

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

**AGAINST M/s. PRABHAT INVESTMENTS, MEMBER OF DELHI
STOCK EXCHANGE ASSOCIATION LTD. IN THE SCRIP OF TACTFULL
INVESTMENTS LTD.**

ORDER

**(Under Regulation 13(4) of SEBI (Procedure For Holding Enquiry By
Enquiry Officer and Imposing Penalty) Regulations, 2002 against M/s
Prabhat Investments, Member Delhi Stock Exchange Association Ltd.)**

1.0 Background

- 1.1 The Delhi Stock Exchange Association Ltd. (hereinafter referred to as “DSE”) observed significant variation in price in the scrip of Tactfull Investments Ltd. (hereinafter referred to as “TIL”). The price of the scrip in DSE varied between Rs. 16/- on February 2, 2001 to Rs. 34/- on June 28, 2001 signifying a price increase of 113%. The above increase was accompanied by thin trading volumes. In view of the above, DSE conducted an investigation into the trading in the scrip of TIL for the period from February 1, 2001 to June 30, 2001. Further, DSE suspended trading in the scrip with effect from November 19, 2001.
- 1.2 Based on the investigation of DSE, SEBI ordered a preliminary enquiry into the trading of the scrip during December 2001. During the course of preliminary enquiry, it was observed that the trading was concentrated amongst a few brokers. Also, some of the trading brokers and the trading clients were suspected to be associated with the

company. In view of the above, SEBI conducted detailed investigation into the matter.

1.3 Investigations revealed that TIL was included in the list of vanishing companies based on the following criteria :

- (i) Company not responding to shareholders for a period of 2 years.
- (ii) Non-compliance of listing agreement
- (iii) Company is not available at the registered office.

1.4 The price volume data of the scrip of DSE for the period from February 2, 2001 to June 28, 2001 is mentioned below :

Date	Opening Price	Closing Price	High Price	Low Price	Traded Quantity
02-02-01	16.00	16.00	16.00	16.00	500
09-02-01	16.50	16.50	16.50	16.50	500
23-02-01	18.00	18.00	18.00	18.00	500
26-02-01	20.20	20.20	20.20	20.20	200
27-02-01	21.80	21.80	21.80	21.80	200
16-03-01	23.50	23.50	23.50	23.50	500
19-03-01	25.25	25.25	25.25	25.25	500
22-03-01	27.25	27.25	27.25	27.25	100
23-03-01	29.40	29.40	29.40	29.40	100
20-04-01	29.40	29.40	29.40	29.40	500
23-04-01	31.70	31.70	31.70	31.70	200
24-04-01	29.20	29.20	29.20	29.20	200
25-04-01	26.90	26.90	26.90	26.90	200
27-04-01	24.75	24.75	24.75	24.75	200
30-04-01	23.00	23.00	23.00	23.00	200
03-05-01	21.30	21.30	21.30	21.30	200
23-05-01	23.00	23.00	23.00	23.00	1000
24-05-01	24.80	24.80	24.80	24.80	1000
25-05-01	26.00	26.00	26.00	26.00	1000
28-05-01	26.10	27.90	27.90	26.10	2200
31-05-01	27.90	27.00	27.90	27.00	700
01-06-01	27.25	29.00	29.00	27.25	1000

Date	Opening Price	Closing Price	High Price	Low Price	Traded Quantity
05-06-01	27.00	26.35	27.00	26.35	1000
06-06-01	25.00	26.00	26.00	25.00	2000
07-06-01	25.50	26.00	26.50	25.50	1000
20-06-01	28.00	28.00	28.00	28.00	1100
21-06-01	30.00	30.00	30.00	30.00	100
22-06-01	31.00	31.00	31.00	31.00	1100
25-06-01	32.00	32.00	32.00	31.00	1500
27-06-01	32.50	32.50	32.50	32.50	500
28-06-01	34.00	34.00	34.00	34.00	500

1.5 During the above period the scrip was traded only for 31 days and the total number of shares traded were only 20,500. The average traded volume per day works out to about 660 shares. In many of the above trading days there were only one or two trades in the scrip. The maximum number of shares traded on any particular date during the period under scrutiny was only 2200 shares. Thus, there was very little trading interest in the scrip. The price of the scrip has increased from Rs. 16/- on February 2, 2001 to Rs. 34/- on June 28, 2001 signifying a price increase of 113%. The above price increase was accompanied by thin trading volumes. DSE has also informed that none of the above transactions resulted in any net delivery. Also, no off the floor trades were reported to the stock exchanges.

1.6 The details of the shares traded by brokers in the scrip of TIL during the period from February 1,2001 to June 30 2001 as furnished by DSE is below :

Sr.No.	Member Name	Total Purchase	Total Sale	Gross	Net
1.	Prabhat Investments	9700	9200	18900	500
2.	Argus Stock Broking Ltd.	6400	6400	12800	0

Sr.No.	Member Name	Total Purchase	Total Sale	Gross	Net
3.	Emmkay share & Stock Brokers Ltd.	2600	2100	4700	500
4.	Anvee Share Brokers Pvt. Ltd.	1700	1700	3400	0
5.	PNR Securities Ltd.	0	500	500	-500
6.	V.K. Kapoor & Co.	0	500	500	-500
7.	Option Securities Pvt. Ltd.	100	100	200	0

- 1.7 An analysis of the member wise trading details in the scrip of TIL during the period from February 1, 2001 to June 30, 2001 revealed that the four trading brokers accounted for 97% of the gross traded quantity and 100% of the net purchase quantity. Prabhat Investments, (hereinafter referred to as 'Prabhat') a broker of DSE, registered with SEBI having registration no. INB05515318 was identified as one of them who is alleged to have failed to exercise due diligence while dealing in securities and has aided and abetted its client in price manipulation and in creation of artificial volume.

2.0 Enquiry Proceedings

- 2.1 Pursuant to the investigation, an Enquiry Officer was appointed by SEBI vide order dated December 6, 2002 in terms of the provisions of Regulation 5 of the SEBI (Procedure for holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as "Enquiry Regulations") to examine the irregularities / violations committed by Prabhat.
- 2.2 A show cause notice dated July 31, 2003 was issued to Prabhat in terms of Regulation 6(1) of the Enquiry Regulations communicating the

charges leveled against it and advising it to reply to the allegations within 21 days. The said notice referred to the findings of investigation of SEBI and the details of violation of various provisions of law. It was alleged that Prabhat failed to exercise due skill and care and therefore violated Clause A (2), (3) and (4) of the Code of Conduct prescribed in Schedule II in terms of Regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as “Stock Brokers Regulations”) and SEBI circular no. SMDRP/Polcy/Cir-39/2001 dated July 18, 2001.

- 2.3 Prabhat vide its letter dated August 28, 2003 replied to the show cause notice and made submissions in detail. An opportunity of hearing was granted to Prabhat before the Enquiry Officer on July 23, 2004 wherein Shri Sanjay Sharma, proprietor of Prabhat appeared and reiterated the submissions made vide letter dated August 28, 2003. On completion of enquiry, the Enquiry Officer submitted his report dated August 13, 2004 recommending suspension of certification of registration of Prabhat for a period of two months.

3.0 Show Cause Notice and Reply

- 3.1 Based upon recommendation of the Enquiry Officer, a show cause notice dated August 23, 2004 was issued to Prabhat in terms of Regulation 13(2) of the Enquiry Regulations, advising it to show cause as to why action as considered appropriate should not be taken against it. A copy of the Enquiry Report was also forwarded to Prabhat with the said show cause notice and the same was served on Prabhat through Delhi Stock Exchange. However, no reply was received from Prabhat.

- 3.2 An opportunity of personal hearing was granted to Prabhat on October 26, 2006 at Regional Office of SEBI at New Delhi wherein Shri Sanjay Sharma, proprietor, Prabhat Investments appeared for hearing and made submissions.

4.0 Consideration of Issues

- 4.1 I have carefully examined the investigation report, show cause notice, reply of Prabhat and my findings are as under:
- 4.2 I note that the price of the scrip had shown an increase of about 113% from Rs.16/- on February 2, 2001 to 34/- on June 28, 2001 in a period of 31 trading days. Further from the analysis of the broker wise trading in the scrip of TIL during the investigation period, Prabhat was identified as one of the broker who along with other brokers accounted for 97% of the gross traded quantity and 100% of net purchase quantity.
- 4.3 The settlement wise and client wise trading details of Prabhat is as under:

Sr. No.	Settlement No. / Date	Client Name	Buy Quantity	Price	Sell Quantity	Price
1.	02-02-01	Hotline Securities Pvt. Ltd.	Nil	Nil	500	16.00
2.	09-02-01	Hotline Securities Pvt. Ltd.	500	16.05	Nil	Nil
3.	23-02-01	Hotline Securities Pvt. Ltd.	500	13.10	Nil	Nil
4.	26-02-01	Hotline Securities Pvt. Ltd.	Nil	Nil	200	20.05
5.	27-02-01	Hotline Securities Pvt. Ltd.	200	21.95	Nil	Nil
6.	16-03-01	Hotline Securities Pvt. Ltd.	500	23.65	Nil	Nil
7.	19-03-01	Hotline Securities	Nil	Nil	500	25.10

Sr. No.	Settlement No. / Date	Client Name	Buy Quantity	Price	Sell Quantity	Price
		Pvt. Ltd.				
8.	22-03-01	Hotline Securities Pvt. Ltd.	Nil	Nil	100	27.10
9.	23-03-01	Hotline Securities Pvt. Ltd.	100	29.55	Nil	Nil
10.	20-04-01	Hotline Securities Pvt. Ltd.	500	29.40	Nil	Nil
11.	23-04-01	Hotline Securities Pvt. Ltd.	Nil	Nil	200	31.70
12.	24-04-01	Hotline Securities Pvt. Ltd.	200	29.20	Nil	Nil
13.	25-04-01	Hotline Securities Pvt. Ltd.	200	26.90	Nil	Nil
14.	27-04-01	Hotline Securities Pvt. Ltd.	Nil	Nil	200	24.75
15.	30-04-01	Hotline Securities Pvt. Ltd.	Nil	Nil	200	23.00
16.	03-05-01	Hotline Securities Pvt. Ltd.	200	21.45	Nil	Nil
17.	23-05-01	Hotline Securities Pvt. Ltd.	Nil	Nil	1000	23.00
18.	24-05-01	Hotline Securities Pvt. Ltd.	1000	24.80	Nil	Nil
19.	25-05-01	Hotline Securities Pvt. Ltd.	Nil	Nil	1000	26.00
23.	28-05-01	Hotline Securities Pvt. Ltd.	1200	27.00	Nil	Nil
24.	31-05-01	Hotline Securities Pvt. Ltd.	300	27.45	Nil	Nil
25.	01-06-01	Hotline Securities Pvt. Ltd.	Nil	Nil	1000	28.00
26.	05-06-01	Hotline Securities Pvt. Ltd.	1000	26.80	Nil	Nil
26.	06-06-01	Hotline Securities Pvt. Ltd.	2000	25.50	Nil	Nil
26.	07-06-01	Hotline Securities Pvt. Ltd.	1000	26.00	Nil	Nil
26.	20-06-01	Hotline Securities Pvt. Ltd.	Nil	Nil	1000	28.00
26.	21-06-01	Hotline Securities Pvt. Ltd.	Nil	Nil	100	30.00
26.	22-06-01	Hotline Securities Pvt. Ltd.	1100	31.00	Nil	Nil

Sr. No.	Settlement No. / Date	Client Name	Buy Quantity	Price	Sell Quantity	Price
26.	25-06-01	Hotline Securities Pvt. Ltd.	1000	32.00	Nil	Nil
26.	27-06-01	Hotline Securities Pvt. Ltd.	Nil	Nil	500	32.50
26.	28-06-01	Hotline Securities Pvt. Ltd.	Nil	Nil	500	34.00
	TOTAL		7500		8000	

4.4 I note that the above client namely, Hotline Securities Pvt. Ltd. is one of the promoters of TIL. Prabhat Investments, the trading broker, also agreed that the above client may have executed these trades with an intention of manipulating the prices. However, they stated that at the time of executing the deals these facts were not known to them and they did not suspect the intentions of the client. Prabhat submitted that Hotline Securities Pvt. Ltd. was a regular client and has dealt in other securities like forward and cash group scrips apart from the scrip of TIL. While denying that Prabhat was aware of Hotline being the promoter of TIL, it admitted that the trades of Hotline appeared to be manipulated. In view of the admission of Prabhat that Hotline was its regular client, it is difficult to believe that Prabhat was not aware of the fact that Hotline was one of the promoters of TIL. Further, I note that Prabhat had contributed maximum volume both on buy as well as sell side which resulted in creation of artificial volume in the scrip.

4.5 The Enquiry Officer has further found that Prabhat had used different client codes for the same client. SEBI circular No. SMDRP/POLICY/CIR-39/2001 dated July 18, 2001 mandated that every investor should have unique ID. I have noted the submission of

Prabhat that due to frequent discontinuity of DSE terminal from the main HUB, client code has to be fed again and hence different client codes have been used. The reason given by Prabhat that it used different client code is not convincing. However, I find that Prabhat cannot be charged for violating Circular dated July 18, 2001 as the alleged trades were executed prior to the issue of the said Circular by SEBI.

I note that Prabhat has permitted its client to trade in illiquid scrip. The scrip has been made liquid by creating artificial volumes and putting order at higher prices by few clients including the client of Prabhat. Prabhat has dealt in the scrip of a company which had been identified by SEBI as vanishing company and which had been prohibited by SEBI from accessing capital market for a period of 5 years vide order December 17, 1999. Being a registered intermediary of SEBI, Prabhat cannot exhibit its ignorance of SEBI declaring TIL as a vanishing company. Any prudent stock broker would not deal in shares of such company.

- 4.6 In view of the above circumstances, any prudent stock broker can doubt the intentions of the clients and stop trading for them. Instead, Prabhat continued trading for number of settlements which resulted in creation of artificial volumes and price in the scrip of TIL. Unsuspected innocent investors would be trapped by such false appearance of trading in securities. This is detrimental to the interest of investors and the orderly development of the securities market.

- 4.7 After going through facts and circumstances of the case, I find that Prabhat has therefore, failed to exercise due skill and care in terms of Clause A(2) of the Code of Conduct prescribed for stock brokers, in terms of Regulation 7 of Securities and Exchange Board of India (Stock Brokers and Sub Brokers) Regulation 1992. However, since the listing has not been suspended by the Stock Exchange, Prabhat cannot be blamed entirely for trading in the scrip of a company which has been declared as vanishing company. Further, I note that Prabhat has no proprietary trades in the scrip and there is no allegation of not collecting appropriate margins from the client or failed to take proper introduction of the client.
- 4.8 On careful perusal of the charges and the findings as recorded above and keeping in view the nature of violation committed by Prabhat, I am of the view that a penalty of suspension of certificate of registration for a period of two months as recommended by the Enquiry Officer would be excessive. Considering the facts and circumstances of the case, a minor penalty of one month would be adequate to meet the ends of justice.

5.0 Order

- 5.1 Therefore in exercise of powers conferred upon me by virtue of section 19 read with Regulation 13 of SEBI(Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty)Regulations, 2002, I hereby impose a minor penalty of suspension of certificate of registration for a

period of one month on Prabhat Investments, Member of Delhi Stock Exchange, registration no., INB05515318.

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

DATE : 21.08.2007

PLACE: MUMBAI

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