

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA**  
**CORAM: V. K. CHOPRA, WHOLE TIME MEMBER**

**In the matter of irregularities in the trading of the shares of Todays Writing Products Ltd against Shri Sunil Purohit, M/s Victory Trading Corporation, Shri Tejash Ghelani, Shri Mehul Shah, Shri Chaitanya Raote, Shri Chirag Pujara, Shri Devang Dadia and Shri Rakesh Mithapara**

DATE OF HEARING: 31.05. 2007 and 25.06.2007

APPEARANCES:

FOR THE NOTICEES:

1. Shri Chirag Pujara along with Advocate Shri J.J Bhatt
2. Shri Vasant H Bissa , the proprietor of Victory Trading Corporation along with Advocate Shri Abdul Wahab A.H Mukri
3. Shri Rakesh P Mithapara

FOR SEBI:

1. Mrs Barnali Mukherjee, DGM, SEBI
2. Shri Sanjay Sarwade, Manager, SEBI
3. Shri Mohamed Rahaz P. M., Legal Officer, SEBI

**ORDER**

**{Under Section 11B and 11(4) of the Securities and Exchange Board of India Act, 1992 and Regulation 11 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003}**

## **1.0 BACKGROUND**

- 1.1 M/s Today's Writing Products Ltd. promoted by the Drolia family and incorporated in 1992, were engaged in manufacture of pens, refills etc. The shares of the company were traded at Bombay Stock Exchange Ltd (BSE) and National Stock Exchange (NSE). The scrip at BSE was traded for 23 days and at NSE for 29 days during the investigation period. The closing price of the scrip at BSE moved in the range of Rs 49.45 to Rs. 53.15 during April 07, 2004 till April 20, 2004. The price fell to Rs. 40.95 on April 30, 2004 and there after moved in the range of Rs. 42.90 to Rs. 48.05 till May 11, 2004. At NSE the price of the scrip fell from Rs.52.40 on April 1, 2004 to Rs.41.00 as on April 30, 2004 and then went up to Rs.44.65 as on May 14, 2004. The average daily volume at BSE was 4,17,998 shares and at NSE it was 41,085 shares. NSE recorded a volume of 11,91,482 shares during the period April 01, 2004 to May 14, 2004 and BSE recorded a volume of 96,13,954 shares during the period April 07, 2004 to May 11, 2004.
- 1.2 BSE and NSE conducted investigation and informed Securities and Exchange Board of India (hereinafter referred to as "SEBI") that certain brokers and their clients were involved in the circular trading in the scrip by way of structured/synchronised trades. In view of this, SEBI conducted investigation into the buying, selling or dealing in the scrip during the period from April 01, 2004 to May 14, 2004.
- 1.3 Investigation revealed that Shri Sunil Purohit (traded on both NSE and BSE), M/s Victory Trading Corporation, Shri Tejash Ghelani, Shri Mehul Shah, Shri Chaitanya Raote, Shri Chirag Pujara (traded at BSE) and Shri Devang Dadia and Shri Rakesh Mithapara (traded at NSE) (hereinafter referred to these entities as "Noticees") had executed circular trading / reversal trading among themselves and created artificial volumes in the scrip and have thus violated Regulation 4(1), 4(2)(a),(b),(g) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices

Relating to Securities Market) Regulations, 2003 (hereinafter referred to as "PFUTP Regulations ").

## **2.0 SHOW CAUSE NOTICE**

- 2.1 Show cause notices dated October 12, 2006 were issued to the Noticees advising them to show cause as to why suitable directions under Regulation 11B and 11(4) of SEBI Act, 1992 and Regulation 11 of PFUTP Regulations, including restraining them from accessing the capital market and dealing in securities for a particular period should not be issued for the violations mentioned in paragraph no. 1.3 above.

## **3.0 REPLY OF THE NOTICEE TO THE SHOW CAUSE NOTICE**

- 3.1 Shri Chirag Pujara vide his letter dated November 09, 2006 filed a reply to the show cause notice wherein he stated the following:
- 3.1.1 That he is an investor who was doing intra day trading (square – off business) in a few scrips through his main broker viz Southern Shares and Stock Brokers Ltd. His net earning from the said business was small as he earned profit in some scrip and lost in some other scrip.
  - 3.1.2 That the power under Section 11, 11 B and 11(4) of SEBI Act, 1992 read with PFUTP Regulation, is discretionary in nature and no prima facie case has been brought out to invoke such exceptional and extra-ordinary power against him.
  - 3.1.3 That he is not a registered intermediary with SEBI and he does not come under the purview of SEBI.
  - 3.1.4 That his transactions can not be treated as circular/synchronised trades. His trades were in the nature of squaring up transactions for small profit/loss on a daily basis.
  - 3.1.5 That he had traded only on 11 days out of the total 23 days and out of which his trades of 4 days were considered circular/reversal/synchronised

in nature. He had purchased and sold the same quantity of 2,00,490 shares out of the total market volume of 96,13,954 shares. According to him, his traded volume was minimal when compared to the total market volume during the investigation period.

- 3.1.5 That his sell or buy orders have not been matched with the same counterparty except on April 12, 2004.
  - 3.1.6 That the findings of the execution of synchronised trades with an intention to create artificial volume and also effecting the price have not been supported by evidence and no nexus or connection has been established among the entities in the show cause notice.
  - 3.1.7 That he has not executed any trade with prior arrangement with anyone and squaring off trades do not automatically amount to circular trades.
  - 3.1.8 That all the transactions were executed on bolt system during market hours at prevailing market price.
  - 3.1.9 That the square up / jobbing activities are permissible and that 70% to 80% of the market volume is from such trades.
- 3.2 The proprietor of Victory Trading Corporation vide his letter dated November 20, 2006 filed a reply to the show cause notice. While denying circular/reversal trades he stated the following:
- 3.2.1 That he first instructed his broker to purchase shares and on noticing a slight rise in price he instructed the broker to square off the transactions and booking the profit arising out of fluctuations in the price.
  - 3.2.2 That he executed the transaction from February 27, 2004 and continued upto August 27, 2004 and during this period he earned a net profit of Rs 32,603.59. However, during the period from April 07, 2004 to May 11, 2004, he had earned a profit of Rs. 20,929.35.
  - 3.2.3 That the counterparties for the transactions may be same as they were also trading in the said scrip at the relevant time. Further, he has executed trades in many other scrips during the investigation period and the counterparties to the said transactions were many other brokers / clients.

- 3.2.4 That he has been trading in various other scrips from the very beginning and at no point of time he had concentrated only in a particular scrip.
- 3.2.5 That he has no relation with the counterparty member brokers or their clients and all the transaction have been effected in a bonafide manner.
- 3.3 Shri Mehul A Shah vide his letter dated January 29, 2007 stated he had never bought or sold any shares of Today's writing and had never instructed the sub-broker Shri Vijaykumar J. Thakkar to buy or sell the shares of the company Shri Mehul A Shah further stated that he never held any shares at any point of time and the sub-broker had fraudulently involved his name for his personal interest, gain and profit.
- 3.4 Shri Rakesh P Mithapara vide his letter dated December 15, 2006 denied all the charges and stated that he was taking the advantage of price gap between buy and sell. He stated that he had no relationship or connection with the other Noticees. He also denied having squared up his trades by way of synchronised/reversed with other brokers as alleged in the show cause notice.
- 3.5 Shri Sunil Purohit, Shri Tejash Ghelani, Shri Chaitanya Raote, and Shri Devang Dadia did not reply to the SCN.

#### **4.0 PERSONAL HEARING**

- 4.1 An opportunity of personal hearing was given to all the Noticees before me at SEBI's Office, details whereof are given hereunder:
- 4.1.1. Shri Chirag Pujara attended the hearing along with his Advocate Shri J.J Bhatt on May 31, 2007 and submitted that he carried out day trading transactions in the normal course of business.
- 4.1.2. The proprietor of Victory Trading Corporation Shri Vasant H Bissa along with Advocate Shri Abdul Wahab A.H Mukri attended the hearing on May 31, 2007 and reiterated the same facts as mentioned in his reply to the

SCN.

- 4.1.3. Shri Rakesh P Mithapara attended the personal hearing on May 31, 2007 and reiterated the facts mentioned in his reply to the SCN.
- 4.1.4. Shri Mehul Shah in response to the intimation of personal hearing, stated that he has neither done any trading in the scrip nor was he holding any shares at any point of time. He also requested for an exemption from a personal hearing.
- 4.1.5. Shri Sunil Purohit, Shri Tejash Ghelani, Shri Chaitanya Raote and Shri Devang Dadia did not attend the personal hearing in spite of being given two opportunities.

## **5.0 Consideration of issues and findings.**

- 5.1 I have carefully examined the findings of investigation, show cause notices alongwith the annexure therein and replies of the Noticees.
- 5.2 After having examined the trades executed by the Noticees, I find that the buy and sell order rate and quantities were identical and that the time difference between the buy orders and sell orders was less than a minute in majority of the trades. The scrip was traded at both BSE and NSE and the Price Volume Data in the scrip at BSE and NSE is given below.

| Sl No | Date      | BSE           |        | NSE           |        |
|-------|-----------|---------------|--------|---------------|--------|
|       |           | Closing Price | Volume | Closing Price | Volume |
| 1     | 1-Apr-05  | 49.95         | 174977 | 52.40         | 7601   |
| 2     | 2-Apr-05  | 49.55         | 119168 | 50.25         | 5101   |
| 3     | 5-Apr-05  | 50.85         | 151665 | 49.65         | 1422   |
| 4     | 7-Apr-05  | 49.45         | 147669 | 48.55         | 841    |
| 5     | 8-Apr-05  | 50.9          | 577179 | 50.45         | 57053  |
| 6     | 12-Apr-05 | 50.05         | 444806 | 49.90         | 21745  |
| 7     | 13-Apr-05 | 53.25         | 635671 | 52.45         | 13742  |
| 8     | 15-Apr-05 | 52.15         | 431893 | 52.20         | 18161  |
| 9     | 16-Apr-05 | 52.7          | 644832 | 52.80         | 17753  |
| 10    | 17-Apr-05 | 52.75         | 437556 | 52.40         | 4162   |
| 11    | 19-Apr-05 | 51.4          | 505547 | 51.70         | 8107   |
| 12    | 20-Apr-05 | 53.15         | 500351 | 52.90         | 4405   |

|    |              |       |                 |       |                |
|----|--------------|-------|-----------------|-------|----------------|
| 13 | 21-Apr-05    | 52.35 | 569771          | 52.75 | 38172          |
| 14 | 22-Apr-05    | 47.15 | 425483          | 47.50 | 73862          |
| 15 | 23-Apr-05    | 48.3  | 886677          | 47.60 | 137128         |
| 16 | 27-Apr-05    | 44.65 | 234747          | 44.60 | 89469          |
| 17 | 28-Apr-05    | 45.95 | 420206          | 45.25 | 57231          |
| 18 | 29-Apr-05    | 44.9  | 363149          | 44.90 | 87690          |
| 19 | 30-Apr-05    | 40.95 | 97845           | 41.00 | 32053          |
| 20 | 3-May-05     | 44.05 | 283553          | 43.35 | 41193          |
| 21 | 4-May-05     | 47.2  | 654529          | 46.90 | 115275         |
| 22 | 5-May-05     | 47.8  | 770025          | 47.80 | 163484         |
| 23 | 6-May-05     | 48.05 | 184207          | 47.90 | 66329          |
| 24 | 7-May-05     | 45.9  | 113390          | 45.35 | 42288          |
| 25 | 10-May-05    | 43.4  | 132618          | 43.60 | 42558          |
| 26 | 11-May-05    | 42.9  | 152250          | 41.95 | 29501          |
| 27 | 12-May-05    | 44    | 165738          | 45.35 | 2669           |
| 28 | 13-May-05    | 47.6  | 172144          | 47.35 | 5737           |
| 29 | 14-May-05    | 44.85 | 113005          | 44.65 | 6750           |
|    | <b>Total</b> |       | <b>10510651</b> |       | <b>1191482</b> |

5.3 The trade quantities of the Noticees in the scrip during the period of the investigation period (April 01, 2004 to May 14, 2004) are given below:

| Sl No | Client Name                 | Broker & Exchange                           | Traded Quantity | % to Mkt Vol | Traded Quantity | % to Mkt Vol | Net qty |
|-------|-----------------------------|---------------------------------------------|-----------------|--------------|-----------------|--------------|---------|
| 1     | Sunil K Purohit             | Sanchay Finvest (NSE)                       | 236225          | 19.83        | 235525          | 19.77        | 700     |
|       | Sunil Purohit               | Sanjchay Fincom Ltd. (BSE)                  | 603016          | 6.27         | 603716          | 6.28         | -700    |
| 2     | Devang Hasmukhlal Dadia     | Gogia International Securities ltd. (NSE)   | 212195          | 17.81        | 212195          | 17.81        | 0       |
| 3     | Rakesh Mithapara            | Capman Capital Markets limited (NSE)        | 187270          | 15.72        | 187270          | 15.72        | 0       |
| 4     | Chirag Pujara               | Triveni Mgmt Consultancy Services ltd (NSE) | 120100          | 10.08        | 129867          | 10.90        | -9767   |
|       | Chirag Pujari               | Southern Shares & Stocks Ltd. (BSE)         | 200490          | 2.09         | 200490          | 2.09         | 0       |
| 5     | Victory Trading Corporation | Harkishan Hiralal (BSE)                     | 496695          | 5.17         | 496695          | 5.17         | 0       |
| 6     | Mehul Shah                  | VSE Stock Services Ltd. (BSE)               | 397330          | 4.13         | 397330          | 4.13         | 0       |
| 7     | Chaitanya Raote             | Galaxy Broking Ltd.                         | 94890           | 0.99         | 94890           | 0.99         | 0       |
| 8     | Tejash Ghelani              | Vijay Bhagwandas & Co. (BSE)                | 172735          | 1.80         | 172735          | 1.80         | 0       |

### **Circular / Reversal and synchronized Trading at NSE:**

5.4 The Noticees viz Shri Sunil K Purohit, Shri Devang Hasmukhlal Dadia and Shri Rakesh P Mithapara had together purchased 6,35,690 shares and sold 6,34,990 shares accounting for 53.35% and 53.29% respectively of the market volume on NSE. Shri Chirag Pujara, while trading at NSE did not seem to be involved in circular trading. However, it was observed that at BSE, he was involved in circular/ reversal trading. The details of the same are given in the succeeding paragraphs. I find that the Noticees, Shri Sunil K Purohit, Shri Devang Hasmukhlal Dadia and Shri Rakesh P Mithapara had entered into circular / reversal trades which were synchronized / structured in nature and they have together traded in 5,18,311 shares in 159 trades and accounted for 43.50% of the market volume during the said period as shown below:

| <b>Members</b>                             | <b>Own Account / Client</b> | <b>No of Days Traded During the Period / No of Days Done Circular Trading</b> | <b>Buy Qty Being Part of Circular traded Qty</b> | <b>Buy Qty as % to Market Volume</b> | <b>Sell Qty Being Part of Circular traded Qty</b> | <b>Sell Qty as % to Market Volume</b> |
|--------------------------------------------|-----------------------------|-------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------|---------------------------------------------------|---------------------------------------|
| Sanchay Finvest Limited.                   | Sunil K Purohit             | 18 / 17                                                                       | 181226                                           | 15.21                                | 185255                                            | 15.55                                 |
| Gogia International Securities Ltd.        | Devang Hasmukhlal Dadia     | 12 / 12                                                                       | 180475                                           | 15.15                                | 169550                                            | 14.23                                 |
| Capman Capital Markets Limited.            | Rakesh Mithapara            | 16 / 15                                                                       | 156610                                           | 13.14                                | 163506                                            | 13.72                                 |
| <b>Total</b>                               |                             |                                                                               | <b>518311</b>                                    | <b>43.50</b>                         | <b>518311</b>                                     | <b>43.50</b>                          |
| <b>Market Vol on NSE during the Period</b> |                             |                                                                               | <b>1191482</b>                                   | <b>100.00</b>                        | <b>1191482</b>                                    | <b>100.00</b>                         |

5.5 Further, out of the total 29 days trading during the investigation period at NSE, the above Noticees indulged in reversal/circular trading for 17 days. Shri Sunil K

Purohit traded in all for 18 days and was involved in such type of trading on 17 days. Shri Devang Hasmukhlal Dadia traded for 12 days and was involved in such type of trading on all the 12 days. Shri Rakesh P Mithapara traded for 16 days and was involved in such type of trading on 15 days.

5.6 I find that the details of date-wise quantity traded showing reversal and circular pattern and trade log and order log of NSE in the scrip had already been furnished to the Noticees namely Shri Sunil K Purohit, Shri Devang Hasmukhlal Dadia and Shri Rakesh P Mithapara and these details were not disputed by them. I have also examined the said details and find the following:

- ✍ Sunil K. Purohit, Devang Dadia and Rakesh Mithapara together have on 10 days executed reversal/circular trades in 121 trades (112 buy orders and 112 sell orders) for 4,07,231 shares.
- ✍ Sunil K. Purohit and Devang Dadia have on 2 days executed reversal/circular trades in 20 trades (19 buy orders and 19 sell orders) for 72,100 shares.
- ✍ Sunil K. Purohit and Rakesh Mithapara have indulged in synchronized trades on 2 days in 4 trades (4 buy orders and 4 sell orders) for 9930 shares.
- ✍ Sunil K. Purohit and Rakesh Mithapara have on 3 days executed reversal/circular trades in 14 trades (14 buy orders and 13 sell orders) for 29050 shares.
- ✍ There was no change of beneficial ownership of the shares.

5.7 Trading details of the Noticees namely Shri Sunil K Purohit, Shri Devang Hasmukhlal Dadia and Shri Rakesh P Mithapara in the scrip shows a reversal and circular trading pattern amongst themselves. The buy and sell orders have been identical for almost all these transactions with respect to rate and quantity. The time difference of the respective buy and sell orders ranged from zero seconds to less than one minute. These synchronized trades were executed on 17 days of the 29 days during which the scrip was traded on NSE. Further, these trades accounted for 14.23% to 91.17% of the daily market volume.

5.8 The time difference between the respective buy orders and sell orders was zero seconds for 41 transactions for 1,56,911 shares accounting for 13.17% of the market volume. The time difference between the respective buy orders and sell orders ranged from one second to 60 seconds for 118 transactions for 3,61,400 shares accounting for 30.33% of the market volume. The respective buy and sell orders quantities were identical for 141 transactions for 4,93,591 shares accounting for 41.43% of the market volume. The respective buy and sell orders rates were identical for 155 transactions for 5,08,411 shares accounting for 42.67% of the market volume. The clients Sunil K. Purohit, Devang Hasmukhlal Dadia and Rakesh Mithapara executed synchronized/ reversal trades / circular trades for 17, 12 and 15 days respectively. A total of 159 trades (149 buy orders and 149 sell orders) comprising 5,18,311 shares were executed between these three clients accounting for 43.50% of the total quantity traded during the period of investigation (April 01, 2004 to May 14, 2004) on NSE, contributing for 14.23 to 91.17% of the daily trading volume (average daily volume being approx. 30,489) on the days by way of synchronized / circular trading / reversal trades. The above mentioned clients and the brokers bought and sold the shares among themselves by squaring off the deals, often, on the same day through the same broker(s) in a circular manner. These circumstantial evidences show that the brokers and clients have done the synchronized/circular/reversal trades in connivance with each other for a number of days and thus have created artificial volume.

**Circular / Reversal and synchronized Trading at BSE:**

5.9 The Noticees viz Shri Sunil Purohit, Victory Trading Corporation, Tejash Ghelani, Mehul Shah, Chaitanya Raote and Chirag Pujara along with three brokers who traded in their proprietary account had together purchased 48,25,704 shares and sold 48,26,404 shares accounting for 50.21% and 50.22% respectively of the market volume. They entered into circular / reversal trades among themselves and which were synchronized / structured in nature. These

entities together traded in this manner for 31,98,566 shares in 1192 trades accounting for 33.27% of the market volume(9613954) during the said period. The details of day wise trading indicate the circular/ reversal pattern. Further, the day wise and time wise break up of said quantities, the relevant trade log with the order details and the daily contribution of these trades were provided to the Noticees viz Shri Sunil Purohit, Victory Trading Corporation, Tejash Ghelani, Mehul Shah, Chaitanya Raote and Chirag Pujara along with the show cause notice and this fact was not disputed by them except Shri Mehul Shah who stated that he never held any shares and his sub-broker had put those trades in his name for some undue gain. However, I also observe that he had taken a different stand at the time of investigation and had stated that all his transactions were transacted in his client ID and were genuine in nature and without any malafide intention. The other Noticees on the other hand had contended that they were doing jobbing by squaring off the transactions which is permissible. Adding further, they stated that they did not know the counterparties. In this regard, it is pertinent to mention that they carried out large quantity of trades for a large number of days and the timings for the orders so placed also matched at most instances, and ranged between 0-60 seconds. In view of this, it is difficult to accept the above explanation of the Noticees. The individual contribution of the entities in the circular trading is given below:

| <b>Members</b>                | <b>Own Account / Client</b>   | <b>No of Days Traded During the Period / No of Days Done Circular Trading</b> | <b>Buy Qty Being Part of Circular traded Qty</b> | <b>Buy Qty as % to Market Volume</b> | <b>Sell Qty Being Part of Circular traded Qty</b> | <b>Sell Qty as % to Market Volume</b> |
|-------------------------------|-------------------------------|-------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------|---------------------------------------------------|---------------------------------------|
| Uttam Financial Services Ltd. | Own                           | 23 / 23                                                                       | 878710                                           | 9.14                                 | 911880                                            | 9.48                                  |
| Sanchay Fincom Ltd.           | (Sunil Purohit)               | 23 / 23                                                                       | 567264                                           | 5.90                                 | 570127                                            | 5.93                                  |
| S.P.J. Stock Brokers (P)Ltd.  | Own                           | 23 / 23                                                                       | 408982                                           | 4.25                                 | 401503                                            | 4.18                                  |
| M/s.Harikishan Hiralal        | (Victory Trading Corporation) | 23 / 23                                                                       | 471623                                           | 4.91                                 | 454278                                            | 4.73                                  |
| Vijay Bhagwandas & Co.        | Own                           | 12 / 12                                                                       | 222414                                           | 2.31                                 | 223144                                            | 2.32                                  |

|                                                                 |                    |         |                |              |                |              |
|-----------------------------------------------------------------|--------------------|---------|----------------|--------------|----------------|--------------|
| Vijay Bhagwandas & Co.                                          | (Tejash D Ghelani) | 10 / 10 | 167664         | 1.74         | 171885         | 1.79         |
| Subbroker Vijaykumar J Thakkar (through VSE Stock Services Ltd. | (Mehul Shah)       | 23 / 23 | 370664         | 3.86         | 361846         | 3.76         |
| Galaxy Broking Ltd.                                             | (Chaitanya Raote)  | 07 / 07 | 86440          | 0.90         | 86139          | 0.90         |
| Southern Shares & Stocks Ltd                                    | (Chirag Pujara)    | 11 / 04 | 24805          | 0.26         | 17764          | 0.18         |
| <b>Total</b>                                                    |                    |         | <b>3198566</b> | <b>33.27</b> | <b>3198566</b> | <b>33.27</b> |
| <b>Market Volume on BSE during the Period</b>                   |                    |         | <b>9613954</b> |              | <b>9613954</b> |              |

5.10 From the above details, I find that that the group of Noticees had indulged in circular/reversal trades regularly on BSE as may be clear from the details given hereunder:

- ✍ A total of 1192 trades (1192 buy orders and 1192 sell orders) comprising 31,98,566 shares were executed between the Group of brokers and clients, accounting for 12.36% to 91.57% of the daily turnover and 33.27% of the total traded quantity during the investigation period (9613954).
- ✍ The broker Uttam Financial Services Ltd. had bought and sold 878,710 shares and 911,880 shares and traded in his own Account for 23 days, broker S.P.J. Stock Brokers (P) Ltd. had bought and sold 408,982 shares and 401,503 shares and traded in his own Account for 23 days, broker Vijay Bhagwandas & Co. had bought and sold 222,414 shares and 223,144 shares respectively and traded in his own Account for 12 days and was involved in such type of trading on all the 12 days.
- ✍ The net delivery of all above clients and brokers was nil except for Sunil Purohit who had a net sale of 700 shares.
- ✍ Out of 1192 buy and sell orders, the time difference between the respective 142 buy orders and 142 sell orders is zero seconds for 142 transactions for 5,03,853 shares, accounting for 5.24% of the market volume. The time difference between the respective 757 buy orders and 733 sell orders ranged from one second to 60 seconds for 859 transactions for 23,92,087 shares

accounting for 24.88% of the market volume. In all, 899 buy orders and 875 sell orders accounting for 75.42% of the total 1192 buy orders and 73.41% of the total sell orders placed were synchronized in nature of reversal trades/circular trades where the time difference between them was less than or equal to 60 seconds for 2895940 shares accounting for 91 % of the total circular traded quantity of 3198566 shares by the above entities and 30.12 % of the total market volume during the period. The respective buy and sell orders quantities were identical for 586 transactions for 20,46,372 shares and accounted for 21.29% of the market volume. Where there was difference between the buy order quantities and sell order quantities, it was observed that the members/ clients were entering into more than one buy or sell order so that the combination of quantities of such buy and sell orders was similar. Also the respective buy and sell orders rates were identical for 668 transactions for 19,98,535 shares accounting for 20.79% of the market volume.

- 5.11 On a perusal of the annexures provided to the Noticees along with show cause notice, it is clear that each of the Noticees had executed matched/synchronised deals. These synchronized trades of circular/reversal pattern created artificial volume in the scrip. Their cumulative contribution accounted for 33% and 43.5% of the gross traded quantity at BSE and NSE respectively. These circumstantial evidences clearly reveal that the Noticees have done the circular/reversal trades in connivance with each other for number of days and thus created artificial volume. In all such cases, prices and quantities had been negotiated outside the system and orders had been executed simultaneously. Such transactions give an impression as if these were all synchronized trades to create artificial market; or else there would have been no possibility of such perfect matching of quantity price, etc. This issue has already been discussed by the Hon'ble Securities Appellate Tribunal (SAT) in Appeal Nos 54 to 57 of 2002 in the case of Nirmal Bang Securities (P) Ltd. vs. SEBI. While examining the issue of synchronized trades, the Hon'ble SAT observed as under:

*“BEB has been charged for synchronized deals with First Global. I have examined the data provided by the parties on this issue. I find many transactions between BEB and FGSB. There are many instances of such transactions. I find the scrip, quantity and price for these orders had been synchronized by the counter party brokers. Such transactions undoubtedly create an artificial market to mislead the genuine investors. Synchronized trading is violative of all prudential and transparent norms of trading in securities. Synchronized trading on a large scale can create false volumes. The argument that the parties had no means of knowing whether any entity controlled by the client is simultaneously entering any contra order elsewhere for the reason that in the online trading system, confidentiality of counter parties is ensured, is untenable. It was submitted by the Appellants that it was not possible for the broker to know who the counter party broker is and that trades were not synchronized but it was only a coincidence in some cases. Theoretically this is OK. But when parties decide to synchronize the transaction the story is different. There are many transactions giving an impression that these were all synchronized, otherwise there was no possibility of such perfect matching of quantity price etc. As the Respondent rightly stated it is too much of a coincidence over too long a period in too many transactions when both parties to the transaction had entered buy and sell orders for the same quantity of shares almost simultaneously. The data furnished in the show cause notice certainly goes to prove the synchronized nature of the transaction which is in violation of regulation 4 of the FUTP Regulations. The facts on record categorically establish that BEB had indulged in synchronized trading in violation of regulation 47 of the FUTP Regulations. In a synchronized trading intention is implicit.”*

- 5.12 I find from the above facts that the trading pattern indulged by the Noticees is in the nature of circular trades since they were the main entities who traded amongst themselves by executing synchronised trades with the intention that the orders of a particular entity get matched with the other and there was prior arrangement in

respect to large number of these transactions. These transactions resulted in creation of artificial volume in the scrip. The pattern of trading indicates several instances when the time difference between buy and sell orders was nil. No unknown person can trade continuously by putting orders in such pattern and by contributing significantly to total volume in the market. The execution of circular trading repeatedly for several days by the Noticees as a group reveals that they were having nexus with each other. These entities executed trades with a pre-determined plan to match their trades which were not indicative of genuine transactions since it did not result into transfer of beneficial ownership. The increase in the volume in the scrip can primarily be attributed to the trades done by the Noticees. They have by their acts violated Regulation 4(1), 4(2) (a), (b) and (g) of PFUTP Regulations, provisions whereof are given below:

4. *Prohibition of manipulative, fraudulent and unfair trade practices*

- (1) *Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.*
- (2) *Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:-*
  - (a) *indulging in an act which creates false or misleading appearance of trading in the securities market;*
  - (b) *dealing in a security not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress or cause fluctuations in the price of such security for wrongful gain or avoidance of loss;*
  - (g) *entering into a transaction in securities without intention of performing it or without intention of change of ownership of such security;*

5.13 I have also noted that adjudicating officer of SEBI had imposed a penalty of Rs 10 lakhs and Rs 3 lakhs against Shri Chirag Pujara in two matters and he was also debarred from accessing the capital market for a period of six months under Section 11B of SEBI Act for a similar violation as he had committed in the

present matter.

- 5.14 After having considered all facts and circumstances of the case, I am of the view that this is a fit case to restrain the above entities from accessing the securities market with an objective to protect the interest of investors as also to ensure that it acts as a deterrent for such actions in the securities market in future.

## **6.0 ORDER**

- 6.1 Therefore, taking into consideration the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Sections 19 of the SEBI Act read with Sections 11(4) and 11B of SEBI Act, 1992 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, do hereby restrain the Noticees viz. Shri Sunil Purohit (PAN AHSP9704F), M/s Victory Trading Corporation (PAN AABPB8108M), Shri Tejash Ghelani (PAN AEPPG7381B), Shri Mehul Shah, Shri Chaitanya Raote (PAN AGSP8131B), Shri Chirag Pujara (PAN AASPP3622R), Shri Devang Dadia (PAN AEKPD1019A) and Shri Rakesh Mithapara (PAN AFWPM1225N) from buying, selling and dealing or accessing the securities market in any manner for a period of 4 months.

- 6.2 This order shall come into force with immediate effect.

**Place: Mumbai**

**Date: November 01, 2007**

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