

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 BHARTI THAKKAR (INDIA) SECURITIES PVT. LTD., MEMBER, BSE, REGISTRATION NO. INB 010996432 FOR IRREGULAR TRANSACTIONS IN THE SCRIP OF KWALITY DAIRY (INDIA) LTD.

1.0 BACKGROUND

- 1.1 Bharti Thakkar (India) Securities Pvt. 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 010996432.
- 1.2 SEBI conducted an investigation into the buying, selling or dealing in the shares of Kwaliti Dairy (India) Limited (hereinafter referred to as 'KDIL') to ascertain whether there was any violation of the provisions of SEBI Act 1992 and Regulations made there under including the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.
- 1.3 Investigation revealed that 3288016 shares of KDIL were traded during the period April 23 to June 6, 2004 when the broker allegedly indulged in circular trading/ reversal of trades.

2.0 APPOINTMENT OF ENQUIRY OFFICER AND ENQUIRY REPORT:

- 2.1 SEBI vide order dated 30.07.2004 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 "said Regulations") to inquire into the alleged irregular transactions done by the broker in the scrip of KDIL and also for the alleged violation of Code of Conduct as provided in SEBI (Stock Brokers & Sub Brokers) Regulations, 1992 (hereinafter referred to as "Stock Broker Regulations"), SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995 (hereinafter referred to as "FUTP Regulations"). The Enquiry Officer, after conducting the enquiry as per the procedure laid down in the said Regulations, submitted a report dated 27.1.2005 and recommended that the registration of the broker be suspended for a period of 15 days.

3.0 SHOW CAUSE NOTICE AND REPLY

- 3.1 A Show Cause notice dated 28.03.2005 along with a copy of enquiry report was issued by SEBI to the broker calling upon it to show cause as to why action as recommended by the Enquiry Officer should not be taken against it. The broker vide letter dated 12.04.2005 while seeking personal hearing, inter alia, submitted that
- a) Except for the small brokerage amount, they had not received any other benefit in the transactions of KDIL. The market equilibrium had not been affected due to the said transactions
 - b) There were no proprietary transactions done by them in the shares of KDIL. The daily volume and amount of transactions was very small and could not attract their attention at all.
 - c) They had not violated any Clauses of Code of Conduct as specified in Schedule II read with Regulation 7 of Stock Broker Regulations

4.0 ISSUES FOR CONSIDERATION AND OBSERVATIONS

- 4.1 I have considered the facts of the case, the findings of the Enquiry Officer and the reply of the Broker to the show cause notice. Since I have considered the broker's reply dated 12.04.2005, I am, therefore, convinced that the principles of natural justice have been complied with and there is no need to grant personal hearing in the matter. The issues which arose for consideration and my observations are as follows:
- 4.2 **Whether the broker failed to exercise due diligence and violated Code of Conduct of Stock Broker Regulations.**
- 4.3 It was alleged that during the period under investigation, approximately 25% of the day volume in the scrip of KDIL was due to circular trades among different groups of clients and brokers, including the broker. It was alleged that each of these brokers bought and sold the scrip on behalf of their clients amongst themselves by squaring up the deals often on the same day through the same brokers in a circular manner. The details of such trades are given below.

Date	Bought Qty	Bought by Client (Broker)	Bought From Client (Broker)	Sold Qty	Sold by Client (Broker)	Sold To Client (Broker)
25.4.03 to 6.6.03	90427	Chirag Pujara	Sayyed Mustafa	98621	Chirag Pujara	Sayyed Mustafa

		(Bonanza Stock Brokers Pvt. Ltd)	(Bharti Thakkar)		(Bonanza Stock Brokers Pvt. Ltd)	(Bharti Thakkar)
2.6.2003 to 6.6.03	46575	Laxman Patel (Ramaben Samani)	Chirag Pujara (Bonanza Stock Brokers Pvt. Ltd)	27650	Laxman Patel (Ramaben Samani)	Chirag Pujara (Bonanza Stock Brokers Pvt. Ltd)
2.6.2003 to 6.6.03	41775	Sayyed Mustafa (Bharti Thakkar)	Laxman Patel (Ramaben Samani)	24497	Sayyed Mustafa (Bharti Thakkar)	Laxman Patel (Ramaben Samani)

4.4 It was alleged that the broker traded for 21 days while the broker admitted before the Enquiry Officer that they had traded on 29 days. A few instances of the trades done by the broker as retrieved from the trade and order log is given below :

Date	Order No.	Qty	B/S	Buy Client	Sell Client
25.4.03	73700700010054009	2080	B		Chirag Pujara
	73700700010054010	120			
		2200			
25.4.03	73700700010054011	2200	S	Chirag Pujara	
3.6.03	7370070001005893-	5000	B		Laxman Patel
3.6.03	7370070001005898-	4447	S	Laxman Patel	
3.6.03	7370070001005906-	6875	B		Laxman Patel
6.6.03	73700700010059538	5300	B		Chirag Pujara
	73700700010059539	50			
	73700700010059598	4500			
	73700700010059599	300			
	73700700010059637	5350			
	73700700010059638	500			
	73700700010059639	500			
		16500			
6.6.03	73700700010059671	3100	S	Chirag Pujara	
	73700700010059672	900			
6.6.03	7370070001005954-	5350	S	Laxman Patel	
6.6.03	7370070001005967-	3980	B		Laxman Patel
		20			

4.5 It is apparent from the above table that the counterparties to the trades have always been Chirag Pujara or Laxman Patel. From the trade and order log, I observe that the buy and sell orders were placed at the same price and at almost the same time. Moreover, in most of the instances the prices of the orders always showed appreciation. Hence, it may be said that the above transactions created artificial volume in the scrip and impacted the price.

4.6 From the statement of the other broker viz. Ramaben Samani who dealt for the client Laxman Patel, I observe that Ms. Bharti Thakkar, Director of the broker happens to be the sister of Mrs. Sudha Vithalani, Director of Ramaben Samani Finance Pvt. Ltd. Hence, it cannot be said that the counter party to the trades is not known to the broker. I observe that the broker undertook transaction for the client on 29 days continuously and the client started his transaction at Rs.10.35 and he kept on trading till the price reached Rs.44/-. The rise in price went unchecked. I agree with the observation of the Enquiry Officer that these continuous transactions should have alerted the broker and to this extent there was lack of due diligence on the part of the broker.

5.0 On the basis of aforesaid, and having no other substantial information to differ, I agree with the recommendations of the Enquiry Officer.

6.0 **ORDER**

6.1 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, I hereby suspend the Certificate of Registration of Bharti Thakkar (India) Securities Ltd , Member, Stock Exchange, Mumbai for a period of 15 days.

6.2 This order shall come into effect after the expiry of 21 days from the date of this order.

DATE: 01.02.2006

MADHUKAR

PLACE:MUMBAI

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA