

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM : V. K. CHOPRA, WHOLE TIME MEMBER

ORDER

{Under Regulation 13(4) SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 in the scrip of Information Technologies (India) Ltd. against the broker, Bonanza Portfolio Ltd. (Broker - OTCEI and NSE) and Bonanza Stock Brokers Ltd. (Broker - BSE)}

1.0 BACKGROUND

- 1.1 M/s Usha Services and Consultants Ltd. was incorporated in September 20, 1976 as a wholly owned subsidiary of Usha India Ltd. (formerly Usha Rectifiers Corporations (India) Ltd.) and was engaged in the business of software development, consultancy services and financial services. In December 1993, the company changed its name to Information Technologies India Ltd (hereinafter referred to in short as "ITIL"). ITIL is a part of Usha Group Companies and Shri Anil Rai and Shri Vinay Rai were its promoter directors.
- 1.2 Securities and Exchange Board of India (hereinafter referred to in short as "SEBI") conducted investigation into the affairs relating to buying, selling and dealing in the shares of ITIL on observing a steep rise in the price and volume of the scrip. The investigation inter alia revealed that the broker, M/s Bonanza Portfolio Ltd (Registration No.INB230637836-NSE and INB200637832-OTCEI) and M/s Bonanza Stock Brokers Ltd. (Registration No. INB011110237(BSE) were among the brokers who had substantially traded on behalf of promoter/their front companies.
- 1.3 SEBI after considering the Investigation Report, appointed an Enquiry Officer vide Order dated July 18, 2002 to enquire into the violations allegedly committed by the M/s Bonanza Portfolio Ltd. and Bonanza Stock Brokers Ltd under the provisions of Regulation 4(a) to (e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995, (hereinafter referred to in short as "PFUTP Regulations") and Regulation 7 read with schedule II, clause A(3) and (4) of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to in short as "Stock brokers Regulations").
- 1.4 The Enquiry Officer, after conducting a common enquiry for both the M/s Bonanza Portfolio Ltd and Bonanza Stock Brokers Ltd in accordance with the provisions of 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 September 30, 2003 and recommended a minor penalty of 'censure' against M/s Bonanza Portfolio Ltd. and no penalty against Bonanza Stock Brokers Ltd

2.0 SHOW CAUSE NOTICE AND ITS REPLY

- 2.1 Pursuant to the receipt of the said Enquiry Report, Show Cause Notice dated February 13, 2004 was issued to M/s Bonanza Portfolio Ltd.. along with copies of the said Enquiry Report, advising them 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 it. In their reply dated February 28, 2004 to the show cause notice, they requested that recommendation of the Enquiry Officer be dropped. They have not requested for a personal hearing in the matter.

3.0 CONSIDERATION OF ISSUES & FINDINGS

- 3.1 I have carefully examined the findings of investigation, enquiry report, show cause notice as also reply of the M/s Bonanza Portfolio Ltd.
- 3.2 The company was incorporated in September 20, 1976 as Usha Services and Consultants Ltd. and in December 1993, it changed its name to Information Technologies India Ltd (ITIL). The company was engaged in the business of software developments. ITIL is a part of Usha Group of Companies and Shri Anil Rai and Shri Vinay Rai were its promoter directors.
- 3.3 The investigation revealed that Shri. Vinay Rai, Shri. Anil Rai, RKKR Agencies Ltd., Utility Trade Links (P) Ltd., Pukhraj Holdings (P) Ltd., Sumac Iron & Steel (P) Ltd., New Age Commercial (P) Ltd., Ambika Ferro Alloys (P) Ltd., Vedant Steel Castings (P) Ltd., Deep Traders and Advances (P) Ltd., Eureka Machineries (P) Ltd. Arunoday Vinimay (P) Ltd., Anjali Flat Rolled Sheet (P) Ltd., Amit Share Trading (P) Ltd., Parvati Casting (P) Ltd., KRP Consultants (P) Ltd., Tauruas Portfolio Ltd., Decent Dealers and Advances (P) Ltd., Varren Financial Services (P) Ltd., Classic Dealers and Advances (P) Ltd., and Aquarius Steels (P) Ltd. acted in concert to acquire shares of ITIL and also indulged in price manipulation. Purchases totaling 24,15,532 shares and sales totaling 23,73,610 shares of ITIL were transacted by the Usha Group entities between September 1999 and September 2000 in the NSE, BSE and OTCEI. This concerted buying by cornering large chunks of shares reduced the floating stock which had caused price of the scrip to move up from Rs. 469.35 to Rs. 2,023.25 between January 03, 2000 to February 22, 2000.

- 3.4 The Enquiry proceedings were initiated against two entities viz Bonanza Stock Brokers Ltd and M/s Bonanza Portfolio Ltd. As regards Bonanza Stock Brokers Ltd, Enquiry Officer found that it had not violated any of the provisions of the Code of Conduct for the Brokers or PFUTP Regulations. I have examined the charges against Bonanza Stock Brokers Ltd and find that the charges against them have not been established with reasonably good evidence as was rightly held by the Enquiry Officer. Further, viewed from the relevant legal position, I feel that there is no evidence on record to prove that Bonanza Stock Brokers Ltd failed to exercise due skill, care and diligence in the conduct of their business. In view of what is stated above, I see no reason to differ with the recommendations of the Enquiry Officer.
- 3.5 As regards M/s Bonanza Portfolio Ltd., the main charge is that it had traded in ITIL scrip for the front entities of "Usha Group" and indulged in manipulation. They have submitted that their dealings in the scrip were only at OTCEI where they sold 6,65,000 shares of ITIL on behalf of the "Usha Group" entities viz Sumac Iron & Steel Private Limited, Ambika Ferro Alloys Private Limited, Arunoday Vinimay Private Limited and Pukhraj Holdings Private Limited. UTI purchased those shares through the same broker. They have further submitted that their dealing at NSE was only marginal as only 9,500 shares were sold there and these sales were undertaken on behalf of several retail investors.
- 3.6 The Enquiry Officer has also observed that there is no evidence to suggest that the broker M/s Bonanza Portfolio Ltd was aware of any relationship between its clients and the "Usha Group" entities. He further observed that no evidence was available to link the broker, M/s Bonanza Portfolio Ltd with the promoters of Usha Group and as such they have not contravened the provisions of PFUTP Regulations. In view of this, I am in agreement with the findings of the Enquiry Officer. I note that there was no nexus between the buyer and seller, excepting that the transaction was executed by the same broker through OTCEI. Apart from this, there were no other transactions in OTCEI and as such manipulative intention can not be attributed against them. However, I find that the broker M/s Bonanza Portfolio Ltd had dealt for the four clients who traded only in the scrip of ITIL and Shri R P Sharma of Sumac Iron & Steel Private Limited introduced the other three clients. Further, he was a common contact person in two of the clients namely Arunoday Vinimay Private Limited and Ambika Ferro Alloys Private Limited. All these clients are connected to Usha Group. This should have alerted them to verify the bonafides of client's antecedents and their trading. However, keeping in view all facts and circumstances of the matter, I am of the considered view that a penalty of 'censure' against the broker M/s Bonanza Portfolio Ltd is not warranted.

4.0 ORDER

- 4.1 Therefore, 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 drop the instant proceeding against M/s Bonanza Stock Brokers Ltd. (Broker - BSE) and direct M/s Bonanza Portfolio Ltd (Broker - NSE & OTCEI) to be careful and cautious in its dealings in securities market.

Place: Mumbai

Date: June 28, 2007

V. K. CHOPRA

WHOLE-TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA