

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

Against M/s Saurashtra Capital Services Pvt. Ltd., Broker, Bombay Stock Exchange Ltd. (BSE) in the scrip of Mazda Fabrics and Processors Ltd.

DATE OF HEARING: 08.12.2006

APPEARANCES:

FOR COMPANIES/ BROKERS:

1. Shri. Shyam Mehta, Advocate
2. Shri. M. K. Doshi, Designated Director, Saurashtra Capital Services Pvt. Ltd.
3. Shri. C. L. Tanna, Director, Saurashtra Capital Services Pvt. Ltd.

FOR SEBI:

1. Mrs. Barnali Mukherjee, DGM, SEBI
2. Shri. Deepesh M. U., Manager, SEBI
3. Shri. Mohamed Rahaz P.M., Legal Officer, 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 Securities and Exchange Board of India (hereinafter referred to in short as "SEBI") had conducted investigation into the market manipulation in the scrip of M/s Mazda Fabrics and Processors Ltd. (hereinafter referred to as "MFPL"). M/s Saurashtra Capital Services Pvt. Ltd. (hereinafter referred to in short as "Noticee"), is a registered broker of the Stock Exchange Mumbai (BSE) with SEBI registration no. INB010748038, National Stock Exchange (NSE) with SEBI Registration no. INB230748031 and NSE F & O Segment with SEBI Registration no. INF230748031.
- 1.2 The investigation revealed that the Noticee had actively traded in the scrip of MFPL at BSE on behalf of their major client M/s Rajesh Financial Services (hereinafter referred to in short as "RFS") during the period of investigation i.e. May 29, 1996 to August 30, 1996 and contributed to the creation of liquidity / volumes in the scrip of MFPL.
- 1.3 The Board after considering the Investigation Report, appointed an Enquiry Officer to enquire into the affairs and dealings of the Broker for finding out the possible violations of the provisions of Securities and Exchange Board of India Act, 1992 (hereinafter referred to in short as "SEBI Act"), Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (hereinafter referred to in short as "PFUTP Regulations") and Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to in short as "Stock Brokers Regulations").
- 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 (hereinafter referred to as 'the Enquiry Regulations'), submitted a report dated December 30, 2005 wherein the Enquiry Officer observed that Noticee has violated the provisions of Regulation 7 read with Code of Conduct as specified in Schedule II of Stock Brokers Regulations and Regulation 4(a) to (e) of PFUTP Regulations. The Enquiry Officer accordingly recommended suspension of registration of the Noticee for a period of two months.

2.0 SHOW CAUSE NOTICE

- 2.1 Pursuant to the receipt of the said Enquiry Report, a Show Cause Notice dated January 06, 2006 was issued to the Noticee enclosing therewith a copy of the said Enquiry Report, advising it to show cause as to why action as recommended by the Enquiry Officer, should not be imposed on it. The Noticee submitted its reply to the said show cause notice, vide letter dated March 29, 2006.

3.0 REPLY OF THE NOTICEE TO THE SHOW CAUSE NOTICE.

- 3.1 The Noticee submitted that all the trades carried out by them in the scrip of MFPL were on behalf of their clients in normal course of business as per their instruction and in conformity with the rules / regulations framed by SEBI and stock exchange.

- 3.2 The Noticee submitted that their trading on account of their client were mere 6.3% of the total buy volume and 5.1% of the total sell volume at BSE. They also submitted that their trading on behalf of their client may not be seen in conjunction with any other broker in the stock exchange and no incriminating findings be drawn out of such allegations.
- 3.3 The Noticee submitted that they had in their earlier submission already accepted the fact that Shri. Yash Golecha introduced them to a client by name of RFS. They added that Shri. Yash Golecha was well known and was a reputable sub-broker and as such they had accepted the said client on the basis of his reference.
- 3.4 With regard to the finding of receiving payment from third party Shri. Yash Golecha, the Noticee submitted that the said act should be judged in the light of rules and regulations prevailing at the time when the alleged violations took place. They stated that SEBI circular SMD/SED/CIR/93/23321 dated November 18, 1993 and SMD-1/23341 dated November 18, 1993 were in force at the relevant time and both the said circulars are silent on the aspect of "third party payment". They further stated that the acceptance of cheque from third party was prohibited only after the issuance of SEBI circular no. SMD/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003. They further added that the receipt / payment of cheques from / to Shri. Yash Golecha in May 1996 was prior to coming into force of the above circular dated August 27, 2003.
- 3.5 The Noticee submitted that the fact that Shri. Anil Jain was known to them does not in any way mean that they were tracking all the activities in which he was allegedly involved and requested to treat them as a party out of the impugned transactions.
- 3.6 The Noticee submitted that they had taken RFS as their client on the trust reposed by them on the sub-broker Shri. Yash Golecha and no due diligence of the kind that is presently required under "KYC" norms were applicable in the matter at the relevant time.
- 3.7 The Noticee denied the finding of structured and circular trades stating that they had executed trades on behalf of their client RFS and it is not pertinent for them to see the counterparty broker or counterparty client.
- 3.8 The Noticee submitted that immediately after the suspicion of trading of RFS, they stopped the trading on behalf of them in all other scrips including MFPL.
- 3.9 The Noticee submitted that they were not involved in the alleged cornering of 80% post issue paid up capital of MFPL by its promoters. They have not manipulated price of MFPL scrip by way of auction. They added that they had done trading on behalf of their client RFS with a total volume of 5-6% and these cannot be termed as manipulative trades.
- 3.10 Regarding the violations of PFUTP Regulations, the Noticee submitted that they had no intention to create artificial price and volume and the trades were executed in their normal course of business. They further submitted that the trades were executed on behalf of their clients under their instructions and payments were received / made to the clients. With regard to the violations of code of conduct, they stated that the Enquiry Officer has not pointed out the specific clause in the said regulation for which they are being held liable. They stated that the show cause notice for enquiry dated December 31, 2004 contained violation of clause A(2) and as per the Enquiry Report, they are held liable for violating the whole code of conduct.

4.0 HEARING

- 4.1 In the said reply to show cause notice, the Noticee requested for personal hearing. The Noticee was given an opportunity for a personal hearing before me at the Head Office SEBI at Mumbai on November 28, 2006. Thereafter, on request from Noticee the hearing was adjourned to December 08, 2006. Shri. M. K. Doshi, Designated Director of the Noticee and Shri. C. L. Tanna, Director of Noticee attended the hearing alongwith their Advocate Shri Shyam Mehta. They requested time to file written submissions which was granted and the same was filed by them on December 13, 2006. Later on they filed an additional submission on February 06, 2007.
- 4.2 The Broker reiterated their earlier submissions in their written submissions and added the following:
- i. The volumes of sales and purchases of the client RFS in the scrip of MFPL in the concerned settlements were merely 5.1% and 6.38% respectively as against the total volumes on the stock exchange.*
 - ii. The volumes in the individual settlements particularly Settlement nos. 9, 10, 11 and 12 were very low. In Settlement No. 9 the client RFS did not transact at all in the scrip of MFPL.*
 - iii. The volume of the total trades executed by RFS vis a vis the total trades of the broker during this period was only 0.13%.*
 - iv. The screen based trading does not reflect the names of the counter party broker or client.*
 - v. There were 4 different counter party brokers and 4 counter party clients. Therefore, even otherwise it was impossible for the broker to know their identities at the time when the trades were carried out.*

- vi. At the relevant time the broker had 200 clients trading in over 2500 scrips.
- vii. At the relevant time the scrip of MFPL was a popular scrip and was liquid.
- viii. At the relevant time there was no KYC requirements and it was at the broker's discretion."

5.0 CONSIDERATION OF ISSUES & FINDINGS

- 5.1 I have carefully examined the findings of investigations, enquiry report, show cause notice, reply of the Noticee and submissions made at the time of hearing.
- 5.2 MFPL was incorporated in the year 1994 as a Private Limited Company and was converted into a Limited company in the year 1995. It had come out with a public issue in the year 1996 for 36,38,300 shares @ Rs 10/- per share at par. The issue opened on March 06, 1996 and closed on March 16, 1996. The net offer to the resident Indian public was 16,00,000 i.e. for Rs 1,60,00,000/-. In terms of prospectus, any unsubscribed portion out of the reservation to OBCs / NRIs / FIIs / MFs / FIs and Banks (which was for 18,56,400 shares of MFPL) was to be added to the net public offer. However, in the absence of any of these entities subscribing to the issue, the total offer to the resident Indian public was 34,56,400 shares. In the instant case, minimum subscription that was stated to have been received was 30,92,100 shares i.e. almost 90%. Investigations revealed that the public issue was undersubscribed and the promoters of the MFPL got the public issue bailed out with the help of external financiers so as to reach the 90% subscription levels as prescribed as also to obviate the possibility of refunding subscription money. Apparently the promoters of MFPL asked Shri Suresh Bafna and Shri Anil Jain of Clio Finance Ltd. (CFL) (Co-Lead Manager) to arrange subscription. This fact is corroborated by the statements of the promoters of MFPL and Shri. Anil Jain and Shri. Suresh Bafna. As agreed to by the promoters, they arranged 90% subscription and bailed out the issue with the help of Wallfort group in which both Shri. Anil Jain and Shri. Suresh Bafna were Directors. It is observed that Shri. Yash Golecha was also a Director in Wallfort Share & Stock Brokers Pvt. Ltd., an entity that helped to bail out the issue. Another director was Shri. Ashok Bharadia who introduced Chirag Investments, an entity involved in circular trading along with RFS through the broker Active Finstock (a counter party to the broker M/s Saurashtra) in the instant trades. It may be also noted that both RFS and Chirag were front entities created by the promoters of MFPL to route the issue proceeds to financiers and to do the secondary market transactions to inflate the price of the scrip.
- 5.3 The equity shares of the company, MFPL were listed on the Stock Exchange Mumbai (BSE) w.e.f. May 29, 1996. The price of MFPL scrip at the time of listing was quoting around Rs 15/- to Rs 16/-, and it touched a high of Rs 112.50 on August 30, 1996 from a low of Rs 8.50 on June 06, 1996. The total volume in the scrip at BSE during the relevant period was 41,43,500 shares. The circuit filters in this scrip were revised from 25% to 10% in July 02, 1996 and again revised from 10% to 5% on July 22, 1996. BSE had suspended trading in this scrip for one day on August 14, 1996 and then for 3 days from September 02, 1996 to September 04, 1996. Later, the said suspension was made absolute from September 09, 1996.
- 5.4 I find that the proceeds of the public issue of MFPL were routed through front entities of the promoters of MFPL to repay the financiers with interest and the concerted trading of these front entities had resulted in abnormal rise in price and volume in the scrip of MFPL. Investigations revealed that there had been rigging of the price and volume in this scrip in a short span of time by the front entities who happen to be clients of various brokers.
- 5.5 I observe from the record that the total volume of this scrip at the exchange during the period May 29, 1996 to August 30, 1996, was 41,43,500 shares. I find that out of many brokers, the top 6 brokers had contributed 53.59% of the total buy volume at the exchange and 49.71% of the total sell volume at the exchange. The Noticee was one of the brokers out of the said six and had actively traded in the scrip of MFPL at BSE on behalf of their client RFS during the period May 29, 1996 to August 30, 1996. The Enquiry Officer analyzed the trades and positions of the Noticee vis-à-vis their client, RFS which were not disputed by the Noticee. The said details are given hereunder:

Settlement Nos.	Position of NOTICEE			Position of RFS		
	Buy	Sell	Net	Buy	Sell	Net
6/1996	66,300	62,500	3,800	66,300	62,500	3,800
7/1996	1,49,100	1,20,400	28,700	1,32,100	1,00,400	31,700
8/1996	30,900	22,900	8,000	28,700	20,700	8,000
9/1996	300	300	0	0	0	0
10/1996	10,300	4,400	5,900	10,300	4,400	5,900
11/1996	7,300	1,100	6,200	7,200	1,000	6,200
12/1996	3000	2500	500	3,000	2,300	700

- 5.6 The table containing the details clearly indicate that the majority of the position built by Noticee in the scrip of MFPL, was only on behalf of their client; RFS.

Settlement No.	Difference in the position of RFS vis-a-vis Noticee		
	Buy	Sell	Net
6/1996	0	0	0
7/1996	17,000	20,000	-3000
8/1996	2,200	2,200	0
9/1996	300	300	0
10/1996	0	0	0
11/1996	100	100	0
12/1996	0	200	-200

5.7 The Enquiry Officer observed that the Noticee had traded in the shares of MFPL on behalf of their clients RFS during the settlement nos. 6, 7, 8, 9, 10, 11 and 12 during the year 1996. In settlement No 6 and 10, the Noticee traded exclusively for RFS. In other settlements, except for a few trades for other entities, almost all the trades were exclusively for RFS. The table below shows the settlement date wise details of trading done by Noticees on behalf of RFS.

Vallan No.	Date	Shares purchased	Shares sold	Net delivery	Qty recd from BSE	Qty. Delivered to client	Qty recd. By auctioned
1996-06	03.06.96	3100	1800	1300			
	04.06.96	2500	0	2500			
	05.06.96	15000	15000	0			
	06.06.96	9700	1000	8700			
	07.06.96	36000	44700	-8700			
Total		66300	62500	3800	3800	3800	0
1996-07	10.06.96	25500	15500	10000			
	11.06.96	25000	28000	-3000			
	12.06.96	41600	25900	15700			
	13.06.96	24000	4000	20000			
	17.06.96	16000	0	16000			
	21.06.96	0	27000	-27000			
Total		132100	100400	31700	7400	7400	24300
1996-08	25.06.96	0	4000	-4000			
	26.06.96	9000	5000	4000			
	27.06.96	11700	11700	0			
	28.06.96	8000	0	8000			
Total		28700	20700	8000	0	0	8000
1996-10	24.06.96	4500	0	4500			
	26.06.96	4800	2000	2800			
	29.06.96	0	2400	-2400			
	31.06.96	1000	0	1000			
Total		10300	4400	5900	5900	5900	0
1996-11	05.08.96	4000	0	4000			
	06.08.96	2000	0	2000			
	08.08.96	1200	0	1200			
	16.08.96	0	1000	-1000			
Total		7200	1000	6200	300	300	5900
1996-12	20.08.96	2000	0	2000			
	21.08.96	1000	0	1000			
	30.08.96	0	2300	-2300			
		3000	2300	700	200	200	500

5.8 The Noticee had not disputed the above findings. However, they submitted that all the transactions were executed on behalf of their clients as per their instructions and they earned nothing more than their brokerage. In the written submission dated December 13, 2006 they stated that the volumes in the individual settlements in settlement no. 9, 10, 11 and 12 were very low and in settlement no. 9 the client RFS did not transact at all in MFPL scrip. This contention is not tenable because of the low floating stock in the scrip. In this regard, the Enquiry Officer had observed that the total paid up capital of MFPL consisted of 60,94,300 shares after the public issue. Out of these shares, the promoters of MFPL had cornered 48,26,300 shares constituting 80% of the post issue paid up capital. This meant that the floating stock was only to the extent of about 20%. The floating stock being low, gave an opportunity to the brokers to rig up the prices of the scrip, by way of circular trades and also by offering shares in auction. In most of the settlements, the clients of the brokers had major net buy position. The sellers were not able to deliver the shares due to low floating stock and in view thereof the position of these sellers got auctioned at manipulated prices. It was the buying clients who had offered the shares in the auction, prominent among them being RFS through the Noticee. The following are the details of the shares delivered by Noticee in auction:

St. No.	client	Net position	Delivery rec/ given out in	Adjusted against auction	Delivery received in	Qty. closed out	Other auction offer
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			payout	offer	auction		
7	RFS	31700	7400	3600	20700		
8	Sikha						6400
9	RFS						2000
10	RFS	5900	5900				800

5.9 On taking an overall view of the facts mentioned above, it is apparent that the transactions of Noticee along with other persons acting in concert with them, gave a misleading appearance of trading in the scrip of MFPL. This in turn resulted in the creation of an artificial market and volumes and also enhanced liquidity. Noticee is thus guilty of having indulged in facilitating the creation of artificial trade volumes and raising the price of the MFPL scrip by acting in concert with other brokers and clients. The acts of the Noticee are in violation of the market principles and the provisions of the PFUTP Regulations in the following manner:

- Trading extensively in the same scrip; MFPL on behalf of only one client; RFS during settlements 6-12 i.e. entirely during the period of launching of the public issue from May 26, 1996 till the time of suspension of trading i.e. September 9, 1996.
- Client introduced by a well known entity; Yash Golecha, who traded with Noticee in the same ring.
- Noticee never met the client nor had the client ever visited their office. Yash Golecha used to place the orders and receive and make payments and also delivered shares in the name of the client.
- Trades executed in the circular manner between the same set of clients and brokers.
- This concerted level of trading activity was facilitated due to existing nexus between the brokers/client/promoters of MFPL.
- Offering of shares in auction at manipulated prices.

5.10 In the above background of the matter, I have examined the trades executed by the Noticee in the scrip of MFPL and find that they had traded in almost all the settlements in circular manner, right from the time of listing of the scrip to the period when the trading of the scrip was suspended. The quantity involved is less mainly because the scrip got suspended midway.

Details of Circular Trading:

5.11 The Noticee had admittedly traded in settlement nos. 6-12 in the scrip of MFPL, on behalf of RFS wherein the counter parties were a series of common entities buying and selling shares in the same settlements. These entities were found to trade amongst themselves along with a common set of clients as is brought out in the table below:-

SetNo.	Date	Qty. purchased by RFS	Counter party broker	Counter party client	Qty	Qty. sold by RFS	Counter party broker	Counter party client	Qty
6	26.5.96 – 7.6.96	66300	BB & Co.	Sneha	29100	62500	Active	Chirag	15000
			Libord	Subhash	15000		BB & Co.	Sneha	25800
			SVS	Sikha	15000		Libord	Subhash	15000
7	9.6.96- 21.6.96	132100	BB & Co.	Sneha	117900	100400	BB & Co.	Sneha	79200
			Libord	Subhash	11000				
8	24.6.96- 5.7.96	28700	BB&Co.	Sneha	28800	20700	BB&Co.	Sneha	9700
							Active	Chirag	7200
10	22.7.96- 2.8.96	10300	BB & Co.	Sneha	6700	4400	BB & Co.	Sneha	2000
11	5.8.96- 16.8.96	7200	BB & Co.	Sneha	4300	1000	BB & Co.	Sneha	1000
12	19.8.96- 30.8.96	3000	BB & Co.	Sneha	2800	2300	BB & Co.	Sneha	500

[BB&Co. : Bhagwandas Bhogilal & Co.- Libord : Libord Securities-SVS: SVS Securities Ltd- Active : Active Finstock Sneha:Sneha Invesments-Subhash: Subhash Trading & Co-.Sikha : Shikha Finance- Chirag: Chirag Investments]

5.12 The Enquiry Officer observed that BB&Co, Libord, SVS and Active are amongst the top 6 counter brokers, who traded actively in the scrip of MFPL. The proprietors of RFS, Sneha and Subhash namely Rajesh Kumar Parasmal Jain, Hasmukh Parasmal Porwal and Subhash Parasmal Porwal are brothers and Bharatkumar Jain, MD of MFPL is their maternal uncle. The proprietor of Shikha Investments is Parasmal Babulal Jain, the elder brother of Bharat Kumar Jain. All the above-mentioned clients had submitted that they were unaware of the funds movement in the respective bank accounts as also about the

secondary market transactions in their names. They stated that they had signed blank account opening forms and cheque books at the insistence of Shri Bharat Jain. This fact has been corroborated by Bharat Jain in his statement dated July 10, 2002, while admitting that the said blank account opening forms and cheque books were handed over to Shri Anil Jain. Shri Suresh Bafna, Director of CFL or Shri Anil Jain introduced all the accounts. In the account of Chirag, introduced by Shri Anil Jain, Director of CFL (also director in Wallfort group that arranged finances), the phone number was seen to be that of Shri Prakash Jain, Joint MD of MFPL. The Enquiry Officer has also quoted the decisions of Securities Appellate Tribunal (SAT) in Appeal No. 27 of 2004 (SEBI vs. Kosha Investments Ltd) and Appeal No. 97 of 2002 (Shri. Rajkumar Chainrai Basantani vs. SEBI) to establish the circular trading. I have also examined the said Orders of the Hon'ble SAT and find that the same are squarely applicable in this matter as the ingredients such as flow of fund, synchronised trades and commonality of clients and their nexus with the promoters of MFPL and their inter relationship between the entities etc are existing in this case.

5.13 I find that the MFPL scrip which was quoted at Rs.15-16/- at the time of launch of the issue, rose to Rs 112.50 on August 30, 1996 from Rs 8.50 on June 6, 1996 i.e. in just after a little more than 2½ months. Realizing an abnormal rise in the price of the scrip, the BSE had imposed margins and circuit filters in the said scrip. Thereafter the trades in this scrip were suspended by SEBI w.e.f September 9, 1996. From the records available before me, it appears that Noticee had last traded in settlement no. 12 i.e. the period from August 20, 1996 to August 30, 1996. Considering the fact that the scrip was listed only in the 6th settlement of the year 1996 i.e. on May 29, 1996 and suspended on September 9, 1996, there was no question of Noticee executing trades after September 9, 1996. The last trade of Noticee in the scrip of MFPL was for a sell of 2300 shares of MFPL for RFS on August 30, 1996. Later on, the scrip was suspended for 3 days from September 2 to 4, 1996 and again suspended on September 9, 1996 till further notice. Hence, the contention of the Noticee that they traded only in 6 settlements and they had stopped further trading for RFS, after receiving notice from BSE is not tenable. In fact, the actions of BSE such as imposing margins and circuit filter in the scrip are reasonably good indicators for an experienced stock broker like Noticee to take note particularly while acting for the client dealing pre-dominantly in the scrip.

5.14 The above findings clearly establish manipulation in the scrip of MFPL. Regarding the knowledge of the Noticee, I felt it necessary to examine the statements recorded by the Investigating Authority in the matter. I find that the Enquiry Officer had also analysed the statements of the following person:

Statement of Chandrakant Tanna, Director of Noticee and Shri Bipin Vora, Designated Director of Noticee recorded on June 7, 2002

- He stated that the only major client of the Noticee was RFS, who was introduced by Shri Yash Golecha; a sub broker who used to come to the ring. They also knew Anil Jain as he used to come to the ring and did transactions with them. They never met RFS and Yash Golecha used to place the orders and receive deliveries on behalf of RFS. They never met Prakash Jain who was the Proprietor of RFS as informed by Yash Golecha. They had dealt with Shri Yash Golecha only and not with RFS. They did not collect any document or proof to ensure the bonafides or background or the financial worthiness of RFS. They trusted Yash Golecha regarding the bonafides of RFS.

5.15 Statement of Rajesh Kumar Parasmal Jain (given in Hindi) made on June 24, 2002.

- Shri Rajesh Kumar Parasmal Jain stated that he worked in cloth market with a pay of 4000/-. Shri Bharatkumar Jain, MD of MFPL had opened an account under the name of RFS in Federal Bank and had taken his signatures on blank account opening cheques as also his photograph. Sneha Investments was opened by his maternal uncle; Shri Bharat Kumar Jain, in the name of his brother Hasmukh Parasmal Porwal.

5.16 Statement of Anil Jain, Director of Wallfort Financial Services and Ex-Director of Clio Finance made on May 13, 2002, May 14, 2002 and June 1, 2002,

- Shri Anil Jain stated that he was the Executive Director of Clio Finance and Director in Wallfort Investment & Trading Ltd. (sub broker of Bhagwandas Bhogilal & Co., member BSE). He was also the director of Wallfort Financial Services Ltd. (WFSL), member NSE, BSE and CSE. The partners of Bhagwandas Bhogilal & Co. were Shri Bhagwandas Bhogilal, Shri Vijay Bhagwandas and Shri Vipul Bhagwandas. Shri Vipul and Shri Vijay were the directors of WFSL and Clio Finance Ltd. (CFL). CFL and WFSL also shared some common directors. The Managing Director of CFL was Shri Suresh Bafna and he was the Executive Director (in WFSL). Yash Golecha is the Director of WFSL and also the Proprietor of Jain Investments. CFL was a co-lead manager to the public issue of MFPL alongwith Libord Finance. Suresh Bafna who agreed to manage the public issue, knew the promoters of MFPL. The telephone number given in the account opening form of Wallfort was the same as that of the residence of Shri Suresh Bafna.

5.17 Statements of Shri Bharatkumar Babulal Jain on July 10 and 15, 2002

- Shri Bharatkumar Babulal Jain stated that he had approached Shri Anil Jain and Shri Suresh Bafna of Clio Finance, alongwith Shri Prakash Jain, to bail out the public issue of MFPL. Accordingly, they had arranged for some applications with an understanding that MFPL would buy back the shares after the listing. The shares were purchased in the name of RFS and Sneha Investments. The funds for these purchases were provided from the public issue account of MFPL as the proceeds collected in the public issue were utilized. Since they could not

directly pay the applicants from the account of MFPL for purchase of their own shares, the payments were routed through the accounts of Dilip Trading and Himmat Textiles. The bank accounts of RFS, Sneha Finance, Sikha Finance and Subhash Trading were opened on his insistence and these people had handed signed blank account opening forms and cheque books which were handed over to Shri Anil Jain. All the writing on the cheque books belonged to Anil Jain or Ashok Bharadia. He decided the brokers through whom shares would be purchased and sold, quantity, payments and deliveries etc while Anil Jain maintained all the affairs of MFPL, decided the quantity of shares purchased, the rate at which they were to be purchased, sold, whose name it was to be purchased etc.

5.18 It is observed that the Broker had relied on the client introduction by a known person to enroll an unknown entity RFS as its client. However, the role of introducer does not end there. The client had never come to the office of the Broker even for getting enrolled as a client, as evident from the statements of Rajesh Kumar Parasmal Jain, which is further corroborated by the statement of the Noticee. The introducer himself is placing the orders, making payments and taking delivery of shares and is also director of a group that bailed out the public issue itself. Hence, it is clear that Noticee had knowledge of operating for a client that is a disguised entity.

5.19 The Enquiry Officer has come to the following conclusion from the statements made by the above persons.

- Shri. Anil Jain of WFSL and CFL were well known to Mukesh R Shah and Mayur J Doshi; the Directors of NOTICEE at the relevant time. Shri Anil Jain attended the ring at the BSE alongwith these Directors. The same was also confirmed by NOTICEE.
- Shri Anil Jain was one of the top 10 shareholders of MFPL and was allotted 20,000 shares of MFPL amounting to 0.34% of the equity capital of MFPL.
- Shri. Yash Golecha, the nephew of Shri Anil Jain also attended the ring at BSE and was known to the directors of NOTICEE through Shri Anil Jain.
- Shri. Yash Golecha was one of the directors of Wallfort Share & Stock Broking Ltd. (Walfort) and as revealed from the extracts of the minutes of the Board meeting of Wallfort held on March 18, 1996, was allotted 1,50,000 shares of Wallfort. In all 7,60,000 equity shares of Walfort were allotted to the following entities:

S.No.	Name of the allottee	No. of shares allotted
1.	Manoj Bharadia (Proprietor Dhananjay Holdings)	1,50,000
2.	Suresh Bafna	75,000
3.	Manju Bafna	45,000
4.	WFSL	2,60,000
5.	CFL	70,000
6.	Yash Golecha (Proprietor Jain Investments)	1,50,000
7.	Ashok Bafna	10,000

- The only major client of the Noticee was RFS, who had traded extensively through them. Yash Golecha introduced RFS as was confirmed by Shri Bipin Vora and Chandrakant Tanna of Noticee on June 7, 2002.
- CFL was co lead manager in the public issue of MFPL alongwith Libord.
- The bank account opening form of RFS where Shri Rajesh Kumar Parasmal Jain is shown as the proprietor of the firm was opened on March 4, 1996 and it was closed on March 5, 1998. CFL had introduced the said account. The date of the account opening nearly coincided with that of the launch of the public issue
- As confirmed by Shri Bharat Kumar Babulal Jain vide his statement dated July 10, 2002, all the matters pertaining to the issue as also the requirement to meet the minimum subscription in order to bail out the public issue were handled by Shri Anil Jain and Shri Suresh Bafna of CFL and WFSL.
- Shri Prakash Jain (Joint MD of MFPL) was shown as the proprietor of RFS as per the statement of Noticee dated June 7, 2002. However, on perusal of the bank account opening form of RFS, it is seen that the proprietor of RFS was Shri Rajesh Kumar Parasmal Jain. The MD of Noticee; Shri Bharat Kumar Jain was his maternal uncle.
- Wallfort had applied for 5,40,000 shares in the public issue of MFPL through an application arranged by CFL, who then arranged 21,60,000 shares i.e. 67.65% out of 31,93,100 shares of MFPL to be allotted to the public, to bail out the issue.

5.20 Keeping the above facts in view, the Enquiry Officer held that Yash Golecha introduces a client; RFS, on whose behalf he places the orders, that too only in the scrip of MFPL and the said fact was corroborated by Noticee. The fact that Noticee received orders and made / received payments to/from Yash Golecha (entirely a third party, admittedly well known to Noticee) supposedly for the client is indicative of a nexus between them. The Noticee admitted the said finding in one way and stated that the above said act should be judged in the light of rules and regulations prevailing at the relevant time regarding "third party payment". The Noticee also pointed out that SEBI circular SMD/SED/CIR/93/23321 dated November 18, 1993 and SMD-1/23341 dated November 18, 1993 were in force at the relevant time and both the said circulars are silent on the aspect of "third party payment" and also stated that the acceptance of cheque from third party was prohibited only after the issuance of SEBI circular no. SMD/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003. They further submitted that the receipt / payment of cheques from / to Shri. Yash Golecha in May 1996 was not prohibited at that time. It is a fact that 1993 circulars do not empower any entity to accept "third party payment". SEBI found some of the "third part payment" like the one done by the Noticee and accordingly issued circular no. SMD/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003 to prohibit such third party receipt/payment.

5.21 The Enquiry Officer further observed that Shri Yash Golecha was one of the directors of WFSL and one of the financiers involved in the bailing out of the public issue of MFPL. Clio Finance Ltd. (CFL) was the co-lead manager of MFPL and one of

the financiers in the public issue of MFPL. Admittedly, Anil Jain of WFSL and CFL was also well known to the Noticee and Anil Jain and another director of CFL, Shri. Suresh Bafna was hired by Bharat Kumar Jain, the Managing Director of MFPL to help MFPL bail out the public issue. The Enquiry Officer further observed that this relationship between the entities prompted Noticee to assist them in trading heavily in the scrip of MFPL, in the name of the client. On the basis of this finding, the Enquiry Officer held that there are nexus among the above entities including the Noticee and rejected the contention of Noticee that the proprietor of RFS was not known to them as a client and also held that due to this nexus/relationship between the entities, Noticee did not exercise the necessary due diligence required to be done by a broker member, while verifying the bonafides of RFS. Admittedly no documents were collected in order to verify the bonafides or the financial standing of the real client and instead, total reliance was placed upon the introducer of the client.

5.22 The Noticee submitted that "KYC" norms did not exist at the time when they accepted RFS as their client. In this regard, it is pertinent to note that Circular No SMD-1/23341 dated November 18, 1993 was in force at the relevant time and which specifically provided a set of precautions to be exercised by member brokers while dealing on behalf of clients. These precautions emphasize upon the need for proper introductory procedure and care, while dealing with their clients with a view to protect the interest of the member brokers, encourage transparency and discipline in their working etc. Some of the mandatory precautions which ought to form part of the said circular are reproduced below:

- (i) Ensure that the client is personally known to the member-broker or has been introduced to him by a person known to him.
- (ii) A record of introduction of all clients may be kept by member-brokers and they should insist on their sub-brokers also to maintain a similar record. The following data on the clients can be maintained:
 - a. Name, address, telephone number, age
 - b. Status – whether in employment / business.
 - c. If in business – Nature of business and business address.
 - d. Banker & bank account numbers through which operations are to be done.
 - e. Name, address of contact through whom client has been introduced.
 - f. Names of all persons on whose behalf the client is operating and necessary legal documents authorizing the client to act on behalf of such persons.
 - g. In case a private limited company or a public company or a trust is a client, the details such as its authorized / subscribed capital, total trust funds and the resolution duly authorizing the person acting on behalf of the company.
- (iii) A satisfactory bank reference of client may be insisted upon before doing business on behalf of new clients.

5.23 It is clear from the above circular that all member brokers were advised to duly keep a track on the aforesaid details of the clients much before the introduction of the KYC norms. It also states that the record of introduction of all clients should be kept by Noticee and this was a condition to be observed while entertaining a client. At this juncture, it would be relevant to note that though an exhaustive client introduction system was introduced by SEBI only in the year 1997, there are many SEBI circulars prior to 1997, which stress upon the need for proper client introductions and which cannot be ignored by any of the member brokers. It would not be out of place to refer to SEBI Circular No. SMD-1/23341 dated November 18, 1993. The Noticee admitted in its reply that they did not collect any documents to verify the bonafides of their client as they believed them to be genuine.

5.24 The Enquiry Officer also pointed out that the Noticee, during the investigation process, was not able to identify, even the real proprietor of RFS, who incidentally was not found to have the financial capacity to get involved in such a huge transfer of funds, to and from the account opened in their name. To Noticee's knowledge, the proprietor of RFS was Shri Prakash Jain, who in fact, was none other than the Joint Managing Director of MFPL. The fact that the introducers of the said client; Yash Golecha and Anil Jain were well known to the Noticee and are entities associated with issues like management of the public issue of MFPL, financing the issue and bailing out the same, reinforces that all the entities in question; i.e. the Noticee, their client and the entities connected to MFPL, had a common objective.

5.25 The Enquiry Officer also found that the Noticee suppressed material facts. The Noticee had contended that they have never been enquired / implicated by SEBI in any other case, except for MFPL. However, I have noted from a perusal of the SEBI Annual Report that Noticee have, on the contrary, been included in the list of brokers against whom action has been taken during the period April 01, 1999 to March 31, 2000.

5.26 In the process of perpetuating these artificial trades, Noticee had also failed to exercise proper care and diligence, required of that of a broker. As a registered member of SEBI and a member of BSE, Noticee was fully aware of the Rules and Regulations of SEBI. By indulging in the aforesaid acts, Noticee did not maintain the standards of integrity, promptitude and

fairness required of that of a broker. Such persons who indulge in manipulative, fraudulent and deceptive transactions, or abet in carrying out of such fraudulent and dubious transactions should be suitably penalized for their acts of omissions and commissions. From the facts detailed above, it is established that Noticee had not carried out their business operations in accordance with the provisions of law.

- 5.28 In the light of above findings, it is clearly established that the Noticee failed to exercise due care, skill and diligence in the conduct of their professional responsibility and the same is in violation of clause A(2) of Schedule II read with Regulation 7 of Stock Brokers Regulations. Further, by facilitating their client RFS to create artificial market in the scrip of MFPL, Noticee has violated Regulations 4 (a) to (e) of PFUTP Regulations. . Having considered all aspects of the matter, I find that the penalty of suspension of certificate of registration of the Noticee for a period of two months recommended by the Enquiry Officer is reasonable.

6.0 ORDER

- 6.1 In view of above facts and circumstances of the matter and in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India 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 Noticee, M/s Saurashtra Capital Services Pvt. Ltd., a registered broker of the Bombay Stock Exchange Ltd. (BSE) with SEBI registration No INB010748038, National Stock Exchange (NSE) with SEBI Registration no. INB230748031 and NSE F & O Segment with SEBI Registration No. INF230748031, for a period of two months.
- 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: April 30, 2007

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