

SECURITIES AND EXCHANGE BOARD OF INDIA**Coram: Dr. T. C. Nair, Whole Time Member**

Name of the noticee : M/s. Neha Equisearch Private Limited

Date of hearing : 25-04-2006

Appearance of parties

For the noticee : Shri Kishore Saigal, Director

For SEBI : Shri P. K. Bindlish

Shri Ashok Nimbekar

ORDER**UNDER SECTION 11(4) READ WITH SECTION 11(B) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AGAINST M/s. NEHA EQUISEARCH PRIVATE LIMITED, IN THE MATTER OF M/s. SPANCO TELESYSTEMS AND SOLUTIONS LIMITED**

WTM/TCN/ID3/ /2007

BACKGROUND

- Spanco Telesystems and Solutions Limited (hereinafter referred to as "STSL") promoted by Shri Ashok Oberoi, Shri Bansilal Tandon, Shri V V Balakrishnan, Shri Vinod Kumar Nemani and Shri Jai Prakash Nemani was originally incorporated in 1984 as Kadambari Leasing Private Limited. Kadambari Leasing Private Limited had taken over business of STSL and adopted its name with effect from 11th November 1999. In 1984, the company had come out with a public issue of 1, 50, 000 shares at par and was listed on the Bombay Stock Exchange Limited (hereinafter referred to as "BSE").
- Securities and Exchange Board of India (hereinafter referred to as "SEBI") received certain complaints about price rigging in the scrip of STSL. After receiving the observations relating to the same from BSE, SEBI conducted an investigation into the affairs of STSL for the period from 1st October 2000 to 31st July 2001 (hereinafter referred to as "investigating period"). The observations under the investigation are as under:
- In an Extra Ordinary General Meeting held on 11th December 1999, STSL passed a resolution to allot 10,00,000 shares to its promoters and transfer its management control to Kapil Puri Group. The same day 10,00,000 preferential shares at Rs.10/- each were issued to Kapil Puri Group and others comprising individuals, not necessarily shareholders of STSL. The shares were listed on BSE on February 24, 2000. As on October 01, 2000, Shri Kapil Puri was Chairman of STSL.
- From the distribution schedule of STSL as on August 24, 2001, it was observed that the public holding in STSL was only 5, 77, 000 equity shares amounting to 8.26%. FIIs, NRIs, and Banks together had a holding of less than 1%. Other Body Corporates held 29.80%, while Promoters of STSL held 61%. Out of 637 shareholders, 19 shareholders held 94.67% of the equity capital of STSL.
- A preferential allotment of 22,50,000 shares at Rs.15/- each (premium Rs.5/-) was made under section 81(1A) of the Indian Companies Act, 1956, on 16.02.00, to the parties as mentioned in the table below. These shares were listed on BSE on 26.06.00.

S.No.	Name of the Allottee	Shares Allotted
1	Shri Kapil Puri	8,00,000
2	Neha Equisearch Pvt Ltd	3,75,000
3	Smt Kavita Puri	2,55,000
4	Shri Rajesh Chhabria	2,30,000
5	Shri Mahendra G Shah	2,00,000
6	Shri Sanjeev Chainani	1,75,000
7	Shri Kishore Saigal	60,000
8	M/s Networth Stock Broking Ltd	50,000
9	Smt Chanderkanta Malik	50,000

S.No.	Name of the Allottee	Shares Allotted
10	Sarvpriya Leasing Pvt Ltd	20,000
11	Shri Sudanshu Tewari	20,000
12	Shri Naresh Bahri	15,000
	Total	22,50,000

6. Further, a special resolution was passed in an Extra Ordinary General Body Meeting convened on January 30, 2001 under section 81(1A) of Companies Act, 1956 to allot 30,00,000 equity shares at Rs.52/- each (premium Rs.42/-) on preferential basis to the following persons:

S.No.	Name	Shares Allotted
1	Shyam Telecom Ltd	15,60,000
2	Shri Rajesh Chhabria	7,20,000
3	Shri Kapil Puri	7,20,000
	Total	30,00,000

7. Though the resolution was passed to allot shares in the above manner, no allotment was made within stipulated period of three months. An Extra Ordinary General Meeting was held on May 29, 2001 wherein a resolution was passed to allot 30,00,000 shares at Rs.10/- each for cash at a premium of Rs.27/- per share aggregating to Rs.11,10,00,000/- on preferential basis to the persons mentioned in the above table. It was observed that this premium structure was reduced from Rs.42/- to Rs. 27/- per share.
8. It was observed that there was an effort to create artificial volume in the scrip of STSL during the period of investigation, to influence the terms and conditions of the preferential allotment mentioned hereinabove. It was alleged that a set of brokers/members of BSE have traded in the scrip of STSL and indulged in creating artificial volumes thereby influencing the price of the said scrip. Accordingly, it is alleged that volumes in the scrip of STSL were high as compared to the volumes prior to and after investigation period. The price of the scrip on 01.10.00 was Rs.50/- with a volume of 1,000 shares. The price had reached its peak of Rs.54.95/- on October 06, 2000 and the number of shares traded were 2,300 after which the price had come down to a low of Rs.18.80 with 14, 660 shares being traded on April 20, 2001. Further, it was noticed that the price of the scrip had started rising and by June 29, 2001; it had reached Rs. 44.55/- with a trade volume of 61,460 shares. After this period, the price of the scrip again started falling and at the end of the investigation period i.e., on July 31, 2001, the price of the scrip was hovering around Rs. 26/- whereas traded volume reported at the exchange on the same day was 7,600 shares.
9. From the trade data in the scrip of STSL, it was noted that Neha Equisearch Private Limited (hereinafter referred to as "the noticee" or "NEPL") an unlisted company, associated with STSL had continuously traded in the scrip through various brokers. It was observed that NEPL was an investment and finance company and was engaged in investment activities including investment in shares. It was promoted by Shri Kapil Puri and Smt. Kavitha Puri in April 7, 1995. After acquiring the business of STSL, during April 2000 Shri Kapil Puri and Smt. Kavitha Puri resigned from the directorship of NEPL and transferred their stake to Shri Kishore saigal and Smt. Nita Saigal. It was also observed that Shri Kishore Saigal and Smt. Nita Saigal were relatives of Shri Kapil Puri and Smt. Kavitha Puri. The authorised capital of NEPL was Rs. 50,00,000/- divided into 5,00,000 shares of Rs.10/- each. The table below provides the settlement wise trading details of NEPL in the scrip of STSL through various brokers during the period considered for investigation:

Table 3

Name of the Member	Settlement no	Purchases	Sales	Net	Gross
M/s Unique Stockbroker Pvt Ltd	29	5000	0	5000	5000
	31	1400	0	1400	1400
	32	500	0	500	500
	34	350	0	350	350
	38	2750	500	2250	3250
	39	11200	0	11200	11200
	41	2200	0	2200	2200
	46	850	0	850	850
	47	4925	0	4925	4925
	48	7575	0	7575	7575
	51	100	0	100	100
	52	4000	0	4000	4000
	01	1150	0	1150	1150
	08	5200	0	5200	5200
	09	15343	0	15343	15343
	12	2355	2000	355	4355

Name of the Member	Settlement no	Purchases	Sales	Net	Gross
	13	14265	0	14265	14265
	14	9525	0	9525	9525
	16	10000	0	10000	10000
	17	2142	0	2142	2142
Total		100830	2500	98330	103330
M/s Network Stock	32	15000	0	15000	15000
	39	0	1000	-1000	1000
Total		15000	1000	14000	16000
M/s JCP Shares	48	1100	0	1100	1100
Total		1100	0	1100	1100
M/s Pals Overseas P	38	0	1450	-1450	1450
Total		0	1450	-1450	1450
Grand Total		116930	4950	111980	121880

10. In addition to the market purchase, NEPL had also bought 8000 shares from M/s. Network Creditline Limited in an off market deal. It was also noticed that NEPL had tried to influence the share price of STSL by putting buy orders at upper end of the circuit filter and that few orders were rejected by the system in view of crossing the band.
11. It was seen that NEPL and its Director, Shri. Kishore Saigal had entered into various off/spot market transactions with M/s. Network Stock Broking Limited and several other clients as well. Investigations have brought out that NEPL had entered into spot market transactions with M/s. Network Stock Broking Limited (NSBL) in which it has sold 40,000 shares on September 26, 2000 and 30,941 shares on October 10, 2000. Thereafter, NSBL has sold 1,00,000 shares to Smt. Amiti K Vadalia in two transactions of 50,000 shares which occurred on September 30, 2000 and October 14, 2000. It is observed that there was some deal between Smt. Amiti K. Vadalia and NEPL because time gap between both these transactions was only 4 days. During the course of investigation it was also observed that Smt. Amiti K Vadalia had traded substantially in the scrip of STSL and she had sold 41,811 shares. Further, NSBL sold 10,000 shares on May 17, 2001 to Ms. Rekha H. Vakharia and thereafter Ms. Rekha H. Vakharia transferred these shares to the account of several clients and incidentally these clients also traded substantially in the scrip of STSL. The detail of transfer of shares from Ms. Rekha H. Vakharia account to other accounts is as under:

Table 4

Date	Transferee	No. of Shares
22/5/2001	To S Shaktisarvanan	1000
22/5/2001	To Indumati U Goda	1100
22/5/2001	To Samir N Shah	700
22/5/2001	To S Manivaran	1300
4/6/2001	To P B Sudarshan	864
4/6/2001	To S Shaktisarvanan	260
	Total	5224

It can be observed from the above table that after obtaining 10,000 shares from NSBL on May 17, 2001 Ms Rekha H. Vakharia transferred 5,224 shares to accounts of different clients and thus contributing an upsurge in the trading volume of the scrip during the period of May 2001 to June 2001. It is alleged that NEPL was interested in creating volume in the scrip of STSL through these clients.

12. It was alleged that NEPL being the associate/promoter group company of STSL was very much interested in the promotion of the scrip prior to the preferential allotment. Their act as mentioned above was to influence the terms and conditions of the said preferential allotment of 3000000 shares. This is clearly seen from the manner in which shares were transferred consistently (through off market deals) to the account of ultimate clients who had traded in the scrip. It is alleged that the above transfers amply suggest the role played by NEPL in the manipulation of the scrip of STSL. The above clients (masterminded/ operated by Shr Sirish Shah) were seen indulging in a complete churning out activity and creating/ building artificial volumes in the scrip. The scrip price was also conveniently maintained.
13. Shri. Kishore Saigal a director of NEPL was found to be linked with the aforementioned clients. On a scrutiny of the DP account of Kishore Saigal, it was observed that he sold 20,000 shares to NSBL on August 18, 2000 and 17,589 shares on October 10, 2000. At the end of the investigation period it was observed that the shares had come back into the DP Account of Shri. Kishore Saigal and the details are as below:

Table 5

Date	Transferor	No. of Shares
25/5/2001	By Chaggan K Damnia	5000

28/5/2001	By Sangeeta Damania	5000
28/6/2001	By Chaggan K Damnia	11300
5/7/2001	By Chaggan K Damnia	3000
9/7/2001	By Rekha Vakharia	10000
26/7/2001	By Rekha Vakharia	9612
26/7/2001	By Nimish V Goda	20388
	Total	64300

- 14 It could be observed from the table that at the end of investigation period these clients returned their shares to Shri Kishore Saigal after creating volume in the scrip. It could also be observed from the account of Shri Nimish U Goda that various credits have come into his account from several other accounts. After pooling shares of all the clients into the account of Shri. Nimish U Goda these shares were further transferred into the account of Shri. Kishore Saigal. As observed from the account of Shri. Nimish U Goda which is given as under:

Table 6

Date	Transferee	No. of Shares
26/7/2001	By Baban Sonate	1360
26/7/2001	By P. B Sudarshan	1000
26/7/2001	By S Manivanan	7500
26/7/2001	By S Shaktisarvanan	12611
26/7/2001	By Samir N. Shah	-20388
26/7/2001	To Kishore Saigal	
	Total	3443

- 15 Investigations brought out that the DP Account of Shri Nimish Goda was introduced by Sirish C Shah. Shri Nimesh Goda is a relative of Indumati Goda and Shri. Ajay Goda (director of Lalkar Securities). It is seen from the above table that at the end of investigation period after the creation of volume in the scrip of STSL, shares were transferred from the account of the above mentioned clients to the account of Shri. Nimish U Goda and on the same day they were again transferred to the account of Shri. Kishore Saigal. Further, by November 2001 shares were also transferred to the account of Shri Kishore Saigal by his clients and the details of the transfers are as under:

Table 7

Date	Transferee	No. of Shares
22/11/2001	By Hitesh C Shah	1000
22/11/2001	By Indumati Goda	2000
22/11/2001	By Samir N Shah	2000
	Total	5000

- 16 Based on the above, the investigations had alleged that NEPL was guilty of violating the provisions of Regulation 4 (a), (b) and (c) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as "the FUTP Regulations").

SHOW CAUSE NOTICE, REPLY AND HEARING

- 17 In view of the allegations against NEPL, a show cause notice dated December 12, 2003 was issued to NEPL requiring it to show cause as to why directions under section 11B read with section 11(4) of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "the Act") read with regulation 11 and regulation 12 of the FUTP Regulations should not be issued. The said show cause notice alleged NEPL of having contravened the provisions of Regulation 4 (a), (b) and (c) of the FUTP Regulations. The notice required NEPL to reply with necessary evidence within 15 days of receipt of the same.

- 18 NEPL submitted their reply vide its letter dated December 30, 2003 and made submissions that:

- The company had not played any role in a movement of share prices and creating any artificial share volume and that the fall in the share price occurred gradually.
- The share price started moving up with the sensex after April, 2001 but after the investigation period there was a downward trend. It was observed from the graph that there was not much movement in the price level of the scrip of STSL. Hence, it cannot be construed that NEPL was involved in any price/ volume movement.
- From the data collected during investigation the total share volume at the exchange in the scrip of STSL was 28,04,111 equity shares out of which the number of shares dealt by NEPL was 1,11,980 shares, which constituted only 4% of the total volume traded and 2.8% of the paid up capital of STSL. The volume dealt with was very insignificant and negligible and in no way could influence the market or the terms and conditions of the preferential allotment.

- The preferential allotment made by the company was in compliance with SEBI Guidelines.
- The rise in the volume/ price in the scrip of STSL during the period under investigation was market driven and NEPL had not masterminded the same.
- NEPL was taken over by Shri Kishore Saigal and Smt. Neeta Saigal in April 2000, much before the investigation period. The promoters of NEPL and STSL were not the same as on October 01, 2000 and both the companies were not under the same management.
- Shri Kapil Puri and Smt. Kavita Puri are not related to NEPL since they had resigned from the office of Directors of NEPL in February and April, 2000, respectively. Only during this period Shri Kishore Saigal and Smt. Neeta Saigal assumed office as Directors and had bought the entire stake in share holding of Shri Kapil Puri and Smt. Kavita Puri.
- It is the normal market practice to register with few brokers in order to spread the risks and moreover NEPL was an investment and finance company, hence they got registered with three/four brokers.
- The transactions mentioned in the letter in terms of volume and amount was insignificant and negligible and consideration was received/ paid for all the shares sold/ bought by NEPL. The details have been submitted substantiating the above.
- NEPL denied attempting to influence the share price of STSL by putting orders at upper end of the circuit filter.
- There could be one or two stray instances and that too possibly due to mistake of the dealer/ broker and not a deliberate act.
- NEPL had entered into transaction with M/s. Newtorth Stock Broking Ltd. and had received due consideration for the same and not aware as to how NSBL in turn has dealt with the said shares
- NEPL was never interested nor inclined in the promotion of the scrip and the quantum of shares dealt could in no way influence the terms and conditions of the preferential allotment of STSL.
- NEPL was not aware as to how NSBL and Shri Nimish Goda have dealt with the said shares
- NEPL was engaged in investment activities and deal with many investors and brokers in the market.

NEPL had submitted that they were not guilty of violating the provisions of Regulation 4 (a), (b) & (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, and submitted that no directions under Section 11B read with 11 (4) of the SEBI Act, 1992, read with Regulations 11 & 12 SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, be issued against them. I note that a personal hearing was granted to NEPL on January 28, 2004 wherein Shri Kishore Saigal, Director of NEPL was present on behalf of NEPL and had made its submissions before the erstwhile Member. When the case was referred to me, I thought it fit to hear the noticee again before deciding the issue. In view of this, the noticee represented by its Director, Shri Kishore Saigal was heard by me on April 25, 2006.

CONSIDERATION OF ISSUES

- 19 I have carefully perused the investigation report, the show cause notice and the submissions, written as well as oral, made by NEPL. The main issues for consideration are:
- i) Whether NEPL had indulged in market manipulation thereby contravening the provisions of Regulation 4 (a), (b) and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995?
 - ii) What would be the appropriate direction in the instant case?
- 20 I note that the investigations have brought out that NEPL bought a net of 1,19,980 shares in the scrip of STSL. In addition to the market purchase, NEPL had also bought 8000 shares from M/s. Network Creditline Limited in an off-market deal. NEPL submitted that the volume and the amount are insignificant and negligible and consideration was received/paid for all the shares sold/bought by it. It is also to be noted that NEPL sold the shares to other entities who in turn had traded in the market. I note that the investigations have brought that NEPL put in buy orders at the upper end of the circuit filter and that few such orders were rejected by the system because of its crossing the price band. The noticee has submitted that such instances were few. I opine that this submission cannot be accepted since NEPL was well aware of the prices quoted and the prevalent market price of the scrip.
- 21 The investigations have indicated NEPL having entered into spot transactions with M/s. Network Stock Broking Limited wherein 70,941 shares (40,000 shares sold on 26-09-2000 and 30,941 shares were sold on October 10, 2000) were sold.

NEPL admitted of entering into transaction with Networth Stock Broking Limited (NSBL) and submitted that it had received due consideration for the same. NEPL further submitted that it was never interested in the promotion of the scrip (STSL). It was also further submitted by NEPL that Shri Kishore Saigal, Director of NEPL had entered into transactions with NSBL and Shri Nimish Goda and that he had received the consideration for these transactions. NEPL also submitted that it was not aware of the transactions undertaken by NSBL or Shri Nimesh Goda. I am of the view that this cannot be accepted since it has been brought out by investigations that shares were pooled in the account of Shri Nimesh Goda and then transferred to the account of Shri Kishore Saigal, Director of NEPL. Investigation had clearly shown that both NEPL and Shri Kishore Saigal had dealt with NSBL. Investigations had also brought that NSBL had dealt with Smt. Amiti Vadalia and Ms. Vakharia. Further, Shri Saigal had also dealt with Ms. Vakharia and Shri Nimesh Goda. In view of this, NEPL cannot claim ignorance of how shares were dealt with subsequent to its transactions with NSBL on its behalf or on behalf of Shri Saigal. I note that the noticee is silent on the allegation that shares had come into the DP account of Shri Kishore Saigal after the investigation period the details of which were indicated in the show cause notice dated December 12, 2003 issued to the noticee. It is also observed that Shri Nimesh Goda is a relative of M/s. Indumati Goda and Ajay Goda (Director of Lalkar Securities, one of the brokers who had transacted in the scrip of STSL) where shares were accumulated in his account and transferred to the account of Shri Kishore Saigal on the same date. It was also observed that the DP account of Shri Nimish Goda was introduced by Shri Sirish Shah. Thus from the above, I find that NEPL and Shri Kishore Saigal have dealt in the scrip of STSL not in a regular course but with an ulterior motive.

22. I also note NEPL had traded through several brokers namely, M/s. Unique Stockbro Private Limited, M/s. Networth Stock Broking Limited (NSBL), M/s. JCP Shares and M/s. Pals Overseas in the scrip of STSL. It is to be noted that NEPL had chosen to trade in the same scrip through various brokers. NEPL in its reply to the show cause notice had submitted that trading through various brokers was done only as a safety measure. Though there was no bar on the number of brokers an investor could trade through, it would create an impression of high activity in a particular scrip which may induce an innocent investor to invest in that scrip. This act of NEPL coupled with off market transactions could be construed to create a false picture of trading in the scrip in the market.
23. Thus from the above discussion, it could be gathered that NEPL has traded in the scrip of STSL in a manner so as to create an appearance of false trading. I find that there was no influence of price of the scrip during the investigation period as the price was moving along with the market index at that time. But what is of concern is that NEPL had dealt with in the scrip to depict that the scrip was traded actively in the market. The shares sold by NEPL and Shri Kishore Saigal to NSBL and Shri Nimesh Goda were inturn sold to other clients and their trading have contributed to the spurt in the volumes in the market. Thus NEPL and its director Shri Kishore Saigal would be liable for causing false volumes thereby contravening the Regulation 4(b) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995. The said commissions of NEPL can be construed only to create a false picture that the scrip was sound. Having found NEPL guilty of violating Regulation 4(b) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, I am of the considered view that a suitable penalty needs to be imposed in order to secure an order in the capital market which will also serve as a deterrent on others. I, therefore find that restraining NEPL from dealing in securities for a suitable would be a fit penalty.

ORDER

24. In exercise of the powers conferred upon me under Section 19 read with Sections 11(4) and 11B of the SEBI Act, 1992, I hereby direct that M/s. Neha Equisearch Private Limited be restrained from dealing in securities in any manner for a period of two months.
25. This order shall come into force with immediate effect.

DATE: 22/02/2007
PLACE: MUMBAI

T. C. NAIR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA