

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 KIRTIKUMAR K. SHAH (NOW V & U SECURITIES LTD.), SUB-BROKER OF M.P. VORA SHARES & SECURITIES PVT. LTD., (SEBI REG. NO. INS 010661812) IN THE MATTER OF MANGALYA EXPORTS LTD.

1.0 BACKGROUND

- 1.1 Kirtikumar K. Shah (presently known as M/s. V & U Securities Ltd. and hereinafter referred to as "sub-broker") is a sub-broker of M.P. Vora shares & Securities Pvt. Ltd., member, the Stock Exchange, Mumbai (hereinafter referred to as "BSE")
- 1.2 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.
- 1.3 Investigation revealed that M P Vora Shares & Securities Pvt. Ltd. executed orders put by the sub broker Kirtikumar K Shah for the client Shri Nimesh Manharlal Shah. The total shares purchased were 3,100 shares and sold were 2,800 shares of the said scrip. Investigation revealed that during settlement No. 12, Nimesh Manharlal Shah had executed these trades through two sub-brokers viz. M/s. S J Securities Ltd. (broker M/s.Manashvi Securities Ltd.) and sub broker (broker M/s. M P Vora Shares & Securities Pvt. Ltd.) by putting the buy and sell orders for same total quantity at same rates with minimum time difference ranging from 1 minute to 4 minutes in most of the trades. As Nimesh Manharlal Shah was the counter broker client, these trades were fictitious in nature and led to circular trading and accounted for 100% of the market volume of the respective days and as such inflated the price of the scrip from Rs.157 to Rs.176 and then deflated the price of the scrip from Rs.194 to 185, within a very short period of time. It was further observed that during the settlement no. 14, 15, 16 and 17 the client Nimesh Manharlal Shah sold shares in lots of 100 shares per day at lower circuit filter rates on 7 days which accounted for 100% of the market volume of the respective days which further deflated the price of the scrip to Rs.99. Thus the client Nimesh Manharlal Shah had 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), but intended to operate only as a device to inflate and deflate the price of the security which have created false and misleading appearance of trading in the securities market

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 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 alleged violation committed by the sub broker of the provisions of Regulation 15 read with clause A(2) of the 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 16.11.2004. The Enquiry Officer found that the sub-broker has failed to exercise due skill, care and diligence while dealing in the scrip and recommended that warning be issued to the sub-broker to be careful in future.

3.0 SHOW CAUSE NOTICE AND REPLY

- 3.1 A Show Cause Notice dated 16.03. 2005 was issued to the sub broker along with a copy of the Enquiry Report, calling upon to show cause, in terms of Regulation 13(2) of the said Regulations, as to why action as recommended by the Enquiry Officer should not be taken against him. The Show cause Notice was duly served but the sub-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 and my observations are as follows:
- 4.2 I observe that the sub-broker had executed orders in the scrip of MEL for its client Nimesh Manharlal Shah through the broker M.P.Vora Shares and Securities Pvt. Ltd.. The details of buy and sell position of the sub-broker through the Member, M.P.Vora Shares and Securities Pvt. Ltd. is as under:

SN	Date	Buy Client	Sub-broker	Broker	Qty	Price	Sell Client	Sub-broker	Broker	Qty	Price
8	17.5.00	Nimesh Shah N004	KK Shah (V&U Secs)	MP Vora	1000	96-102	Maithili Secs M025		M.D. Shukla Shares &	1000	100

									Sec		
12	12.6.00	Nimesh Shah N004	KK Shah (V&U Secs)	MP Vora	3 orders of 300, 200,200	165, 168, 172	Nimesh Shah 2609	SJ Sec	Manashvi	3 orders of 200,200, 300	172, 168, 165
		Nimesh Shah 2609	SJ Sec	Manashvi	3 orders of 200,300, 200	162, 165, 169	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	3 orders of 200,200, 300	162, 169, 165
		Nimesh Shah 2609	SJ Sec	Manashvi	3 orders of 200 each	157, 158, 159	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	3 orders of 200 each	159, 158, 157
		Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	4 orders of 300, 100,100, 100	169, 170, 172, 173	Nimesh Shah 2609	SJ Sec	Manashvi	5 orders of 300,100, 100,100, 100	169, 170, 172, 173 174
12	13.6.00	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	4 orders of 100, 300, 100, 100	162, 165, 168, 169	Nimesh Shah 2609	SJ Sec	Manashvi	5 orders of 100, 300, 100, 100, 100	162, 165, 168,169, 170
		Nimesh Shah 2609	SJ Sec	Manashvi	2 orders of 200, 300	172, 176	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	3 orders of 200, 300 and 200	172, 176, 177
12	16.6.00	Nimesh Shah 2609	SJ Sec	Manashvi	1 order of 100	185	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	1 order of 100	185
14	28.6.00	1T001	Deval N Seth	SVS Sec	1 order of 100	144.15	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	1 order of 200 (1 st order of the day)	144.15
14	29.6.00	S151			1 order of 100	132.65	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	Sale of order of previous day updated	132.65
15	4.7.00	S10			1 order of 100	127.35	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	1 order of 100	127.35
16	10.7.00	Yogesh Parekh 8060		ACME Shares	1 order of 100	117.15 updated to 117.45	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	1 order of 200 (1 st order of the day)	117.45
17	17.7.00	Yogesh Parekh 8060		ACME Shares	1 order of 100	108.3	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	1 order of 100 (1 st order of the day)	108.3

17	18.7.00	Yogesh Parekh 8060		ACME Shares	1 order of 100	104	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	1 order of 100 (1 st order of the day)	104
17	19.7.00	Yogesh Parekh 8060		ACME Shares	1 order of 200	100	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	1 order of 100 (1 st order of the day)	99.85
	21.7.00	Nimesh Shah N004	KK Shah (V&U Sec)	MP Vora	1 order of 200	96	Yogesh Parekh 8060		ACME Shares	1 order of 200	95.90

- 4.3 From the above table, I observe that during Settlement No.8 on 17.5.00, the client bought 1000 shares through the sub-broker. During Settlement No.12 on 12.6.00, the client Nimesh M Shah under client code 2609 sold 700 shares @ Rs.165-172 through SJ Securities, sub broker to Manashvi Securities Ltd. and purchased the same under client code N004 through the sub-broker. This trade was reversed @ Rs.162 – 169 through the same sub brokers on the same day. Again Nimesh Manharlal Shah under client code N004 through the sub broker sold 600 shares @ Rs.157 – 159 and the same were purchased by Nimesh M Shah himself under client code 2609 through S J Securities, sub broker to Manashvi Securities Ltd. Thus, at the end of the day, this trade was reversed by Nimesh Manharlal Shah @ Rs.169 – 173 through the same sub brokers.
- 4.4 Similarly, on 13.6.00, the client Nimesh M 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 him under client code N004 through the sub-broker. These transactions for 600 shares were reversed for 500 shares @ Rs.172- 176 on the same day and 100 shares @ Rs.185 on the last day of settlement i.e. 16.6.00. Thus, the client squared up his positions through the same sub brokers.
- 4.5 I observe that during Settlement No.14, 15, 16 and 17 the price of the scrip declined sharply to Rs.95.90. I also observe that during this period 1500 shares were traded, out of which 700 shares were sold by Nimesh Manharlal Shah under client code N004 through the sub-broker. These 700 shares were sold in the lots of 100 on 7 days which accounted for 100% of the market volume of the respective days which further deflated the price from Rs.144.15 on 28.6.00 to Rs.99.85 on 19.7.00.
- 4.6 I observe that the client had done the transaction with no intention of transfer of beneficial ownership as he was himself the buy and sell client. It is evident from the trading details that the sub-broker was instrumental in effecting the transactions of his client Shri Nimesh Shah. The transactions of Nimesh Shah were circular in nature. Though the quantity traded seems to be small i.e. purchase of 3100 shares and sale of 2800 shares, the only intention of the client seems to be to inflate and later deflate 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. The client had traded over a period of six settlements i.e Settlement No.8, 12, 14, 15,16 and 17 which resulted in initial price rise from Rs.102 to Rs.185 and then a continuous decline in the price from Rs.144.15 to Rs.99.85. Thus, such fluctuating trend in the price of an illiquid scrip should have alerted the sub-broker and put him on caution while executing the trades, especially when the contributive factor for the price variation was his own client. The sub broker's explanation that the price fluctuation was as per the normal market conditions of demand and supply cannot be accepted for the simple reason that the scrip was that of a continuously loss incurring company with a very small volume of turnover. So a sudden rise in the price of an illiquid scrip in a short span of one month and its relative fall during the subsequent month especially when there were no corporate events should have necessarily drawn the attention of the sub-broker to verify if his client had any malafide intentions. Further, the client has purchased through the sub-broker at increasing prices and effected sales through the same sub-broker at decreasing prices within a short span of time. I, therefore, agree with the finding of the Enquiry Officer that the sub-broker has failed to exercise due skill, care and diligence while dealing in the scrip and violated the provisions of Regulation 15 read with Clause A(2) of the Code of Conduct prescribed in Schedule II of Stock Broker Regulations. I feel that it is a fit case to impose a minor penalty of warning against the sub broker.

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 case, I hereby impose a minor penalty of 'warning' against Kirtikumar K. Shah (presently known as V & U Securities Ltd.).

DATE : 31.01.2006

PLACE : MUMBAI

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA