

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA**

**CORAM: V. K CHOPRA, WHOLE TIME MEMBER**

**Against M/s Lalit Co. (Kishan Lal Pugalia), Broker –**

**Calcutta Stock Exchange in the scrip of Ranbaxy Laboratories Limited**

DATE OF HEARING: 13.09.2006

APPEARANCES:

FOR COMPANIES/ BROKERS:

1. Mr. Sanjeev Kothari, Authorised Representative of M/s Lalit Co. (Kishan Lal Pugalia)

FOR SEBI:

1. Mrs Barnali Mukherjee, DGM, SEBI

**ORDER**

**{Under Regulation 13(4) SEBI (Procedure for Holding Enquiry  
by Enquiry Officer and Imposing Penalty) Regulations, 2002}**

**1.0 BACKGROUND**

- 1.1 Securities and Exchange Board of India (hereinafter referred to in short as "the Board") had ordered an investigation into the dealings of M/s Lalit Co. (Kishan Lal Pugalia), a broker (hereinafter referred to as "the Broker") of Calcutta Stock Exchange (hereinafter referred to in short as CSE) bearing SEBI Registration no. INB030043413 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) 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 the 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 of the SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992 read with clause A(3) and (4) of Schedule II of the Code of Conduct for Stock Brokers issued under 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 14, 2003 whereby 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 SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992; and Regulation 4(b) & (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995. 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 December 05, 2003 was issued to the Broker, along with a copy of the said Enquiry Report, advising them 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 them. The Broker submitted its reply to the said show cause notice, vide letter dated January 20, 2005.

**3.0 REPLY OF THE BROKER TO THE SHOW CAUSE NOTICE**

- 3.1 The Broker stated that they had no intention to manipulate the market equilibrium and make personal gain by duping investors and they added that they were doing daily jobbing in various scrips.
- 3.2 The Broker stated that Ranbaxy had been very active scrip in the market during 1999-2000 and as a jobber they had traded in Ranbaxy. There had been basically nil delivery position at the end of each day. Hence it was just not possible for them to manipulate price in the market with daily turnover of quantity like 5000 shares.

- 3.3 The Broker stated that the trades were executed on the trading terminal of CSE's C- Star system, where it is impossible to know the counter party broker. They also stated they have not done any share broking activities in the market for the last three years.

#### **4.0 HEARING**

- 4.1 The Broker has not sought for a personal hearing. However, an opportunity of personal hearing was granted and they were advised to attend the personal hearing before me at SEBI's Eastern Regional Office at Calcutta on September 13, 2006. The Authorized Representative Shri Sanjeev Kothari attended the hearing. 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 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 The entire charge levelled against the Broker is on the basis of the 24 instance of synchronized trades. The synchronized trade is a kind of transactions where the seller and buyer execute the trade for almost same quantity and price at substantially the same time. I find that synchronized deal per se is not illegal. On the other hand, the synchronized deal with fraudulent or deceptive intention to create misleading appearance of trading and to manipulate the price and volume of the scrip price to tamper the discovery mechanism of stock exchange with a view to get undue gain out of it, is no doubt a serious matter.
- 5.4 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 officer against the Broker is proper or not. I find that the Broker executed 24 synchronized deals spread over 17 days during the period January 01, 1999 to October 31, 1999. The Broker had neither disputed the above price rise nor denied entering into the synchronized deals in the scrip of Ranbaxy. The Broker contented that they were doing jobbing and the trades were executed through C-star computer system and they have no idea as to the parties opposite to them.
- 5.5 I find that the Broker had executed synchronized/matching trades in the shares of Ranbaxy with the counter party members. Synchronized/matching trades are evident wherein 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 members while in few cases the orders were matched within a period of 1-2 seconds. I have also observed that the percentage of the matching transactions of the member to his total transactions in the share of RLL during the period under consideration is 10%.
- 5.6 I have also observed that order of 18,000 shares out of total of 2,31,500 shares (i.e. 8%) of the Broker were matched with the broker Ashok Kumar Poddar, who had dealt for entities connected or associated with Ketan Parekh group. Shri Poddar had been declared defaulter by CSE and SEBI had subsequently cancelled his registration as per Press Release dated July 30, 2002. It is observed that the said cancellation is subsequent to the transaction in issue and this could be a mere coincidence. Further, there is no other corroborative evidence to support their relationship with KP Group. However I find that the Broker has not denied the transaction with the said brokers. The said transactions are in the nature of synchronized deals. Synchronized trades entered into with prior understanding have no contribution in price discovery. Such tampering of price discovery mechanism through synchronized and matching trades goes against the fundamental concept of stock exchange where price is discovered through the mechanism of demand and supply of a particular share.
- 5.7 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.
- 5.8 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 24 transactions in this case give an impression that these were all synchronized in view of perfect matching of quantity, price and time. The Broker has not given any explanation for the 24 synchronised trades except a bare statement that they were doing daily jobbing transaction and the same were executed on the trading terminal of CSEA's C- Star system, where it is impossible to know the counter party brokers and the automated trading server matches purchase and sell orders without human intervention. They also submitted that their daily turnover was 5000 shares with which manipulation of price was just impossible. This stand of the Broker is not acceptable as 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.

- 5.9 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) 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. However, considering the volumes traded by the Broker and 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 SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby impose a penalty of 'censure' on the Broker, M/s Lalit Co. (Kishan Lal Pugalia) bearing SEBI Registration no. INB030043413.

Place: Mumbai  
Date: February 13, 2007

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