

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V.K CHOPRA, WHOLE TIME MEMBER

**Against Shyam Sundar Dalmia, Broker, Calcutta Stock
Exchange in the matter of Ranbaxy Laboratories Limited**

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DATE OF HEARING: 28.09.2006

APPEARANCES

FOR COMPANIES/ BROKERS:

1. Shri. Somasekhar Sundaresan, Advocate, J. Sagar & Associates
2. Shri. Rajesh Sinha, Company Secretary, M/s Dalmia Securities (p) Ltd

FOR SEBI

1. Mrs. Barnali Mukherjee, DGM, SEBI

ORDER

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**[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 Mr Shyam Sundar Dalmia, is a Broker of Calcutta Stock Exchange (hereinafter referred to as "the Broker") with SEBI Registration No INB030077614. Securities and Exchange Board of India (hereinafter referred to as "the Board") had conducted investigation into the dealings of several entities including the broker Mr Shyam Sundar Dalmia in the shares of Ranbaxy Laboratories Ltd (hereinafter referred to as "Ranbaxy").
- 1.2 The price of the scrip of Ranbaxy 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 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 of India (NSE) and 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 Regulation 7, read with schedule II, clause A(3) and (4) of SEBI (Stock Brokers and Sub-Brokers) Rules and Regulations, 1992 (hereinafter referred to in short as "Stock Brokers Regulations") and Regulation 4 (a),(b),(c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995 (hereinafter referred to in short as "PFUT Rules, Regulations and Byelaws 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 (hereinafter referred to in short as "Enquiry Regulations") submitted a report dated December 23, 2003 under Regulation 13(1) of the Enquiry Regulations whereby he found that the Broker has 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 SEBI (Stock Brokers and Sub-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 him to show cause against the recommendations as recommended by the Enquiry Officer or any other penalty deemed appropriate should not be imposed on them. The Broker submitted its reply to the said show cause notice, vide letter dated May 14, 2004.

3.0 REPLY OF THE BROKER

- 3.1 The Broker stated that the recommendation made by the Enquiry Officer is not commensurate with the purported findings and hence the same is unsustainable.
- 3.2 The Broker stated that they did not execute any synchronized trades in the scrip of Ranbaxy. They further stated that the charge of artificial matching of trade by executing 41 transactions can not be sustained because a purchase order and a sale order happens to be entered at around the same time for the same price and that too in a screen based trading mechanism of the stock exchange.
- 3.3 The Broker submitted that the Enquiry Officer has failed to show the basis on which prices and quantities have been negotiated outside the system.
- 3.4 The Broker stated that 17 out of a total of 41 transactions took place prior to September 14, 1999, the date on which SEBI issued its circular prohibiting negotiated deals and thus the alleged violation of 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 SEBI (Stock Brokers and Sub-Brokers) Regulations, and Regulation 4(b) & (c) of PFUTP Regulations, if any, ought to be restricted only to 86,000 shares.

3.5 The Broker stated that the rationale behind the finding of the Enquiry Officer regarding the transactions matched with Dinesh Kumar Singhania, and Asok Kumar Poddar who were associated with I is inexplicable. The Broker further submitted that there is not even an allegation in the Enquiry Report that they were aware of any linkage between the said brokers and Ketan Parekh Group.

4.0 HEARING

4.1 In their said reply to show cause notice, the Broker requested for an opportunity of personal hearing. The Broker was accordingly advised to attend the personal hearing before me at Head Office September 28, 2006. Mr. Somasekhar Sundaresan, Advocate, J. Sagar & Associates and Mr Rajesh Sinha, Company Secretary, M/s Dalmia Securities (P) Ltd. attended the hearing and also filed dated September 28, 2006. 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 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.: January 1999 and it continued to move upward during February – March 1999 and reached to Rs.650/- by end of March 1999. The price of the scrip thereafter moved to Rs.700/- during May 1999 Rs.600/- during June 1999. The price subsequently 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 September 1999 and its price 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 gradually and closed at Rs.869 on 29.10.99 at BSE.

5.3 The Enquiry Officer has arrived at a conclusion in his enquiry report that the Broker has carried out 41 instances of synchronization of trades with a view to create misleading appearance of tra with price discovery mechanism of stock exchange.

5.4 I find that the other charges levelled against the Broker are on the basis of the aforesaid synchronized trades. The synchronized trade is a kind of transactions where the seller and buyer execute same quantity and price at substantially the same time. I find that synchronized deal is not per se illegal. On the other hand, the synchronized deal with fraudulent or deceptive intention to appearance of trading and to manipulate the price and volume of the scrip price to tamper the price discovery mechanism of stock exchange with a view to get undue gain out of it is a serious offe

5.5 Hence the issue to be decided in this case is whether the Broker has carried out any such synchronized trades and to take a decision as to whether the penalty recommended by the Enquiry Broker is warranted or not. In order to decide the said issue, I felt it necessary to analyze the details of synchronized 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 Differe nce	Price diffe rence
SHYAM SUNDAR DALMIA	5/11/1999	11:20:33	25000	758.20	SHANKAR LAL CHOKHANY	11:20:33	25000	758.20	0:00:00	0.00
SHYAM SUNDAR DALMIA	5/11/1999	11:56:49	25000	758.50	SHRUTI MOHTA	11:56:50	25000	758.50	0:00:01	0.00
SHYAM SUNDAR DALMIA	5/11/1999	13:01:25	10000	754.70	SOMANI STOCK BROKING PVT. LTD	13:01:25	10000	754.70	0:00:00	0.00
SHYAM SUNDAR DALMIA	5/11/1999	13:11:20	10000	757.20	GOPAL PRASAD CHOKHANY	13:11:20	10000	757.20	0:00:00	0.00
SHYAM SUNDAR DALMIA	5/11/1999	13:12:43	15000	757.70	DINESH KUMAR SINGHANIA & CO.	13:12:44	15000	757.70	0:00:01	0.00
SHYAM SUNDAR DALMIA	5/11/1999	14:05:35	25000	751.90	ASHOK KUMAR PODDAR	14:05:35	25000	751.90	0:00:00	0.00
SHYAM SUNDAR DALMIA	5/26/1999	11:27:34	50000	631.60	DALMIA SECURITIES (P) LTD.	11:27:34	50000	631.60	0:00:00	0.00
SHYAM SUNDAR DALMIA	6/8/1999	14:00:10	20000	609.80	SOMANI STOCK BROKING PVT. LTD	14:00:10	20000	609.80	0:00:00	0.00
ARUN KUMAR & CO.	6/9/1999	10:26:38	5000	608.50	SHYAM SUNDAR DALMIA	10:26:38	5000	608.50	0:00:00	0.00
GKCL STOCK BROKING PVT. LTD.	6/23/1999	11:50:09	5000	653.10	SHYAM SUNDAR DALMIA	11:50:09	5000	653.10	0:00:00	0.00
GOPAL PRASAD CHOKHANY	6/23/1999	12:39:06	5000	654.80	SHYAM SUNDAR DALMIA	12:39:06	5000	654.80	0:00:00	0.00
SHYAM SUNDAR DALMIA	6/23/1999	12:53:24	24000	661.50	SHRUTI MOHTA	12:53:24	24000	661.50	0:00:00	0.00
SHANKAR LAL CHOKHANY	6/29/1999	12:10:19	10000	665.70	SHYAM SUNDAR DALMIA	12:10:20	10000	665.70	0:00:01	0.00
SHYAM SUNDAR DALMIA	7/7/1999	11:19:10	35000	700.40	SHANKAR LAL CHOKHANY	11:19:10	35000	700.40	0:00:00	0.00
SHYAM SUNDAR DALMIA	7/20/1999	14:48:57	16000	806.50	JANKIDAS MOHATA	14:48:58	16000	806.50	0:00:01	0.00
SHYAM SUNDAR DALMIA	7/21/1999	13:33:28	15000	857.40	SHANKAR LAL CHOKHANY	13:33:28	15000	857.40	0:00:00	0.00
SHYAM SUNDAR DALMIA	8/24/1999	14:27:25	25000	1032.70	M/s Loknath Saraf	14:27:26	25000	1032.70	0:00:01	0.00
SALASAR STOCK BROKING LTD.	9/14/1999	13:58:37	15000	1065.70	SHYAM SUNDAR DALMIA	13:58:38	15000	1065.70	0:00:01	0.00
SHRUTI MOHTA	9/15/1999	15:08:09	15000	1041.20	SHYAM SUNDAR DALMIA	15:08:09	15000	1041.20	0:00:00	0.00
SHYAM SUNDAR DALMIA	9/22/1999	14:04:18	15000	1038.60	RAJENDRA KUMAR CHOKHANY	14:04:18	15000	1038.60	0:00:00	0.00
SHYAM SUNDAR DALMIA	9/27/1999	13:41:27	40000	1055.50	M/s Loknath Saraf	13:41:27	40000	1055.50	0:00:00	0.00
SHYAM SUNDAR DALMIA	9/29/1999	13:59:06	10000	1090.10	SONTHALIA & CO.	13:59:06	10000	1090.10	0:00:00	0.00
KAMAL KUMAR DUGAR & CO	9/29/1999	14:05:53	10000	1090.80	SHYAM SUNDAR DALMIA	14:05:53	10000	1090.80	0:00:00	0.00
SHYAM SUNDAR DALMIA	10/1/1999	14:07:08	20000	1034.60	DALMIA SECURITIES (P) LTD.	14:07:09	20000	1034.60	0:00:01	0.00
SHYAM SUNDAR DALMIA	10/4/1999	13:03:56	25000	1001.30	LALIT & CO.	13:03:56	25000	1001.30	0:00:00	0.00
SHYAM SUNDAR DALMIA	10/5/1999	13:24:56	15000	1006.50	LALIT & CO.	13:24:55	15000	1006.50	0:00:01	0.00
SHYAM SUNDAR DALMIA	10/6/1999	13:30:48	14000	1012.80	M/s Loknath Saraf	13:30:48	14000	1012.80	0:00:00	0.00
KANDOI SECURITIES PVT. LTD	10/11/1999	11:09:37	20000	1194.50	SHYAM SUNDAR DALMIA	11:09:37	20000	1194.50	0:00:00	0.00
SHYAM SUNDAR DALMIA	10/11/1999	11:11:09	20000	1193.00	SANJEEV B. PHUMBHRA & CO.	11:11:07	20000	1193.00	0:00:02	0.00
SHYAM SUNDAR DALMIA	10/12/1999	13:58:41	10000	1151.80	LALIT & CO.	13:58:41	10000	1151.80	0:00:00	0.00
SHYAM SUNDAR DALMIA	10/15/1999	12:52:44	12500	1173.40	GAUTAM BAJORIA	12:52:44	12500	1173.40	0:00:00	0.00
SONTHALIA & CO.	10/15/1999	12:53:45	10000	1173.80	SHYAM SUNDAR DALMIA	12:53:45	10000	1173.80	0:00:00	0.00
SHYAM SUNDAR DALMIA	10/15/1999	13:16:54	25000	1174.40	Agbros Securities Pvt. Ltd.	13:16:54	25000	1174.40	0:00:00	0.00
SHYAM SUNDAR DALMIA	10/15/1999	13:26:51	20000	1171.50	PRAKASH BAID SECURITIES PVT. L	13:26:51	20000	1171.50	0:00:00	0.00
SHYAM SUNDAR DALMIA	10/15/1999	13:52:27	5000	1162.10	TACKEL STOCK BROKING SERVICES(	13:52:27	5000	1162.10	0:00:00	0.00
DALMIA SECURITIES (P) LTD.	10/15/1999	14:13:58	30000	1154.40	SHYAM SUNDAR DALMIA	14:14:01	30000	1154.40	0:00:03	0.00
NARAIN PRASAD DALMIA	10/15/1999	14:18:15	30000	1144.50	SHYAM SUNDAR DALMIA	14:18:15	30000	1144.50	0:00:00	0.00
SHYAM SUNDAR DALMIA	10/15/1999	15:14:44	5000	1116.50	PRADEEP KAYAN & CO.	15:14:44	5000	1116.50	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
SHYAM SUNDAR DALMIA	10/25/1999	12:13:21	15000	1009.40	DALMIA SECURITIES (P) LTD.	12:13:20	15000	1009.40	0:00:01	0.00
SHYAM SUNDAR DALMIA	10/29/1999	13:48:14	20000	898.60	NARAIN PRASAD DALMIA	13:48:14	20000	898.60	0:00:00	0.00
SHYAM SUNDAR DALMIA	10/29/1999	13:48:59	20000	898.40	DALMIA SECURITIES (P) LTD.	13:48:59	20000	898.40	0:00:00	0.00

5.6 I observe from the above table that the Broker had executed 41 synchronized/matching trades in the shares of Ranbaxy with the counter party brokers. Synchronized/matching trades are evident in all cases order quantity and price are same with counter party order quantity and price. Orders were placed at exactly the same time in most of the cases with counter party brokers while in few cases they were matched within a period of 1-3 seconds. I have also observed that the total trades of the Broker was 7,41,500 shares and percentage of matching transactions of the Broker to their total share of Ranbaxy during the period under consideration is 14%. However, compared to the market volume this quantity is minuscule.

5.7 I have also observed that order of 40,000 shares out of total of 7,41,500 shares (i.e. 5%) of the Broker were matched with the brokers, Dinesh Kumar Singhania & Co. and Ashok Kumar Podder 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
SHYAM SUNDAR DALMIA	5/11/1999	13:12:43	15000	757.70	DINESH KUMAR SINGHANIA & CO.	13:12:44	15000	757.70	0:00:01
SHYAM SUNDAR DALMIA	5/11/1999	14:05:35	25000	751.90	ASHOK KUMAR PODDAR	14:05:35	25000	751.90	0:00:00

5.8 Dinesh Kumar Singhania & Co. and Ashok Kumar Poddar are said to be connected or associated entities of Ketan Parekh group. The Broker in their reply to show cause notice dated 14.09.2006, stated that the allegation in the Enquiry Report that they were aware of any linkage between the said Brokers and Ketan Parekh Group. In their written submission dated September 28, 2006, they stated that they were not aware of any broker knowing even the identity of the counter-party broker whose order may be matched by the automated screen based trading system. I also find that the said 'KP brokers' have been debarred by CSE and SEBI but subsequently cancelled the registrations of these brokers as published vide Press Release dated October 22, 2001 and July 30, 2002. It is further noted that the said cancellations were in the transaction in issue. I observe that the Broker executed one trade with Dinesh Kumar Singhania & Co. and another one trade with Ashok Kumar Poddar on November 05, 1999. These two trades were executed in a period of almost six months and this could be a mere coincidence. Considering that there was no other evidence supporting their relationship with the above KP Group entities, I am of the opinion that the doubt can be given to the Broker in this regard.

5.9 I observe that the Broker never disputed the said 41 instances of synchronized trades. They submitted before me that they had no intention to get the transaction artificially matched since they screen based system where the automated trading server matches purchase orders and sale orders without human intervention. The Broker also submitted before me that their transaction: percentage of total trades in shares of Ranbaxy on the relevant dates and could have had no impact on price. They also pleaded that the Enquiry Officer was wrong in computing the percentage against the total transactions by them in Ranbaxy. 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 been negotiated outside the system and orders had been executed simultaneously. In most of the cases, the gap between the orders is zero seconds i.e. the orders were punched in before the screen of the exchange system. Such order placing may raise serious doubts on the genuineness of the trades. However, in the instant case, I have noted that in respect of 34 trades, the matched neither repeatedly nor regularly with the same Broker. Considering the liquidity of the scrip and that there is no sufficient corroborative evidence to hold that the said matching was for a I am inclined to give a benefit of doubt.

5.10 However, out of the above 41 trades, 7 trades of the Broker had been matched with CSE Brokers, Dalmia Securities Ltd. and Narain Prasad Dalmia. They were having the same address as Therefore, there is a greater preponderance that these trades were not being genuine. Even in his submission, the Broker has indirectly stated that these are not negotiated deals. In view of this the Broker has placed the order exactly at the same time with the same quantity and price with that of the counter party Brokers whose address was the same with that of the Broker. This synchronization of trades tampers with price discovery mechanism of stock exchange and also hampers transparency. These trades also create artificial volumes and false market. Even though minuscule, it cannot be a logical reason to let them go without any punitive action. In view of this, I find that these acts of Broker are in violation of the Regulation 7 read with the clause A (3). Conduct as specified in Schedule II of SEBI Stock Brokers Regulations and Regulation 4(b) of PFUTP Regulations.

5.12 Keeping in view of all facts and circumstances of the case as also submissions of the Broker, I am of the view that a penalty of 'censure' is sufficient to meet the ends of justice.

6.0 ORDER

6.1 Having considered all aspects of this case, I, in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulations, 2002, hereby impose a penalty of 'censure' on the Broker, Shyam Sundar Dalmia.

Mumbai
January 19, 2007

WHC
SECURITIES AND EXCHANGE