

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 11 AND 11B OF THE SEBI ACT, 1992 READ WITH REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003 AGAINST SHRI V.K. GUPTA IN THE MATTER OF VATSA WORLD LIMITED.

1.0 Background

- 1.1 Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted Investigations into the dealings in the shares of Vatsa World Limited (hereinafter referred to as VWL) for alleged market manipulations.
- 1.2 VWL was incorporated as a private limited company in the name and style of Ongoing Advertising and Packaging Pvt. Ltd. The company was converted into a public limited company on February 20, 1996. On June 24, 1996, the name of the company was changed to Vatsa World Limited. On June 19, 2001, the name of the company was once again changed to Little Kingdom World Limited after acquiring the business of Little Kingdom Edutech Ltd., an education technology based company.
- 1.3 The investigations revealed that the company came out with its initial public offer on December 10, 1996, subsequent to which the scrip of the company was listed on Delhi Stock Exchange (hereinafter referred to as DSE) on February 19, 1997. 50,00,000 shares were allotted by the company to the share holders of Little Kingdom Edutech Ltd. by way of preferential allotment.
- 1.4 The investigation revealed that the price volume data of the scrip on DSE for the period from April 9, 2001 to July 20, 2001 is furnished below:

Date	Opening Price	Closing Price	High Price	Low Price	Traded Quantit y
09-04-01	12.50	12.50	12.50	12.50	500
10-04-01	9.50	9.50	9.50	9.50	300
12-04-01	9.55	9.55	9.55	9.55	200
25-04-01	8.00	8.00	8.00	8.00	100
27-04-01	7.00	7.00	7.00	7.00	100
30-04-01	6.50	6.50	6.50	6.50	200
03-05-01	5.00	5.00	5.00	5.00	200
23-05-01	6.50	6.50	6.50	6.50	500
24-05-01	8.00	8.00	8.00	8.00	500
25-05-01	10.00	10.00	10.00	10.00	500
28-05-01	10.25	11.15	11.15	10.25	800
29-05-01	11.00	11.00	11.00	11.00	200
30-05-01	12.00	12.00	12.00	12.00	200
31-05-01	13.00	13.00	13.00	13.00	200
01-06-01	12.00	13.00	13.00	12.00	500
05-06-01	11.15	11.15	11.15	11.15	500
06-06-01	9.90	10.50	10.50	9.90	1500
08-06-01	10.25	11.00	11.00	10.25	1000
20-06-01	13.75	13.75	13.75	13.75	900
21-06-01	17.15	17.15	17.15	17.15	500
22-06-01	19.25	19.25	19.25	19.25	1300
25-06-01	21.50	21.65	21.65	21.50	1100
26-06-01	23.35	23.35	23.35	23.00	1200
27-06-01	25.20	25.20	25.20	25.20	2000
28-06-01	27.05	27.20	27.20	27.05	1300
29-06-01	29.00	28.95	29.00	28.95	4800

02-07-01	30.35	31.25	31.25	30.35	700
04-07-01	30.25	33.50	33.50	30.25	1800
05-07-01	34.00	36.00	36.00	34.00	600
06-07-01	37.00	38.00	38.50	37.00	1200
09-07-01	40.00	40.00	40.00	40.00	500
10-07-01	43.05	43.05	43.05	43.05	500
11-07-01	0.00	43.00	0.00	0.00	100

During the above period the closing price touched a high of Rs.43.05 and a low of Rs.5.00. The traded quantity was highest at 4800 shares on June 29, 2001. Further, the price of the scrip showed a declining trend during the period from April 9, 2001 to May 3, 2001. During this period, the closing price of the scrip declined from Rs.12.50 to Rs.5.00. Thereafter the price of the scrip increased substantially to Rs.43/- on July 10, 2001.

- 1.5 The investigation further revealed that DSE has, in their investigation report furnished to SEBI, noted that the increase in price of the scrip during April 9, 2001 to July 10, 2001 was not accompanied by a corresponding increase in trading volume and the entire trading was concentrated amongst 8 members of the exchange. Most of the trades were squared off and there was only one instance of delivery during the entire trading period spread over 15 settlements. In view of the same, DSE forwarded their report to SEBI for further investigation into likely price manipulation and other issues.
- 1.6. V.K.Gupta is one of the clients who had dealt in comparatively large volumes in the scrip of VWL at Delhi Stock Exchange during the investigation period and Shri V.K. Gupta has dealt through the broker, Option Securities Pvt. Ltd (hereinafter referred to as OSPL)

- 1.7 On the basis of the above the investigation concluded that Shri V K Gupta has violated Regulation 3, 4 (a) (b) (c) and (d) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995.

2.0 SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

- 2.1 Accordingly a show cause notice dated June 27, 2003 was issued to Shri V K Gupta advising him to show cause as to why suitable directions under Section 11 and 11B of the SEBI Act, 1992 read with regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 including a direction to prohibit Gupta from dealing in securities market for a particular period should not be issued against him.
- 2.2 A reply dated July 12, 2003 was received from Shri V.K. Gupta. He submitted that he had gone through the details of the transactions in the scrip of VWL in Delhi Stock Exchange (DSE). He submitted that he had been used as a tool by some of his acquaintances to manipulate the price of the company's share in DSE. He also submitted that he was a very small investor / dealer in the capital market and was ignorant of any malpractice by the management of VWL to manipulate its share price at the exchange. He also said that his transactions in the scrip of VWL have not benefited him personally. Further, he mentioned that he desired to communicate certain possible important links in the case to SEBI, for which he required more time coupled with the assurance that he would not be facing humiliation / harassment.
- 2.3 An opportunity of personal hearing was granted to Shri Gupta on January 13, 2004 and December 29, 2005. Neither did he appear for the hearing

nor did he seek an adjournment. Therefore I proceed with the matter ex-parte on the basis of the records available.

3.0 CONSIDERATION OF OISSUES AND FINDINGS

3.1 I have carefully considered the findings of investigation, and the show cause notice dated June 27, 2003 issued to Shri VK Gupta and his reply dated June 12, 2003.

3.2 I find that VWL was incorporated as a private limited company in the name and style of Ongoing Advertising and Packaging Pvt. Ltd. The company was converted into a public limited company on February 20, 1996. On June 24, 1996, the name of the company was changed to Vatsa World Limited. On June 19, 2001, the name of the company was once again changed to Little Kingdom World Limited after acquiring the business of Little Kingdom Edutech Ltd., an education technology based company.

The price volume data of the scrip on DSE for the period from April 9, 2001 to July 20, 2001 is below:

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12-04-01	9.55	9.55	9.55	9.55	200
25-04-01	8.00	8.00	8.00	8.00	100
27-04-01	7.00	7.00	7.00	7.00	100
30-04-01	6.50	6.50	6.50	6.50	200
03-05-01	5.00	5.00	5.00	5.00	200

23-05-01	6.50	6.50	6.50	6.50	500
24-05-01	8.00	8.00	8.00	8.00	500
25-05-01	10.00	10.00	10.00	10.00	500
28-05-01	10.25	11.15	11.15	10.25	800
29-05-01	11.00	11.00	11.00	11.00	200
30-05-01	12.00	12.00	12.00	12.00	200
31-05-01	13.00	13.00	13.00	13.00	200
01-06-01	12.00	13.00	13.00	12.00	500
05-06-01	11.15	11.15	11.15	11.15	500
06-06-01	9.90	10.50	10.50	9.90	1500
08-06-01	10.25	11.00	11.00	10.25	1000
20-06-01	13.75	13.75	13.75	13.75	900
21-06-01	17.15	17.15	17.15	17.15	500
22-06-01	19.25	19.25	19.25	19.25	1300
25-06-01	21.50	21.65	21.65	21.50	1100
26-06-01	23.35	23.35	23.35	23.00	1200
27-06-01	25.20	25.20	25.20	25.20	2000
28-06-01	27.05	27.20	27.20	27.05	1300
29-06-01	29.00	28.95	29.00	28.95	4800
02-07-01	30.35	31.25	31.25	30.35	700
04-07-01	30.25	33.50	33.50	30.25	1800
05-07-01	34.00	36.00	36.00	34.00	600
06-07-01	37.00	38.00	38.50	37.00	1200
09-07-01	40.00	40.00	40.00	40.00	500
10-07-01	43.05	43.05	43.05	43.05	500
11-07-01	0.00	43.00	0.00	0.00	100

I find that during the above period, the closing price was found to have touched a high of Rs.43.05 and a low of Rs.5.00. The traded quantity was highest at 4800 shares on June 29, 2001. Further, the price of the scrip had showed a declining trend during the period from April 9, 2001 to May

3, 2001. During this period, the closing price of the scrip was found to have declined from Rs.12.50 to Rs.5.00. Thereafter the price of the scrip had increased substantially to reach a high of Rs. 43.05 on July 10, 2001. The price of the scrip declined by 60% during the period from April 9, 2001 to May 3, 2001, over 7 trading days. Subsequently, the price was found to have been increased by 760% during the period from May 3, 2001 to July 10, 2001, over 25 trading days. The scrip of VWL was found to have been traded only for 33 days, and the total number of shares traded were only 26,700. The average traded volume per day worked out to be about 810 shares. Both the decline in price as well as the subsequent increase was found to have been accompanied by thin trading volumes, which in many instances were as low as one or two trades. Thus it is clear that there was very little trading interest in the scrip.

3.3 DSE had also reported that the entire trading in VWL was concentrated amongst 8 members of DSE and that most of such trades had been squared off, and only one instance of delivery was noted during the entire trading period spread over 15 settlements.

3.4 I further find that the information collected from OSPL who had dealt in the scrip on behalf of Gupta during the period under scrutiny is as under:

Name of the broker: Option Securities Pvt. Ltd.

Sr. No.	Settlement No. / Date	Client Name	Buy Quantity	Price	Sell Quantity	Price
1.	20-06-01	V.K. Gupta	Nil	Nil	100	13.75
2.	21-06-01	V.K. Gupta	100	17.15	Nil	Nil
3.	26-06-01	V.K. Gupta	100	23.35	100	23.35
4.	28-06-01	V.K. Gupta	200	27.05	Nil	Nil
5.	29-06-01	V.K. Gupta	Nil	Nil	200	29.00

6.	02-07-01	V.K. Gupta	400	30.35	Nil	Nil
7.	04-07-01	V.K. Gupta	300	30.25	900	33.00
8.	05-07-01	V.K. Gupta	500	34.00	100	36.00
9.	06-07-01	V.K. Gupta	200	38.05	400	37.00
10.	09-07-01	V.K. Gupta	Nil	Nil	500	40.00
11.	10-07-01	V.K. Gupta	500	43.50	Nil	Nil
	TOTAL		2300		2300	

From the above, trading client, Gupta, is seen to have purchased and sold 2300 shares each during the period from June 20, 2001 to July 10, 2001. The above period corresponds to settlement nos. 13 to 16 on DSE. Gupta has dealt at steadily increasing prices from Rs.13.75 to Rs.43.50. It is observed that Gupta has dealt in illiquid scrip like VWL in large quantities. Gupta bought and sold 2300 shares as against the total market traded quantity of 26,700 shares. Gupta has squared off all his trades. He did not have any net position in any settlement. The deals have been done at prices ranging from Rs.13.75 to Rs.43.50 over a period of 20 days.

- 3.5 I find that Gupta accounted for as much as 100% of the market traded quantity on two trading days. In other words no trade could have taken place in the market if Gupta had not put in his buy / sell order on those days. Significantly the two days on which the trades of Gupta were the only trades in the market, the price of the scrip has touched its highest of Rs.40 – Rs.43.05. Hence, Gupta has not only dealt in an illiquid scrip at steadily increasing prices but has himself contributed to the price rise. In view of the above, any argument that Gupta was an innocent investor who had dealt in the scrip of VWL on being attracted by the increasing prices is not tenable. Further, he by his own submission submitted that he had been used as a tool by some of his acquaintances to manipulate the price of the shares.

3.6 I find that the scrip of VWL was illiquid and few clients had traded in the scrip and built up artificial volumes and price. The scrip otherwise did not elicit any interest from the general investors. These clients had put the trades without any interest in transfer of beneficiary ownership. Gupta was one of the largest trading client in the scrip. In the facts and circumstances of the case, particularly the trading pattern adopted, I find that Gupta was responsible for creating false and misleading appearance of trading and artificial price rise in the scrip of VWL. Thus I find that Shri V K Gupta has thus indulged in creation of false market in the scrip of VWL and hindered true price discovery mechanism of the market in violation of Regulations 3, 4(a), 4(b), 4(c) and 4(d) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995 which reads as follows:

“3. Prohibition of certain dealings in securities.- No person shall buy, sell, or otherwise deal in securities in a fraudulent manner.

4. Prohibition against market manipulation.- No person shall –

(a) effect, take part in, or enter into , either directly or indirectly , transactions in securities, with intention of artificially raising or depressing the prices of securities in the market 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 market;

(c) indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions;

(d) enter in to a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended only to operate only as a

device to inflate, depress, or cause fluctuations in the market price of the securities;

- 3.7 I further find that in adherence to the principles of Natural Justice, an opportunity of personal hearing had been granted to Shri V K Gupta on different dates and he neither attended the same nor sought adjournment. This kind of decidedly non- co-operative attitude on the part of Shri VK Gupta is to be viewed seriously.

4.0 ORDER

- 4.1 Therefore, I, in exercise of the powers conferred upon me under Section 19, read with Section 11(4) and 11B of the SEBI Act, 1992 read with regulation 11 of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, read with the relevant provisions of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003, hereby prohibit Shri V.K. Gupta from buying, selling or dealing in securities, in any manner, directly or indirectly for a period of one year.

- 4.2 This order shall come into force with immediate effect.

MADHUKAR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

Place : Mumbai

Date: 02/02/2006