

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

ORDER

Under Regulation 13(4) of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 against G.R Pandya Share Broking Ltd, a registered broker of BSE in respect of dealings in the scrip of Prabhu Steel Industries Ltd.

1.0 BACKGROUND

1.1 Prabhu Steel Industries Ltd. (hereinafter referred to as "PSIL") was incorporated as a Private Limited Company on May 29, 1972 and it was converted as a Public Limited Company w.e.f. August 17, 1981. PSIL came out with a public issue in March 1982 and was listed on the Bombay Stock Exchange Ltd (BSE) and Calcutta Stock Exchange (CSE).

1.2 As per the distribution schedule of PSIL as on March 31, 2001, the public shareholding in the company was just 5.79% and rest of the shareholding was controlled by promoters, directors, relatives and their associated entities. Analysis of the financial results for the year 1999 to 2002 given below clearly revealed that performance of the company was not satisfactory since it incurred losses between the years 1999 to 2002 and accumulated losses continued to rise.

Particulars	Results for Year ended:-			
	March 2002	March 2001	March 2000	March 1999
Total Income	10.75	3.21	4.41	4.25
Total Expenditure	11.10	4.72	5.83	6.28
Profit After Tax / (loss)	(0.35)	(1.48)	(1.42)	(2.28)
Accumulated Loss	(12.30)	(11.95)	(10.48)	(9.06)
Equity Capital	0.71	0.71	0.71	0.71
EPS (Rs.)	-4.93	-20.85	-20	-32.11
Dividend (%)	NIL	NIL	NIL	NIL

1.3 It was also observed that the price of PSIL scrip which was Rs.34.50 on September 11, 2000 rose to a high of Rs.82.50 on April 17, 2001 (a rise of 139%) during the period of 7 months at a time when the financial position of the company as given on page '1' or any other reason justified abnormal rise in the price of the scrip.

1.4 In view of the above, Securities and Exchange Board of India (hereinafter referred to as "SEBI") conducted investigations in the matter. Investigations inter alia revealed that the promoters, directors and associated entities of PSIL acting through Rajesh Shah Group and Sarita Choudhary had dealt in the scrip of PSIL in significant quantities with a view to create artificial market in the scrip. Investigations further revealed that the brokers of BSE viz. G R Pandya Sharebroking Ltd. (hereinafter referred to as "Noticee"), Pawankumar Parmeshwarlal (hereinafter referred to as "Pawankumar") and Manubhai Mangaldas Securities Ltd (hereinafter referred to as "MMSPL") had transacted in PSIL scrip on behalf of their clients, Rajesh Shah Group (consisting of Shri Rajesh Shah, M/s Loco Securities Pvt. Ltd., M/s Uttam Investments and Shri C N Shah), Smt. Sarita Choudhary and Rajesh Shah respectively and manipulated the price and volumes in PSIL scrip.

2.0 ENQUIRY PROCEEDINGS

2.1 After considering the Investigation Report, SEBI appointed an Enquiry Officer vide Order dated May 23, 2003 to enquire into the possible violations committed by the Noticee under the provisions of Securities and Exchange Board of India Act, 1992, Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992 (hereinafter referred to as "Stock Broker Regulations") and Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as "PFUTP Regulations").

2.2 The Enquiry Officer issued a show cause notice dated March 12, 2004 to the Noticee under Regulation 6 of SEBI (Procedure for holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to in short as "Enquiry Regulation"). The said show cause notice was received by Noticee on April 06, 2004, but they chose not to reply. An opportunity of personal hearing was granted to the Noticee by the Enquiry Officer on September 28, 2004 and later on October 20, 2004 but the Noticee did not avail the opportunities of hearing.

2.3 After conducting an enquiry in accordance with the provisions of Enquiry Regulations, the Enquiry Officer submitted a report dated October 28, 2004 wherein he observed that the Noticee violated the provisions of Regulation 4 (a), (b), (c) & (d) of PFUTP and Regulation 7 read with clause A(1), A(3) and A (4) of Code of Conduct as specified in Schedule II of Stock Broker Regulations. He recommended suspension of registration of the Noticee for a period of six months.

3.0 SHOW CAUSE NOTICE

3.1 Pursuant to the receipt of the Enquiry Report, a Show Cause Notice dated November 25, 2004 was issued to Noticee, along with a copy of the Enquiry Report, advising them to show cause as to why the action, as recommended by the Enquiry Officer, should not be imposed on them. A reminder to the show cause notice was also issued to the Noticee on November

28, 2006. The Noticee through its director Bharat G Pandya filed their reply vide letter dated December 10, 2006 when they stated that they had already closed their business from November 2002.

4.0 PERSONAL HEARING

4.1 As already indicated above, an opportunity of personal hearing before me at SEBI's Head Office at Mumbai on February 20, 2007 was not availed by the Noticee.

5.0 CONSIDERATION OF ISSUES & FINDINGS

5.1 I have carefully examined the enquiry report, show cause notice, and submissions of the Noticee.

5.2 I find that the trading in PSIL scrip was highly concentrated with the brokers, Pawankumar, MMSPL and Noticee. The clients of the Noticee namely Rajesh Shah and Loco Securities Pvt. Ltd were related to each other and they both had same address. The counter party broker of the Noticee was Pawankumar, a proprietary concern of Shri Pawan kumar Choudhary whose client was Smt. Sarita Choudhary. Smt. Sarita Choudhary is the wife of Shri Pawan kumar Choudhary. All the shares sold by Smt. Sarita Choudhary were picked up by the clients of Noticee consisting of Shri Rajesh Shah, M/s Loco Securities Pvt. Ltd., M/s Uttam Investments and Shri C N Shah.

5.3 Rajesh Shah had dealt in PSIL scrip through two brokers viz. MMSPL and Noticee. The other entities viz. Loco Securities Pvt. Ltd., Uttam Investments and Shri C N Shah are also associated with Shri Rajesh Shah and these four entities accounted for 91.61% of the net purchase and 26.63% of the net sale in PSIL scrip. The combined settlement wise trading done by Rajesh shah group on BSE is given hereunder:

Sett. No.	Purchase Qty.	Rate (Rs.)	Sale Qty.	Rate (Rs.)	Net Qty.
35/2000	200	50.10	0		200
36/2000	100	54.05	0		100
39/2000	300	59.00	0		300
49/2000	1700	68.45	950	69.24	750
50/2000	1950	71.37	1550	71.89	400
51/2000	2500	73.81	2600	76.21	-100
1/2001	9250	76.86	1100	77.51	8150
2/2001	4700	77.17	700	77.64	4000
3/2001	13250		13350		-100
4/2001	13150	76.60	8750	77.45	4400
6/2001	5950	76.16	0		5950
7/2001	3000	76.19	0		3000
Total	56050		29000		27050

5.4 The Noticee submitted details showing certain transactions on behalf of one of the client of the Noticee Shri C.N Shah. The settlement wise details of the transactions are presented in the following table:

Sett. No.	Purchase Qty.	Sale Qty.	Net Qty.
200101	7800	7800	0
200102	4000	4000	0

5.5 As per report of BSE there was no client by name Shri C. N. Shah who had dealt through the Noticee during the investigation period. The Enquiry Officer observed that Noticee failed to provide the client registration form and other details of his client C.N. Shah. The transaction between the Noticee and this client was in the nature of off market which were admittedly not reported to the Exchange. The inspection report shows that some of the dealings done by the Noticee on behalf of Shri C. N. Shah had been reported to the exchange which in fact were seen to have been executed on behalf of Rajesh Shah. Shri C.N. Shah was evidently used by the Noticee and Rajesh Shah as a conduit to execute manipulative trades.

5.6 The Enquiry Officer had also examined the dealing of the Noticee with the broker MMSPL and he observed that Rajesh Shah had given 10,000 shares of PSIL to MMSPL to sell in the market. It has been also observed that the shares sold by Rajesh Shah through MMSPL were purchased by Loco Securities Pvt. Ltd., an associate of Rajesh Shah. These facts as also trading pattern of the clients of the Noticee clearly reveal their manipulative intention to create false market in PSIL scrip by way of circular trading.

5.7 I also find that Noticee executed spot trades for 23,000 shares when the seller and buyer happened to be Rajesh Shah and Smt. Sarita Choudhary respectively. All the shares delivered and received by Rajesh Shah and Sarita Choudhary were registered in the name of Haryana Metals Ltd. which incidentally is a family concern of PSIL. Evidently, these transactions were not reported to the exchange since they had failed to give contract notes to the investigating authority even when these were specifically asked for. This fact was also admitted by the Noticee. These spot trades were done clearly with a view to suppress the fact that Rajesh Shah and Smt. Sarita Choudhary were indulging in circular trades leading to price

manipulation and creation of volumes. All such transactions are banned under SEBI circular SMDRP / Policy / cir / 32/99 dated September 14, 1999.

- 5.8 The details of transactions executed by Noticee on spot trades with the seller (Rajesh Shah) and buyer (Smt. Sarita Choudhary) are given below:

Sett.No.	Purchase Qty.	Sale Qty.	Net Qty.
200101	0	7800	-7800
200102	0	4000	-4000
200104	0	2500	-2500
200106	0	5700	-5700
200107	0	3000	-3000

- 5.9 In her statement Smt. Sarita Choudhary admitted that the transactions were done to finance Noticee who had also submitted that the PSIL shares were given to her as security towards the loan amount. The Noticee also admitted that the shares so given to her were actually given by Rajesh Shah indicating thereby a clear pattern of circular trading where the spot transaction was the first one with Sarita Choudhary being the purchaser and Rajesh Shah being the seller. In the second leg of the transaction, Rajesh Shah was the purchaser and Sarita Choudhary was the seller. I observe this to be a clear case of circular trading. Even assuming that Smt. Sarita Choudhary was extending finance against illiquid scrip like PSIL then there would have been certain assurance that the scrip would be bought back. The shares bought by Smt. Sarita Choudhary through spot deals from Rajesh Shah were bought back by him through the market. In this way circuitous route for executing the transactions was clearly designed to have a three way effect as under:

- Provide financing to the price manipulation
- Create false volumes in the scrip and thereby induce the interest of unsuspecting investors.
- Price manipulation

- 5.10 I find that Noticee had received finance from Smt. Sarita Choudhary, wife of counterparty broker Pawankumar. The Noticee admitted the 'finance transaction' and also submitted that the shares given to Smt. Choudhary were received by them from their client Rajesh Shah. It is also an admitted fact that they indulged in unreported spot transactions in PSIL scrip and created circuitous route of trading for purchasing PSIL shares given to Smt. Sarita Choudhary on spot. This resulted in creation of false market since the shares had never changed hands and at the same time the exchange trading details indicated huge volumes. The Noticee had not given any explanations to the trades executed by them on behalf of their clients except replying that they had closed their business in the year 2002. However, I find that the registration of the Noticee as a broker is still existing.

- 5.11 Considering the above facts and circumstances, I find that the Noticee had acted hand in glove with their clients Rajesh Shah group and with other counter parties to execute manipulative trades and in creation of false market which tampered with the fair and smooth functioning of the market. The Noticee through these dealings in PSIL scrip has thus violated the provisions of Regulation 4 (a) to (d) of PFUTP Regulations, which provides that,

4. No person shall -
- (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 the sale or purchase of securities by any person;
 - (b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market;
 - (c) indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions;
 - (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;

- 5.12 Further, the Code of Conduct for Stock Brokers specified in Schedule II under Regulation 7 of the said Regulations provides for the minimum standards for the working of the stock brokers. If the regulatory requirements are violated by the stock brokers without attracting any action, the measures taken by SEBI for regulation of the stock brokers would be rendered nugatory and the regulatory function would be jeopardized. I find that the Noticee has indulged in manipulative transactions with a view to facilitate his clients to manipulate the market. Noticee also failed to exercise proper care and diligence

required of him in conducting his business as a stock broker. He has thus violated Regulation 7 read with the clause A (1) to (4) of Code of Conduct as specified in Schedule II of Stock Brokers Regulations, which are extracted hereunder:

A (1): A Stock Broker shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

A (2): A Stock Broker shall act with due skill, care and diligence in the conduct of all his business.

A (3): A Stock Broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gain.

A(4): A Stock Broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A Stock Broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

- 5.13 The violation committed by the Noticee are of serious nature and I therefore find this to be a fit case to impose penalty. While the enquiry officer has proposed a penalty of suspension for a period of six months, I am of the view that suspension for a period of two months will act as a deterrent for such acts.

6.0 ORDER

- 6.1 Taking into account all facts and circumstances of the case and 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 hereby impose a penalty of suspension of certificate of registration of the Noticee G.R Pandya Share Broking Ltd with SEBI Registration No. INB010997538 for a period of two months.
- 6.2 This order shall come into force immediately on the expiry of 21 days from the date of this order.

Place: Mumbai
Date: July 02, 2007

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