

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V.K CHOPRA, WHOLE TIME MEMBER

**Against Kanodia Stock Broking Pvt. Ltd. in
the matter of Ranbaxy Laboratories Limited**

DATE OF HEARING 13.09.2006

APPEARANCES

FOR COMPANIES/ BROKERS:

1. Ramesh Kanodia, Director of Kanodia Stock Broking Pvt. Ltd.

FOR SEBI

1. Mrs Barnali Mukherjee, DGM, SEBI
2. Shri Deepesh M.U, Manager, SEBI
3. Shri. Mohamed Rahaz. P.M, Legal Officer, SEBI

ORDER

**Under regulation 13(4) SEBI (Procedure for Holding Enquiry by
Enquiry Officer and imposing penalty) Regulations, 2002**

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1.0 BACKGROUND

- 1.1 M/s Kanodia Stock Broking Pvt. Ltd., is a broker of Calcutta Stock Exchange (hereinafter referred to as "the Broker") bearing SEBI Registration No INB030878338. Securities and Exchange Board of India (hereinafter referred to in short as "the Board") had ordered an investigation into the dealings of in the shares of Ranbaxy Laboratories Ltd (hereinafter referred to in short as "Ranbaxy").
- 1.2 The price of the scrip of Ranbaxy had moved up significantly from Rs.270/- in January 1999 to about Rs.1200/- in October 1999 accompanied with significant increase in volumes. The Board initiated preliminary investigation into the scrip in August 1999 considering the above major spurt in price and volumes traded in the Exchanges particularly on the Stock Exchange, Mumbai (BSE), National Stock Exchange (NSE), Calcutta Stock Exchange (CSE).
- 1.3 The Board after considering the Investigation Report appointed an Enquiry Officer vide Order dated November 27, 2002 to enquire into the violations allegedly committed by the broker under provisions of Regulation 4(a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995 (hereinafter referred to in short as "PFUTP Regulations"), Regulation 7 read with clause A(3) & A(4) of Schedule II of the Code of Conduct for stockbrokers of the SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992 (hereinafter referred to in short as "Stock brokers Regulations") and Rules, Regulations and Bye-laws of Stock Exchanges.
- 1.4 The Enquiry Officer, after conducting an enquiry in accordance with the provisions of Regulation 6 of the Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002 submitted a report dated November 28, 2003 wherein he observed that the Broker violated the provisions of SEBI circular No.SMDRP/POLICY/CIR-32/1999 dated September 14, 1999; Regulation 7 read with clause A(3) and (4) of Code of Conduct as specified in Schedule II of Stock brokers Regulations; and Regulation 4(b) & (c) of PFUTP Regulations. He recommended suspension of registration of the broker for a period of five months.

2.0 SHOW CAUSE NOTICE

- 2.1 Pursuant to the receipt of the said Enquiry Report, a Show Cause Notice dated April 28, 2004 was issued to the Broker, along with a copy of the said Enquiry Report, advising the Broker to show cause as to why the action, as recommended by the Enquiry Officer or any other penalty deemed appropriate, should not be imposed on him.

3.0 REPLY TO THE SHOW CAUSE NOTICE

3.1 The Broker submitted his reply to the said show cause notice, vide letter dated May 17, 2004 followed with another reply dated January 19, 2005. The contentions raised in both letters are same and some of them reproduced hereunder:

- "a) all the transactions were traded on the screen based trading provided by the C-Star System at market rates. There is no evidence of any kind that quantity and price were negotiated outside the exchange system. The system has its own on line surveillance, checking and audit system. System does not accept any rate other than existing market rates. Hence, the contention of the enquiry officer that the prices were rigged (as stated in para 5.6) is not at all true and does not hold good.
- b) Enquiry officer has not considered the fact that we are normally doing jobbing business and doing so the quantity and price can always match with offer quantity and rate of other broker. As pointed out by enquiry officer himself the volume of transaction is hardly 2% of the total volume. Hence it is very surprising that enquiry officer is recommending such a severe penalty.
- c) The enquiry officer in its report is mentioning 'KP' group broker regarding Mr. Ashok Kumar Poddar. We would like to know whether the enquiry officer knew before hand that some group of brokers were involved in the market in the name of 'KP' group before hand and if yes, why SEBI on its part had not adviced the regional stock exchange to bar such brokers. It is very easy to find fault or give advice after the transaction is done and do post mortem.
- d) The Enquiry officers report mention that Mr. Ashok Kumar Poddar was declared defaulter and subsequently his registration was cancelled. In this also, the language used by the enquiry officer indicates that the fault of transaction got matched is with us and not of the system. We would like to know who allowed Mr. Ashok Kumar Poddar to become a member and who allowed to issue him a SEBI registration to transact on the stock exchanges. Definitely it is not our fault. Are you now going to suspend yourself for allowing such brokers to become member of stock exchanges and destroy the investors protection and confidence of which you project yourself as 'masiah' and only body to care for."

4.0 HEARING

4.1 The Broker was accordingly advised to attend the personal hearing before me at SEBI's Eastern Regional Office, Kolkata on September 13, 2006, which was attended by Shri Ramesh Kanodia, Director Kanodia Stock Broking (Pvt.) Ltd. During the course of hearing, the broker reiterated the submissions made in their reply dated May 17, 2004 to the show cause notice. Therefore, I am proceeding in the matter on the basis of the submission of the broker and the material before me.

5.0 CONSIDERATION OF ISSUES & FINDINGS

- 5.1 I have carefully examined the Enquiry Report, Show Cause Notice, Reply of the broker and submissions made at the time of hearing.
- 5.2 I find from the Enquiry Report that the scrip of Ranbaxy Laboratories Ltd. (herein after referred as Ranbaxy) traded around the price range of Rs.270/- at the beginning of January 1999. The price of the scrip moved up to Rs.320/- by the end of January 1999. Subsequently, price continued to move upward during February – March 1999 and reached to Rs.650/- by end of March 1999. Further, the price of the scrip moved to Rs.700/- during May 1999 and came down to Rs.600/- during June 1999. The price subsequently moved upwards and touched Rs.800/- during July 1999 and Rs.1000/- during August 1999. The scrip was being traded in the range of Rs.900/- to Rs.1100/- during August – September 1999 and increased to Rs.1200/- during October 1999. Effectively the price of the scrip moved up from Rs.267 on 01.01.99 to a high of Rs.1215/- on 13.10.99. Later on the price started falling gradually and closed at Rs.869 on 29.10.99 at BSE. The price of the scrip of Ranbaxy had moved significantly during the period from Rs.270/- in January 1999 to about Rs.1200/- in October 1999. The price rise in the scrip was accompanied with significant increase in volumes.
- 5.3 I find that the Enquiry Officer has concluded in his enquiry report that the broker Kanodia Stock Broking (P) Ltd. has carried out 44 instances of synchronization of trades with a view to create misleading appearance of trading and which tampers with price discovery mechanism of stock exchange .
- 5.4 I find the entire charge levelled against the broker is on the basis of the aforesaid 44 instances of synchronized trades. A synchronised trade is a kind of transaction where the seller and buyer execute the trade for almost same quantity and price with orders placed at substantially the same time. I find that synchronised deal is per se not illegal. On the other hand, a synchronised deal with fraudulent or deceptive intention to create misleading appearance of trading, to manipulate the price and/or volume of the scrip and thereby tampering the price discovery mechanism of the stock exchange with a view to get undue gain out of it is, no doubt, a grave offence.
- 5.5 Hence, the issue to be decided in this case is whether the broker has carried out any such synchronised trades and to take a decision as to whether the penalty recommended by the enquiry officer against the broker is warranted or not. In order to decide the said issue, I felt it necessary to analyze the instances of synchronised trades executed by the broker given hereunder;

Buy Mem Name	Trade date	Buy Order time	Buy order Qty	Buy orderrate	Sell Mem Name	Sell Order time	Sell Order Qty	Sell order rate	Time Difference	Price difference
SANJAY KHEMANI	4/23/1999	10:57:55	19600	558.70	KANODIA STOCK BROKING (P) LTD	10:57:55	19600	558.70	0:00:00	0.00
SANJAY KHEMANI	4/23/1999	15:05:57	50000	584.50	KANODIA STOCK BROKING (P) LTD	15:05:56	50000	584.50	0:00:01	0.00
M/s Loknath Saraf	5/3/1999	15:16:21	15000	591.80	KANODIA STOCK BROKING (P) LTD	15:16:21	15000	591.80	0:00:00	0.00
SANJAY KHEMANI	5/3/1999	15:23:24	30000	588.80	KANODIA STOCK BROKING (P) LTD	15:23:23	30000	588.80	0:00:01	0.00
Aqbros Securities Pvt. Ltd.	6/1/1999	12:32:08	30000	655.90	KANODIA STOCK BROKING (P) LTD	12:32:08	30000	655.90	0:00:00	0.00
Aqbros Securities Pvt. Ltd.	6/1/1999	13:42:44	20000	642.70	KANODIA STOCK BROKING (P) LTD	13:42:43	20000	642.70	0:00:01	0.00
KANODIA STOCK BROKING (P) LTD	7/7/1999	15:02:33	5000	692.20	PRAKASH BAID SECURITIES PVT. L	15:02:33	5000	692.20	0:00:00	0.00
Aqbros Securities Pvt. Ltd.	7/12/1999	11:53:35	25000	712.50	KANODIA STOCK BROKING (P) LTD	11:53:35	25000	712.50	0:00:00	0.00

Buy Mem Name	Trade date	Buy Order time	Buy order Qty	Buy order rate	Sell Mem Name	Sell Order time	Sell Order Qty	Sell order rate	Time Difference	Price difference
Agbros Securities Pvt. Ltd.	7/12/1999	11:53:45	25000	712.50	KANODIA STOCK BROKING (P) LTD	11:53:45	25000	712.50	0:00:00	0.00
Agbros Securities Pvt. Ltd.	7/12/1999	12:38:42	10000	720.40	KANODIA STOCK BROKING (P) LTD	12:38:41	10000	720.40	0:00:01	0.00
Agbros Securities Pvt. Ltd.	7/27/1999	11:34:29	15000	892.00	KANODIA STOCK BROKING (P) LTD	11:34:28	15000	892.00	0:00:01	0.00
RAMA SECURITIES PVT. LTD.	7/27/1999	13:05:10	20000	881.80	KANODIA STOCK BROKING (P) LTD	13:05:10	20000	881.80	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	8/10/1999	13:21:12	25000	998.60	KANODIA STOCK BROKING (P) LTD	13:21:12	25000	998.60	0:00:00	0.00
SHREE HARIVANSA SECURITIES PVT	8/10/1999	13:22:31	25000	999.00	KANODIA STOCK BROKING (P) LTD	13:22:30	25000	999.00	0:00:01	0.00
SANJAY KHEMANI	8/13/1999	15:26:41	26500	994.50	KANODIA STOCK BROKING (P) LTD	15:26:41	26500	994.50	0:00:00	0.00
Agbros Securities Pvt. Ltd.	8/27/1999	13:07:53	25000	1061.10	KANODIA STOCK BROKING (P) LTD	13:07:53	25000	1061.10	0:00:00	0.00
SANJAY KHEMANI	9/1/1999	12:04:42	45000	1126.50	KANODIA STOCK BROKING (P) LTD	12:04:42	45000	1126.50	0:00:00	0.00
KANODIA STOCK BROKING (P) LTD	9/22/1999	12:33:34	10000	1024.70	SALASAR STOCK BROKING LTD.	12:33:34	10000	1024.70	0:00:00	0.00
KANODIA STOCK BROKING (P) LTD	9/22/1999	12:52:11	6000	1027.10	SOMANI STOCK BROKING PVT. LTD	12:52:12	6000	1027.10	0:00:01	0.00
KANODIA STOCK BROKING (P) LTD	9/22/1999	12:54:36	15000	1026.50	SHRUTI MOHTA	12:54:36	15000	1026.50	0:00:00	0.00
KANODIA STOCK BROKING (P) LTD	9/22/1999	13:46:04	7800	1038.50	LALIT & CO.	13:46:04	7800	1038.50	0:00:00	0.00
J. V. S. SECURITIES PVT. LTD.	9/28/1999	10:19:11	15000	1064.80	KANODIA STOCK BROKING (P) LTD	10:19:11	15000	1064.80	0:00:00	0.00
P. D. MATHRAN & CO.	9/28/1999	14:33:45	5000	1068.00	KANODIA STOCK BROKING (P) LTD	14:33:45	5000	1068.00	0:00:00	0.00
B L B SHARE & FINANCIAL SERVIC	9/28/1999	15:01:34	40000	1067.00	KANODIA STOCK BROKING (P) LTD	15:01:34	40000	1067.00	0:00:00	0.00
KRISHNA KUMAR DAGA	9/28/1999	15:05:33	7500	1065.50	KANODIA STOCK BROKING (P) LTD	15:05:33	7500	1065.50	0:00:00	0.00
SOMANI STOCK BROKING PVT. LTD	9/28/1999	15:46:01	10000	1065.10	KANODIA STOCK BROKING (P) LTD	15:46:00	10000	1065.10	0:00:01	0.00
SURYA PRAKASH TOSHNIWAL	10/5/1999	13:02:52	15000	991.00	KANODIA STOCK BROKING (P) LTD	13:02:52	15000	991.00	0:00:00	0.00
KANODIA STOCK BROKING (P) LTD	10/6/1999	12:50:52	15000	1018.80	SURYA PRAKASH TOSHNIWAL	12:50:52	15000	1018.80	0:00:00	0.00
P. D. MATHRAN & CO.	10/8/1999	11:19:20	18000	1137.50	KANODIA STOCK BROKING (P) LTD	11:19:20	18000	1137.50	0:00:00	0.00
S.P RAKHECHA & CO.	10/8/1999	11:43:09	20000	1139.20	KANODIA STOCK BROKING (P) LTD	11:43:09	20000	1139.20	0:00:00	0.00
P. D. MATHRAN & CO.	10/8/1999	13:09:08	15000	1133.60	KANODIA STOCK BROKING (P) LTD	13:09:08	15000	1133.60	0:00:00	0.00
SURYA PRAKASH TOSHNIWAL	10/8/1999	13:16:24	5000	1133.50	KANODIA STOCK BROKING (P) LTD	13:16:23	5000	1133.50	0:00:01	0.00
KHANDELWAL BROS.	10/13/1999	13:07:45	5000	1196.50	KANODIA STOCK BROKING (P) LTD	13:07:45	5000	1196.50	0:00:00	0.00
LALIT & CO.	10/14/1999	14:10:51	15500	1222.40	KANODIA STOCK BROKING (P) LTD	14:10:52	15500	1222.40	0:00:01	0.00
KANODIA STOCK BROKING (P) LTD	10/15/1999	12:05:14	5000	1182.50	MEHTA & AJMERA	12:05:14	5000	1182.50	0:00:00	0.00
KANODIA STOCK BROKING (P) LTD	10/15/1999	12:12:50	11500	1184.10	RAMA SECURITIES PVT. LTD.	12:12:50	11500	1184.10	0:00:00	0.00
KANODIA STOCK BROKING (P) LTD	10/15/1999	12:30:04	10000	1187.40	J. BHARTIA & CO.	12:30:04	10000	1187.40	0:00:00	0.00
KANODIA STOCK BROKING (P) LTD	10/15/1999	13:55:05	15000	1161.60	SURYA PRAKASH TOSHNIWAL	13:55:05	15000	1161.60	0:00:00	0.00
SANJAY KHEMANI	10/15/1999	14:23:31	60000	1118.50	KANODIA STOCK BROKING (P) LTD	14:23:32	60000	1118.50	0:00:01	0.00
KANODIA STOCK BROKING (P) LTD	10/15/1999	14:26:56	5000	1122.10	HERALD EQUITIES PVT. LTD.	14:26:56	5000	1122.10	0:00:00	0.00
KANODIA STOCK BROKING (P) LTD	10/15/1999	14:31:46	20000	1129.70	S.P RAKHECHA & CO.	14:31:47	20000	1129.70	0:00:01	0.00
KANODIA STOCK BROKING (P) LTD	10/15/1999	14:48:25	15000	1136.40	ASHOK KUMAR PODDAR	14:48:25	15000	1136.40	0:00:00	0.00
B L B SHARE & FINANCIAL SERVIC	10/26/1999	14:59:59	15000	995.30	KANODIA STOCK BROKING (P) LTD	14:59:59	15000	995.30	0:00:00	0.00
Murari Securities Ltd.	10/29/1999	14:28:25	5000	905.90	KANODIA STOCK BROKING (P) LTD	14:28:25	5000	905.90	0:00:00	0.00

- 5.6 I observe from the above table that the Broker had executed 44 synchronized trades on 20 days during the period June 16, 1999 to October 29, 1999. In all these trades, the order quantity and price are same with counter party order quantity and price. Orders were placed at the same time in most of the cases with counter party brokers while in few cases the orders were matched within a second. I also find that the percentage of matching transactions of the Broker to its total transactions in the share of Ranbaxy during the period under consideration is 15.46%.
- 5.7 The Enquiry Officer observed that an order of 15,000 shares out of a total of 7,97,400 shares (i.e. 2%) of the Broker was matched with another broker Ashok Kumar Poddar, who had dealt for entities connected or associated with Ketan Parekh group. The Enquiry Officer also observed that Ashok Kumar Poddar had been declared defaulter by CSE. and SEBI had subsequently cancelled his registration as per Press Release dated July 30, 2002. The Broker in his reply stated that he had no knowledge about the status of Ashok Kumar Poddar at the time of the alleged transactions. I find merit in the contention of the Broker as the cancellation was subsequent to the transactions in issue. Further, no other evidence supporting their relationship with Ashok Kumar Poddar or KP Group was furnished.
- 5.8 I observe that the Broker has not disputed the 44 synchronized trades. However, the Broker submitted that they were doing basically jobbing business where the quantity and price can always match with offer quantity and rate of other broker. In the instant case, most of buy and sell orders of the Broker were placed with zero second difference to the counter orders. This shows that in these trades, the counter orders were placed exactly for the same quantity and price before the original orders got displayed on the exchange terminal. This can not be a mere coincidence and can not be treated as jobbing. These trades where buy and sell orders were placed exactly at the same time with the same order quantity and price do not appear to be bonafide.
- 5.9 The Broker further submitted that they had no intention to get the transactions artificially matched since they had traded on the screen based system where the automated trading server matches purchase and sell orders without human intervention. I am of the view that synchronized deals are only possible if the trades are put in the system with prior understanding. In such cases, prices and quantities have been negotiated outside the system and orders had been executed simultaneously.
- 5.10 I am of the view that such synchronization of trade irrespective of volume will affect the real price discovery. The intention of the parties to execute such transactions could be inferred from the attending circumstances because direct evidence in such cases may not be available. Further, several of these trades can not be treated as mere coincidence in such a liquid scrip. I observe that all the aforementioned 44 transactions give an impression that these were all synchronized in view of perfect matching of quantity, price and time. I also observe that the Broker had done number of synchronised trades on September 22, 1999 (4 trades), September 28, 1999 (5 trades), October

08, 1999 (4 trades) and October 15, 1999 (8 trades). I find that 44 synchronised trades done by the Broker have been matched with 22 brokers during a period of five months. However, no clear pattern emerges from these transactions.

- 5.11 Evidently the Broker has put these trades with a view to create misleading appearance of trading. This synchronization of trades tampers with price discovery mechanism of stock exchange and also hampers transparency. These trades abetted in creating artificial volumes and false market in the scrip of Ranbaxy Laboratories Ltd. Therefore, I find that the Broker had violated the provisions of 4 (b) and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and Regulation 7 read with Section A (3) and (4) of Code of Conduct as specified in Schedule II of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.
- 5.12 The Broker submitted before me that their transaction were a minuscule percentage of total trades in shares of Ranbaxy in the market during the relevant period. They also pleaded that the Enquiry Officer had pointed out that the volume of such transactions was hardly 2% of the total market volumes. Considering this and all other facts and circumstances of the case, I am of the view that a penalty of 'censure' is sufficient to meet the ends of justice.

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 the said Regulations, I hereby impose a penalty of 'censure' in terms of Regulation 13(4) of SEBI Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 on the Broker, Kanodia Stock Broking Pvt. Ltd.

Mumbai
January 10, 2006

V. K. CHOPRA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA