

SECURITIES AND EXCHANGE BOARD OF INDIA ORDER

UNDER SECTION 11B, 11(4)(b) AND 11D OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 IN THE MATTER OF DEALING IN THE SHARES OF M/S VBC FERRO ALLOYS LIMITED BY M/S BLB LIMITED, MEMBER THE STOCK EXCHANGE, MUMBAI AND THE NATIONAL STOCK EXCHANGE LIMITED

WTM/GA/53/ISD/2/06

1. Background

- 1.1 Recommendations made to the public on stock picks and investment advices and tips on purchase and sales of shares/securities often aired through the public media, by some of the regulated entities such as brokers, merchant bankers and asset management companies more likely than not have an influence on the investment decisions of the general public. It is of utmost importance therefore that such recommendations are not allowed to be permeated with the runes of the vested interests of those purveying such recommendations, as unsuspecting and gullible investors often fall prey to such recommendations and are misled by them.
- 1.2 It has been observed that for quite sometime, there has been a proliferation of unsolicited recommendations and advices in public media. As a part of its ongoing efforts to protect the integrity of the market, SEBI has been closely looking at this issue for quite sometime. The stock exchanges have also been asked to monitor these recommendations and analyse their impact. As a part of this process, SEBI had recently passed an ex-parte ad interim order against one such entity who gave misleading recommendations and advices. In continuation of this exercise, the recommendations given by the research wing of M/s BLB Ltd (BLB), a member of BSE and NSE, on the company M/s VBC Ferro Alloys Ltd (the company) and their dealing in the shares of the company, during the month of September 2005 was examined by SEBI and the stock exchanges. It was observed that the research wing of BLB, had given "strong buy" recommendation on the shares of the company in one of the leading financial dailies on September 12, 2005. BLB had also bought large quantities of shares of the company prior to its recommendation. Based on the developments in the sequence as detailed above in what appeared as a "market mislead", preliminary analysis in the matter was initiated. The preliminary findings are as follows:-

2. Preliminary findings

The background of the company, listing and shareholding pattern

- 2.1 VBC Ferro Alloys Ltd. is part of the VBC Group based in South India. The company manufactures of Ferro Chrome and Ferro Silicon and is located at Rudraram Village, Patancheru Mandal, Medak Dist., A.P. India

- 2.2 The shares of the company are listed on The BSE Limited (BSE) and the Calcutta Stock Exchange Association Ltd (CSE). The company through its announcements had informed BSE that the securities of the Company was delisted from Madras Stock Exchange Ltd and The Hyderabad Stock Exchange Ltd with effect from December 02, 2004 and April 04, 2005, respectively.
- 2.3 The shareholding pattern as on December 31, 2005 is given below.

Table - A : Shareholding pattern as on December 31, 2005

Category	No.of Shares	% of Share Holding
Promoter's Holding		
Promoters		
Indian Promoters	7,09,405	17.54
M V V Satyanarayana Murthy	92,745	2.29
Mathukumilli Sri Lakshman Rao	77,300	1.91
M S Rama Rao	1,84,600	4.56
Mathukumilli Sri Mani	1,20,010	2.97
M Sri Bharath	70,000	1.73
M Siddhartha	73,500	1.82
M S Lakshman Rao	60,000	1.48
Persons acting in Concert	7,46,175	18.45
Techno Pack Pvt Ltd	3,48,365	8.61
Yasaswini Inv. Pvt Ltd	2,02,315	5.00
Padmakshi Inv. Pvt Ltd	1,95,495	4.83
Sub Total	14,55,580	35.99
Non Promoter's Holding		
Institutional Investors		
Banks, FIs, Insurance Companies	2,200	0.05
Sub Total	2,200	0.05
Others		
Private Corporate Bodies	7,13,390	17.64
Peninsular Sea Foods Pvt Ltd	98,650	2.44
<i>BLB Ltd</i>	2,60,648	6.44
Indian Public	18,07,382	44.69
NRIs/OCBs	65,798	1.63
Sub Total	25,86,570	63.96
Grand Total	40,44,350	100.00

As on December 31, 2005, the total paid up capital of the company was around 40.44 lakhs shares. The promoters and the persons acting in concert were held around 36% of the shares, while BLB held around 6.44% of the total paid up share capital of the company.

Price movement and trading volume of the shares of the company

- 2.4 The monthly price and the volume movement during the period January to September 2005 is given below:

Table – B : Monthly price and volume movement

Date	Open (Rs.)	High (Rs.)	Low (Rs.)	Close (Rs.)	No. of Shares
January 2005	116.00	120.00	92.20	113.85	442887
February 2005	115.00	131.00	110.50	116.05	795895
March 2005	117.00	160.80	111.25	133.40	1884137
April 2005	132.55	149.00	117.30	118.40	574870
May 2005	123.75	125.00	107.00	114.95	450891
June 2005	114.45	114.90	90.90	93.00	373912
July 2005	93.00	104.80	90.35	96.05	375090
August 2005	95.75	120.00	91.55	109.35	691957
September 2005	110.95	283.75	110.95	212.40	4099736

It is seen from the above table that during the period January to August 2005 the price of the scrip has moved within the range of Rs 90/- to Rs 149/- and the trading volume was within the range of around 3.5 lakh to 18.00 lakh, However both showed a notable increase in September 2005 - the price of the scrip touched a peak of Rs. 283.75, the trading volume crossed the 40.00 lakhs shares mark, - the highest in nine months since January 2005.

About BLB Ltd.

- 2.5 BLB is a SEBI registered broker with BSE (INB 010642837 & INF 011133339) and NSE (INB 230642831 & INF 231134539). BLB is also a SEBI registered Depository Participant with NSDL (DPID-IN301102) and CDSL (DPID-12019400). As per the website of BLB, followings persons are part of its senior management team

Vikram Rathi	(Executive Director)
Anshul Mehra	(General Manager)
Vikas Rawal	(Head, Compliance & Accounts)
P.N.Panda	(Head, Research)
Siddarth Bagri	(Manager, IT)
Uttam Sharma	(Manager)
Kamal Goel	(Manager)

The promoters of the BLB hold nearly 67% of the share capital of BLB.

Table-C: Holding of Promoters in BLB

Name	No of Shares	Percentage
1. Brij Rattan Bagri	2,56,51,640	48.52
2. Siddhartha Bagri	56,54,650	10.70
3. Neerja Bagri	30,68,200	5.80
4. Niharika Singhvi	12,03,200	2.28

Recommendations given by the research wing of BLB

- 2.6 On September 12, 2005 the research wing of BLB published an article in one of the leading financial newspaper in the Investor's Guide under the heading 'Bulls Eye'. BLB gave a "strong buy" recommendation with a target price of the share as Rs 545/- within 12 months, as compared to the then ruling market price of Rs 194/- on the previous day. The article stated that "VBC is into manufacturing of ferro silicon and ferrochrome alloys and has a major stake in 460 MW gas-based power plant Konaseema Gas Power and Godavari Basin (KGPL), AP. This is being installed at a cost of Rs 1400 crore with a capital base of 350 crore (in which VBC holds close to 40%), which will start production from December' 05 and become fully functional by April' 06. This project is one of the cheapest in terms of cost. The present cost of a similar project is Rs 2,100 crore. It is expected that VBC will receive about Rs 25 crore as dividend on its investment in KGPL from FY07. During FY'05, the company earned a PBT of Rs 13.80 crore on a small equity capital of Rs 4.04 crore and declared 20% dividend. The book value per share as on March 31, 2005 is Rs 346 with a P/B ratio of 0.51, which leaves room for future price enhancement. BLB Believes that the company will benefit from a steady earning potential and a small capital base. Besides, with unfolding of asset valuation through an IPO being planned by KGPL in early '06 coupled with a substantial saving in power cost (which is about 40-45% of total cost of production) due to power at low rates from KGPL, the stock is expected to move up to Rs 545 in next 12 months".
- 2.7 The details mentioned in the recommendations given by BLB about the future plans of the company were verified with it and the company replied that-
- "Our company has nothing to do with Investor Guide dated September 12, 2005 in relation to our Company's performance said to have been released by BLB Ltd under the heading 'Bulls Eye'.
 - Our company has a stake in Konaseema EPS Oakwell Power Ltd., (KEOPL) a gas based Power Plant set up to produce 445 MW power. We are not aware as to the basis on which the projections regarding

dividend may be earned by our company, were given in the Investors Guide by BLB Ltd.

- *Our investment in KEOPL is Rs 130.29 lakhs and it is not yet operational till date and the basis of reporting by BLB Limited as regards its cost and expected projections and results etc. are not known to us as such, we are not in a position to comment upon the same.*
- *Our company having invested substantial fund in KEOPL is no doubt expected a portion of the power produced by KEOPL and obviously, the same would be beneficial to our company and may also work out to be cheaper. However, all these issues will be cleared only after KEOPL becomes fully operational.*
- *Our company has nothing to do with BLB Ltd., or it's trading in neither our company's share nor its publication of our company's profile and projections, in Investor Guide".*

2.8 The company's reply clearly suggested that while it had a stake in KEOPL project, it was too premature to comment upon the profitability of KEOPL and income generation from that project on the basis of prospects of getting power at a cheaper rate, as the project was not yet operational. The company's clarifications clearly underline that glib and flippant projections made by BLB in the public media, about the company's earnings and profitability was at once facile and facetious, without any basis.

Dealing in the shares of the company by BLB before and after its recommendation in Investor Guide.

2.9 The analysis of the trading in the shares of the company by BLB revealed that BLB purchased around 3.85 lakh shares during the period August 18, 2005 to September 15, 2005 and sold around 1.70 lakh during the same period. All the trades in the shares of the company were carried out by BLB in the account of Vikram Rathi, who is an Executive Director of BLB Ltd. The trade details of BLB and its comparison with the market turnover is given below:

Table - C: Dealing in the shares of the company by BLB Ltd and its comparison with the market turnover

Date	Dealing by BLB		Market Turnover	% of BLB trading to Market turnover	
	Buy Qty	Sale Qty		Buy	Sell
Dealing in shares of the company by BLB before recommendation					
18-Aug-05	5000		72305	6.92	0.00
31-Aug-05		3750	19983	0.00	18.77

Date	Dealing by BLB		Market Turnover	% of BLB trading to Market turnover	
	Buy Qty	Sale Qty		Buy	Sell
01-Sep-05	-	1250	134143	0.00	0.93
02-Sep-05	154049		228680	67.36	0.00
05-Sep-05	90442		172634	52.39	0.00
06-Sep-05	120758		488009	24.75	0.00
09-Sep-05	11000	4000	250994	4.38	1.59
<i>Dealing in shares of the company by BLB after recommendation</i>					
12-Sep-05		5000	105989	0.00	4.72
15-Sep-05	4113	156222	915689	0.45	17.06
Total Qty	385362	170222	2388426	16.13	7.13
Weighted Average Price	162.66	262.20			

It is seen from the above table that

- a) BLB purchased large quantity (3.72 lakhs) of the shares of the company prior to its '*strong buy*' recommendation about the company's shares in the media and sold around 1.61 lakhs shares after the recommendation.
- b) During September 2, 2005 to September 6, 2005 i.e. on three continuous trading days, BLB purchased large quantity of shares of the company and accounted for a significant share of each day's purchase transactions. For example on September 2, and September 5, it accounted for 67% and 52% of the days' purchases, and on September 6, 2005 for 25%. The rise in trading volume in those days was not in line with the trend in trading volume in the share. It is pertinent to mention that during the month of August 2005 the average daily trading volume in the shares of the company was only around 31,000 shares (falling in the range between 11,000 to 95,000 shares). Such sudden buying interest was bound to influence the price of the share; and it did. Within three trading days the price of the scrip moved from Rs 118.45 on September 1, 2005 to Rs 176.50 on September 6, 2005. Having set the stage so, the '*strong buy*' recommendation by BLB on September 12, 2005 acted as a catalyst in attracting the attention of the investors towards the shares of the company. Notwithstanding the fact that prices of shares move on demand and supply, the trading strategy of BLB after the publication of the research report by its research wing, clearly showed that it was in BLB's interest to engineer a large demand in the market, so as both to influence the price and inveigle the investors. The fact that BLB bought the shares either in its proprietary book or on account of its senior official, only fortifies this conclusion.

- c) Immediately after the 'strong buy' recommendation on September 12, 2005, when the price of the share was reigning high at Rs 283.75, BLB sold large quantity of shares (1.56 lakh) on September 15, 2005. The analysis of the data by BSE revealed that the BLB's average price of acquisition of around 3.85 lakh shares of company was around Rs 162.66 and they sold 1,70,222 shares at an average price of Rs 262.20. It is estimated that BLB in the process would have earned a profit of around Rs 1,69,43,898 only on the purchase and sale of 1,70,222 shares.
- d) It is noted that the average daily trading volumes in the scrip during August 2005, i.e., the period immediately prior to dealing of BLB and to the subsequent publication of the 'buy' recommendation, was around 31,000 shares. Subsequent to the above events, it is seen that there has been a spurt in trading volumes. The average daily trading volumes, has gone upto approximately 1.67 lacs shares, during the period from September 12 to 30, 2005. The conclusion is that the buying interest generated by BLB as well as the recommendation made by it in the media had substantially attracted the attention of the investors in the shares of the company.

The above act of BLB first buying the large quantity shares of a company, which accounted for major portion of days' trading volumes on the account of one of its senior employees with consequential price rise, followed closely on the heels of the same by publishing misleading positive news about the company and culminating in the offloading of their holding at a jacked up price, appear to be a carefully planned and deliberate strategy on the part of BLB to make unfair gains at the cost of unsuspecting investors. Such trading strategy appears to be in violation of Regulation 4(2) (f) and 4(2)(r) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 which states that

Reg. 4 (2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely :—

- (f) publishing or causing to publish or reporting or causing to report by a person dealing in securities any information which is not true or which he does not believe to be true prior to or in the course of dealing in securities;*
- (r) planting false or misleading news which may induce sale or purchase of securities.*

Violation of SEBI ([Prohibition of] Insider Trading) Regulations, 1992,

- 2.10 BLB Ltd at one point of time was holding more than 5% shareholding of the company. In this regard the Regulation 13 (3) of SEBI ([Prohibition of] Insider Trading) Regulations, 1992, requires that "Any person who holds

more than 5% shares for voting rights in any listed company shall disclose to the company the number of shares or voting rights held and change in shareholding or voting rights, even if such change results in shareholding falling below 5%, if there has been change in such holdings from the last disclosure made under sub-regulation (1) or under this sub-regulation; and such change exceeds 2% of total shareholding or voting rights in the company". The regulation requires that disclosure of any such change shall be made within 4 working days of acquisition or sale of shares to the company and the company shall disclose the same within five days of the receipt of such information to the stock exchanges on which the company is listed.

It is observed that as on September 9, 2005, BLB had accumulated 3,72,249 shares through their purchases during the period September 2, 2005 to September 9, 2005, which account for 9.20% of the total shareholding of the company. Subsequently, on September 15, 2005 he sold 1,56,222 shares of the company, which is 3.86% of the total shareholding of the company. It is gathered from the company and the exchange that BLB Ltd did not make any announcement under Regulation 13 (3) of SEBI (Prohibition of Insider Trading) Regulations, 1992 for change of its shareholding in the company by more than 2% to them and thereby appears to have violated the said regulation.

3. Conclusion

- 3.1 The preliminary analysis revealed that BLB's purchase of large quantity of shares of the company prior to the publication of its research wing's "strong buy" recommendation was designed to create a large volume and rise in the price of the share so that investors are easily beguiled to evince interest in the shares of the company. The immediate planting of favorable article in media about the rosy future of the company, which the company itself has stated to be premature, followed by the offloading nearly half of the holdings, undoubtedly tantamount to a deliberate and crafty strategy to make personal gains at the expense of investors by enticing them to participate in the trading of the shares of the company. BLB, being one of the large brokers trading on the stock exchanges, is expected to be aware that its recommendations will have an impact on the investors who are likely to heed their advice. The recommendations given by the research wing of BLB and the manner in which the shares of the company were traded clearly seek to suggest that the research and trading wings of BLB moved in tandem in the whole matter, when as per the governance model an arm's length relationship was expected with each function totally ring fenced from the other. The preliminary findings as detailed above thus bring out a prima facie case of violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003.
- 3.2 Apart from seeking to mislead investors, BLB also appears to have violated the provisions of SEBI (Prohibition of Insider Trading) Regulations, 1992 by non-disclosure of change in the shareholding.

- 3.3 While making investment recommendations on securities in the media, BLB did not disclose its interest in the securities. In view of the fact that the said BLB is a SEBI registered broker with BSE and NSE, the intermediary has violated clause B(7A) of the Code of Conduct for Stock Brokers as given in Schedule II read with regulation 7 of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.
- 3.4 The aforesaid provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, SEBI (Prohibition of Insider Trading) Regulations, 1992 and the Code of Conduct of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 are salutary provisions aimed at ensuring market integrity and protecting the lay investors, from any mischief. If BLB Ltd or any of its employees is allowed to flout the same with impunity, the same would pose a threat to market integrity.
- 3.5 SEBI is initiating formal investigations into the matter. In the meantime, having regard to the foregoing, it is apprehended that lay investors could be further misled given the present state of the market. As a regulator, it is SEBI's bounden duty to take immediate steps to prevent such persons from further misleading the investors and impairing the integrity of the market. Accordingly, in this case I feel that immediate action is called for in the interest of the investing public, pending the outcome of investigations.

4. Order

- 4.1 Therefore, in exercise of the powers delegated to me by the SEBI Board in terms of Section 19 of the Securities and Exchange Board of India Act 1992 read with Section 11B, 11(4) (b) and 11D, I hereby, pending investigation and passing of final order, by way of ad interim, ex-parte order, direct:

- (a) M/s BLB Ltd to cease and desist from giving any recommendations about any investment in the securities market in any public media which amounts to violation of Regulation 4(2)(f) and 4(2)(r) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.
- (b) M/s BLB Ltd to cease and desist from committing or causing any violation of clause B(7A) of the Code of Conduct for Stock Brokers laid down in Schedule II read with regulation 7 of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.
- (c) M/s BLB Ltd and Vikram Rathi are hereby directed not to buy, sell or deal in securities of M/s VBC Ferro Alloy Ltd., directly or indirectly, till further directions in this regard.
- (d) That the Depositories shall not give effect to any transfer of shares of M/s VBC Ferro Alloy Ltd., lying in the beneficial owner accounts of the M/s BLB Ltd, and Vikram Rathi.

- 4.2 It is also clarified that the instant order does not preclude the actions taken or any other proceeding pending/to be taken in future by SEBI against the individuals/entities covered in this order.
- 4.3 The above order shall take effect immediately. However, the entities/persons against whom this order is issued may file their objections, if any, to this order within 15 days from the date of this order and, if they so desire, avail themselves of an opportunity of personal hearing at the Securities and Exchange Board of India, Head Office, First Floor, Mittal Court B Wing, Nariman Point, Mumbai 400 021 on a date and at a time to be fixed on a specific request, to be received in this behalf from the entities/persons within 15 days from the date of this order, in which case their representations shall be considered and a final view taken. If they do not respond within such stipulated time, it shall take final effect against them.

Place : Mumbai

Date :10.02.2006

**G ANANTHARAMAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**