

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

**Against Shruti Mohta, Broker, Calcutta Stock
Exchange in the matter of Ranbaxy Laboratories Limited**

DATE OF HEARING: 13.09.2006

APPEARANCES:

FOR THE BROKER:

1. R. Mohta, Authorized Representative

FOR SEBI:

1. Mrs Barnali Mukherjee, DGM, SEBI

ORDER

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

1.0 BACKGROUND

- 1.1 Ranbaxy Laboratories Ltd. (hereinafter referred to as "Ranbaxy") was incorporated in June 1961. Ranbaxy is engaged mainly in the business of manufacturing and marketing of pharma products. 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 traded in the exchanges particularly on the Stock Exchange, Mumbai (BSE), National Stock Exchange (NSE) and Calcutta Stock Exchange (CSE).
- 1.2 Securities and Exchange Board of India (hereinafter referred to in short as "the Board") conducted an investigation into the dealings of many entities including Shruti Mohta, in the shares of Ranbaxy. Shruti Mohta is a member (hereinafter

referred to as “the Broker”) of Calcutta Stock Exchange (CSE) bearing SEBI Registration no. INB030667918.

1.3 The Board after considering the Investigation Report, appointed an Enquiry Officer vide Order dated November 27, 2002 under Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and imposing penalty) Regulations, 2002 (hereinafter referred to as “Enquiry Regulations”) to enquire into the alleged violations of the provisions of Regulation 4 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) and (4) of the Code of Conduct for Stock Brokers as specified in Schedule II of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to 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 Enquiry Regulations submitted a report dated October 30, 2003 wherein he pointed out that the Broker violated the provisions of 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, Regulation 4(b) & (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995, SEBI circular No.SMDRP/POLICY/CIR-32/1999 dated September 14, 1999. He recommended suspension of registration of the Broker for a period of six 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 her to show cause as to why the action, as recommended by the Enquiry Officer should not be imposed on her. The Broker

submitted its reply to the said show cause notice, vide letter dated December 30, 2003.

3.0 REPLY OF THE BROKER TO THE SHOW CAUSE NOTICE

- 3.1 The member vide his reply December 30, 2003 submitted that she has not indulged in any sort of unfair trade practice. She further submitted that she has no idea as to the parties opposite to her and no penalty should be imposed on her as the matter were not intentional rather it was co-incidental.

4.0 HEARING

- 4.1 The Broker has not sought for a personal hearing. However, an opportunity of personal hearing was granted and she was advised to attend the personal hearing before me at SEBI's Eastern Regional Office at Calcutta on September 13, 2006. The Authorized Representative Shri Raghvendra Mohta attended the hearing and reiterated that she has not done any sort of unfair trade practice and she was not aware of the counter parties. Therefore, I am proceeding in the matter on the basis of the submission of the Broker and the materials 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 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 arrived at a conclusion in his enquiry report that the Broker has carried out 49 instances of synchronization of trades with a view to create misleading appearance of trading 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 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. 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.
- 5.5 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 officer against the Broker is proper or not. In order to decide the said issue, I felt it necessary to analyze the details of synchronized trades executed by the Broker. (As given on next page)

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
DINESH KUMAR SINGHANIA & CO.	4/28/1999	15:02:39	20000	508.00	SHRUTI MOHTA	15:02:39	20000	508.00	0:00:00	0.00
DINESH KUMAR SINGHANIA & CO.	4/28/1999	15:10:58	15000	508.50	SHRUTI MOHTA	15:10:58	15000	508.50	0:00:00	0.00
M/s Loknath Saraf	5/4/1999	14:41:13	10000	614.80	SHRUTI MOHTA	14:41:13	10000	614.80	0:00:00	0.00
SHRUTI MOHTA	5/10/1999	10:51:13	5000	719.50	Agbros Securities Pvt. Ltd.	10:51:13	5000	719.50	0:00:00	0.00
LALIT & CO.	5/10/1999	14:06:55	5000	728.00	SHRUTI MOHTA	14:06:54	5000	728.00	0:00:01	0.00
SHRUTI MOHTA	5/10/1999	14:40:13	10000	729.50	DINESH KUMAR SINGHANIA & CO.	14:40:13	10000	729.50	0:00:00	0.00
SHRUTI MOHTA	5/11/1999	10:57:41	10000	758.90	ASHOK KUMAR PODDAR	10:57:41	10000	758.90	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
SHRUTI MOHTA	5/11/1999	12:06:31	10000	753.80	DINESH KUMAR SINGHANIA & CO.	12:06:32	10000	753.80	0:00:01	0.00
KISHAN CO.	5/26/1999	13:45:28	6000	630.00	SHRUTI MOHTA	13:45:28	6000	630.00	0:00:00	0.00
SHRUTI MOHTA	6/1/1999	11:02:34	5000	645.00	SURYA PRAKASH TOSHNIWAL	11:02:37	5000	645.00	0:00:03	0.00
Agbros Securities Pvt. Ltd.	6/1/1999	11:12:23	30000	643.60	SHRUTI MOHTA	11:12:21	30000	643.60	0:00:02	0.00
SHRUTI MOHTA	6/21/1999	11:36:24	7500	589.00	Agbros Securities Pvt. Ltd.	11:36:24	7500	589.00	0:00:00	0.00
H. K. SINGHANIA & CO.	6/23/1999	11:28:57	30000	641.50	SHRUTI MOHTA	11:28:56	30000	641.50	0:00:01	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
ARCHANA KHANDELWAL	6/30/1999	14:20:58	25000	655.50	SHRUTI MOHTA	14:20:58	25000	655.50	0:00:00	0.00
SHRUTI MOHTA	7/6/1999	13:31:29	15000	683.10	M/s Loknath Saraf	13:31:30	15000	683.10	0:00:01	0.00
Agbros Securities Pvt. Ltd.	7/12/1999	11:59:15	5000	714.10	SHRUTI MOHTA	11:59:15	5000	714.10	0:00:00	0.00
ARCHANA KHANDELWAL	7/12/1999	13:36:04	10000	714.80	SHRUTI MOHTA	13:36:03	10000	714.80	0:00:01	0.00
Agbros Securities Pvt. Ltd.	7/12/1999	15:14:38	25000	726.50	SHRUTI MOHTA	15:14:38	25000	726.50	0:00:00	0.00
ARCHANA KHANDELWAL	7/12/1999	15:15:57	12000	726.10	SHRUTI MOHTA	15:15:56	12000	726.10	0:00:01	0.00
Agbros Securities Pvt. Ltd.	7/12/1999	15:22:18	15000	724.50	SHRUTI MOHTA	15:22:17	15000	724.50	0:00:01	0.00
SHRUTI MOHTA	7/21/1999	12:57:43	6000	858.40	ARCHANA KHANDELWAL	12:57:43	6000	858.40	0:00:00	0.00
Agbros Securities Pvt. Ltd.	7/26/1999	10:25:31	15000	907.50	SHRUTI MOHTA	10:25:31	15000	907.50	0:00:00	0.00
ARCHANA KHANDELWAL	7/27/1999	13:26:10	7000	881.80	SHRUTI MOHTA	13:26:10	7000	881.80	0:00:00	0.00
SHRUTI MOHTA	8/6/1999	13:43:52	30000	1005.90	DINESH KUMAR SINGHANIA & CO.	13:43:52	30000	1005.90	0:00:00	0.00
Agbros Securities Pvt. Ltd.	8/9/1999	14:54:15	10000	998.20	SHRUTI MOHTA	14:54:15	10000	998.20	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.	8/11/1999	10:43:29	15000	997.80	SHRUTI MOHTA	10:43:29	15000	997.80	0:00:00	0.00
SHRUTI MOHTA	8/16/1999	13:21:59	25000	975.40	DINESH KUMAR SINGHANIA & CO.	13:21:59	25000	975.40	0:00:00	0.00
SHRUTI MOHTA	8/16/1999	13:37:35	20000	986.40	DINESH KUMAR SINGHANIA & CO.	13:37:34	20000	986.40	0:00:01	0.00
SHRUTI MOHTA	8/17/1999	14:11:07	5000	985.50	KCGP Share Broking Services Pvt	14:11:07	5000	985.50	0:00:00	0.00
SHRUTI MOHTA	8/30/1999	11:39:49	25000	1125.10	DINESH KUMAR SINGHANIA & CO.	11:39:49	25000	1125.10	0:00:00	0.00
SHRUTI MOHTA	9/14/1999	13:55:40	20000	1069.50	Agbros Securities Pvt. Ltd.	13:55:40	20000	1069.50	0:00:00	0.00
SHRUTI MOHTA	9/14/1999	14:12:14	6000	1064.50	LNS CAPITAL MARKET PVT. LTD.	14:12:13	6000	1064.50	0:00:01	0.00
SHRUTI MOHTA	9/15/1999	13:42:19	10000	1049.10	ARCHANA KHANDELWAL	13:42:19	10000	1049.10	0:00:00	0.00
SHRUTI MOHTA	9/15/1999	13:51:23	10000	1050.80	ARCHANA KHANDELWAL	13:51:23	10000	1050.80	0:00:00	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
KISHAN CO.	9/15/1999	15:11:53	7000	1038.90	SHRUTI MOHTA	15:11:52	7000	1038.90	0:00:01	0.00
LNS CAPITAL MARKET PVT. LTD.	9/22/1999	11:09:19	10000	1013.30	SHRUTI MOHTA	11:09:19	10000	1013.30	0:00:00	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
SHRUTI MOHTA	9/27/1999	13:20:41	7000	1050.00	J. V. S. SECURITIES PVT. LTD.	13:20:41	7000	1050.00	0:00:00	0.00
SHRUTI MOHTA	10/4/1999	11:16:53	15000	1016.00	PREMA PODDAR	11:16:55	15000	1016.00	0:00:02	0.00
SHREEKANT PHUMBHRAA & CO.	10/11/1999	12:58:07	6000	1172.50	SHRUTI MOHTA	12:58:07	6000	1172.50	0:00:00	0.00
DINESH KUMAR SINGHANIA & CO.	10/12/1999	13:05:31	30000	1154.80	SHRUTI MOHTA	13:05:31	30000	1154.80	0:00:00	0.00
SHRUTI MOHTA	10/14/1999	12:18:36	10000	1252.90	Agbros Securities Pvt. Ltd.	12:18:36	10000	1252.90	0:00:00	0.00
UTTAM KUMAR BAGREE	10/15/1999	13:15:59	5000	1175.00	SHRUTI MOHTA	13:15:59	5000	1175.00	0:00:00	0.00
SHRUTI MOHTA	10/15/1999	13:19:20	10000	1174.30	RAJENDRA KUMAR BACHHWAT	13:19:21	10000	1174.30	0:00:01	0.00
GYAN CHAND SHARMA	10/15/1999	14:21:30	5000	1131.00	SHRUTI MOHTA	14:21:30	5000	1131.00	0:00:00	0.00
Agbros Securities Pvt. Ltd.	10/26/1999	12:24:17	7500	1008.50	SHRUTI MOHTA	12:24:17	7500	1008.50	0:00:00	0.00

- 5.6 I note that that the Broker had neither disputed the above price and volume rise nor denied entering into the above 49 synchronized deals in the scrip of Ranbaxy during the period January 01, 1999 to October 31, 1999. The Broker contented that she has no idea as to the parties opposite them.
- 5.7 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 from the above table 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 1-3 seconds. It may be noted that the said transactions cannot be a mere coincidence, but is possible only if such trades are put in the system with prior understanding simultaneously to match. From the above table, one can assume that the prices and quantities have been negotiated outside the system and orders had been executed simultaneously.
- 5.8 I have also observed that order of 2,10,000 shares out of total of 6,66,000 shares (i.e. 32%) of the Broker were matched with the brokers who had dealt for entities connected or associated with Ketan Parekh group which is extracted hereunder

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
DINESH KUMAR SINGHANIA & CO.	4/28/1999	15:02:39	20000	508.00	SHRUTI MOHTA	15:02:39	20000	508.00	0:00:00	0.00
DINESH KUMAR SINGHANIA & CO.	4/28/1999	15:10:58	15000	508.50	SHRUTI MOHTA	15:10:58	15000	508.50	0:00:00	0.00
SHRUTI MOHTA	5/10/1999	14:40:13	10000	729.50	DINESH KUMAR SINGHANIA & CO.	14:40:13	10000	729.50	0:00:00	0.00
SHRUTI MOHTA	5/11/1999	10:57:41	10000	758.90	ASHOK KUMAR PODDAR	10:57:41	10000	758.90	0:00:00	0.00
SHRUTI MOHTA	5/11/1999	12:06:31	10000	753.80	DINESH KUMAR SINGHANIA & CO.	12:06:32	10000	753.80	0:00:01	0.00
SHRUTI MOHTA	8/6/1999	13:43:52	30000	1005.90	DINESH KUMAR SINGHANIA & CO.	13:43:52	30000	1005.90	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
SHRUTI MOHTA	8/16/1999	13:21:59	25000	975.40	DINESH KUMAR SINGHANIA & CO.	13:21:59	25000	975.40	0:00:00	0.00
SHRUTI MOHTA	8/16/1999	13:37:35	20000	986.40	DINESH KUMAR SINGHANIA & CO.	13:37:34	20000	986.40	0:00:01	0.00
SHRUTI MOHTA	8/30/1999	11:39:49	25000	1125.10	DINESH KUMAR SINGHANIA & CO.	11:39:49	25000	1125.10	0:00:00	0.00
SHRUTI MOHTA	10/4/1999	11:16:53	15000	1016.00	PREMA PODDAR	11:16:55	15000	1016.00	0:00:02	0.00
DINESH KUMAR SINGHANIA & CO.	10/12/1999	13:05:31	30000	1154.80	SHRUTI MOHTA	13:05:31	30000	1154.80	0:00:00	0.00

5.9 I find that these brokers have been declared defaulters by CSE. SEBI has subsequently cancelled the registrations of these brokers as per Press Release dated October 22, 2001 and July 30, 2002. I have also observed that the percentage of matching transactions of the member to his total transactions in the share of Ranbaxy during the period under consideration is significant (i.e. 14.94%).

5.10 I find that 11 out of 49 synchronised trades were carried out with the KP related Brokers viz. Dinesh Kumar Singhanian & Co., Ashok Kumar Poddar and Prema Poddar. The Broker has not disputed the said finding but only contended that she was not aware of any counter party brokers. It may be noted that order of 2,10,000 shares out of total of 6,66,000 shares (i.e. 32%) of the Broker were matched with the above mentioned KP related brokers in a synchronized manner where order quantity and price were exactly the same as also at the same time or with a maximum of 2 seconds difference. In this context, I observe that some other brokers against whom similar kind of proceedings were initiated had also executed two or three such trades with KP related entities and the same can be mere coincidence. However, in the instant case, the Broker executed 11 synchronised trades with the above KP related entities and the said transactions can not be treated as mere coincidence.

- 5.11 Market Intermediaries are expected to observe due diligence to maintain harmony in the market. In the instant case, the Broker could have simply identified the continuous sell and buy orders in a synchronized manner and should not have entertained the clients who carried out such synchronized deals.
- 5.12 I find that the Broker never disputed the said 49 synchronized trades. What she submitted before me is that she has no idea as to the parties opposite to her and no penalty should be imposed on her as the matter was not intentional rather it was co-incidental. It may be noted that synchronized deals with exact matching of price and quantity for 49 instances of trade 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. I find that the Broker executed more than 2 synchronised trades on the following days i.e. July 12, 1999 (5 trades), August 16, 1999 (2 trades), September 14, 1999 (2 trades), September 15, 1999 (4 trades), September 22, 1999 (2 trades) and October 15, 1999 (3 trades). All these transactions give an impression that these were all synchronized and traded intentionally to create artificial market and to get undue gain out of it, otherwise there was no possibility of such perfect matching of quantity and price etc.
- 5.13 The intention of the parties to execute such synchronized transactions could be inferred from the above attending circumstances especially execution of several synchronised transactions in a single day, circular trading and reversal of transactions etc. Further, I observe that the standard of proof required in a proceeding of this nature is at variance with the standard of proof required in criminal cases. It is sufficient if the preponderance of probabilities suggests towards the indulgence of the delinquent in the misconduct.
- 5.14 In view of these, I find that that 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 is against the concept of transparency. The synchronized deals entered into by the Broker abetted in

creating artificial volumes and false market in the scrip of Ranbaxy Laboratories Ltd. Further Broker through these dealings in the scrip of Ranbaxy has violated the provisions of Regulation 4 (b) and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, which provides that,

? No person shall -

- o (b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market;
- o (c) indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions;

5.15 Further, the Broker has violated Regulation 7 read with the clause A (3) and (4) of Code of Conduct as specified in Schedule II of Stock Brokers Regulations, which provides that

“(3) Manipulation : A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(4) Malpractices : A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness”.

5.16 Having considered all aspects and circumstances of the case, I am satisfied that it is necessary to impose a penalty on the Broker. However, considering the volume of synchronised trades executed by the Broker in Ranbaxy when

comparing market volume of Ranbaxy, I feel that the suspension of certificate of registration of the Broker for a period of 7 days will act as a deterrent to ensure that there is no recurrence of such transaction.

6.0 ORDER

- 6.1 Taking into account all facts and circumstances of the case and 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 minor penalty of suspension of certificate of registration of the Broker, Shruti Mohta (SEBI Registration No. INB030667918) for a period of 7 days.
- 6.2 This order shall come into force immediately on the expiry of twenty one days from the date of this order.

Place: Mumbai

Date: March 29, 2007

V. K. CHOPRA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA