anil Gandhi Group		5,66,100	5.17

S. No.	Name of the company	Major clients on whose behalf Galaxy traded	Total turnover of Galaxy in the shares of the company (in no. of shares)	Turnover of the clients in the shares of the company (in no. of shares)	Percentage of client turnover to total turnover (approx)
		Darshit Patel		9,67,889	8.84
19.	Landmark Leisure	Rational Finvest (304,Chartered House ,Dr.CH Street,Near Marine Line Church,Mumbai 400002)	22,161,914	17,000,001	76.70

*(Note: * Anil Gandhi director of Galaxy, his wife, and others been collectively referred to as the Anil Gandhi Group. Detailed relationship is given as per Table 4A.*

IFSL group includes Cardiod Marketing and others, their detailed relationship is given in Table 4B.

*** The name of Girdharilal Vagadia has been included as he has been found to be one of the major clients to whose demat account large number of shares have been credited through off market transfers from a plexus of various clients).*

**** Stardom Trading, Cornhill Trading, Cute Productions, Galaxy Broking Limited acted in concert in creating artificial volume in the Scrip Millennium Cybertech. Detailed relationship is given as per Table 4C).*

Table 4A: Anil Gandhi and Group

S. No.	Name of the client	Address as per Galaxy's books	Connection
1.	Prii Anil Gandhi	702 Sadguru vatika ,Airport Road ,Rajkot	Wife of Shri Anil Amrutlal Gandhi
2.	Amrut Securities (SEBI registered sub-broker through Galaxy Broking Limited (INS011723439) and SKSE Securities Limited (INS010581937)	822 ,Star Chambers ,Harihar Chowk Rajkot 366001	Priti Anil Gandhi and Amrutlal Gandhi are the directors of this company.
3.	Deepak Ashar /Manish Ashar	193,VP Road, Dayalal Building Mumbai-400004	Shri Deepak Ashar and Manish Ashar are the brother-in law of Shri Anil Gandhi.
4.	Ganesh Raut	Baburao Pahlwan Chawl Lane 20,1/13 ,Sahar Road ,Koldongri ,Andheri (E) Mumbai -400069	Galaxy has received off market shares of IFSL in its BO account from Ganesh Raut
5.	Chintamani Trading	108-B/109, 'Sampada' Mithakhali Six Roads Navrangura Ahmedabad	Group company of Galaxy. Anil Gandhi -Common Directors
6.	Galaxy Share Trading	633/634 ,PJ Tower ,Dalal Street ,Fort ,Mumbai 400001	Galaxy's trading account.
7.	Ritedeal Trading	B,Wing, Flat No. 11 Monami Appts. 2nd Floor, Near Chandan Talkies, Juhu Mumbai 400049	Phone Number of Ganesh Raut and Rite deal is the same.
8.	Sudha Amrutlal Gandhi	702 Sadguru vatika ,Airport Road ,Rajkot	Mother of Shri Anil Amrutlal Gandhi
9.	Pooja Anil Gandhi	702 Sadguru vatika ,Airport Road ,Rajkot	Daughter of Shri Anil Amrutlal Gandhi
10.	Amrutlal Jivandas Gandhi	702 Sadguru vatika ,Airport Road ,Rajkot	Father of Shri Anil Amrutlal Gandhi
11.	Presilco Impex Ltd	315,Stock Exchange Building Sadar Bazar Rajkot-360001	Anil Gandhi is the director of this company

Table 4B: IFSL Group

Sr. No	Name of the client	Address as per Galaxy's books	Connection
1.	IFSL	202, C, Kanchan Sagar, 18/1, Old Polasia, A.B. Road, Indore, 400053	Paras Chaplot, director of Cardiod Marketing is operating the account.
2.	Cardiod Marketing	28,Lal Building 36 ,Goa Street Ballard Estate Mumbai 400038	Shri Paras Chaplot is operating this account along with IFSL account.
3.	Ganesh Raut	Baburao Pahlwan Chawl Lane 20,1/13 ,Sahar Road ,Koldongri ,Andheri (E) Mumbai -400069	Cardiod marketing had received shares of IFSL through off market transfers from Ganesh Raut
4.	Ritedeal Trading	B,Wing, Flat No. 11 Monami Appts. 2nd Floor, Near Chandan Talkies, Juhu Mumbai 400049	Phone Number of Ganesh Raut and Rite deal is the same.

Table 4C: Stardom Trading and Group

Sr. No	Name of the client	Address as per Galaxy's books	Connection
1.	Stardom Trading	603/B, Shree Vishal Complex, Narsing lane, Malad (West) Mumbai- 400064	Co- acquired Millennium Cybertech in 2003
2.	Cornhill Trading	-B, Empire Building, Cumballa Hill, Kemps Corner, Mumbai- 400 036	Co- acquired Millennium Cybertech in 2003
3.	Galaxy Broking	633/634 ,PJ Tower ,Dalal Street ,Fort ,Mumbai 400001	Received off market shares of Millennium Cybertech from Cornhill trading and Cute productions.

- 2.6 It is worthwhile to mention at this stage, that SEBI has already passed orders under sections 11B and 11(4) (b) of the SEBI Act 1992 in the matter of price manipulation and creation of artificial market in shares of some of the aforementioned companies (viz. Mega Corp and Karuna Cables) wherein some of the entities including Galaxy were found to be dealing in these shares on behalf of its clients. In the case of Mega Corporation, SEBI has directed Rite deal Trading and Ganesh Raut (clients of Galaxy) not to deal in this scrip till further orders and in case of Karuna cables, SEBI has directed Vintel Securities (client of Galaxy) not to deal in this scrip till further orders and also directed Rite deal Trading not to deal in any scrip till further orders, SEBI has also directed Galaxy not to deal in the scrip of Karuna Cables on behalf of Vintel Securities and Rite deal Trading till further orders. Thus, Galaxy has come to the adverse of SEBI in a clutch of penny stocks cases.

Relationship between some of the companies and the directors of Galaxy

- 2.7 It has been noticed that in some of the companies in which Galaxy has traded either through the Anil Gandhi Group or through some of the inter-connected clients, besides the directors of Galaxy appear to have direct and indirect linkage with the promoters/employees of these companies. For example, all the correspondences on behalf of Baffin Engineering (Anil Gandhi Group has traded about 91% of Galaxy total turnover in this scrip) is signed by Shri Arvind Udeshi (Director of Galaxy) as the Authorised Signatory. He is the Compliance officer of Baffin Engineering, who is managing the shares department of the company. Another authorized signatory of Baffin Engineering, Shri Devji Parmar is also dealing through Galaxy. Ledger account of Shri Parmar reveals that Galaxy has funded most of his transactions and his client ledger shows continuous debit balance (debit balance to the tune of Rs 21 Lac at one point of time).

- 2.7.1 In the case of Millennium Cybertech, the company was taken over by Cornhill trading, Cute Productions and Stardom Trading (clients of

Galaxy) in September 2003 through an open offer under SEBI (Substantial Acquisitions and Share Takeovers) Regulation 1997. Galaxy has received shares of Millennium Cybertech from Cornhill Trading and Cute Productions to meet out its own and its clients pay-in obligations (specially for Stardom Trading) and has transferred borrowed shares of Millennium Cybertech back to the lenders approximately after two months. This smacks of blatant accommodation. It is amply clear that Galaxy was related to the group which has traded heavily in this scrip to create artificial volume and rig the price. By borrowing shares from one and lending to another without being registered as an approved intermediary as stipulated under clause 5 of Securities Lending Scheme, 1997, Galaxy has violated clause 5 of Securities Lending Scheme, 1997.

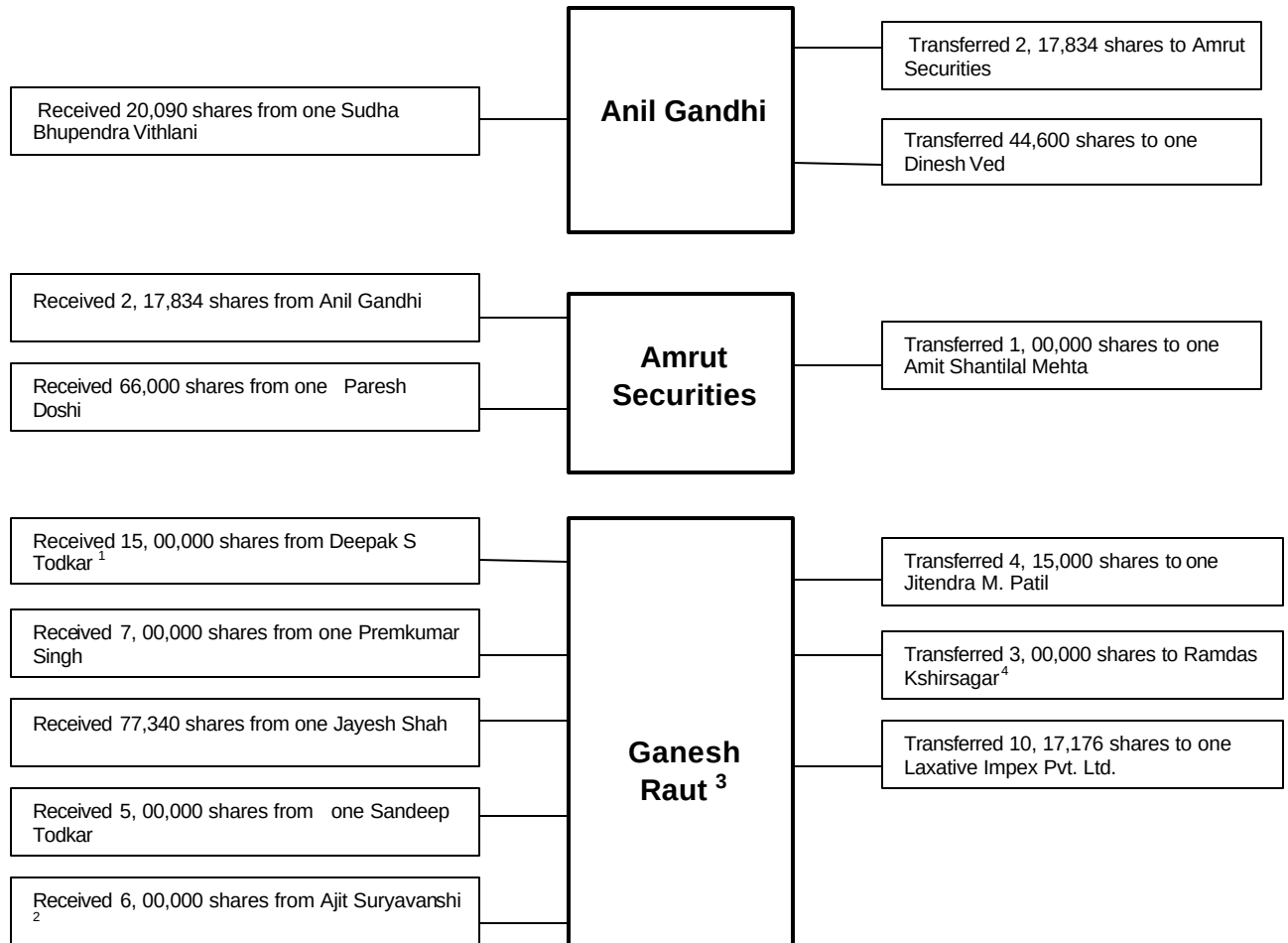
Concentration of trading volumes in penny stocks among common clients of Galaxy and off market transfers

- 2.8 The Table 4 also clearly establishes the concentration of trading in the respective shares indicated against their names. What transform a suspicion into a *prima facie* conviction on the role of the clients referred to in the table are the direct and indirect connections of these clients both with Galaxy as well as the promoters of the various companies. All of these entities as illustrated in the Table 4A, 4B and 4C have obtained shares either from the promoters of some other companies or through a web of off market transfers, as are the normal incidents of a penny stock manipulation. This modus operandi seems to have been a well established one and is of a piece with typologies noticed by SEBI against some of these companies, clients as well as Galaxy in the interim order cited *supra*. Thus, the track record of Galaxy bristles with a plethora of deals in penny stocks, the manipulation of which species has been the forte of Galaxy with consummate ease and manipulative acumen.

2.9 Off Market transfers

Description of the Off Market Transfers among Interconnected Clients

Diagram 1: Baffin Engineering



1 Client found involved in the creation of artificial volume of IFSL and SEBI has directed him not to deal in this scrip till further orders.

2 Client found related to the promoter of the Mega Corporation and SEBI has directed him not to deal in this scrip till further orders and SEBI in its order of Karuna Cables directed him not to deal in any scrip till further orders on the basis of his huge concentration in this scrip.

3 Client related to Anil Gandhi and found involved in the creation of artificial volume in scrips like IFSL, Mega Corp and SEBI has directed him not to deal in scrip of Mega Corporation.

4 SEBI directed him not to deal in the scrip Mega Corporation till further orders because of his connection with the promoters of Mega Corporation, SEBI in its order of Karuna Cables directed him not to deal in any scrip till further orders because of his heavy concentration in this scrip

Diagram 2: Prraneta Industries

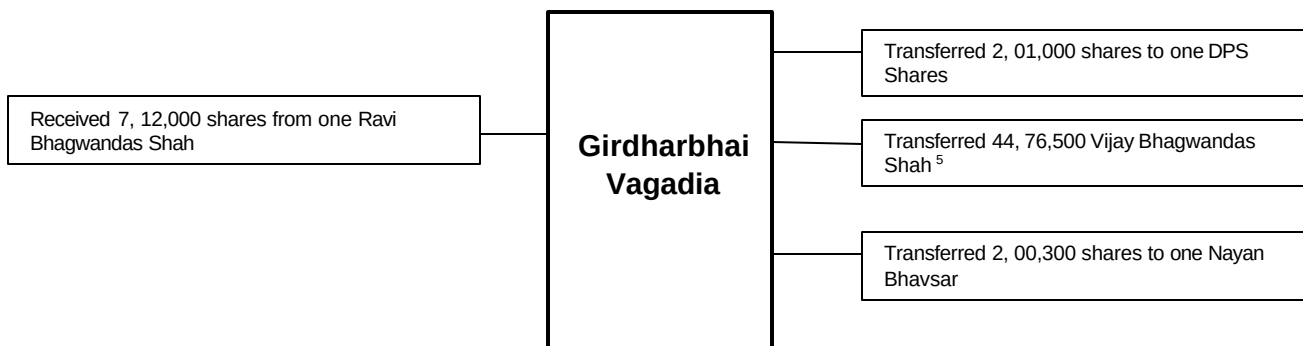
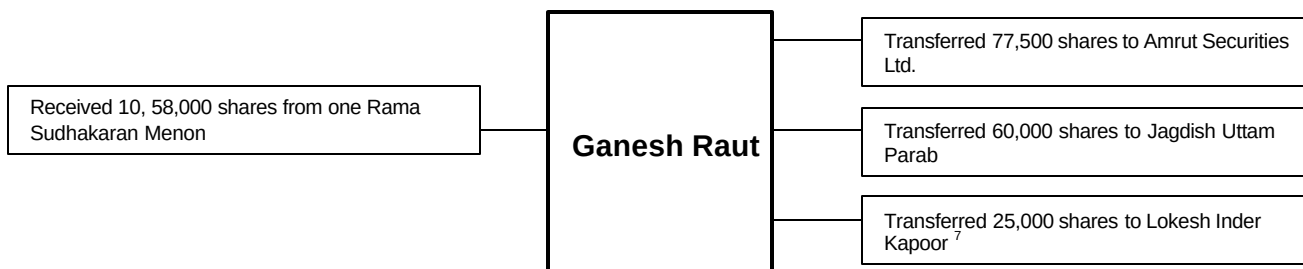


Diagram 3: Shukun Construction



Diagram 4: Mega Corporation



⁵ Member, BSE SEBI has directed him not to trade in the scrip of Karuna Cables till further orders because of his connection with the promoters of Karuna Cables.

⁶ SEBI in its order of Mega Corporation directed him not to deal in any scrip till further orders because of his connection with the promoters of this company

⁷ SEBI in its order of Mega Corporation directed him not to deal in this scrip because of his connection with the promoters of the company

Diagram 5: Fast Track Entertainment

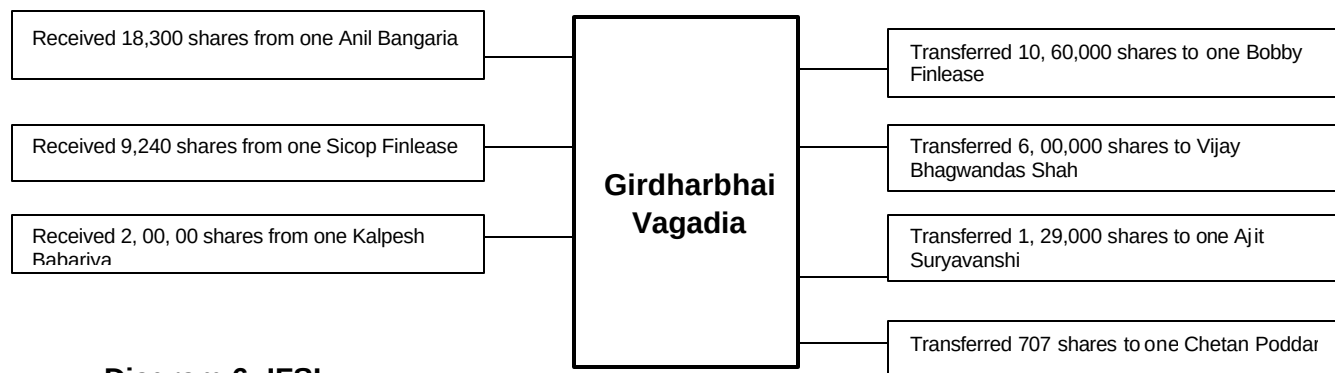
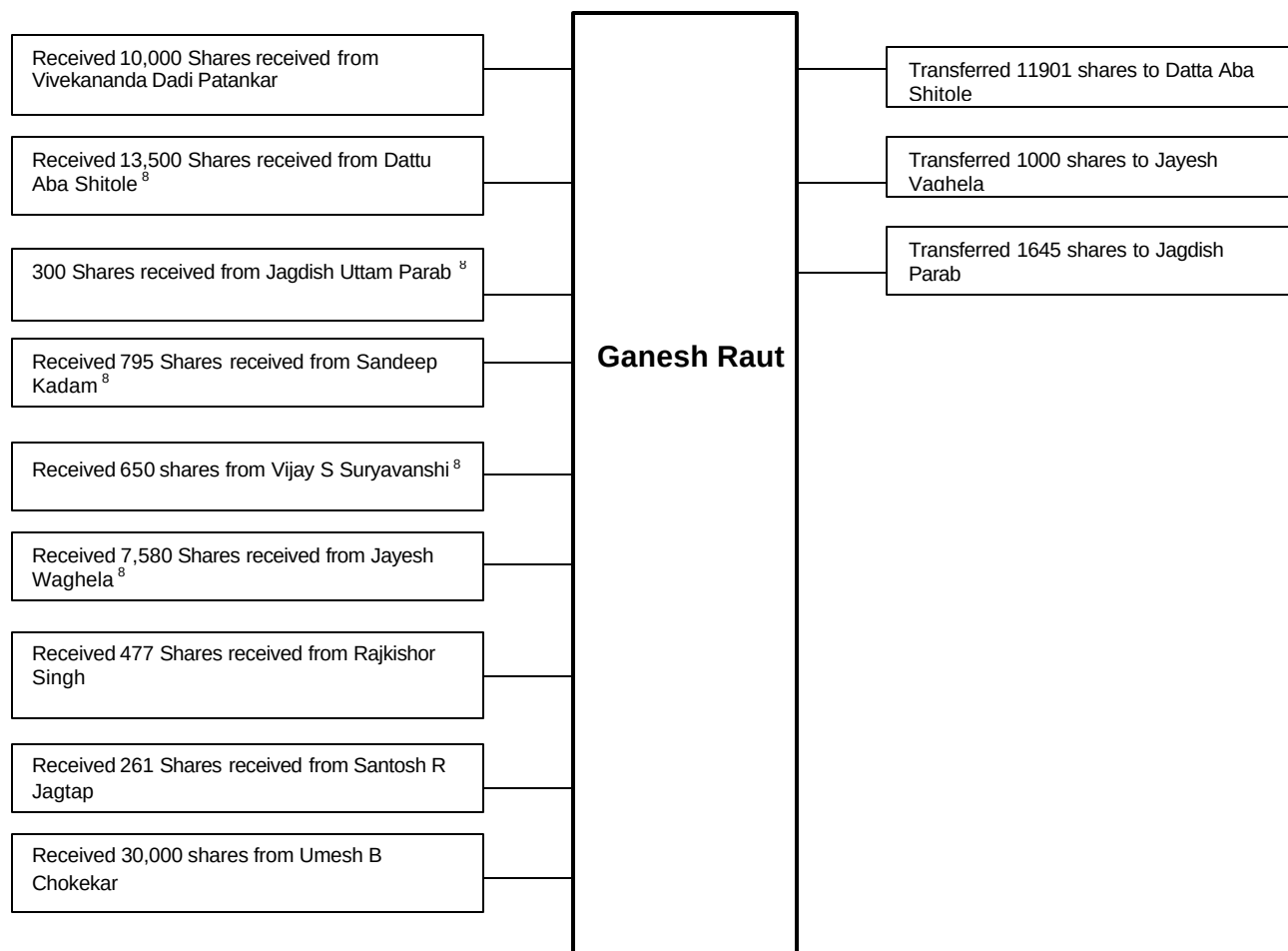


Diagram 6: IFSL



⁸ SEBI in its order of Mega Corporation directed all these clients not to deal in this scrip because of their connection with the promoters of the company.

Diagram 7: Millennium Cybertech

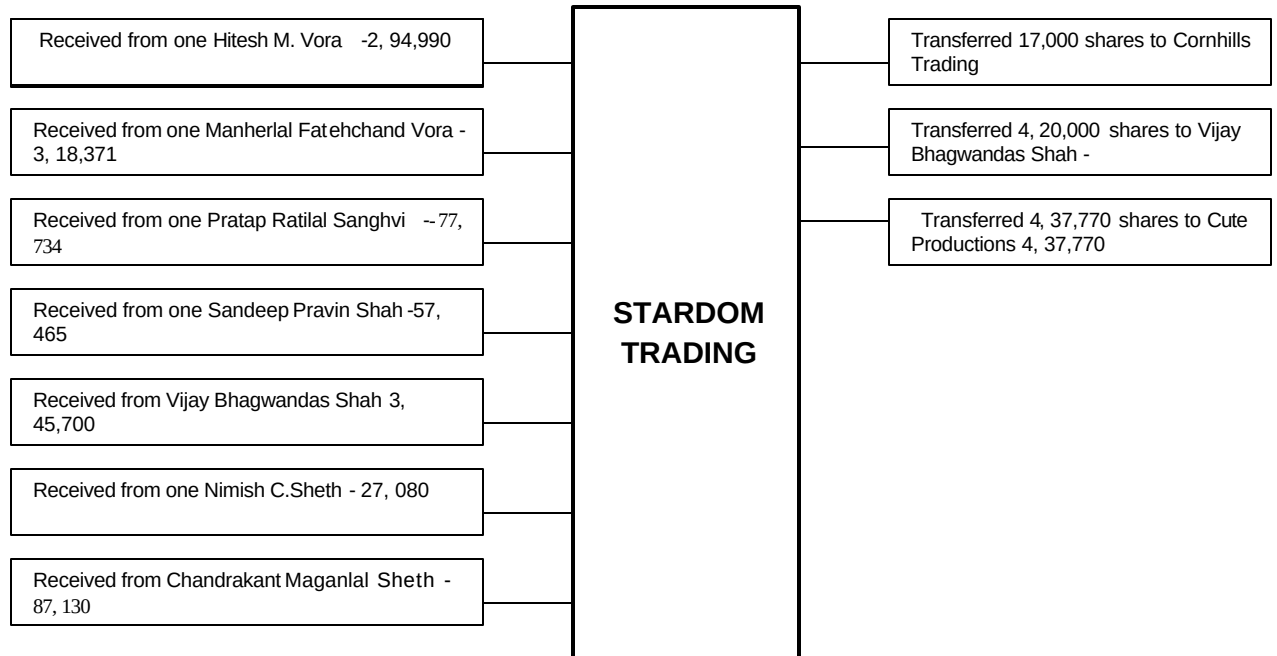
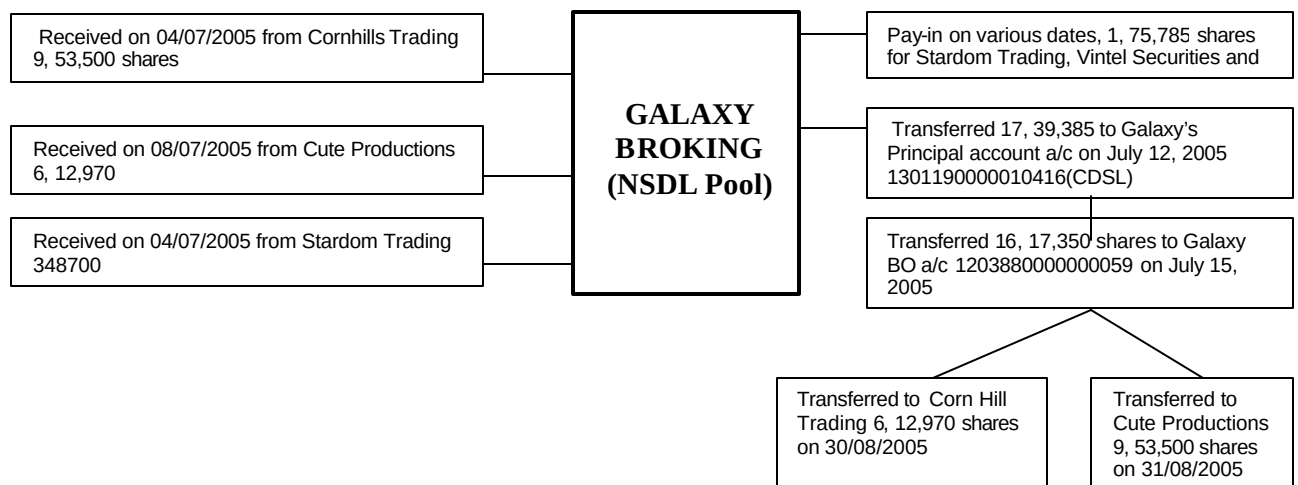


Diagram 7 A: Millennium Cybertech



2.10 The above analysis makes it abundantly clear that Galaxy has been continuously indulging in pump priming the trading volumes in the penny stocks to create an artificial market either to enrich the promoters by off loading their shareholdings at the artificial price or enriching themselves at the cost of lay investors who might have been lured to trade in these shares on the make believe created in the market. As can be seen most of the clients who traded in the scrip of Baffin Engineering through Galaxy are related to one another and to the director of Baffin Engineering and Galaxy viz Arvind M Udeshi. Clients viz Vintel Securities and Ritedeal Trading (Ganesh Raut) are connected to the promoters of Karuna Cables . Receipt of shares of IFSL into Galaxy's BO account from Ganesh Raut seeks to suggest its off market dealings with Ganesh Raut/Ritedeal. Therefore, he is also a party to the group which has acted in concert to create artificial volume in the scrips like Mega Corporation, IFSL and Karuna Cables. Thus, in the maze of transactions, there is a pattern of nexus amongst the brokers (Galaxy), promoters, and inter-connected clients making it appear on the face of it that there was a coordinated effort to manipulate the penny stocks with the broker(Galaxy) actively inter-mediating.

Funding of transactions of certain clients by Galaxy

2.11 Galaxy not only was involved in the creation of artificial volumes but has also indirectly funded most of the clients who traded with them in penny stocks, by maintaining a continuous debit balance often running into several crores of rupees for a fairly long period as illustrated in Table 5. This is a clear violation of SEBI Circular No. SEBI/MRD/SE/Cir-15/2004 dated March 19, 2004 read with SEBI/MRD/SE/SU/Cir-16/04 dated March 31, 2004.

Table 5: Details of Funding by Galaxy to its clients (dealing heavily in penny stocks)

S. No	Name of the client	Maximum debit balance(Rs. lakhs)	Maximum period of debit (approx) (weeks)
01	Amrut Securities	208	18
02	Amrutlal Jivandas Gandhi	54	4
03	Anil Gandhi	238	8
04	Chirag Shah	358	4
05	Darshit Patel	258	26
06	Manish Ashar	24	30
07	Priti Anil Gandhi	184	6
08	Ritedeal Trading	57	26
09	SureshKumar Jain	60	8
10	Vintel Securities	337	17
11	Girdharbhai Vagadia	257	6
14	Troop Track	60	8
15	Cardiod Marketing	10	4

Other violations

2.12 Besides the above findings, the inspection report also brings out extensive violation on the part of Galaxy in several areas namely:

Non compliance of Know your Client (KYC) norms and lack of due diligence in opening of accounts:

2.12.1 Galaxy had entered into agreement with its clients before the client company authorizing its representative to open the account through a Board Resolution.

**Table 6: Details of the non compliance of KYC norms
(Difference in the date as per the Broker-Client Agreement and
Board Resolution of the client company)**

S. No	Name	Date of agreement	Date of Board Resolution
1	Penny securities and Investments Private Limited	17/05/2005	28/06/2005
2.	Rational Finvest Private Limited	11/07/2005	18/08/2005
3	Troop Track Electrodes Private limited	09/05/2004	29/06/2005
4	IFSL Limited	25/02/2005	25/07/2005

2.12.2 Galaxy has relied only upon board resolutions of companies on plain paper without the common seal of the company. (e.g. Rational Finvest Private Limited and IFSL Limited).

2.12.3 Galaxy opened a client account in the name of IFSL, a company listed on BSE & MPSE and a Member of MPSE (SEBI Regn. No. INB070692530 Registered since February 07, 1995), Galaxy had accepted Board resolution of the company, authorizing Shri Paras Chaplot to operate the broking account on behalf of the company on a plain paper and not on the company's letter head and it was also not bearing common seal of the company. Shri Paras Chaplot also operates another account with Galaxy in the name and style of Cardiod Marketing Limited. SEBI has passed an order in the matter of IFSL on September 28, 2005 for apparent manipulation in the dealing in the scrip. The IFSL account with Galaxy is seen to have used mainly for dealing in penny scrips and huge transactions were noticed in the scrip of Millennium Cybertech. The account of Cardiod Marketing similarly used for trading in penny scrips and huge transactions were noticed in the scrip of Karuna Cables in which SEBI has issued directions to various entities/persons.

2.12.4 Six of the top 20 clients of Galaxy are private limited companies, and the telephone numbers of the companies given on the KYC forms does not belong to them and any of the officials of these companies was not available to answer the calls made on these numbers. Galaxy has not exercised due care and skill while opening of the client accounts. This is in violation of the Code of conduct for stock brokers as per schedule II Clause A (2) read with Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.

Unauthorized Financing of Client Transactions:

2.12.5 Galaxy has not applied to the stock exchange for approval to extend margin trading facility to their clients. As already brought out in para 2.11 above, many of top clients trading in penny scrips were extended substantive funding. Many of client ledger accounts are showing continuous debit balances and were allowed to trade in spite of the debit balances. Some of the clients (see Table No.5) availed funding even to the extent of two to three crore rupees at certain points of time. This is in violation of SEBI Circular No SEBI/MRD/SE/Cir-15/2004 dated March 19, 2004 read with SEBI/MRD/SE/SU/Cir-16/04 dated March 31, 2004.

Unexplained credits in the books of Galaxy:

2.12.6 Galaxy has credited the ledger of one Chirag V Shah, who is the top client in terms of turnover of Galaxy, various amounts with the narration 'as per instruction'. There were no corresponding deals executed on behalf of Chirag Shah. Galaxy did not provide any satisfactory explanation for such credits. Instances of such transaction are placed in Table 7. Such continuous crediting of the accounts without any debits, definitely gives rise to the presumption of certain undisclosed transactions to which Galaxy is a party and such instances needs to be probed in determining the conduct of the broker "Galaxy".

Table 7: Unexplained credits in the books of Galaxy

Sr.No.	Date	Amount
01	29/07/2005	26,75,000
02	29/07/2005	15,90,000
03	29/07/2005	25,85,000
04	29/07/2005	19,80,000
05	19/09/2005	30,00,000
06	23/09/2005	7,00,000

2.12.7 It is also observed that on April 7, 2005 Galaxy has debited the ledger account of Amrut securities by Rs 23, 56,414.74 and credited the same amount in the account of Darshit Patel. Galaxy could not give any reason for the same. Further, on September 28, 2005 the ledger account of Rite deal was debited by Rs.1, 80, 000 and the same was credited to Anil Gandhi Trading account with out any authority from the client The above are in violation of B (6) of Code of conduct prescribed as per Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.

No Tripartite Agreement

2.12.8 As per SEBI Circular SEBI/MIRSD/DPS-1/Cir-31/2004 dated August 26, 2004, a member of a Stock Exchange has to enter into a tripartite agreement with the clients (coming through sub-broker) and sub-broker. It is observed that Galaxy has not entered into tripartite agreement with any of the client trading through its sub-brokers. It is also observed that Galaxy has not maintained ledger of such clients. This is in violation of SEBI Circular SEBI/MIRSD/DPS-1/Cir-31/2004 dated August 26, 2004.

Trading Terminals:

2.12.9 As per SEBI Circular SMDRP/POLICY/CIR -49/2001 dated October 22, 2001 trading terminals can be located only at the registered office, branch offices and their registered sub-brokers' offices of the broker. It is observed that Galaxy has allotted trading terminals at Jamnagar which is neither its branch office nor its registered sub-broker's office. This is in violation of SEBI Circular SMDRP/POLICY/CIR-49/2001 dated October 22, 2001.

Un-Registered Remisiers:

2.12.10 Galaxy was found soliciting business from 20 un-registered Remisiers. This is in violation of the bye laws of the stock exchange and there in contravention of the Code of conduct prescribed for stock brokers as Schedule II Clause A (5) read with Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.

Dealing with Un-Registered Sub-Brokers:

2.12.11 It was observed that Galaxy is dealing on behalf of M/s Vishvas Securities Limited (Member NSE and OTCEI) and Narendra Ganatra who in turn soliciting their own clientele business .DP account of M/s Vishvas Securities and Narendra Ganatra reveal that they are dealing on behalf of their clients in BSE through M/s Galaxy Broking as a sub-broker. This is in violation of Regulation 18B of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.

Dealing In Cash:

2.12.12 It was observed that Galaxy has dealt in cash with its clients. Instances are placed as per Table 8.

Table 8: Details of Cash dealings

S. No.	Date	Name of the client	Received	Paid
1.	05/01/2005	Narendra P Ganatra	1,50,000	
2.	18/02/2005	Atul Chokshi	1,40,000	
3.	30/03/2005	Pankaj Ashar Investment		2,00,000
4.	30/03/2005	Amrut Securities		22,50,000
5.	31/03/2005	Chintamani Share		33,005
6.	15/04/2005	Jatin M Shah	1,80,000	
7.	02/05/2005	Piyush Shah	6,00,000	
8.	05/05/2005	Piyush Shah	2,00,000	
9.	01/07/2005	Shailesh Ved	1,35,000	
10.	14/07/2005	Sarang Bhagwanbha	10,00,000	
11.	20/07/2005	Mukesh Chokshi	1,50,000	
12.	10/08/2005	Piyush Shah		5,00,000
13.	17/08/2005	Piyush Shah		3,00,000

2.12.13 It is also observed that Galaxy has paid Rs 9, 50,000 in cash towards Medical Expenses of Shri Amrutlal Jivandas Gandhi. Upon discussion, Galaxy could not give satisfactory reply for the same. This is in violation of SEBI Circular No. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003.

Reports from BSE

2.13 The BSE had forwarded reports of trading by Galaxy in the shares of IFSL and Prraneta Industries and these reports also add up to the gravity of market misconduct of Galaxy:

2.13.1 In case of Prraneta Industries, all first trades of Galaxy on behalf of Girdharbhai Vagadia were executed at a price higher by 2 % or more than its previous closing price, which established a new price. Although there were other market participants, the orders (buy or sell) resulting in the first trades, were mainly placed by Galaxy dealing on behalf of Girdharbhai Vaghadia Group. 39 trades executed at a price higher by Re. 1.00 or more than the previous traded price by Galaxy on behalf of its client Girdharbhai Vaghadia. Galaxy executed four orders resulting in multiple trades and influencing the price by Re. 0.50 or more.

Galaxy also executed 31 trades at a price lower by Re. 1.00 or more than the previous traded price. Galaxy Broking executed all these trades on behalf of Girdharbhai Vaghadia.

2.13.2 In case of IFSL Galaxy appeared as a buyer / seller in more than 5 instances of incremental trades. Galaxy appeared as a buyer / seller in more than 10 instances of price influencing trades.

2.14 Action taken by BSE

2.14.1 Suspended Galaxy from trading for a period of three trading days with effect from. December 29, 2005 (Thursday) till January 02, 2006 (Monday). Prohibited Galaxy from trading in securities in 'Z', 'T' & 'TS' group for a period of three months effective from January 03, 2006 to April 02, 2006. The said prohibition shall be reviewed by the Surveillance Committee after three months. Further a penalty of Rs. 1, 00,000/- is also imposed on the Galaxy.

Conclusion

2.15 Galaxy has played a major role in generating artificial volumes and rise in the prices of large number of penny stocks. In two scrips viz Swan Mills Ltd and Wellworth Overseas, Galaxy had accounted for more than a third of the total turnover at BSE during the inspection period. The burgeoning volumes created through the artifice of a web of off market/market transfers and trading between a common set of interconnected clients, some of whom have also been funded by allowing them to maintain a large debit balances, and the tell-tale strands of inter-locking deals intermediated by the broker speak volumes about the penny stock manipulation in the most brazen way, thereby vitiating the market. Generation of this large volume, through artificial demand and supply has also helped in ramping up prices of companies which otherwise had lackluster performance which did not justify the spurt in share prices. The promoters of these companies offloaded their

shareholding at higher prices, a fact which has also been brought out in the order of SEBI in the cases of Mega Corporation and Karuna Cables.

In doing so, Galaxy has violated the following:-

- a. Regulation 4 (2) (a) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.
- b. Regulation 18B, A (2), (3), (4), and (5), B (6) of Code of conduct prescribed as per Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.
- c. SEBI Circular No SEBI/MRD/SE/Cir-15/2004 dated March 19, 2004 read with SEBI/MRD/SE/SU/Cir-16/04 dated March 31, 2004.
- d. SEBI Circular No. SEBI/MRD/SE/Cir- 33/2003/27/08 dated August 27, 2003.
- e. SEBI Circular SMDRP/POLICY/CIR-49/2001 dated October 22, 2001.
- f. SEBI Circular SEBI/MIRSD/DPS-1/Cir-31/2004 dated August 26, 2004.
- g. Clause 5 of SEBI (Securities Lending Scheme) 1997.

2.16 The details as set out above in all its starkness highlight the most unedifying role of Galaxy in creating false market in the shares of penny stocks and inveigling investors to trade in these stocks. Naturally, there is an immediate and imperative need not to allow such pernicious skullduggery to go unchecked, which would inflict a further, greater harm to the integrity of the market. In view of the above I am satisfied that pending inquiry by SEBI, it is necessary to issue an order against Galaxy and all the concerned entities under Section 11 (4) (b) read with Section 11 (1) under 11B of the SEBI Act in order to protect the interests of the investors and also the integrity of the securities market.

3. Order

3.1 On a conspectus of the total trades executed by the clients of Galaxy, I find that most of the clients dealing through Galaxy are inter-connected and mainly dealing in penny stocks. Moreover, the suspension of Galaxy by BSE for three days starting from December 29, 2005 to January 02, 2006 besides reinforcing the perspicuous analysis as detailed above, serves as an early warning signal to the clients of Galaxy.

3.2 Therefore, in exercise of the powers delegated to me by the SEBI Board in terms of Section 19 of the Securities and Exchange Board of India Act 1992 read with Section 11(1), 11B and 11(4) (b), pending inquiry and passing of final order, I hereby issue the following directions, by way of ad interim, ex-parte order, and suspend the certificate of registration of M/s Galaxy Broking Limited, Member BSE (SEBI Registration No. INB0108827390) and shall not buy, sell or deal in securities, in any manner, either directly or indirectly, till further directions in this regard.

3.3 That the clients viz., Anil Gandhi, Priti Anil Gandhi, Amrut Securities, Deepak Ashar, Manish Ashar, Chintamani Share and Broking Ltd., Sudha Amrutlal Gandhi, Pooja Anil Gandhi, Amrutlal Jivandas Gandhi, IFSL, Cardiod Marketing, Chirag Shah, Girdharbhai Vagadia, Suresh Pukhraj Jain, Darshit Patel, Dilip Kumar Adukia, Vintel Securities, Troop Track Electrodes and Rational Finvest are hereby directed not to buy, sell or deal in securities of companies indicated against their names in Table 4 above, directly or indirectly, till further directions in this regard.

3.4 The Depositories shall not give effect to any transfer of shares of the companies listed as per Table 4 above, lying in the beneficial owner accounts of clients mentioned in Para 3.3 above.

3.5 All the above directions shall take effect immediately and shall be in force until further orders.

3.6 Further, the entities against whom this direction is issued may file their objections, if any, to this order within 15 days from the date of this order and, if they so desire, avail themselves of an opportunity of personal hearing at the Securities and Exchange Board of India, Head Office, First Floor, Mittal Court B wing, Nariman Point, Mumbai 400 021 on a date and at a time to be fixed on a specific request, to be received in this behalf from the entities within 15 days from the date of this order.

PLACE :Mumbai

G. ANANTHARAMAN

DATE: January 24, 2006

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA