

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: Dr. T.C.NAIR, WHOLE TIME MEMBER

IN THE MATTER OF P R SHAH SHARE AND STOCK BROKERS PRIVATE LIMITED, INB 010947538 IN THE SCRIP OF GREENFIELD TRADING AND FINANCE LIMITED

Date of hearing : October 18, 2006

Appearances:

For Noticees : Shri Chetan Seth, Director, P R Shah Share and Stock Brokers Private Limited

For SEBI : Shri P.K.Bindlish, General Manager
Shri Atul Agarwal, Manager
Ms. Kshama Chavan, Legal Officer

ORDER

UNDER REGULATION 13 (4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 IN RESPECT, OF P R SHAH SHARE AND STOCK BROKERS PRIVATE LIMITED, MEMBER OF THE STOCK EXCHANGE, MUMBAI IN THE SCRIP OF GREENFIELD TRADING AND FINANCE LIMITED.

1.0 Background

1.1 Greenfield Trading & Finance Ltd (hereinafter referred to as “GTFL”) was incorporated as a Public Limited Company on March 13, 1995 and obtained certificate of commencement of business on 6th April, 1995. The main objective of the company was to carry on and undertake the business as exporters, importers, retailers, merchants and trading operations of various kinds and to act as commission agents etc. The shares of GTFL were listed on The Bombay Stock Exchange Limited (hereinafter referred to as “BSE”).

- 1.2 As per BSE, the latest capital structure of GTFL comprised of Rs. 99.60 lacs divided into 996000 equity shares of Rs.10 each. As per the distribution schedule as on June 30, 1992, it is observed that top 30 shareholders were holding around 958780 shares which works out to around 96.20%. By this it is observed that floating stock of GTFL was very less and that GTFL was a closely held company.
- 1.3 The scrip was quoting around Rs.52 as on January 16, 1996 with a volume of 600 shares. The scrip started moving up from this level and reached Rs. 210 as on February 22, 1996 with a volume of 146750 shares. Later the scrip came down to Rs.122 by March 15, 1996. However, the volumes were on the higher side and average daily volume was more than 1.5 lac shares. Once again the scrip started moving up and reached Rs.450 by May 16, 1996 with a volume of 18,600 shares. The last quotation was Rs.420 on June 6, 1996 after which the scrip was placed under indefinite suspension by BSE.
- 1.4 Due to huge rise in the volume and price of the scrip various surveillance measures were taken by BSE, which included imposition and revision of heavy margins and suspension of the trading in the scrip on January 24, 1996, January 30, 1996 and February 8, 1996. Still, the scrip witnessed upward movement both in respect of price and volume. Although the company declared 1:1 bonus in the month of April 1996, the general fundamentals of the company were not good for investors to make an investment in the scrip of GTFL.
- 1.5 In view of the unexplained price rise, BSE requested SEBI for granting them the permission to suspend trading in the scrip indefinitely. Based on the permission granted by SEBI, BSE indefinitely suspended the dealing in the scrip w.e.f. June 7, 1996.

- 1.6 In view of the above, SEBI initiated an investigation into the affairs relating to the dealing in the scrip of GTFL during the period January to June 1996 (hereinafter referred to as the investigation period).
- 1.7 The analysis of the dealings of the top trading members of BSE revealed that the interest of the investing community in the scrip was scant. Keeping in view of the low floating stock and fundamentals of the company, which were not too encouraging, the volumes recorded in the scrip supported by the price rise during the period of investigations did not appear to be genuine investment buying, but appeared manipulative.
- 1.8 The majority of the deals occurred among the common clients like M/s. Fatehpuria Enterprises, Umi Investments, Matta Investments, BNP Securities, Shri Kiran J. Desai, Niyati Investments, MP Investments, Rajan Bhuchar etc. who had direct connections with the management/ promoters / directors of the company. As per the deposition of Fatehpuria Enterprise and Kiran J Desai, Shri Matta of Matta Investments was on the rolls of GTFL.
- 1.9 P R Shah Share and Stock Brokers Private Limited (hereinafter referred to as "PRS") is a member of BSE, registered with SEBI having registration number INB 010947538.
- 1.10 During the investigation, it was found that PRS was one of the brokers who had dealings in the scrip. In all, PRS was involved on gross basis in the dealings of 203200 shares (buy 116750 shares and sell 86550 shares) and on net basis in the dealings of 203300 shares of GTFL.
- 1.11 It was observed that PRS traded on behalf of four clients, viz. Shri Kiran J Desai, M/s Fatehpuria Enterprises, BNP Securities and Niyati Investments. The investigation revealed further that all the above clients

traded on behalf of the management of GTFL. Most of these clients were acting as common clients with many brokers of BSE. Business of these clients was managed totally by Naren Shah. Shri Naren Shah was a remisser and used to place orders and collect deliveries on behalf of the clients as the sub-broker. The dealings of the above clients were of manipulative nature and the transactions had also occurred over a period of time.

- 1.12 From the dealings of the clients and from the depositions made by PRS during investigation, it appeared that PRS failed to exercise due skill care and diligence while dealing with the above clients.

2.0 Enquiry Proceedings

- 2.1 In view of the alleged irregularities observed during the investigation period, Chairman, SEBI, vide his order dated May 3, 2003, appointed an Enquiry Officer to enquire into the contraventions alleged to have been committed by PRS.
- 2.2 A show cause notice under Regulation 6 of SEBI (Procedure for holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as “Enquiry Regulations”) was issued to PRS vide letter dated January 27, 2004 for the alleged irregularities. It was alleged that PRS failed to exercise due skill, care and diligence while dealing with the above clients and therefore appeared to have violated the provisions of Code of Conduct prescribed for Stock Brokers specified in Schedule II to Regulation 7 of SEBI (Stock Broker and Sub Broker) Regulations, 1992(hereinafter referred to as “Stock Broker Regulations”).
- 2.3 PRS submitted a reply to the above show cause notice vide its letter dated March 11, 2004 wherein it made detailed submissions.

2.4 An opportunity of personal hearing was granted to PRS by the Enquiry Officer on October 29, 2004 wherein Shri Chetan Madhukar Sheth, Director of PRS attended the hearing and reiterated the submissions made vide letter dated March 11, 2004.

2.5 On completion of the enquiry, the Enquiry Officer submitted report dated November 11, 2004 recommending a minor penalty of suspension of certificate of registration for a period of three months.

3.0 Show Cause Notice and Reply

3.1 Subsequent to the submission of the said Enquiry Report, a show cause notice dated November 25, 2004 was issued to PRS under Regulation 13(1) of the Enquiry Regulations asking it to show cause as to why penalty as recommended by Enquiry Officer should not be imposed upon it. In terms of Regulation 13(2) of Enquiry Regulations, PRS was given time of 15 days to reply to the aforesaid notice, in absence of which it was to be presumed that it had no explanation to offer and SEBI shall be free to take such action in the matter as it deems fit.

3.2 PRS vide its letter dated December 23, 2004 made the following submissions :-

- (i) *The trades as brought out in the enquiry report were of the clients who were introduced by the sub broker and it was neither aware of their dealing with the other trading members nor it knew that they were trading on behalf of the management of GTFL or that they were on the rolls of GTFL.*
- (ii) *As regards the allegation that it failed to exercise due skill, care and diligence, it submitted that the sub-broker Shri Naren Shah had introduced many other clients besides these clients and he was very efficiently managing them. Further he was managing the total cycle from placing the order to collecting the cheques or delivering the shares from either parties very promptly and therefore it had no reason to suspect anything in trades*

of these clients. It further submitted that the sub-brokers managing the dealings for and on behalf of the clients was a common practice in the market in 1996.

4.0 Personal Hearing

An opportunity of personal hearing was granted to PRS before me on October 18, 2006 wherein Shri Chetan Seth, Director, PRS appeared on behalf of PRS and made reiterated the submissions made earlier.

5.0 Consideration of Issues

5.1 I have carefully considered the findings of investigation, the Enquiry Report, show cause notice issued to PRS and the submissions made by PRS in response to the show cause notices and my findings are as under :

5.2 I have noted from the investigation that:

- i. The floating stock of the company being very low and the fundamentals of GTFL being not too good, the price movement during the period January 1996 to June 1996 appeared to be artificial.
- ii. PRS did not enter into trades on its own account and as far as the client trades are concerned they were through sub broker/ remisser and hence the question of personal interest did not arise.
- iii. Shri Naren Shah, remisser of PRS used to trade on behalf of Niyati Investments, Fatehpuria Enterprises etc. These entities have traded on behalf of the management of the company.

5.3 PRS vide its letter dated October 22, 2006 further submitted that their membership right has already been auctioned. Though PRS has claimed

that his membership right has been auctioned, I note that PRS is registered as stock broker with SEBI vide registration no. INB010947538 as on date.

- 5.4 I have observed that the clients as stated above were employed as front entities by the management of GTFL and indulged in circular trading by enrolling as common clients with the brokers of BSE. Further, I have noted that substantial volumes have been contributed by one of the client M/s BNP Securities.
- 5.5 I have further noted that many of the clients who had traded in large quantities had registered as client with more than one trading member. Some of the clients have even registered with four to five trading members at the same point of time. Since their volumes with various members were on a higher side, it appeared that there was an attempt made to manipulate the share price and create or build artificial volumes in the scrip.
- 5.6 I have also noted the submission made by PRS that since the clients were meeting all their obligations as per schedule there was no reason for it to suspect their credentials.
- 5.7 I agree with the finding of Enquiry Officer that the introduction of special margin and suspension of trading in the scrip by BSE should have provided enough indication to PRS that there was something unusual and it should have prompted the broker to exercise adequate due diligence.
- 5.8 Clause A (2) of Regulation 7 of the Stock Broker Regulations requires that *“A stock broker shall act with due skill, care and diligence in the conduct of all his business.”* PRS being a registered intermediary therefore, cannot absolve themselves of the duty of acting with due skill, care and diligence while dealing with the clients. In view of the above, I agree with the findings of

the Enquiry Officer that PRS had failed to exercise due skill, care and diligence while dealing with the clients and have therefore violated Clause A (2) of the Code of Conduct as specified in Schedule II of Regulation 7 of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.

- 5.9 However, keeping in view the nature of violation committed by PRS, I am of the view that a penalty of suspension of certificate of registration for a period of three months as recommended by the Enquiry Officer would be excessive. Considering the facts and circumstances of the case, the imposition of penalty of censure would be adequate to meet the ends of justice.

6.0 Order

Therefore in exercise of the powers conferred upon me by virtue of section 19 read with Regulation 13 of SEBI (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby Censure P R Shah Shares and Stock Brokers Pvt. Ltd., member of BSE, to the effect that the broker should be careful in future and exercise due skill, care and diligence in the conduct of its affairs as a capital market intermediary. I also direct PRS to note that any instances of violation or compliance of the SEBI Act and Rules and Regulations in future shall be dealt with stringently.

DATE : 15.03.2007

T.C.NAIR

WHOLE TIME MEMBER

PLACE : MUMBAI SECURITIES AND EXCHANGE BOARD OF INDIA