

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTIONS 11 AND 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT & UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 1995 AGAINST

- 1) M/s Warner Multimedia Limited,**
- 2) Jagadish Prasad Purohit,**
- 3) Kailash Prasad Purohit,**
- 4) Vaishno Trade Link Private Limited,**
- 5) Godavari Commerce Private Limited,**
- 6) M/s Pragati Merchant,**
- 7) Success Merchant Private Limited,**
- 8) Rolex Merchant Private Limited,**
- 9) Govardhan Jain,**
- 10) Mumbadevi Finance and Investment Company Private Limited,**
- 11) M/s Safal Investments,**
- 12) Gaje Singh Chahl**
- 13) Arun Goyal.**

IN THE MATTER OF TRADING IN THE SHARES OF M/s. WARNER MULTIMEDIA.

- 1.0** Pursuant to an investor complaint in 2001 with regard to the delay in the dematerialization of the shares in the scrip of M/s. Warner Multimedia Ltd. (herein referred to as WML), Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted investigations into the affairs relating to buying, selling and dealing in the shares of WML.
- 1.1** Investigations revealed that the company Warner Multimedia (hereinafter referred to as WML) its promoters and associated entities namely Jagadish Prasad Purohit, Kailash Prasad Purohit, Vaishno Trade Link Private Limited, Godavari Commerce Private Limited, M/s Pragati Merchant, Success Merchant Private Limited, Rolex Merchant Private Limited, Govardhan Jain, Mumbadevi Finance and Investment company Private Limited, M/s Safal Investments, Gaje Singh Chahl and Arun Goyal (hereinafter referred to as promoters and associated entities) have tried to mislead and delay the investigations by submitting wrong information about the distribution of shareholding to the BSE and not submitting the information about the share transfer details and the list of shareholders. Also WML had not appeared before the investigating authority despite being summoned repeatedly.
- 1.2** The Investigation further revealed that the company WML has falsely stated the promoter holding in the distribution schedule that was submitted to the stock exchange. The list of shareholders asked for from the registrar has not been submitted. However, it has been observed from the distribution schedule submitted by WML that as on 30.09.2000, just 63 shareholders were controlling 72.86% stake in the company. As per the distribution of shareholding submitted by WML to BSE, promoters holding as on 31.03.2001 is shown as just 29.52%. But as on this date, the promoters had pledged 20,02,000 shares (23.40% of the total share capital of WML) to B P Jhunjhunwala. But he along with his son Harshvardhan Jhunjhunwala is shown as public shareholders. As these shares were kept with the B P Jhunjhunwala as pledge only, the actual ownership is with the promoters only.
- 1.3** The investigation further revealed that the entities such as Safal Investment Ltd. and Vaishno Trading Pvt. Ltd. have been included in the Non-promoter Bodies Corporate list as per the distribution of shareholding dated 31.03.2001 filed by the company with BSE. The shareholding of these Non-promoter Bodies Corporate as on 31.03.2001 is shown as 13.46% of the share capital of WML. Moreover a letter of offer for takeover of the company Som Construction & Developers Ltd. (hereinafter referred to as SCDL) had been filed with SEBI.
- 1.4** The investigation further revealed that the sum total of the shareholdings in WML of the associated entities as on 30.09.2001 comes to 10.39%. As all these shareholders were having same addresses (as the promoters and their associates), they

were considered as promoter associates. Thus the investigation revealed that the promoter shareholding in WML is about 76.77% of the share capital of WML and not 29.52% as mentioned in the distribution of shareholding.

- 1.5 The investigation further revealed that the company has stated that the Registrar and Transfer Agent, ABS Consultants had suddenly resigned despite the fact that it was the company itself who had asked the RTA to resign. Further, WML received all RTA details on July 14, 2002 itself, whereas it has stated in its letter dated July 24, 2002 that it has yet to receive the complete details from the RTA. The details regarding shares received for transfer/demat/endorsement, date of dispatch, date of transfer/endorsement etc. which was sought from WML have also not been submitted to SEBI till date. It has been found that there was considerable delay in the dematerialization of scrips of WML at the company's end. While on one hand the shares owned by the entities associated with the promoters were being dematerialized on a priority basis i.e. within a week, there was considerable delay in dematerialization of the scrip owned by the public shareholders by about 90 days.
- 1.6 The investigation further revealed that the analysis of the details submitted by the dematerialization registrar, Maheshwari Datamatics (MDPL) and by the complainant B P Jhunjhunwala revealed that the dematerialization requests for shares numbering 9, 02,100 sent by the complainant's depository participant on December 27, 2000 and January 2, 2001 to the company WML were not received by MDPL till January 31, 2001. As per the details of B P Jhunjhunwala neither the dematerialized shares have been received in their account nor have the shares been returned with the objection. Further, analysis of dematerialization details received from MDPL to dematerialize or not to dematerialize the shares of the public was even up to 100 days. However, this was not so in the case of associates of the promoters. Depository A/C numbers (Demat A/C No.) of two of the entities associated with the promoters, viz., Vaishno Tradelink Pvt Ltd (VTPL) and Safal Investments Ltd. (SIL) were available from the details submitted by their respective brokers. Every time the DRN of shares submitted by them for dematerialization were sent by WML to MDPL within 5 days.
- 1.7 Analysis of the trading details, details of delivery and receipt of shares, client registration forms, details received from the company etc. revealed that entities associated with the promoter group had accounted for almost 75% of the total trading on BSE. Investigations revealed that the company WML and its promoters along with the entities and individuals associated with them have dealt in the scrip of WML in significant quantities with a view to manipulate the prices and to create artificial market and false volumes in the scrip. These persons acting in concert were responsible for about 70% of the total trading in the scrip of WML on both BSE and CSE during the investigation period. The price of the scrip of WML at BSE has gone up from Rs.18/- on September 8, 2000 to a high of Rs.53.30/- on December 13, 2000. The rise in price is not supported by improvement in the fundamentals or corporate actions of the company. Analysis of the trading details of BSE and CSE has revealed that trading was concentrated among a few clients who were the associated entities of the promoters of the company. These clients have dealt through several brokers on both exchanges and have indulged in price manipulation and creation of false volumes in the scrip of WML.
- 1.8 Investigation revealed that Vaishno Tradelink Pvt. Ltd. (hereinafter referred to as VTPL), has dealt in the scrip of WML through the sub-broker Media Investments and in turn through the broker Bharat C Bagri of BSE. The total purchases are 144775 shares and sale 134750 shares and net bought 10025 shares. As per the details of client submitted by the sub-broker Media Investments, the address of VTPL is same as the old address of the company WML and the address of the MD of the company, Shri Jagdish Prasad Purohit. Even the telephone number of VTPL is registered in the name of Shri Jagdish Prasad Purohit only. These facts imply that VTPL is a company associated with WML and its directors. However, the company falsely indicated the copies of the distribution schedule submitted by WML to BSE, wherein VTPL was mentioned as a Non-Promoter Body Corporate. Summons sent to VTPL have returned undelivered and VTPL has also failed to appear before the investigating authority.
- 1.9 Investigation revealed that Godavari Commerce Pvt. Ltd. (hereinafter referred to as GCPL) has traded in the scrip of WML on BSE through two brokers, viz., Bharat C Bagri and Sonpankhi Shares & Securities Pvt. Ltd. The total purchase is 63100 shares and has squared off the trades by selling. As per the distribution schedule submitted by the company to BSE, GCPL is a promoter of WML. However, GCPL failed to appear before the investigating authority despite several summons issued against them.
- 1.10 M/s Pragati Merchant Pvt. Ltd. (hereinafter referred to as PMPL) has traded in the scrip of WML on BSE through the broker Joindre Capital Ltd., The total purchase is 20000 shares and sell is 20100 shares. PMPL has also traded in the scrip of WML on CSE through the CSE broker Jethmal Mehta. PMPL has gross bought 99254 and gross sold 83544 shares and net bought 15710 shares during the period July 2000 to January 2001 on CSE. As per the distribution schedule submitted by the company to BSE, PMPL is a promoter of WML. As per the client registration form submitted by the broker Joindre Capital, PMPL got itself registered with it as a client on October 21, 2000. The investigation further revealed that PMPL got itself registered with Joindre Capital to just deal in the scrip of WML as PMPL started dealing in the scrip of WML in Settlement No. 36 of 2000 which occurred from October 27, 2000 to November 3, 2000. The reasons for doing so could have been explained by PMPL only but summons sent to PMPL have returned undelivered. Also the company was asked to deliver summons to PMPL, but WML has failed to submit the delivery receipt and PMPL has also failed to appear before the investigating authority.

- 1.11 The investigation revealed that Success Merchant Pvt. Ltd. (hereinafter referred to as SMPL) has traded in the scrip of WML on BSE through the same sub-broker Media Investments and in turn through the broker Joindre Capital Ltd. SMPL has gross bought 147688 shares and gross sold 131570 shares. It has net bought 16118 shares on BSE. SMPL has also traded in the scrip of WML on CSE through the CSE broker Siddhartha & Co. on CSE, SMPL has bought 81200 and sold 77190 shares and net quantity was 4010. As per the distribution schedule submitted by the company to BSE, SMPL is a promoter of WML. Media Investments has submitted that SMPL did not deal through them in any other scrip. Therefore investigation revealed that SMPL has got itself registered with the sub-broker just to deal in the scrip of WML. Media Investments has also submitted that Shri Dhruv Narayan Jha was the contact person for SMPL. He is a Director of the company WML as per the Distribution Schedule for the date of 29/09/2001 submitted by WML. The summons for personal appearance sent to SMPL have returned undelivered. Also the company was asked to deliver summons to SMPL, but WML has failed to submit the delivery receipt and SMPL has also failed to appear before the investigating authority.
- 1.12 The investigation further revealed that as per the Distribution Schedule submitted by the company for the dates 29/09/2001, 30/09/2000 and 30/09/1999 Jagdish Prasad Purohit, Managing Director of the company WML. He has dealt in the scrip of WML through the broker ISJ Securities Pvt. Ltd., of BSE. He has also traded on CSE through the Siddhartha & Co., CSE Broker. J P Purohit has bought 44721 shares and squared off the purchases. Jagdish Prasad Purohit failed to appear before the investigating authority despite several summons issued against him.
- 1.13 Investigation also revealed that Rolex Merchant Pvt. Ltd (hereinafter referred to as RMPL) has traded in the scrip of WML on BSE through the broker B M Gandhi Securities Pvt. Ltd. It has gross purchased 16200 shares and gross sold 27128 shares. It has net sold 10928 shares. As per the distribution schedule submitted by the company to BSE, RMPL is a promoter of WML. The address of RMPL as given by the broker is same as the address of SMPL. However, the summons for personal appearance sent to RMPL have returned undelivered. Also the company was asked to deliver summons to RMPL, but WML has failed to submit the delivery receipt and RMPL has also failed to appear before the investigating authority.
- 1.14 Investigation further revealed that Govardhan Jain has traded in the scrip of WML on BSE through the broker Shilpa Share Stock Broker Pvt. Ltd. As per the submission made by Media Investments, Govardhan Jain introduced its client Godavari Commerce Pvt. Ltd. GCPL is a promoter of the company WML. Besides that addresses of Vimal Joshi, Director of GCPL is same as the address of Govardhan Jain as given in the client registration form submitted by the broker. Govardhan Jain has gross purchased 58000 shares and gross sold 55000 shares and net bought 3000 shares on BSE. However, Govardhan Jain has failed to present himself before the investigating authority despite being repeatedly summoned.
- 1.15 Investigation revealed that Mumbadevi Financial & Investment Company Private Limited (hereinafter referred to as MFICPL) has traded in the scrip of WML on BSE through the broker JCL Securities Pvt. Ltd. As per the client registration form submitted by the broker, the directors of MFICPL are Gopal Khadaria and Krishan Khadaria. Safal Investments Ltd. also has Gopal Khadaria as one of its Directors and it has traded in the scrip of WML through the broker ISJ Securities Pvt. Ltd., of BSE. Also Safal Investment Ltd. and Jagdish Prasad Purohit have been introduced to the broker by the same entity, Nouveau Shares & Securities Pvt. Ltd., trading member of NSE. Nouveau also has Gopal Khadaria as one of its Directors and address is also same as the address given in the copy of Tax Return filed by Krishan Khadaria. Therefore, it appears that Safal Investment Ltd. and MFICPL are companies associated with the promoters of WML. The total purchase was 81620 shares and sold 85500 shares and net sold 3880 shares by MFICPL. Similarly Safal Investment Ltd. has purchased 287939 shares and gross sold 246899 shares and net bought 41040 shares on BSE. Both Safal Investment Ltd. and MFICPL have failed to present themselves before the investigating authority despite being repeatedly summoned.
- 1.16 Investigation further revealed that Media Investments submitted that Gaje Singh Chahal has dealt in the scrip of WML through it while Media Investments itself was a client of Bang Securities Pvt. Ltd., a sub-broker of Nirmal Bang Sec. Pvt. Ltd., of BSE. Gaje Singh Chahal has net sold 50000 shares of the company. Media Investments had submitted that Gaje Singh Chahal was introduced by one Rajesh Agarwal. In the submissions made by another client dealing in the scrip of WML, Arun Goyal, there was a person by the name of Rajesh Agarwal working with Safal Investments as well. Also as shown in the above table Gaje Singh had to deliver 25000 shares of WML in Settlement No. 38. These shares were transferred by him on December 21, 2000 to the demat account of Media Investments. On the same day another 25000 shares were transferred to the account of Media Investments by Safal Investments. However, these shares were shown to have been wrongly credited to the account of Media Investments and they were transferred back to the account of Safal Investments on December 27, 2000. But Safal did not have any delivery obligation for the shares of WML during the Settlement No. 38 or for any settlement from 27 to 44. Therefore, it is evident that Gaje Singh is associated with Safal Investments. However, Gaje Singh has failed to present himself before the investigating authority despite being summoned.
- 1.17 Arun Goyal has dealt in the scrip of WML on BSE in his own name and in the name of his proprietary firm Goyal Investments through three brokers viz., Pramod Kumar Jain, Libord Securities Ltd., and Shilpa Stock Brokers Pvt. Ltd. Arun Goyal in his own name and in the name of Goyal Investments has purchased 95000 shares and sold 93000 shares and the net bought quantity is 2000 shares. Pavan Goyal, brother of Arun Goyal, has submitted that he is a remisier with ISJ Securities Ltd., of BSE. Pavan Goyal has also stated that when Arun Goyal asked him about the scrip, he advised that the market rumour was there that the price of scrip may go up and that he knew that one good client at ISJ Securities also bought the scrip. Just

two clients had dealt through ISJ in the securities of WML, viz., Safal Investments and Jagdish Prasad Purohit. Jagdish Prasad Purohit is promoter and MD of WML and Safal Investments is an entity associated with the promoters. Besides as submitted by Arun Goyal, he started trading in the scrip of WML by selling 5000 shares in Settlement No. 26 which were delivered on his behalf by Safal Investment Ltd. as he did not own any shares of WML prior to the trading. In next settlement again 1000 shares were delivered by Safal Investment Ltd. on Arun Goyal's behalf. Arun Goyal has also submitted that subsequently he was advised by one Rajesh Agarwal, working with Safal Investments, that he should cover the position in the scrip of WML at the earliest as the price may go up. Based on Rajesh Aggarwal's advice and market rumour that the price may go up, Arun Goyal decided to purchase the scrip of WML. It has also been observed from the client registration form of Arun Goyal submitted by Libord Securities Ltd., that Arun Goyal is also registered with the broker Nouveau Shares and Securities of NSE. Nouveau and Safal Investment Ltd. have the same Director, Gopal Khadaria. Thus, from the above discussion it becomes apparent that Arun Goyal and Goyal Investments are also associated with Safal Investments and thereby with the company WML.

- 1.18 From the above, the investigation concluded that the act of the company WML, the promoters and associated entities by dealing in the scrip of WML indulged in the price manipulation, created artificial market and false volumes in the scrip of WML in violation of the provisions of Regulation 4(a) (b) of the SEBI (Prohibition of Fraudulent & Unfair Trade Practices relating to the Securities Market Regulations) 1995.

2.0 **SHOW CAUSE NOTICE REPLY AND PERSONAL HEARING**

- 2.1 Accordingly a show cause notice dated February 25, 2003 was issued to all the above entities advising them to show cause as to why directions in terms of Section 11B of SEBI Act, 1992 read with Section 11(4) of SEBI Act, 1992 and regulation 11 of SEBI (Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations 1995 should not be issued against them for violation specified above which may include prohibiting them.

- 2.2 The parties Warner Multimedia Limited, Jagdish Prasad Purohit, Kailash Prasad Purohit, Vaishno Trade Link Private Limited, Godavari Commerce Private Limited, M/s Pragati Merchant, Success Merchant Private Limited, Rolex Merchant Private Limited, Mumba Devi Finance and Investment Company Private Limited, M/s Safal Investments, forwarded their replies to the said show cause notice inter-alia submitting the following

- a) The distribution schedule of the Stock Exchanges was provided correctly from time to time. It is just because 63 shareholders are holding 72.86% stake in the company, they can't be termed as Promoter Group. The company to the best of its understanding and information and as per the records available and also furnished by the Registrar has submitted the same to the Stock Exchanges.
- b) Further in respect of trading volumes data and other particulars provided by them they are totally unaware of the transactions in the scrip, if any, done by large investors including Persons Acting in Concert with the Promoter Group also except few transactions relating to sale of shares by the promoters at a profit. It was also submitted that even in respect of those closely associated with promoters, it is very difficult to know about their trading details on regular basis and it is also sure that the persons who all are at one point of time had common interest with the Promoter Group should have the same at all point of time.
- c) that they were in no way directly or indirectly related or involved in the market fluctuations and volatilities in the scrip of the company. To their understanding it was only the result of the demand and supply situation in the market. They have never indulged in market manipulation in any way.

- 2.3 However the remaining parties viz, Govardhan Jain, Gaje Singh Chahl and Arun Goyal have not replied to the Show Cause Notices till date.

- 2.4 In adherence to the principles of natural justice an opportunity of personal hearing was granted to all the parties four times. The hearings were rescheduled at the request of the parties. Finally the hearing was scheduled on January 02, 2006 and on that day four entities Warner Multimedia Limited, Jagdish Prasad Purohit, Kailash Prasad Purohit and Godavari Commerce Private Limited were represented by their Advocates. However the hearing was again adjourned to January 13, 2006 as the Advocates represented without proper authority letter. But the above mentioned parties did not turn up on that day. Therefore I proceed with the matter ex-parte on the basis of the records available.

3.0 **CONSIDERATION OF ISSUES AND FINDINGS**

- 3.1 I have carefully considered the findings of investigation, show cause notice, reply of the parties. I also note that adequate opportunity of hearing has been given to the parties in adherence to the principles of Natural Justice.

- 3.2 I find WML its promoters and associated entities have tried to mislead and delay the investigations by submitting wrong information about the distribution of shareholding to the BSE and not submitting the information about the share transfer details and the list of shareholders. I further find that the company WML has falsely stated the promoter holding in the distribution schedule that was submitted to the stock exchange. As per the distribution of shareholding submitted by WML to BSE, promoters holding as on 31.03.2001 is shown as just 29.52%. But as per the findings of the investigation, I find this as wrong information given by the company.
- 3.3 I further find that there was considerable delay in the dematerialization shares of WML at the company's end. While on one hand the shares owned by the entities associated with the promoters were being dematerialized on a priority basis i.e. within a week, there was considerable delay in dematerialization of the scrip owned by the public shareholders by about 90 days.
- 3.4 I further find that the sum total of the shareholdings in WML of the associated entities as on 30.09.2001 comes to 10.39%. As all these shareholders are having same addresses as the promoters and their associates, I find them as promoter associates. Further I find that the promoter shareholding of these entities in WML is about 76.77% of the share capital of WML and not 29.52% as mentioned in the distribution of shareholding. Further from the trading details, details of delivery and receipt of shares, client registration forms, details received from the company I find that entities associated with the promoter group had accounted for almost 75% of the total trading on BSE.
- 3.5 I further find that the company has stated that the Registrar and Transfer Agent, ABS Consultants had suddenly resigned despite the fact that it was the company itself who had asked the RTA to resign. But I find that the details regarding shares received for transfer/demat/endorsement, date of dispatch, date of transfer/endorsement etc. which was sought from WML have also not been submitted to the investigations till date.
- 3.7 I further find that company WML and its promoters along with the entities and individuals associated with them have dealt in the scrip of WML in significant quantities with a view to manipulate the prices and to create artificial market and false volumes in the scrip and were responsible for about 75% of the total trading in the scrip of WML on both BSE and CSE during the investigation period. The price of the scrip of WML at BSE has gone up from Rs.18/- on September 8, 2000 to a high of Rs.53.30/- on December 13, 2000. But the rise in price is not supported by improvement in the fundamentals or corporate actions of the company.
- 3.10 Thus I find and conclude that the WML, its promoters and entities associated with it created artificial market and false volumes in the scrip of WML in violation of the provisions of Regulation 4(a) (b) of the SEBI (Prohibition of Fraudulent & Unfair Trade Practices relating to the Securities Market Regulations) 1995 which reads as under:

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;

4.0 ORDER

- 4.1 Now therefore, having considered the nature and charges established, the facts and circumstances of the case, the mitigating factors as explained above, and the submissions made by parties thereto, in exercise of powers conferred upon me under section 19 of the SEBI Act, 1992 read with Section 11B and 11 (4) of the SEBI Act, 1992 and Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 read with relevant provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, I hereby debar Warner Multimedia Limited, Jagadish Prasad Purohit, Kailash Prasad Purohit, Vaishno Trade Link Private Limited, Godavari Commerce Private Limited, M/s Pragati Merchant, Success Merchant Private Limited, Rolex Merchant Private Limited, Govardhan Jain, Mumbadevi Finance and Investment company Private Limited, M/s Safal Investments, Gaje Singh Chahl and Arun Goyal from buying, selling and dealing in securities market for a period of three years.
- 4.2 This order shall come into force with immediate effect.

DATE: 01-02-06

PLACE : MUMBAI

MADHUKAR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA