

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 13(4) SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 AGAINST KBS CAPITAL MANAGEMENT LTD., MEMBER, BSE, REGISTRATION No. INB 010913532 THE MATTER OF MANGALYA EXPORTS LTD.

BACKGROUND

- 1.1 KBS Capital Management Ltd. (hereinafter referred to as "the broker") is a member of the Stock Exchange, Mumbai (hereinafter referred to as "BSE") and is registered with Securities and Exchange Board of India (hereinafter referred to as "SEBI") vide registration No. INB 010913532.
- 1.2 SEBI conducted an investigation into the affairs relating to buying, selling and dealing in the shares of Mangalya Exports Ltd. (hereinafter referred to as "MEL") for the period 17.05.2000 to 21.07.2000. Investigation revealed that MEL had been a continuously loss incurring company with a very small volume of turnover. The price of the scrip went up from Rs.96/- to Rs.194/- in a month's time in May-June 2000 and then declined to the same level of Rs.96/- in June-July 2000.
- 1.3 Investigation revealed that the broker traded for their client M/s. Rushil Enterprise (proprietor Shri Ashish Suresh Shah). The broker had purchased 15,500 shares and sold 15,300 shares of the said scrip on behalf of the said client. Investigation revealed that the client M/s. Rushil Enterprise placed a number of buy and sell orders, through the broker and three other brokers, for same total quantity and same rates with minimum time difference ranging from 30 seconds to 4 minutes in most of the trades and thus tried to create a market by doing fictitious trades and circular trading and also inflated the price of an illiquid scrip of a loss incurring company from Rs.102 to Rs.159 within a very short period of time.

2.0 APPOINTMENT OF ENQUIRY OFFICER AND ENQUIRY REPORT

- 2.1 SEBI vide order dated 12.03.2004 appointed an Enquiry Officer under the provisions of Regulation 5 (1) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the "said Regulations") to enquire into the possible violation committed by the broker of the provisions of SEBI Act, 1992 and SEBI (Stock Brokers & Sub - Brokers) Regulations, 1992 (hereinafter referred to as "Stock Broker Regulations") while trading in the scrip of MEL.
- 2.2 The Enquiry Officer, after conducting the enquiry as per the procedure laid down in the said Regulations, submitted a report dated 28.10.2004. The Enquiry Officer found that the broker had violated Regulation 7 read with Clause A (2) of the Code of Conduct prescribed in Schedule II of Stock Broker Regulations and recommended that warning be issued to the broker to be careful in future.

3.0 SHOW CAUSE NOTICE AND REPLY

- 3.1 A Show Cause Notice dated 22.12. 2004 was issued to the broker along with a copy of the Enquiry Report, calling upon to show cause, in terms of Regulation 13(2) of the Regulations, as to why action as recommended by the Enquiry Officer should not be taken against it. The Show cause Notice was duly served but the broker did not reply.

4.0 CONSIDERATION OF ISSUES AND OBSERVATIONS

- 4.1 I have considered the facts of the case, the findings of the Enquiry Officer. The issue which arose for consideration and my observation are as follows:
- 4.2 **Whether the broker has violated the code of conduct prescribed for Stock Brokers.**

I observe that the broker had executed orders in the scrip of MEL on behalf of its client Rushil Enterprise. The total shares purchased were 15,500 and the quantity sold was 15,300 shares. The details of buy and sell position of the broker are as under:

SN	Date	Buy Client	Sub-broker	Broker	Qty	Price	Sell Client	Sub-broker	Broker	Qty	Price
8	18.5.00	Rushil Enterprise		KBS Capital	2 orders of 1000 each	102 & 103	Rushil Enterprise	MJ Shah	Vidyut	2 orders of 1000 each	103 & 102

8	19.5.00	Rushil Enterprise	MJ Shah	Vidyut	1 order of 2000	110	Rushil Enterprise		KBS Capital	1 order of 2000	110
9	23.5.00	Rushil Enterprise		KBS Capital	1 order of 1000	101	Rushil Enterprise	MJ Shah	Vidyut	5 orders of 200 each	97,98,99, 100,101
9	24.5.00	Rushil Enterprise		KBS Capital	1 order of 1000	105	Rushil Enterprise	MJ Shah	Vidyut	5 orders of 200 each	101,102 ,103,104,105
9	25.5.00	Rushil Enterprise		KBS Capital	3 orders of 500 each	105, 108, 111	Rushil Enterprise	MJ Shah	Vidyut	3 orders of 500 each	105, 108, 111
9	25.5.00	Rushil Enterprise		KBS Capital	1 order of 300	111	Rushil Enterprise	MJ Shah	Vidyut	1 order of 300	111
9	26.5.00	Rushil Enterprise	MJ Shah	Vidyut	7 orders of 500 each and 1 order of 300	111	Rushil Enterprise		KBS Capital	1 order of 3800	111
10	29.5.00	Rushil Enterprise		KBS Capital	2 orders of 500 each	115, 116	Rushil Enterprise	MJ Shah	Vidyut	2 orders of 500 each	115, 116
10	30.5.00	Rushil Enterprise		KBS Capital	1 order of 1200	120	Rushil Enterprise	MJ Shah	Vidyut	2 orders of 600 each	120, 119
10	1.6.00	Ashish Shah	MJ Shah	Vidyut	2 orders of 1000 each	115, 128	Rushil Enterprise		KBS Capital	2 orders of 1000 each	115, 128
11	5.6.00	Rushil Enterprise		KBS Capital	1 order of 1500	130	Rushil Enterprise	MJ Shah	Vidyut	5 orders of 300 each	124,127, 128,129, 130
11	6.6.00	Rushil Enterprise		Park Light Inv	1 Order of 200 and 2 orders of 1000 each	128, 133, 138	Rushil Enterprise		KBS Capital	11 orders of 200 each	Ranging from 128 to 138 with a diff of Re.1 per order
11	7.6.00	Rushil Enterprise	MJ Shah	Vidyut	1 order of 200 and 2 orders of	128, 135 138	Rushil Enterprise		Park Light Inv	10 orders of 200 each	148,146, 145,144 140,136

					400 each						138,135
											132,128
	7.6.00	Rushil Enterprise		KBS Capital	1 order of 1000	146	Rushil Enterprise		Park Light Inv	1 order of 1000	146
11	8.6.00	Rushil Enterprise	MJ Shah	Vidyut	1 order of 500	155	Rushil Enterprise		Park Light Inv	1 order of 200	155
	8.6.00	Rushil Enterprise	MJ Shah	Vidyut	Same order as above		Rushil Enterprise		KBS Capital	3 orders of 100 each	148,150, 151
11	9.6.00	Rushil Enterprise		Park Light Inv	1 order of 500	158	Rushil Enterprise	MJ Shah	Vidyut	1 order of 500	158
		Rushil Enterprise	MJ Shah	Vidyut	1 order of 500	167	Rushil Enterprise		Park Light Inv	2 orders of 500 each	168,167
12	14.6.00	Rushil Enterprise		Park Light Inv	3 orders of 200, 600 & 400	178, 184, 188	Rushil Enterprise	MJ Shah	Vidyut	6 orders of 200 each	178,180 182,184, 186,188
12	15.6.00	Rushil Enterprise	MJ Shah	Vidyut	3 orders of 500,200, 500	194 194 194	Rushil Enterprise		Park Light Inv	1 order of 1200	194

- 4.3 I observe that in Settlement No.8 on 18/05/2000, Ashish Suresh Shah under the client code CR 162, sold 2000 shares @Rs.102/- to 103 through M J Shah & Co, sub broker and purchased the same in the name of his proprietary firm Rushil Enterprises under client code 33111 through the broker. On the next day i.e. 19/05/2000, the shares purchased by Rushil Enterprises were sold back to Ashish Suresh Shah @Rs.110/- i.e. 7.84% higher, through the same brokers on both the sides. The market volume on 18/05/2000 and 19/05/2000 was 2000 and 2200 shares respectively and the trades done by Ashish Suresh Shah accounted for 100% and 90.91% of the market volume respectively.
- 4.4 During Settlement No.9 on 23/05/2000. 24/05/2000, Ashish Suresh Shah under the client code CR162, sold 1000, 1000 and 1800 shares @Rs.97 to 111 through M J Shah & Co and purchased the same in the name of his proprietary firm Rushil Enterprises under client code 33111 through the broker. On 26/05/2000, Ashish Suresh Shah squared up his position by reversing his transaction for 3800 shares @ Rs.111/- i.e. purchased through M J Shah & Co and sold through the broker.
- 4.5 Thus, Ashish Suresh Shah had done squaring up transactions in Settlement No.9 through M J Shah & Co and the broker by reversing the transactions, which took the price of the scrip upwards from Rs.97 to Rs.111. Further, the volume of 16,600 traded by him during the settlement constituted for 99.40% of the market volume of 16,700 shares.
- 4.6 During Settlement No.10 on 29/05/2000 and 30/05/2000, Ashish Suresh Shah under the client code CR162, sold 1000 and 1200 shares @ Rs.115 to 120 through M J Shah & Co and purchased the same in the name of his proprietary firm Rushil Enterprises under client code 3311 through the broker. On the next traded day i.e. 01/06/2000, the shares purchased by Rushil Enterprises were sold back to Ashish Suresh Shah @ Rs.115 to 128 by way of structured deals, through the same brokers on both the sides. Thus by reversing his transactions during the settlement his net delivery position was only 200 shares. Further, the volume of 4200 traded by him during the settlement constituted for 100% of the market volume of 4200 shares and the trades done by him during the settlement have accounted for price rise from Rs.111/- (closing price of Sett. No.9) to Rs.128/-.

- 4.7 During Settlement No.11 on 05/06/2000, Ashish Suresh Shah sold 1500 shares @ Rs.124/- to 130 through M J Shah & Co and purchased the same in the name of Rushil Enterprises through the broker. On the next day i.e. 06/06/2000 Ashish Suresh Shah through Rushil Enterprises sold 2200 shares @ Rs.128 to 138 through the broker and the same were purchased by Ashish Suresh Shah through Rushil Enterprises under client code R036 through the broker Parklight Investment Pvt. Ltd. These 2200 shares purchased by Ashish Suresh Shah's proprietary firm Rushil Enterprises under client code R036 were sold by his firm through Parklight Investments while the same were purchased by Ashish Suresh Shah, through M J Shah & Co & the broker. On 08/06/2000, Ashish Suresh Shah through his proprietary firm Rushil Enterprise client code 33111 through the broker, sold another 300 shares @ Rs.148 - 151 and the same were purchased by Ashish Suresh Shah under client code CR 162 through M J Shah & Co. On 09/06/2000 Ashish Suresh Shah under client code CR162 through M J Shah & Co sold 500 shares @ Rs.158 and the same were purchased by Ashish Suresh Shah in the name of his proprietary firm under the client code R036 through Parklight Investments Pvt. Ltd., and reversed the transactions through the same brokers @ Rs.167/-.
- 4.8 Thus, Ashish Suresh Shah has squared up his position reversing his transactions during the settlement through M J Shah & Co, the broker and Parklight Investment P Ltd and in all has traded 7200 shares during the settlement which constituted for 100% of the market volume of 7200 shares and the price rose from Rs.124 to 167 on account of these trades.
- 4.9 From the above transactions, I observe that the client had obviously done the transaction without any intention of transfer of beneficial ownership as he was himself the buy and sell client. I note that the above transactions, prima facie, seem to have been done to inflate the price and volume of the scrip. These transactions created a false and misleading appearance of trading in the securities. Circular trading was done by Ashish Suresh Shah in the name of his proprietary firm Rushil Enterprises under different client codes. It is observed that the shares purchased by Rushil Enterprises were sold back to Ashish Suresh Shah and vice versa. Thus, it is prima facie found that Ashish Suresh Shah had squared up his positions.
- 4.10 I observe from the trading details that the broker was instrumental in effecting the transactions of his client Shri Ashish Suresh Shah. The transactions of Ashish Shah were circular in nature as he was both the buy and sell client and were not intended to effect transfer of beneficial ownership. The only intention of the client seems to be to inflate the price of a security which was so far illiquid and thus created a false volume and misleading appearance of trading in the securities market and thereby influenced the price of the scrip. I also observe from the facts that broker had acted in the normal course of broking business. It is also found that the broker had not done any proprietary trading in the scrip. The client has traded over a period of four settlements spanning from Settlement 8 to 11 and the gross volume of these trades was approximately 100% of the market volume which resulted in price rise of the scrip from Rs.102 to Rs.159 within a very short period of time. I agree with the observation of the Enquiry Officer that such sudden price rise and increase in volume of trading by his client in an illiquid scrip should have alerted the broker and put him on caution while executing trades in the scrip for its client. Therefore, I agree with the finding of the Enquiry Officer that the broker has not exercised due skill, care and diligence while dealing with the client in this scrip. I am convinced that the broker has violated the provisions of Regulation 7 read with Clause A(2) of the Code of Conduct prescribed in Schedule II of Stock Broker Regulations.

5.0 ORDER

- 5.1 Therefore, in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992 read with Regulation 13(4) of said Regulations, in the facts and circumstances of the case, I hereby impose a minor penalty of 'warning' against the KBS Capital Management Ltd.

DATE : 31.01.2006

PLACE : MUMBAI

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA