

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: Dr. T.C.NAIR, WHOLE TIME MEMBER
IN THE MATTER OF M/s PARAGON INVESTMENTS PVT. LTD., STOCK
BROKER, SAURASHTRA AND KUTCH STOCK EXCHANGE LTD. INB
181152738 IN THE SCRIP OF SWORD & SHIELD PHARMA LTD.

Date of hearing : October 3, 2006

Appearances

For Noticees : Shri Rajni Padalia, Director
Shri Pravin Rayani
For SEBI : Shri P.K.Bindlish, General Manager
Shri Ashok Nimbekar, Manager
Ms. Kshama Chavan, Legal Officer

ORDER

Under Regulation 13 (4) of SEBI (Procedure For Holding Enquiry By Enquiry Officer and Imposing Penalty) Regulations, 2002 in respect of M/s Paragon Investments Pvt. Ltd., Stock Broker, Saurashtra and Kutch Stock Exchange Ltd. INB181152738 in the scrip of Sword & Shield Pharma Ltd. (SSPL)

1.0 Background

1.1 Sword and Shield Pharma Ltd. (hereinafter referred to as “SSPL”) was incorporated as a Public Limited Company with the objective of manufacturing and marketing pharmaceutical formulations. The company is listed on the Bombay Stock Exchange Ltd. (hereinafter referred to as “BSE”) and The Ahmedabad Stock Exchange Ltd. (hereinafter referred to as “ASE”).

- 1.2 SEBI conducted investigation into the trading in the scrip of SSPL subsequent to unusual increase in the price and volume of the scrip during the period May 3, 2001 to July 6, 2001. Based on the above unusual rise in price and volume in the scrip an investigation was conducted by SEBI. It was noticed that the price and volume rise of the scrip was not supported by the fundamentals of the company. During the aforesaid investigation period, it was noticed that a group of entities were acting in concert for executing synchronised and structured trades to affect the price of the scrip.
- 1.3 M/s. Paragon Investments Pvt. Ltd. (hereinafter referred to as “Paragon”), broker of Saurashtra Kutch Stock Exchange Ltd. (hereinafter referred to as SKSE) is registered with SEBI having registration number INB181152738. Paragon was alleged to have executed transaction for Mayur Patel, Gautam Patel and Aarushi Consultancy who were involved in manipulation of the scrip and were charged of violating the provisions of Clause A(2) (3) and (4) of the Code of Conduct as specified in Schedule II of Regulation 7 of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as “Stock Brokers Regulations”) in Regulation 4(a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices), 1995 (hereinafter referred to as “PFUTP Regulations”).

2.0 Enquiry Proceedings

- 2.1 On the basis of findings of investigation, an Enquiry Officer was appointed by SEBI vide order dated October 14, 2004 to enquire into the alleged violations / contraventions committed by Paragon. In terms of Regulation 6(1) of the SEBI (Procedure for Holding Enquiry by Enquiry

Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as “Enquiry Regulations”), a show cause notice was issued to Paragon vide letter dated March 16, 2005 asking them to show cause as to why communicating the charges against it. It was alleged that Paragon had violated the provisions of Regulation 4 of the PFUTP Regulations and clauses A(3) and A (4) of the code of conduct as specified in Schedule II of the Regulation 7 of the Stock Brokers Regulations.

- 2.2 Paragon vide its letter dated March 25, 2005 replied to the notice and made submissions in detail.
- 2.3 In terms Regulation 9 of the Enquiry Regulations an opportunity of hearing was granted to Paragon on June 9, 2005 before the Enquiry Officer. Shri Rajini Patel, Director of Paragon attended the hearing and made submissions. On completion of enquiry, the Enquiry Officer vide report dated June 27, 2005 recommended a penalty of suspension of certificate of registration of Paragon for a period of four months.

3.0 Show Cause Notice and submissions

- 3.1 Based on the recommendations of the Enquiry Officer, a show cause notice dated July 1, 2005 was issued to Paragon under Regulation 13(2) of the Enquiry Regulations asking it to show cause as to why penalty as considered appropriate including penalty recommended by the Enquiry Officer should not be imposed upon it. A copy of the Enquiry Report was also forwarded to Paragon with the said show cause notice.
- 3.2 Paragon vide its letter dated July 20, 2005 made the following submissions as under :
 - (i) *Paragon was new to capital market and had no trading terminal so they were just concentrating on brokerage business. It was unaware of the*

market manipulation going on. Just after 3 months it was in touch with Shri Gautam Vaghasia who gave them the work of SSPL.

- (ii) Paragon stated that Shri Gautam Vaghasia had been registered as its client when many brokers were not even registering the clients.*
- (iii) Paragon was not aware of Shri Gautam Vaghasia's intention as they were totally new to the securities market and claimed that SEBI never gave the knowledge of price manipulation and other practical dealings happening in the securities market. Further the kingpin in the whole process namely Shri Mayur Patel should alone be punished for the wrong doings and that Paragon should not be punished for the acts of Shri Mayur Patel.*

4.0 Opportunity of personal hearing

- 4.1 Vide letter dated September 11, 2006, an opportunity of personal hearing was granted before me on October 3, 2006 at 4.30 p.m. at SEBI Head Office, Mumbai wherein Shri Rajni Padalia, Director, of Paragon and Shri Pravin Raiyani appeared and reiterated the submissions made earlier.

5.0 Consideration of Issues

- 5.1 I have carefully considered the Enquiry Report, the show cause notice issued to Paragon, the reply of Paragon and my findings are as under :
- 5.2 I have observed that the investigation conducted by SEBI indicated that the price of the scrip of SSPL rose from Rs. 14.85 to Rs.37.85 in just two months i.e from May 3, 2001 to July 6, 2001. This amounted to an increase of 154.88% in the price of SSPL shares despite sensex fall of more than 5% during that period. During the same period, the volume traded in SSPL shares also increased from 52525 to 164446 which led to an increase of 213.08%. Further, the price and volume rise was not supported by the fundamentals of the company at that time.

- 5.3 The Enquiry Officer found that Paragon traded through Shyambhai N. Patel, sub-broker of M/s Yogesh Securities Pvt. Ltd. and Rajendra R Mehta and sub-broker to SKSE Securities Ltd. Paragon was involved trading of 199462 shares, in gross.
- 5.4 I note that Paragon was introduced by its director, Shri Rajni Padaliya, alias Rajni Patel. During the statement recording of Shri Rajni Patel, he confessed that all the trading done by Paragon was in fact his own trading and that he had used the name of his broking entity to trade in SSPL. Shri Rajni Patel also confessed that Paragon used to buy shares on behalf of Aarushi Consultancy. The orders were placed by Mayur Patel over telephone and they were instructed by him to transfer the shares in the demat account of Patel Gautam Vaghasia. However the payments were made by Aarushi Consultancy.
- 5.5 I observe that Shri Rajni Patel traded not only in the name of Paragon but also in his name as well as in the name of his wife Ms. Heena Rajnibhai Patel. In his own capacity, Shri Rajni Patel was involved in gross trading of 3799812 shares which accounts for approximately 14% of the total trading done during the period of investigation. In the capacity of his wife, Shri Rajni Patel was involved in gross trading of 370500 shares which accounts for approx. 1.5% if the total trading done during the period of investigation. Not only this, Shri Rajni Patel also introduced Nilesh Patel to Omnesys Tradenet and Radhe Investments to Amrut Securities Ltd. and Narendra Kurani, sub brokers of SKSE Securities Limited. Rajni Patel was also involved in synchronised trading on 14 occasions in which he was on buy side on 7 occasions and on the sell side on 7 occasions.

- 5.6 I note that handful of clients (prominent being Patels) and the kingpin being Shri Mahesh Kumar Patel alias Shri Mayur Patel and his wife Ms. Jyotikaben were involved in the manipulation in the scrip of SSPL. Shri Mahesh Patel jacked up the prices through continuous buying and selling in the scrip mostly through the entities who were acting in concert namely, Ms. Heena Patel, Shri Nilesh Patel, Ms. Radhe Investments, Shri Pravin Rayani, Shri Hiren Rathod, Mega Securities, Shri Rajesh Modi, Shri Praful Patel and Kishore Corporation and Nokia Finance International Pvt. Ltd. These clients have professed that they traded for Shri Mahesh Patel on his instructions only. This was also evident from the demat statement of these clients. Further, the fund transfer from the bank accounts of these clients corresponding to the clients as seen from the interse transfer from the Beneficiary Owner (BO) accounts also corroborate this.
- 5.7 It is noted from the demat statement of Paragon (DP Marwadi Shares Fin. Pvt. Ltd. Client ID 10135239) that shares were transferred to Shri Gautam Shambhubhai Patel's demat account (DP SCHIL Client ID 24272876) which is evident from the table mentioned herein:

Date	Debit	From	To
26-May	2100	10135239	24272876
02-Jun	4600	10135239	24272876
11-Jun	7000	10135239	24272876
23-jun	4952	10135239	24272876
3-Jul	4900	10135239	24272876
9-Jul	4550	10135239	24272876
16-Jul	8379	10135239	24272876

- 5.8 Further, from the bank statement of Paragon, it is observed that the funds have been transferred from Aarushi Consultancy to Paragon.

Date	Debit from	Cheque	Credit
11-May	Aarushi Consultancy	25991	700000
21-May	Aarushi Consultancy	26004	300000
31-May	Aarushi Consultancy	26023	200000
07-Jun	Aarushi Consultancy	145588	500000
25-Jun	Aarushi Consultancy	145637	500000
6-Jul	Aarushi Consultancy	13465	290261

- 5.9 I am of the view that Paragon was a party to the misconduct being done by Shri Mahesh Patel / Aarushi Consultancy / Shri Gautam Patel. Shri Gautam Patel was a client registered with Paragon . In spite of this, it was observed that the funds were routed through the bank account of Aarushi consultancy and not that of Gautam Patel himself.
- 5.10 In view of the above irregular transfer of shares and funds, it is clear that Paragon was acting hand in glove with Shri Mahesh Kumar Patel and Shri Gautam Patel. The submission of Rajni Patel that he was acting mainly as per the instructions of Shri Mayur Patel in respect of the trades executed for the client, Shri Gautam Patel clearly indicates Paragon's involvement in the conspiracy.
- 5.11 I further noted that SEBI vide order dated December 4, 2006 in the matter of Sword & Shield Pharma Limited has passed following directions as under:

“As has been brought out in detail above, 1) Shri Mahesh Kumar Patel, 2) Smt Jyotiben M Patel, 3) Shri Gautam Patel, 4) M/s Aarushi Consultancy, 5) Shri Rajni M Patel, 6) Smt Heena R Patel, 7) Shri Nilesh Patel, 8) M/s Radhe Investment, 9) Shri Pravin Rayani, 10) Shri Hiren Rathod, 11) Shri Parsottam P Kundanani, Partner of erstwhile M/s Mega Securities, 12) Shri Rajesh Modi, 13) Shri Praful H Patel and 14) M/s Kishore Corporation are guilty of violating the provisions of Regulation 4 (a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and are liable for action under Section 11 (4) (b) read with Section 11 and 11B of SEBI Act, 1992 and Regulations 11 and 13 of SEBI (Prohibition of

Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003. Therefore, in exercise of powers conferred upon me under Section 19 of SEBI Act, 1992 read with Section 11 (4) (b) read with Section 11 and 11B of SEBI Act, 1992 and Regulations 11 and 13 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, I hereby direct that:

- i. 1) Shri Mahesh Kumar Patel 2) M/s. Aarushi Consultancy and 3) Shri Gautam Patel be debarred from accessing the securities market and prohibited from buying, selling or dealing in securities, either directly or indirectly, for a period of two years, and,*
- ii. 1) Smt Jyotiben M Patel, 2) Shri Rajni M Patel, 3) Smt Heena R Patel, 4) Shri Nilesh Patel, 5) M/s. Radhe Investment, 6) Shri Pravin Rayani, 7) Shri Hiren Rathod, 8) Shri Parsottam P Kundanani, Partner of erstwhile M/s. Mega Securities, 9) Shri Rajesh Modi, 10) Shri Praful H Patel and 11) M/s. Kishore Corporation be debarred from accessing the securities market and prohibited from buying, selling or dealing in securities, either directly or indirectly, for a period of one year.”*

5.12 After going through the chronology of events, I find that Paragon has aided and abetted the clients in manipulation of the scrip. I therefore hold Paragon guilty of violating the provisions of Regulation 4(a), (b), (c) & (d) of PFUTP Regulations, 1995 which provides as under :

- (a) effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of securities and thereby inducing sale and purchase of securities by any person;*
- (b) indulge in any act, which is calculated to create false or misleading appearance of trading on the securities market;*
- (c) indulge in any act, which result in reflection of prices securities based on transactions that are not genuine trade transactions, and*
- (d) enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress or cause fluctuations in the market price of securities.*

5.13 In addition to above, in view of the manipulative role played by Paragon, it has also violated the provisions of Clause A(3) of Code of Conduct for Stock Brokers as contained in Schedule II of Regulation 7 of the Stock Brokers Regulations which prohibits a stock broker from indulging in any manipulative, fraudulent or deceptive transactions with a view to distort the market equilibrium. Further, I find that Paragon has also violated the provisions of A(4) of the Code of Conduct which prohibits a stock broker from creating false market or indulging in an act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. After careful perusal of the case and considering the volume traded by Paragon, I am of the view that penalty of suspension of certificate of registration for a period of four months as recommended by the Enquiry Officer would be excessive. Considering the facts and circumstances of the case, the imposition of penalty of one month would be adequate to have a deterrent effect on Paragon.

6.0 Order

6.1 Therefore, in exercise of powers conferred vide 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 the Certificate of Registration for a period of one month on M/s. Paragon Investments Pvt. Ltd., Stock Broker, Saurashtra and Kutch Stock Exchange (INB 181152738)

6.2 This order shall come into effect on expiry of 21 days from the date of this order.

Date: 19.06.2007

Place: Mumbai

T. C. NAIR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA