

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION AND 11 AND 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND REGULATION 11 AND 13 OF THE SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO THE SECURITIES MARKET) REGULATIONS, 2003 AGAINST SHRI ASHISH SURESH SHAH AND M/S RUSHIL ENTERPRISES

1. **Background:**

2. Securities and Exchange Board of India (hereinafter to be referred to as 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. It was found out that Shri Ashish Suresh Shah had purchased 35,400 shares and sold 35,400 shares of the scrip which accounted for 85% of the market volume of 41,900 shares i.e., the major volume in the market was because of his transactions.

3. **Show cause Notice:**

4. A show cause notice (SCN) dated April 20, 2004 was sent to Shri. Ashish Suresh Shah. It was alleged that Shri Ashish Suresh Shah through his proprietary firm M/s. Rushil Enterprises had placed a number of buy and sell orders through various 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 created a market by doing fictitious trades and circular trading and also inflated the price of a illiquid scrip of a loss incurring company from Rs.101 to Rs.194/- within a very short period of time.

5. Thus, it was alleged that he had dealt in the above scrip which were circular in nature and were not intended to effect transfer of beneficial ownership since he was the buyer and seller on both the sides but intended to operate only as a device to inflate the price of the security which had created false and misleading appearance of trading in the securities market and violated the provisions of Regulation 4 (a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995(hereinafter to be referred to as FUTP Regulations,1995) read with Regulation 4 (a), (b), (e), (g) and (n) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter to be referred to as FUTP Regulations,2003)

6. He was called upon to show cause as to why action under Section 11, 11B and 11(4) of the SEBI Act, 1992 read with Regulation 11 of FUTP Regulations, 2003 including debarring him and his firm from dealing in securities and prohibiting him to be director or partner in any entity associated with the securities market for a certain period, should not be initiated.

7. **Reply:**

8. He submitted a reply vide letter dated 15th May,2004 that all the alleged trades were concluded as per the BSE Rules and Bye-Laws and mechanism of settlement. He submitted that buying and selling quantity being the same, no share had been offloaded in the market through him resulting in loss to any investor. He further submitted that BSE had conducted an enquiry in the scrip and imposed a penalty on the brokers for the violations. He pleaded for a lenient view in the matter.

9. **Personal Hearing:**

10. Vide the said SCN,Shri Ashish Suresh Shah was asked to indicate his desire, in any, for personal hearing before the member. He submitted that he would not avail the opportunity of personal hearing. Hence, I proceed to decide the case based on his reply dated 15th May, 2004 and the material available on record.

11. **Consideration of Issues and my observations**

12. I observe that Shri Ashish Suresh Shah did not dispute the transactions. Details of the trades done by Shri Ashish Suresh Shah as analysed from trade log in the scrip of MEL were sent along with the SCN.

13. I observe from Investigation Report that in Settlement No. 8 on 18.05.2000, Shri. Ashish Suresh Shah under the client code CR 162, sold 2000 shares @ Rs.102 to 103 through M. J Shah & Co.,Sub broker to the broker Vidyut

Devendrakumar and purchased the same in the name of his proprietary firm Rushil Enterprises under client code 33111 through the broker KBS Capital Management Ltd. On the next day i.e. 19.5.2000 the shares purchased by Rushil Enterprises were sold back to Shri Ashish Suresh Shah @ Rs.110 i.e. 7.84% higher, through the same brokers on both the sides thus squaring up his positions by reversing his transactions during the settlement. The market volume on 18.5.2000 and 19.5.2000 was 2000 and 2200 shares respectively and the trades done by Shri. Ashish Suresh Shah accounted for 100% and 90.91% of the market volume respectively.

14. I further observe from the Investigation report, during Settlement No. 9 on 23.5.2000, 24.5.2000 and 25.5.2000, Shri Ashish Suresh Shah under the client code CR 162, sold 1000, 1000 and 1800 shares @ Rs.97 to Rs. 111 through M J Shah & Co – sub broker to the broker Vidyut Devendrakumar and purchased the same in the name of his proprietary firm Rushil Enterprises under client code 33111 through broker KBS Capital Management Ltd. On 26.5.2000, Shri Ashish Suresh Shah squared up his position by reversing his transactions for 3800 shares @ Rs.111 i.e. purchased through M J Shah & Co – sub broker to Vidyut Devendrakumar and sold through KBS Capital Management Ltd.
15. I further observe from Investigation Report again on 25.5.2000, Shri Ashish Suresh Shah through his proprietary firm Rushil Enterprises sold 5000 shares @ Rs.109 -111 through Deval N. Shah sub broker to the broker SVS Securities Pvt. Ltd. and the same were purchased in the name of his proprietary firm Rushil Enterprises under client code 33111 through the member KBS Capital Management Ltd. This transaction was reversed by Shri Ashish Suresh Shah on 26.5.2000 @ Rs.111 through the same broker and sub broker.
16. Thus I further observe that Shri Ashish Suresh Shah has done squaring up transactions in Settlement No. 9 through M. J. Shah & Co. sub broker to Vidyut Devendrakumar and KBS Capital Management Ltd. by reversing the transaction that resulted from the price going up from Rs.97 to Rs.111. Further, the volume of 17,600 traded by him during the settlement constituted for 99.44% of the market volume of 17,700 shares.
17. I also observe from the Investigation report, during Settlement No. 10 on 29.5.2000 and 30.5.2000, Shri Ashish Suresh Shah under the client code CR162, sold 1000 and 1200 shares @ Rs.115 to Rs.120 through M J Shah & Co. sub brokers to the broker Vidyut Devendrakumar and purchased the same in the name of his proprietary firm Rushil Enterprises under client code 33111 through the broker KBS Capital Management Ltd. On the next traded day i.e. 1.6.2000, the shares purchased by Rushil Enterprises were sold back to Shri Ashish 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.
18. I observe from Investigation report, during Settlement No. 11 on 5.6.2000, Shri Ashish Suresh Shah under the client code CR162 sold 1500 shares @ Rs.124 to Rs. 130 through M J Shah & Co sub broker to the broker Vidyut Devendrakumar and purchased the same in the name of his proprietary firm Rushil Enterprises under client code 33111 through the broker KBS Capital Management Ltd. On the next day i.e. 6.6.2000 Shri Ashish Suresh Shah through his proprietary firm Rushil Enterprises under client code 33111 sold 2200 shares @ Rs128 to 138 through the broker KBS Capital Management Ltd. and the same were purchased by Ashish Suresh Shah through his proprietary firm Rushil Enterprises under client code R036 through the broker Parklight Investments 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 2000 shares @ Rs 128 to 146 on 7.6.2000 and 200 shares on 8.6.2000 @ Rs.155 while the same were purchased by Shri Ashish Suresh Shah, 1000 shares on 7.6.2000 and 200 shares on 8.6.2000 under client code CR162 through M J. Shah & Co. sub broker to Vidyut Devendrakumar and the remaining 1000 shares on 7.6.2000 under his proprietary firm Rushil Enterprise client code 33111 through KBS Capital Management Ltd. On 8.6.2000, Shri Ashish Suresh Shah through his proprietary firm Rushil Enterprise client code 33111 through KBS Capital Management Ltd. sold another 300 shares @ Rs.148 – 151 and the same were purchased by Shri Ashish Suresh Shah under client code CR162 through M J Shah & Co sub broker to Vidyut Devendrakumar. On 9.6.2000 Shri Ashish Suresh Shah under client code CR162 through M. J. Shah & Co. sub broker to Vidyut Devendrakumar sold 500 shares @ Rs.158/- and the same were purchased by Shri 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.
19. Thus, I observe that Ashish Suresh Shah has squared up his position reversing his transactions during the settlement through M J Shah & Co – sub broker to Vidyut Devendrakumar, KBS Capital Mgmt Ltd. and Parklight Investments Pvt. Ltd. and in all has traded 7200 shares during the settlement which constituted for 100% of the market volume of 7200 shares and were responsible for price rise from Rs.124 to 167.

I further observe from Investigation report during Settlement No. 12 on 14.6.2000 Shri Ashish Suresh Shah under client code CR162 through M J Shah & Co. sub broker to Vidyut Devendrakumar sold 1200 shares @ Rs.178- 188 and the same were purchased by Shri Ashish Suresh Shah in the name of his proprietary firm under the client code R036 through Parklight

Investments Pvt. Ltd. and reversed the transactions on the next day i.e. 15.6.2000 through the same brokers @ Rs.194. At this juncture, I note that Regulation 4 of FUTP Regulations, 1995 reads as under.

“ Reg. 4: No person shall

- (a) effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of the securities and thereby inducing the sale or purchase of securities by any person;
- (b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities markets;
- (c) indulge in any act, which results in reflection of prices of securities based on transactions that are not genuine trade transactions;
- (d) enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress, or cause fluctuation in the market price of securities:”

20. The transaction, done by Shri. Ashish Suresh Shah through his firm M/s Rushil Enterprises, The above acts are intended not to effect transfer of beneficial ownership since he was the buyer and seller on both the sides but intended to operate only as a device to inflate the price of the security which had created false and misleading appearance of trading in the securities market thereby violated the provisions of Regulation 4 (a), (b), (c) and (d) of FUTP Regulations, 1995. The above acts have resulted in false and misleading appearance of trading in the scrip of MEL. The activities further had resulted in the reflection of prices of MEL based on transaction that are not genuine trade transactions. I am, therefore, convinced that it is a fit case to pass an order under Section 11 and 11B of SEBI Act, 1992 and Regulation 11 read with Regulation 13 of the FUTP Regulations, 2003 against Shri. Ashish Suresh Shah and his firm viz M/s Rushil Enterprises

21. **Order:**

22. Therefore, in exercise of powers conferred upon me in terms of Sections 19 read with Section 11 and 11B of the SEBI Act, 1992 read with Regulation 11 and 13 of the FUTP Regulations, 2003, I hereby restrain Shri. Ashish Suresh Shah and his firm viz., M/s Rushil Enterprises from buying, selling or dealing in securities in any manner and also restrain them from associating with any corporate body in accessing the securities market for a period of one year.

23. This order shall come into force with immediate effect.

DATE : 31.01.2006
PLACE : MUMBAI

MADHUKAR
WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA