

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

ORDER

[Against Shri Naresh Chand Chandak, Broker, Calcutta Stock Exchange Under Regulation 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 in the matter of Ranbaxy Laboratories Limited]

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. Securities and Exchange Board of India (hereinafter referred to in short as "the Board") conducted investigation into the dealings of several entities including Shri Naresh Chand Chandak Broker of Calcutta Stock Exchange (hereinafter referred to in short as "Broker") bearing SEBI Registration no. INB031038913 in the shares of Ranbaxy Laboratories Ltd (hereinafter referred to as "Ranbaxy") on observing a sudden spurt in the price of the scrip of Ranbaxy 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 The Board after considering the Investigation Report appointed an Enquiry Officer vide Order dated November 27, 2002 to enquire into the violations of the provisions of 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 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) Rules and Regulations, 1992 (hereinafter referred to as "Stock Brokers Regulations") and Rules, Regulations and Byelaws of Stock Exchanges.
- 1.3 The Enquiry Officer, after conducting an enquiry in accordance with the provisions 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 October 30, 2003 under Regulation 13(1) of the Enquiry Regulations wherein he observed 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 Schedule II of Stock 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 December 05, 2003 was issued to the Broker, along with a copy of the said Enquiry Report, advising him 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 him. The Broker neither submitted its reply to the said show cause notice nor requested for a personal hearing.

3.0 REPLY OF THE BROKER IN THE ENQUIRY PROCEEDINGS

- 3.1 As stated above, the Broker did not file any reply to the post enquiry show cause notice. Hence I felt it necessary to analyze the reply filed by the Broker during the course of enquiry proceedings. The Broker submitted its reply to show cause notice issued in the enquiry proceedings vide its letter dated June 12,2003 which is reproduced hereunder:

"I am in receipt of above mentioned show-cause notice from your office vide no. SEBI/JJ/2003/5549 dated May 28, 2003 and I hereby submit that:

1. *I have never been involved in any unfair trade practice.*
2. *I have never violated any rules and regulation of Stock Exchange of which we are member and have done all the trades as per allowable rules of the stock exchange on the trading terminal of the exchange with full knowledge of surveillance department who have never reported any on line violation at the time of execution of transaction.*
3. *The Calcutta Stock Exchange does not disclose the counter party member's name to us therefore, I have no idea about the matching of my transactions with the names provided by you in the list attached with show cause notice.*
4. *All transactions entered by me were at the prevailing market price.*
5. *I was mostly doing jobbing transaction. Hence it is not correct to say that synchronized / match transaction were executed by me.*
6. *I have never manipulated the price and volume in the market.*

I therefore request you to take a kind view in this matter and not to take any action against us."

4.0 HEARING

- 4.1 The Broker was given an opportunity of personal hearing before me at Eastern Regional Office (ERO), SEBI at Calcutta on September 14, 2006 and another opportunity on September 28, 2006 at SEBI Head Office, Mumbai which he did not attend. Hence, a final opportunity was given to the Broker on October 13, 2006 at SEBI Head Office which he also did not attend. 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 and reply of the Broker filed in the enquiry proceedings.
- 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.320/- by the end of 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 and came down to 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/- during August – 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 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 Enquiry Officer has arrived at a conclusion in his enquiry report that the Broker has carried out twenty 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 that the 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 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 price 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 undermentioned details of synchronized trades executed by the Broker.

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	Price difference
NARESH CHAND CHANDAK	5/11/1999	15:02:15	25000	742.00	DINESH KUMAR SINGHANIA & CO.	15:02:10	25000	742.00	0:00:05	0.00
DINESH KUMAR SINGHANIA & CO.	5/12/1999	13:16:16	5000	734.00	NARESH CHAND CHANDAK	13:16:15	5000	734.00	0:00:01	0.00

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	Price difference
DINESH KUMAR SINGHANIA & CO.	6/16/1999	15:11:11	10000	589.00	NARESH CHAND CHANDAK	15:11:11	10000	589.00	0:00:00	0.00
DINESH KUMAR SINGHANIA & CO.	6/18/1999	15:21:03	5400	583.20	NARESH CHAND CHANDAK	15:21:03	5400	583.20	0:00:00	0.00
DINESH KUMAR SINGHANIA & CO.	8/4/1999	11:29:46	10000	955.20	NARESH CHAND CHANDAK	11:29:46	10000	955.20	0:00:00	0.00
DINESH KUMAR SINGHANIA & CO.	8/9/1999	10:40:32	10573	1017.50	NARESH CHAND CHANDAK	10:40:32	10573	1017.50	0:00:00	0.00
S.P RAKHECHA & CO.	8/16/1999	13:08:43	5000	982.10	NARESH CHAND CHANDAK	13:08:43	5000	982.10	0:00:00	0.00
S.P RAKHECHA & CO.	8/16/1999	13:10:02	5000	982.30	NARESH CHAND CHANDAK	13:10:02	5000	982.30	0:00:00	0.00
INDOVISION STOCK BROKING SERVI	8/17/1999	10:47:18	5000	981.00	NARESH CHAND CHANDAK	10:47:19	5000	981.00	0:00:01	0.00
HERALD EQUITIES PVT. LTD.	8/17/1999	14:31:50	5000	985.60	NARESH CHAND CHANDAK	14:31:50	5000	985.60	0:00:00	0.00
HERALD EQUITIES PVT. LTD.	8/18/1999	10:59:36	8000	1003.90	NARESH CHAND CHANDAK	10:59:36	8000	1003.90	0:00:00	0.00
S.P RAKHECHA & CO.	8/27/1999	13:44:47	5000	1067.50	NARESH CHAND CHANDAK	13:44:47	5000	1067.50	0:00:00	0.00
S.P RAKHECHA & CO.	8/27/1999	14:05:33	5000	1081.50	NARESH CHAND CHANDAK	14:05:34	5000	1081.50	0:00:01	0.00
S.P RAKHECHA & CO.	8/27/1999	14:06:06	5000	1080.50	NARESH CHAND CHANDAK	14:06:06	5000	1080.50	0:00:00	0.00
INDOVISION STOCK BROKING SERVI	8/30/1999	12:18:58	5000	1123.90	NARESH CHAND CHANDAK	12:18:58	5000	1123.90	0:00:00	0.00
INDOVISION STOCK BROKING SERVI	8/30/1999	12:19:16	5000	1124.50	NARESH CHAND CHANDAK	12:19:16	5000	1124.50	0:00:00	0.00
Agbros Securities Pvt. Ltd.	10/15/1999	13:56:41	5000	1160.90	NARESH CHAND CHANDAK	13:56:41	5000	1160.90	0:00:00	0.00
S.P RAKHECHA & CO.	10/21/1999	13:52:34	8500	1096.90	NARESH CHAND CHANDAK	13:52:35	8500	1096.90	0:00:01	0.00
S.P RAKHECHA & CO.	10/22/1999	13:48:41	5000	1031.20	NARESH CHAND CHANDAK	13:48:41	5000	1031.20	0:00:00	0.00
NARESH CHAND CHANDAK	10/25/1999	10:58:17	5000	1031.80	GAUTAM BAJORIA	10:58:17	5000	1031.80	0:00:00	0.00

- 5.6 I observe from the above table that the Broker had executed 20 synchronized trades on 15 days during the period May 12, 1999 to October 22, 1999. In all these trades, the 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 brokers while in few cases the orders were matched within a second. The Enquiry Officer pointed out that in one instance the order quantity is not the usual quantity like 100/1000/5000/100000 shares, etc. and this order quantity is matched by the Broker with a counter party member simultaneously. The details of the said transactions are reproduced hereunder also:

Mem. Code	Member Name	Order Date	Time	Qty.	Price	B/S	Order no.
D0904	Naresh Chand	8/9/99	10:40:32	10573	1017.50	S	612142
D0456	D K Singhanian & Co.	8/9/99	10:40:32	10573	1017.50	B	612143

- 5.7 On the basis of the above transaction, the Enquiry Officer held that such matching and synchronised deals are 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 also note that the counter party to the said transaction was Dinesh Kumar Singania who is a Ketan Parekh related Broker. The Broker has not given any explanation for the trades executed by him.
- 5.8 I observe that order of 40,973 shares out of total of 1,12,473 shares (i.e. 36%) of the Broker were matched with the brokers who had dealt for the following entities connected or associated with Ketan Parekh group. The details are 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 Difference	Price difference
NARESH CHAND CHANDAK	5/11/1999	15:02:15	25000	742.00	DINESH KUMAR SINGHANIA & CO.	15:02:10	25000	742.00	0:00:05	0.00
DINESH KUMAR SINGHANIA & CO.	5/12/1999	13:16:16	5000	734.00	NARESH CHAND CHANDAK	13:16:15	5000	734.00	0:00:01	0.00
DINESH KUMAR SINGHANIA & CO.	6/16/1999	15:11:11	10000	589.00	NARESH CHAND CHANDAK	15:11:11	10000	589.00	0:00:00	0.00
DINESH KUMAR SINGHANIA & CO.	6/18/1999	15:21:03	5400	583.20	NARESH CHAND CHANDAK	15:21:03	5400	583.20	0:00:00	0.00
DINESH KUMAR SINGHANIA & CO.	8/4/1999	11:29:46	10000	955.20	NARESH CHAND CHANDAK	11:29:46	10000	955.20	0:00:00	0.00
DINESH KUMAR SINGHANIA & CO.	8/9/1999	10:40:32	10573	1017.50	NARESH CHAND CHANDAK	10:40:32	10573	1017.50	0:00:00	0.00

- 5.9 I find that 6 out of 20 synchronised trades were carried out with the KP related brokers. I also observe that the aforementioned brokers have been declared defaulters by CSE and SEBI has subsequently cancelled the registrations of these brokers as per Press Release dated October 22, 2001 and July 30, 2002. The Broker has not disputed the said finding. However, he contended that he is not aware of any linkage between the brokers listed above and the Ketan Parekh Group. However, I have noted that the Broker had executed the above 6 trades with another broker Dinesh Kumar Singania who is a KP related Broker. The nature of the above six trades clearly establishes pattern and also were in the nature of circular trading. 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 6 synchronised trades in the nature of reversal trade with the above KP related entities and the said transactions can not be treated as mere coincidence. It is observed that 25,000 shares were sold by the Broker in a synchronized trade to Dinesh Kumar Singhanian on May 11, 1999 and out of which 5,000 shares were reversed on the very next day.
- 5.10 I find that the Broker never disputed the said 20 synchronized trades. The Broker had taken a stand before the Enquiry Officer that he had no idea about the matching of their transactions with the counter party brokers as shown in the table above as the trading system of CSE does not disclose the counter party broker details and they were mostly doing jobbing transaction. However, in the instant matter in most instances, the Broker had put the orders at exactly the same time as the counter party order, i.e. before the counter party order appear on the screen of the exchange. This can not be jobbing. It may be noted that synchronized deals with exact matching of price and quantity for 20 instances of trades 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 all the afore mentioned 20 transactions give an impression that these were all synchronized, otherwise there was no possibility of such perfect matching of quantity and price etc.
- 5.11 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. I find from the above table that on August 16, 1999 the Broker had placed a sell order for 5000 shares at the price of Rs 982.10 at 13:08:43 and the same was matched with the buy order of 5000 shares with the counter party broker S.P Rakhecha & Co at the same time and price. Immediately on the same day at 13:10:02, the Broker had placed another sell order for 5000 shares at a price of Rs 982.30 which was also matched with the same counter party broker S.P Rakhecha & Co at the same time and price. The Broker had placed similar sell orders on 17/8/1999 (2 sell orders), 27/8/1999(3 sell orders) and 30/8/99 (2 sell orders). The details of the trade indicated that the Broker had executed six trades with M/s Dinesh Kumar Singania & Co as explained in the foregoing paragraph. 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.
- 5.12 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, the 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,

(4) No person shall -

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

5.13 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".

5.14 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 avoid any recurrence of such trades.

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, Shri Naresh Chand Chandak (SEBI Registration No. INB031038913) 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 30, 2007

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