

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM : Dr. T.C.NAIR, WHOLE TIME MEMBER

AGAINST SHRI HEERACHAND SALECHA

IN THE DEALINGS IN THE SCRIP OF GUJARAT FISCON LTD.

Date of hearing : October 09, 2006

Appearances :

For Noticees: None Appeared

For SEBI: Shri P.K. Bindlish, General Manager

Shri Atul Agarwal, Manager

Ms. Kshama Chavan, Legal Officer

ORDER

UNDER SECTION 11 AND 11B OF SEBI ACT, 1992

1.0 Background

1.1 Gujarat Fiscon Ltd. (hereinafter referred to as “GFL”), a public limited company is engaged in the business of leasing, ICD/Bill discounting, project and management consultancy. The shares of the company are listed on the Vadodara Stock Exchange, Ahmedabad Stock Exchange Ltd. (ASE) and the Bombay Stock Exchange Ltd. (BSE).

1.2 SEBI conducted investigations into the buying, selling and dealings in the scrip of GFL for the period from July 31, 2000 to December 15, 2000 (hereinafter referred to as the “investigation period”) on the basis of an investor complaint alleging that the promoters of the captioned company along with a handful of brokers had artificially created volumes in the scrip.

1.3 During the investigation period, it was observed that the price of the scrip rose from Rs.60 on July 31, 2000 to Rs.104 on December 15, 2000. It was alleged that the aforesaid trades were by a set of brokers, sub broker and their clients known to each other who acted in concert and most of the traded volumes were squared off. It was further alleged that these brokers abetted their clients in creating artificial volumes. The cartel of clients was led by Shri Heerachand Salecha, the other major contributors being Agarwal Shares & Finance Pvt. Ltd. (Umashankar Agarwal), Jatin R Shah (Shri Jatin), Kishorekumar K. Vasa (Shri Vasa). The cartel of brokers were allegedly led by Ramaben Samani Finance Pvt. Ltd. (Ramaben Samani).

1.4 Shri Heerachand Salecha (hereinafter referred to as “Shri Salecha”) was alleged to have traded in the transactions which were fictitious in nature and were executed with the intention to create an impression of liquidity in an illiquid scrip. These transactions also led to steep rise in price of the scrip.

2.0 Show Cause Notice, Reply and Hearing

2.1 Based on the findings of the investigation, a show cause notice dated December 29, 2004 was issued to Shri Salecha under Section 11(4)(b) read with Section 11 and 11B of the SEBI Act, 1992, asking him to show cause as to why suitable directions including directions restraining him from buying, selling or dealing in securities for a specified period should not be issued against him, for violating the provisions of Regulations 4 (a), (b) (c) & (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market)

Regulations, 1995. It was also mentioned that if he failed to submit any reply within the stipulated period of 21 days, then it would be presumed that he had no explanations to offer in the matter and SEBI would be constrained to pass such orders specified in terms of the aforesaid Act and Regulations. The documents relied upon in support of the allegations contained in the show cause notice were also annexed with the notice.

- 2.2 However, no reply was received from Shri Salecha. An opportunity of personal hearing was granted to Shri Salecha before me on September 26, 2006 and October 09, 2006. However, I note that on both the occasions Shri Salecha did not attend the hearing and even did not make any correspondence in this regard.

3.0 Consideration of Issues and Findings

- 3.1 I note that inspite of giving several opportunities to Shri Salecha for making submissions to the show cause notices and appearing before me, Shri Salecha did not respond to any of them. I find that enough opportunities have been given to Shri Salecha to counter the allegations framed against him. In view of the fact that principles of natural justice have been complied with, I am inclined to proceed on the basis of material available on record and merits. I have carefully considered the investigation report , the show cause notice issued and my findings are as under:

- 3.2 From the trading details, I find that following brokers and their clients were the major traders in the scrip during the period:

Name of the Member		Major Ultimate Client	Purchase	Sale	Gross	% age of Total volumes on the SE	Net
Bhagwandas Bhogilal & Co.		Jatin R. Shah	126300	125900	252200	19.41	400
Ramaben Samani Finance Pvt. Ltd.		Kishorkumar K. Vasa	114300	114300	228600	17.59	0
Bharti Thakkar India Securities Pvt. Ltd.		Agarwal Shares & Fin. Pvt. Ltd.	42800	42800	85600	6.59	0
Joindre Capital Services Ltd.	Allwin Securities Ltd.(Sub-broker)	Heerachand Salecha	65200	64800	130000	10.00	400
		Total	348600	347800	696400	53.59	800

3.3 From the above table, it is seen that the above brokers/clients had purchased 348600 shares of the total traded volume and had sold 347800 shares of the total traded volume. IN all these brokers/sub brokers/clients traded more that 50% of the total volumes in the scrip during the period of investigation. Also, almost all the clients of the brokers having concentration had done trading/squaring off transactions.

3.4 From the investigation, I have noticed that a cartel of clients and brokers known to each other and who also had business relationships with each other traded heavily in the scrip over a period of time and made heavy volumes in the scrip. The cartel of clients was led by Shri Salecha.

3.5 I note that due to the non co-operation of Shri Salecha and Ramaben Samani, the purpose for which the clients created artificial volumes

in the scrip could not be established. Whereas Shri Salecha did not comply with the summons, Ramaben Samani tried to way lay the investigation team by producing false documents.

- 3.6 I find that Shri Salecha was the third largest contributor to the total transactions in the scrip during the period of investigation. These transactions were carried out in his own name through Allwin Securities Ltd., sub broker of Joindre Capital Services Ltd. (Joindre Capital).
- 3.7 Further, I note that Shri Kishhorekumar Vasa, submitted that all the transactions in his name were done by Shri Salecha only. Shri Vasa stated that Shri Salecha had lured him by offering him a job in return of signing the KYC form at the office of the broker, Ramaben Samani. Through this KYC form of Shri Vasa, Shri Salecha entered into trades through Ramaben Samani. An affidavit to that effect was also submitted by Shri Vasa.
- 3.8 I further note that when the broker, Ramaben Samani was countered with the fact that the trades were done from their office for fictitious entity, it could not produce any documents in its defense. However, Ramaben Samani stated that Shri Vasa was introduced by one person called Shri Hiralal B Vara. Shri Hiralal Vara was the same person who had signed the acknowledgement for the letter sent to Shri Salecha through Joindre Capital Services Ltd. (Joindre Capital). The compliance officer of Joindre Capital had also confirmed this fact. Further, Shri Salecha appeared personally before Investigating Authority, pursuant to the summons received by Shri Hiralal Vara

lending credence to the fact that Shri Vara was working for Shri Salecha. Thus, I find that the transactions were done through Ramaben Samani in connivance with Shri Salecha with the alias of Shri Kishorekumar K Vasa. From the above, I find that the transactions carried out by Ramaben Samani in the name of Shri Vasa were in fact carried out for Shri Salecha.

3.9 During the deposition of another major client, Shri Jatin R Shah, before the investigating authority, Shri Jatin Shah stated that he and Shri Salecha were known to each other and had also borrowed money from Shri Salecha in the past. Thus, it is apparent that Shri Salecha was also known to Shri Jatin Shah, a client of Bhagwandas Bhogilal & Co., who had created the highest volume in this scrip during the period of investigation. Further, I note that 18% of the trading of Shri Jatin was matched with Shri Salecha. Also around 16% of the trading of Shri Jatin was matched with Shri Salecha in the name of Shri Vasa.

3.10 I have noticed that Shri Salecha was also having business relationship with Shri Umashankar Agarwal of Agarwal Shares & Finance Pvt. Ltd and was an associate of Shri Salecha in real estate business. Shri Agarwal had also traded in this scrip by enrolling as a client of Bharti Thakkar India Securities Ltd. Also I note that Shri Jatin and Shri Agarwal were known to each other and as submitted by Shri Jatin, he had dealt on behalf of Shri Agarwal as a token of obligation, as Shri Agarwal had introduced him to Bhagwandas Bhogilal & Co.

3.11 From the chronology of events it is apparent that Shri Salecha had also transacted through Ramaben Samani in the name of Shri Vasa. The transactions of Shri Salecha, including the transactions done through Ramaben Samani in the name of Shri Kishore Kumar Vasa and sub broker Allwin Securities Ltd. accounted for 27.59% of the total volume and thus he is the largest contributor to the total volume in the scrip.

3.12 The details of transactions through Allwin Securities is as under:

Settle No.	Shares Purchase	Rate	Shares Sold	Rate	Net Purch/Sale
19	3000	60.2	3000	60.12	0
20	5000	61.08	5000	61.08	0
21	3000	63.45	3000	63.36	0
22	4900	68.52	4900	66.81	0
23	3400	70.6	3400	70.56	0
24	4100	75.37	4100	75.57	0
25	11400	79.55	11400	79.25	0
26	12000	79.15	12000	78.84	0
27	16800	81.12	16800	80.45	0
32	1600	85.17	1200	84.50	400
Total	65200		64800		400

3.13 The details of transactions done by Shri Salecha in the name of Shri Vasa through Ramaben Samani is as under:

Settle No.	Gross Purchase	Rate	Shares Sold	Rate	Net Purch/Sale
24	2900	75.56	2900		0
25	8600	79.30	8600	79.54	0
26	9500	79.16	9500	79.39	0
27	16200	80.81	16200	81.12	0
28	12100	80.84	12100	81.05	0
29	14000	80.22	14000	80.4	0

Settle No.	Gross Purchase	Rate	Shares Sold	Rate	Net Purch/Sale
30	10200	81.88	10200	82.02	0
31	9000	83.01	9000	83.4	0
32	8000	85.48	8000	85.12	0
33	4000	89.71	4000	89.34	0
34	1900	100.53	1900	98.92	0
35	7000	105.04	7000	105.17	0
36	3600	115.71	3600	116.12	0
37	3100	114.2	3100	114.51	0
38	4200	109.78	4200	110.35	0
Total	114300		114300		0

3.14 On the basis of above facts, I find that Shri Jatin, Shri Umashankar Agarwal and Shri Salecha were known to each other and their transactions in the scrip contributed 53.59% of the total volume. From the above mentioned facts, I am fully convinced that Shri Salecha was the mastermind behind this market manipulation and creation of artificial liquidity in an illiquid scrip to attract the interest of small investors.

3.15 I have further noted that Shri Salecha has been a non-compliant during investigation proceedings and also during 11B proceedings before me. On one pretext or the other, he avoided investigation proceedings and also tried to derail and mislead the investigation proceedings. Shri Salecha could not produce the documents as required in the summons. During the proceedings of the examination on oath, he expressed his inability to submit the information. Further, after constant follow-up, Shri Salecha turned up before the Investigation Authority but still did not produce the documents in compliance with the summons issued to him. I note

that Shri Salecha falsely stated before the investigating authority that he did not know Ramaben Samani, or Kishorekumar Vasa. Shri Salecha also refused to co-operate with the Investigation Authority and also refused to sign the notes of examination which is a violation of Sec 11 C (7) of SEBI Act, 1992. I note that adjudication proceedings under section 11 C (6) read with section 15 I of the SEBI Act, 1992 for the purpose of adjudging under section 15 A of the SEBI Act, 1992 were initiated against Shri Salecha. An Adjudication Order dated May 05, 2005 was passed against Shri Salecha, imposing a penalty of Rs. 2,00,000/-. However, Shri Salecha did not pay the penalty imposed by the Adjudication Officer for which proceedings under section 24 (2) of SEBI Act, 1992 have been initiated against Shri Salecha.

3.16 After carefully going through the facts of the case, I find that Shri Salecha has been the mastermind behind the creation of artificial volumes in the scrip. Further, I note that Shri Salecha enrolled Shri Vasa as a client with Ramaben Samani and also employed the services of Ramaben Samani while he was himself dealing through Allwin Securities Ltd.

3.17 I find that in an illiquid scrip like Gujarat Fiscon Ltd, it was through a nexus of clients and brokers that the volume was created and market manipulation had taken place. Shri Salecha in the whole process had acted as a nodal agency in this nexus of market manipulation. Hence, I find that Shri Salecha has violated the provision of Regulation 4 (a), (b), (c) and (d) of the SEBI (Prohibition

of Fraudulent and Unfair Trade Practices Related to Securities Markets) Regulations, 1995.

4.0 Order

4.1 In view of the above, I, in exercise of powers conferred in terms of Section 19 read with Section 11 and 11 B of SEBI Act, 1992, hereby direct that Shri Heerachand Salecha be debarred from accessing the securities market and prohibited from buying, selling or dealing in securities, either directly or indirectly, for a period of six months.

4.2 This order shall come in to force with immediate effect.

DATE: 22.06.2007
PLACE: MUMBAI

T .C. NAIR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA