

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.NIMESH MANHARLAL SHAH

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 scrip 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.Nimesh Manharlal Shah have purchased 5,000 shares and sold 4,700 shares of the said scrip which accounted for 12% and 11% respectively of the market volume of 41,900 shares during the entire period of investigation.

3. Show cause Notice:

4. A show cause notice(SCN) dated April 20,2004 was issued to Nimesh Manharlal Shah. It was alleged that during the settlement no.12, Shri.Nimesh Manharlal Shah traded under client code 2609 and N004 accounting for 100% of the market volume of the scrip. Further, it was also alleged that the trades done by him during the settlement no.12 through two sub-brokers were executed by putting the buy and sell orders for same total quantity and same rates with minimum time difference ranging from 1 minute to 4 minutes in most of the trades and was alleged to be responsible for increasing the price from Rs.165 to Rs.185 of the scrip.
5. It was also alleged that during Settlement Nos.14, 15, 16 and 17 Shri.Nimesh Manharlal Shah had sold shares in the lots of 100 shares per day which accounted for 100% of the market volume on the respective days. These sell orders were put in the early trading hours and on many days were the 1st sell orders for the day. Thus, the sell orders placed by him were the reason for the fall in the price of a illiquid scrip from Rs.144.15 on 28.6.00 to Rs.99.85 on 19.7.00.
6. Hence he was alleged to have dealt in securities which were circular in nature and were not intended to effect transfer of beneficial ownership as he was the buyer and seller on both the sides. These transactions were intended to operate only as a device to inflate and then depress the price of the security which resulted in creation of false and misleading appearance of trading in the securities market thereby violated 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 as FUTP Regulations,1995) read with Regulations 4(2) (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)

7. Reply:

8. Shri.Nimesh Manharlal Shah replied to the show cause notice vide letter dated May,21,2004 . He requested SEBI to take a lenient view and drop the actions as contemplated in the show cause notice. He further requested SEBI to provide copies of all the documents on which SEBI had relied on to frame charges. He further submitted that BSE had conducted an enquiry in the scrip and imposed a penalty on the brokers for the violations. He further denied the allegations made against him in the show cause notice.

9. Personal Hearing:

10. Shri.Nimesh Manharlal Shah vide his reply dated May,21,2004 submitted that he was not willing to avail the opportunity of personal hearing.

11. Consideration of Issues and my observations:

12. Since Shri.Nimesh Manharlal Shah had requested for the copies of all the documents on which SEBI had relied on to frame charges, SEBI sent a letter dated June 30, 2004 informing that the details given in the annexure to the show cause notice have been culled out from the information submitted by the Stock Exchange, Mumbai and the stock brokers. Further it was also stated in the letter that Shri.Nimesh Manharlal Shah could provide SEBI with the list of documents, of which he would like to receive copies. Shri Nimesh Manharlal Shah vide letter dated July 11, 2004 gave the list of documents. Accordingly, the copies of the relevant documents were sent to him vide letter dated August 09, 2004. The acknowledgement for receipt of this letter was received by SEBI.

13. **Whether Shri.Nimesh Manharlal Shah had dealt in MEL which are circular in nature not intending to effect transfer of beneficial ownership to inflate and then depress the price of the scrip resulting in creation of false and misleading appearance of trading in the securities market thereby violating Regulation 4(a), (b), (c) and (d) of FUTP Regulations,1995?**

14. I observe that details of the trade done by Shri.Nimesh Manharlal Shah were given in the Annexure to the SCN .I observe during Settlement No.12 on 12.6.2000, the client Shri Nimesh Manharlal Shah under client code 2609 sold 700 shares @ Rs.165-172 through SJ Securities, sub broker to Manashvi Securities Ltd. and the same were purchased by Shri. Nimesh Manharlal Shah under client code N004 through V&U Securities Pvt. Ltd. (formerly Kirtikumar K Shah) sub broker to the member MP Vora Shares and Securities P. Ltd. This trade was reversed @ Rs.162 – 169 through same sub brokers on the same day. Again Shri Nimesh Manharlal Shah under client code N004 through V&U Securities Pvt. Ltd. sub broker to the member MP Vora Shares and Securities P. Ltd. sold 600 shares @ Rs.157 – 159 and the same were purchased by Shri Nimesh Manharlal Shah under client code 2609 through S J Securities, sub broker to Manashvi Securities Ltd. At the end of the day this trade was reversed by Shri Nimesh Manharlal Shah @ Rs.169 – 173 through the same sub brokers.

15. I further observe that on 13.6.2000, the client Shri Nimesh Manharlal Shah under client code 2609 sold 600 shares @ Rs.162-169 through SJ Securities, sub broker to Manashvi Securities Ltd. and the same were purchased by Shri. Nimesh Manharlal Shah under client code N004 through V&U Securities Pvt. Ltd. sub broker to the member MP Vora Shares and Securities P. Ltd. These transactions for 600 shares were reversed for 500 shares @ Rs.172- 176 on the same day and 100 shares @ Rs.185 on last day of settlement i.e. 16.6.2000, thus squaring up his positions through the same sub brokers.

16. I also observe that during Settlement No.13, there were no trades as there were only sell orders in the system. During Settlement No.14, 15, 16 and 17 it is observed that the price of the scrip has fallen down sharply to Rs.95.90. Further, it is also observed that 1500 shares were traded during the fall period out of which 700 shares were sold by Shri Nimesh Manharlal Shah under client code N004 through V&U Securities Pvt. Ltd. sub broker to MP Vora Shares & Securities P. Ltd. These 700 shares were sold in the lots of 100 on 7 days with a decrease in price i.e. @ Rs.144.15 on 28.6.2000 to Rs.99.85 on 19.7.2000. At this juncture, I note that Regulation 4 of FUTP Regulations, 1995 reads as under

"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:"

17. I am convinced that the transactions done by Shri Nimesh Manharlal Shah 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 thereby violated the provisions of Regulation 4 (a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practice relating to Securities Markets) Regulations, 1995. The above acts have clearly 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 read with Regulation 11 and 13 of the FUTP Regulations, 2003 against Shri. Nimesh Manharlal Shah.

18. **Order:**

19. Therefore, in exercise of powers conferred upon me in terms of Section 19, 11 and 11B of the SEBI Act, 1992 read with Regulation 11 and 13 of the FUTP Regulations, 2003, I hereby restrain Shri. Nimesh Manharlal Shah from buying, selling or dealing in securities in any manner and also restrain him from associating with any corporate body in accessing the securities market for a period of one year.

20. 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

