

SECURITIES AND EXCHANGE BOARD OF INDIA**Coram: Dr. T. C. NAIR, WHOLE TIME MEMBER****Name of the Noticee : M/s. First National Securities (India) Ltd.****Date of Hearing : 29.05.2006****Appearance of the Parties**

Noticee : None

SEBI : Shri P. K. Bindlish, General Manager
Shri Ashok Nimbekar, Manager**ORDER****UNDER SECTION 11(4) READ WITH SECTION 11B OF SEBI ACT, 1992 AGAINST M/s. FIRST NATIONAL SECURITIES (INDIA) LTD. IN THE MATTER OF M/s. MEDIA VIDEO LIMITED.**

1. M/s. Media Video Ltd. (MVL) was incorporated as a public limited company on 03.12.86 and Certificate of commencement of business was obtained on 11.12.86. MVL shares were listed at the Stock Exchange, Mumbai (BSE), the National Stock Exchange (NSE), the Madras Stock Exchange (MSE) and the Delhi Stock Exchange (DSE). DSE was the regional stock exchange for the company. MVL was involved in the business of manufacturing blank and pre-recorded video cassettes. Later, MVL diversified into manufacturing of rechargeable emergency lamps, video and television games, etc.
2. For the purpose of expansion, MVL came out with a public issue of 26.64 lakh equity shares at a premium of Rs.5/- aggregating Rs.3.99 crore in March, 1995. BSE as part of its surveillance mechanism and in suspicion of price manipulation in the scrip of MVL, suspended its trading indefinitely with effect from 10.01.00. Consequently, trading in the scrip was also suspended at the other exchanges. In continuation of the above action, the exchanges were advised to conduct an investigation into the trading in the scrip of MVL and forward the reports to SEBI.
3. MSE had in its report submitted that no trades were carried out in the scrip of MVL during the period 01.09.99 to 10.01.00. DSE had found nothing incriminating in relation to the transactions in the scrip of MVL during the said period. BSE had also made a similar observation as DSE in its report and had requested for revocation of earlier suspension order. However, NSE had in its report observed that entities close to MVL had actively traded in the scrip during the reference period. Also, it was observed that the trading pattern in the scrip seemed to suggest a net buy by the aforesaid entities and creation of artificial volumes during the No Delivery period. Also, the fact that they were net buyers in the scrip after the No Delivery period seemed to suggest that the movement in the price of the scrip without any commensurate corporate development was due to the trading of the aforesaid entities.
4. At NSE the price of the scrip during the period of investigation had gone up from Rs. 8.20 on September 1, 1999 to Rs.178.70 on December 24, 1999. The scrip was in no delivery period during settlements 1999042N to 1999045N (October 20, 1999 to Nov. 16, 1999). The steep rise in the price was seen after the no delivery period when the price had gone up from Rs.41.85 to Rs. 178.70 on December 14, 1999. The increase in price was also coupled with increased average volumes which have gone up from 51,938 shares in September, 1999 to 401823 in December, 1999.
5. On receipt of the aforesaid reports, SEBI conducted investigation into the trading in the scrip of MVL for the period 01.09.99 to 10.01.00. Details were collected from the entities involved including the brokers, company, clients, banks etc. It was noted from the trading details of the various brokers who had dealt in the scrip of MVL that one Shri Harvinder Kumar Bagai was a common client in the scrip of MVL. He had traded through M/s. First National Securities India Ltd. (FNS), M/s. Tees & Toes Finance and Investments Pvt. Ltd. (TTF), and M/s. Moneycare Securities and Financial Services Ltd. From the details provided by the brokers it was observed that Shri Bagai had commenced trading only from 30.10.99.

6. FNS in its submissions before SEBI admitted that Shri Bagai was introduced to them by Shri B. C. Sharma who was an employee of FNS. It was also submitted that the whereabouts of Shri. Bagai or Shri Sharma were no more available with FNS.
7. The bank details of Shri Bagai (obtained from bank) were analyzed to ascertain the flow of funds and to trace their antecedents. It was noted that an account was opened with Punjab National Bank (Account Number 27963) on 23.10.99 with a cash deposit of Rs.1,000/-. Thereafter, two Bankers Cheques were deposited in the account on 27.12.99 for Rs.17,61,927/- and Rs.8,40,376/-. These amounts were used to pay TTF and FMS for the purchase of shares of MVL on 27.12.99. These Bankers Cheques were issued by Bank of India, Connaught Circus Branch and the Kangra Co-operative Bank Ltd., Jagatpuri Branch from the accounts M/s. S. K. Financial Services Ltd. (Account No. 711014) and M/s. Friends Portfolio Pvt. Ltd. (Account No. 1273) respectively. Summons sent to M/s. S. K. Financial Services Ltd. came back undelivered. M/s. Friends Portfolio Pvt. Ltd. submitted that they had not traded in the scrip of MVL and the payment made to Shri. Bagai was not traceable at their end. No further details could be obtained from M/s. Friends Portfolio Pvt. Ltd. It was also noted in the course of investigation that a part of the amounts received by Shri Bagai from these accounts were returned at a later date from the proceeds of share transactions carried out by Shri Bagai. Shri Bagai did not comply with the summons issued repeatedly and has not submitted any information.
8. It was observed that following entities had traded through FNS at the NSE:
- *Shri Harvinder Kumar Bagai- Shri Bagai has created huge volume in relatively less liquid shares and was instrumental in manipulation of the scrip. Shri Bagai has dealt through three brokers.
 - *M/s. Pink Panther Securities Pvt. Ltd.,
 - *M/s. RPB Holding & Finance Pvt. Ltd.,
 - *Shri. R. S. Punj
 - *Midway Investments Pvt. Ltd.,
9. The settlement wise trading detail of FNS during the period of investigation is as given below:
- | Settlement No, | Buy | Sell | Net | Gross |
|----------------|---------|---------|--------|---------|
| 1999038 | 100 | 3000 | -2900 | 3100 |
| 1999039 | 80700 | 164300 | -83600 | 245000 |
| 1999040 | 161400 | 179000 | -17600 | 340400 |
| 1999041 | 88800 | 10000 | 78800 | 98800 |
| 1999042-46 | 1407000 | 1502000 | -95000 | 2909000 |
| 1999048 | 200 | 61200 | -61000 | 61400 |
| 1999049 | 2000 | 6200 | -4200 | 8200 |
| 1999050 | 41200 | 24400 | 16800 | 65600 |
10. On the basis of the nature of transactions carried out by FNS for its clients and the fact that resulted in huge volume in the scrip and alleged manipulation in the price by Shri Bagai (who was dealing through three brokers) led the SEBI investigation to conclude that FNS had violated the provisions of Clause A (1) and (2) prescribed under Schedule II of Regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992. Based on the submissions made on behalf of FNS before the investigating authority, it was learnt that FNS had stopped trading in April 2001, and was no more a member of NSE and therefore not registered with SEBI.

Show Cause Notice, Reply and Hearing

11. Based on the above findings, a notice dated 03.01.05 was issued to FNS charging it with violating the provisions of Clause A (1) and (2) prescribed under Schedule II of Regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, under Section 11(4) read with Section 11B of SEBI Act, 1992, asking it to show cause as to why suitable directions including directions debarring it from accessing the capital market or dealing in securities for a suitable period be not issued to them. The show cause notice was issued under the provisions of SEBI Act since FNS had ceased to be a member of NSE, resulting in an inability to invoke the provisions of SEBI (Procedure for Holding Inquiry by an Enquiry Officer and Imposing Penalty) Regulations, 2002.
12. No reply was received from FNS to the show cause notice issued by SEBI. Thereafter, personal hearing was scheduled on 29.05.06 before me for FNS to appear and make its submissions, if any. FNS failed to appear before me during the said date of hearing.

Consideration of Issues

13. I have considered the findings brought out in the investigation conducted by SEBI, the charges made out in the show cause notice issued by SEBI. I have noted that FNS has not submitted its reply to the show cause notice and has also chosen not to appear before me when a hearing was scheduled for them. I find FNS has already been provided with sufficient opportunities to present its case before me both in the form of a reply and upon personal appearance at a hearing. I am of the view that these opportunities constitute sufficient compliance of principles of natural justice. Therefore, I now proceed to consider the charges against FNS based on the material on record.
14. I have seen that the trading pattern in the scrip of MVL during the aforesaid period had led the investigation to conclude that artificial volumes were being created. The price of the scrip at NSE went up during the No Delivery period (settlement 42 to 45) from Rs.29.55 to Rs.41.85. After No Delivery period the price of the scrip witnessed a sharp rise and went up to Rs.178.70 on 24.12.99. The increase in price was also coupled with higher average volumes which had gone up from 51,938 shares in September, 1999 to 401823 in December, 1999. I have noted that Shri Bagai, the client of FNS had an important role to play in the price manipulation of the scrip of MVL during the investigation period. The nature of transactions of his client, Shri Bagai should have raised suspicion in the mind of FNS, specially keeping in view that Shri Bagai was dealing through multiple brokers.
15. Also, the submissions of FNS before the investigating authority have been evasive without providing appropriate and clear answers to queries posed to it. This view of mine is further corroborated by the attitude of FNS to SEBI proceedings by its non response to the show cause notice and the hearing notice issued by SEBI. A combined view of the activities in the scrip prove that FNS is guilty of violating the provisions of Code of Conduct as prescribed in Clause A (1) and (2) of Schedule II prescribed under Regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, by non exercise of due care and diligence in the performance of its activities as an registered intermediary with SEBI.
16. Also, I have considered the fact that FNS has ceased to be a registered intermediary of SEBI from April 2001. Therefore, proceedings under the provisions of SEBI (Procedure for Holding Inquiry by an Enquiry Officer and Imposing Penalty) Regulations, 2002 have not been initiated but FNS has been proceeded against under Section 11(4) read with Section 11B of SEBI Act, 1992, by virtue of which SEBI is empowered to pass orders against any errant market participant.

Order

17. Therefore, in exercise of powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Section 11 (4) and 11B of SEBI Act, 1992, I hereby direct that M/s First National Securities (India) Ltd., New Delhi be debarred from accessing the capital markets and dealing in securities directly or indirectly for a period of one month.
18. The order shall come into force with immediate effect.

Date: 13.06.07
Place: Mumbai

T. C. Nair
Whole Time Member
Securities and Exchange Board of India