

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V.K. CHOPRA, WHOLE TIME MEMBER

**AGAINST NET EQUITY BROKING INDIA PVT. LTD., M/S ENPEE
ENTERPRISES PVT. LTD., SHRI SUJAL SHAH, SHRI ATUL GANDHI,
Ms.ANJU GANDHI, SHRI NARENDRA MISTRY, SHRI PRATIK SHAH, SHRI
RAJKUMAR MASALIA**

**IN THE MATTER OF INVESTIGATION INTO THE DEALINGS IN THE SCRIP
OF M/S ZIGMA SOFTWARE LIMITED**

WTM/VKC/IVD/ID8/114 /07

DATES OF HEARING: MAY 14, 2007, June 8, 2007 and August 8, 2007

APPEARANCES:

FOR THE NOTICEES:

- 1. Shri Nilesh Popat, Director of M/s ENPEE Enterprises Pvt. Ltd.**
- 2. Shri Sujal C Shah**
- 3. Shri Sujal C Shah on behalf of Pratik C Shah**
- 4. Rajkumar Masalia**
- 5. Sujal Shah on behalf of M/s Net Equity Broking Pvt. Ltd.**

FOR SEBI:

- 1. Mrs. Barnali Mukherjee, DGM, SEBI**
- 2. Mr. Sanjay Sarwade, Manager, SEBI**
- 3. Mohamed Rahaz, Legal Officer, SEBI**

ORDER

**[UNDER REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND
UNFAIR TRADE PRACTICES RELATING TO THE SECURITIES MARKET)
REGULATIONS, 2003 READ WITH SECTION 11, 11B AND 11(4) OF THE SEBI
ACT, 1992]**

1. BSE conducted investigation in the scrip Zigma Software Limited (hereinafter referred to as ZSL) on witnessing sudden price rise along with concentration among few clients during August to November 2003 and sudden price fall with heavy concentration among few clients during May to June 2004. The period of investigation was August 01, 2003 to November 28, 2003 and May 07, 2004 to June 22, 2004. BSE observed the following:

2. The price of the scrip had increased from Rs. 4.09 (opening price on 1st August 2003) to Rs. 28.6 (high on 28th November 2003) and 72,35,828 shares were traded during this period. The price of the scrip decreased from Rs. 24.75 (opening price on 7th May 2004) to Rs. 3.86 (low on 22nd June 2004) and 34,01,471 shares were traded during this period.

3. In view of the same, SEBI conducted detailed investigation into the buying, selling or dealing in the scrip of ZSL during the period from August 01, 2003 to November 28, 2003 (hereinafter referred to as Period – I) and May 07, 2004 to June 22, 2004 (hereinafter referred to as Period – II).

4. Investigation revealed that Net Equity Broking Pvt. Ltd. (hereinafter referred to as 'Net Equity'), Rajkumar Masalia, Enpee Enterprises Pvt. Ltd. (hereinafter referred to as 'Enpee'), Sujal Shah, Pratik Shah, Anju Gandhi, Atul Gandhi and Narendra Mistry (hereinafter referred to as the 'Noticees') had indulged in circular and synchronized trading in connivance with stock brokers, creating artificial volumes in the scrip and distorting market equilibrium and thus violated Regulations 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').

5. Show cause notices dated November 13, 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.4 above.

6. Shri Sujal C. Shah vide his letter dated March 06, 2007 filed a reply to the show cause notice wherein he stated the following:

- I. That he had no role whatsoever to play in the increase in price of the scrip.
- II. That the transactions which were carried out by him were in the normal course of business and that he had traded in the scrip of ZSL based on the news of the market and looking at the prospects of the company and had no *malafide* intentions.
- III. That he had not entered into any transactions which were in the nature of synchronised deals or in the nature of creating artificial volumes. As no reference to the order time had been made, the allegation of the transaction having been structured could not be sustained and therefore no adverse conclusion could be drawn against him simply because he was carrying out normal jobbing transaction in normal course of business.
- IV. That there is no evidence of meeting of minds, essential for establishing synchronisation, between him and other parties.
- V. That no allegation of synchronisation could survive without all the parties acting in concert with each other and “acting in concert” requires a greater and deeper level of involvement than simply executing transactions which are in the nature of jobbing/day trade.

7. Shri Pratik Chandrakant Shah vide his letter dated March 06, 2007 filed a reply to the show cause notice. The reply was almost identical to the one filed by Shri Sujal C.

Shah. Shri Rajkumar Dinesh Masalia vide his letter dated March 06, 2007 filed a reply to the show cause notice. The said reply was again identical to the one filed by Shri Sujal C Shah and Shri Pratik C Shah.

8. Enpee vide its letter dated January 12, 2007 filed a reply to the show cause notice wherein it stated the following:

- I. That there was no substantial co-relation or linkage between their transaction and the rise/fall in the price and/or volume of the scrip.
- II. That they hadn't indulged in synchronised trading.
- III. That there was inconsistency in the Show Cause Notice sent regarding certain dates on which payments were received and as regards the number of shares purchased by it.
- IV. That they had done no market transactions with DPS Shares and Securities Ltd. (hereinafter referred to as DPS) and Ramaben Samani Finance Ltd (hereinafter referred to as Ramaben) and that all the transactions with DPS were off market.
- V. That they had done only five sell transactions in the market without any purchase and that cannot be termed as circular trading.
- VI. That the purchase (off market) and the sell were of different prices and not the same prices as was alleged in the Show Cause Notice.

9. Net Equity, Atul Gandhi, Anju Gandhi and Narendra Mistry did not reply to the Show Cause Notices.

10. An opportunity of personal hearing was given to all the Noticees before me at SEBI's Office but only Enpee, Sujal Shah (on behalf of Pratik C Shah, Net equity and himself) and Rajkumar Masalia attended the personal hearing.

11. I have carefully considered the findings of investigation, contents of the Show Cause Notices and the submissions of the Noticees and find that the scrip of Zigma Software Limited was traded for 85 days during Period I and that the price of the

scrip moved steadily upwards from Rs. 3.98 on August 01, 2003 to Rs. 4.68 on September 18, 2003 and then moved up to Rs. 9.70 on October 01, 2003. From October 03, 2003 to October 23, 2003 the scrip moved in the range of Rs 8.36 to Rs. 9.10 and thereafter rose to Rs. 28.57 on November 28, 2003. The average daily volume during the period I was 1,41,491 shares.

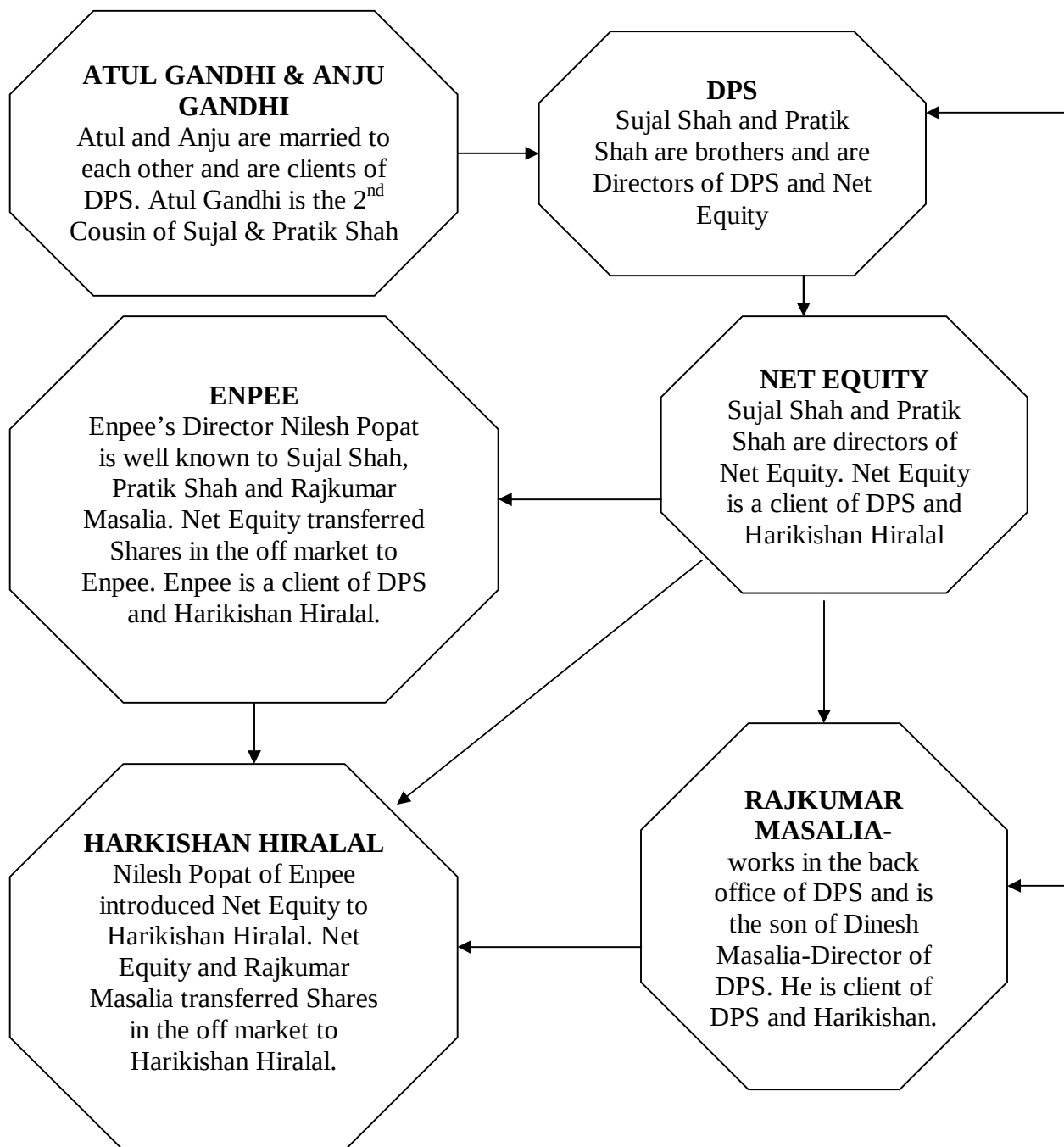
12. During Period II the scrip was traded for 33 days. There was a sharp fall in the price of the scrip from Rs. 24.55 on May 07, 2004 to Rs. 4.84 on June 16, 2004 and then the price moved between Rs 4.23 to Rs 4.65 during June 17, 2004 to June 22, 2004. The average daily volume during the period II was 1,03,075 shares.

13. Investigation revealed that a group of 3 stock brokers and 8 clients had traded in the scrip during the above mentioned periods. During Period I, DPS had purchased 72,95,821 shares in the names of various clients viz. Atul J Gandhi, Anju Atul Gandhi, Enpee, Narendra Mistry, Net Equity, Pratik Shah and Nitin Rakesh. Ramaben had sold 58,99,656 shares for Net Equity. Harikishan Hiralal had sold 14,40,500 shares for Net Equity and 149,000 shares for Enpee.

14. During Period II, DPS had purchased 20,66,354 shares in the name of Enpee and Net Equity. Harikishan Hiralal had sold 21,66,010 shares for Rajkumar Masalia, Net Equity and Enpee.

15. I find that Sujal Chandrakant Shah, Pratik Chandrakant Shah, Net Equity, Atul J Gandhi, Anju Atul Gandhi, Rajkumar Dinesh Masalia, Nilesh Popat director of Enpee, Ramaben and Harikishan Hiralal are all related / connected entities. Sujal Shah and Pratik Shah are brothers and are Directors of DPS and Net Equity. Net Equity is a client of DPS and of Harikishan Hiralal. Rajkumar Masalia works in the back office of DPS and is the son of Dinesh Masalia-Director of DPS. He is a client of DPS and of Harikishan Hiralal. Enpee's Director Nilesh Popat is well known to Sujal Shah, Pratik Shah and Rajkumar Masalia. Enpee is a client of DPS and Harikishan Hiralal. Nilesh Popat of Enpee introduced Net Equity to Harikishan

Hiralal. Net Equity and Rajkumar Masalia transferred Shares in the off market to Harikishan Hiralal. The same can be easily understood from the chart below:



16. An analysis of the Investigation Report, as regards Period I, clearly shows that Ramaben for the client Net Equity and Harikishan for the clients Net Equity and Enpee used to place sell orders on BSE BOLT terminal. At the same time DPS used

to place buy orders of the same quantity in the names of various clients viz. Atul J Gandhi, Anju Atul Gandhi, Enpee, Narendra V. Mistry, Net Equity, Pratik Shah, Nitin Rakesh and others. The shares purchased by DPS for all its clients were received in the demat account of Net Equity and on some days in DPS demat account which was in turn transferred to the demat account of Net Equity. Net Equity on receipt of the shares in its demat account used to transfer these shares mostly on the same day in the off market to the pool account of Ramaben Samani or Harikishan Hiralal and also to the demat account of Enpee which Enpee used to transfer to Harikishan Hiralal's demat account. Ramaben Samani and Harikishan Hiralal on receipt of these shares in their pool account used to sell these shares on BSE BOLT terminal for Net Equity (Ramaben) and Net Equity and Enpee (Harikishan). At the same time DPS used to place buy orders of the same quantity in the names of various clients to match these sell orders. The net purchases of DPS were received in the demat account of Net Equity. Net Equity again used to transfer the shares in the off market to demat account of the stock brokers in the above process and to Enpee for selling in the market only to be purchased by DPS on the other side. This cycle continued for 58 days during period I of investigation period and in the process 72,35,828 shares were traded in this pattern as can be seen from the Demat Statement of the Net Equity, Enpee and the Demat Statement (Pool Account) of the stock broker DPS, Harikishan Hiralal and Ramaben.

17. I find that the buy and sell orders were identical for almost all these transactions with respect to quantity and rate and that during Period I for 66,36,886 shares the difference between the respective buy order time and the sell order time was less than one minute. For the remaining 5,98,242 shares the difference between the respective buy order time and the sell order time was more than one minute because of the multiple orders placed by these three stock brokers or to match their pending orders. DPS has entered into 1320 deals amounting to total of 54,22,004 shares where the counter party seller was Ramaben. DPS executed the transactions in the name of Atul J Gandhi, Anju Atul Gandhi, Narendra V. Mistry, Net Equity and Nitin Rakesh and Ramaben executed for the client Net Equity. Out of these deals 17 deals for 159100

shares were executed for the client Net Equity where the counter party seller was also Net Equity. Further 1303 deals for 52,62,904 shares were executed for the client Atul J Gandhi, Anju Atul Gandhi, Narendra V. Mistry and Nitin Rakesh where the counter party seller was the client Net Equity. DPS has entered into 884 structured deals amounting to total of 12,14,882 shares where the counter party seller was Harikishan Hiralal. DPS executed the transactions in the name of Atul J Gandhi, Anju Atul Gandhi, and Enpee. Out of the above deals 354 deals for 4,84,350 shares were executed for the client Enpee where the counter party seller was also Enpee for 31000 shares and for the balance 4,53,350 shares the counter party seller was Net Equity. Further 530 deals for 7,30,532 shares were executed in the name of the client Atul J Gandhi and Anju Atul Gandhi where the counter party seller was Net Equity.

18. As regards Period II Harikishan for the clients Rajkumar Masalia, Net Equity and Enpee used to place sell orders on BSE BOLT terminal. At the same time DPS used to place buy orders of the same quantity in the names of various clients viz. Enpee, Net Equity and Rajkumar Masalia. The shares purchased by DPS for all its clients were received in the demat account of Net Equity or Rajkumar Masalia. Net Equity on receipt of the shares in the demat account used to transfer these shares mostly on the same day in the off market to the demat account of Harikishan Hiralal and to the demat account of Enpee (which Enpee used to transfer to Harikishan Hiralal's demat account). Rajkumar Masalia on receipt of the shares used to transfer these shares mostly on the same day in the off market to the demat account of Harikishan Hiralal. Harikishan Hiralal on receipt of these shares in his demat account used to sell these shares through BSE BOLT terminal for Rajkumar, Net Equity and Enpee. At the same time DPS used to place buy orders for the same quantity in the names of the above mentioned clients to match these sell orders. The net purchases of DPS were received in the demat account of Net Equity or Rajkumar Masalia. Net Equity and Rajkumar Masalia again used to transfer the shares in the off market to demat account of Harikishan Hiralal and to the demat account of Enpee in the above process for selling in the market only to be purchased by DPS on the other side. This cycle continued for 26 days and 20,16,045 shares were traded in this pattern, as is evident

from the Demat Statement of Rajkumar Masalia. The buy and sell orders were identical for almost all these transactions with respect to quantity and rate.

19. Out of the traded quantity, in this period, for 13,07,152 shares the difference between the respective buy order time and the sell order time was less than one minute. For the remaining 7,08,893 shares the difference between the respective buy order time and the sell order time was more than one minute because of the multiple orders placed by these two stock brokers or to match their pending orders. DPS has entered into 926 deals amounting to a total of 13,07,152 shares where the counter party seller was Harikishan Hiralal. DPS executed the transactions in the name of Enpee, Net Equity and Rajkumar Masalia. Out of the above deals 885 deals for 12,72,290 shares were executed for the client Enpee where the counter party selling client was also Enpee for 3,72,545 shares, Rajkumar Masalia for 5,11,045 and Net Equity for 3,88,700 shares. 32 deals for 23,862 shares were executed for the client Net Equity where the counter party selling client was Net Equity itself. 9 deals for 11,000 shares were executed for the client Rajkumar Masalia where the counter party selling client was also Rajkumar Masalia. Adjudication Proceedings have already been initiated against the three stock brokers namely, DPS, Ramaben and Harikishan Hiralal.

20. At this point of time, it becomes important to refer to the statements made by some of the Noticees in front of the Investigating Authority. Shri Rajkumar Masalia, before the Investigating Authority said that Net Equity had transferred around 150,000 shares of ZSL in his Demat Account in order to obtain finance as per terms of Nilesh Popat with Net Equity and DPS. According to him following were the terms which were agreed by DPS, Net Equity, Nilesh Popat and himself.

- I. Rajkumar Masalia had to transfer stock to the accounts of M/s Harikishan Hiralal.
- II. Harikishan Hiralal would sell them through BOLT and DPS should buy the same shares.

III. Harikishan Hiralal's pay-out was secured by sale-proceedings from BSE so Rajkumar Masalia was given cheque for sale of shares on the same day after confirming receipt of shares in their account.

21. Rajkumar Masalia further went on to explain how the entire trading was synchronised in nature and how the trades were well planned before they took place.

22. Also, during investigation, statement under oath was taken from Shri Sujal Chandrakant Shah, Shri Pratik Chandrakant Shah both directors of DPS and Net Equity. They stated that DPS had financed around Rs. 30 lakhs to one stock broker through the accounts of their family members in 2002-03. DPS did not receive this money back from this stock broker. This created shortfall in their working capital and they had to make their obligations good to market as well as to the clients which they could not do. Sujal Shah had purchased 3,65,000 shares of ZSL and other small different stocks from market and had transferred the shares of ZSL to the demat account of Net Equity in the beginning of 2003. DPS approached Mr. Nilesh M. Popat (Director of Enpee) & requested him to obtain finance against the stock of ZSL. Mr. Nilesh M. Popat agreed to help on the following condition:

- I. DPS to transfer stock to the A/cs as mentioned by him.
- II. Enpee would sell them through BOLT-TWS and DPS should buy the same shares on their BOLT-TWS.
- III. Enpee's pay-out was secured by sale-proceedings from BSE so Enpee gave/arranged to pay sale proceedings on sale of shares on the very same day after receipt of shares in the respective demat accounts.
- IV. DPS would again have pay-in of same shares as per T+2 basis and again he would finance as above.

23. In order to secure DPS's commitments to BSE & clients, Mr. Nilesh M. Popat introduced them to Harikishan Hiralal & Ramaben and asked them to transfer and obtain payments from the two stock brokers regularly as per above terms and conditions. In order to do the same DPS was paying Harikishan Hiralal, Ramaben and Enpee a handsome commission to fulfill DPS commitments with BSE and the clients.

24. This cycle went on for around 5 months in period I. Shares were transferred in the off market from Net Equity to the stock brokers Harikishan Hiralal & Ramaben and the same were sold by Harikishan Hiralal & Ramaben in the market in the name of Net Equity and purchased by DPS in the name of various clients. Since none of the stock brokers can directly finance the other stock brokers, they transferred shares to these two stock brokers, to obtain loan through them, in the A/c of Net Equity and Rajkumar Masalia and also by sale through these two entities.

25. The buyer and seller could not be the same at both ends so DPS traded under following names of Anju Atul Gandhi, Atul J Gandhi, Narendra Mistry, Nitin Rakesh, Enpee Enterprises Pvt. Ltd. and some other clients. All the net purchases done by DPS in the name of various clients were transferred in the demat account of Net Equity. In May & June 2004 to meet the same problem DPS had to go for the same cycle i.e. to sell through above stock broker and purchase by DPS, getting finance from them and make payments.

26. In view of the above, I am convinced that the aforementioned Noticees have entered into synchronised transactions and have violated the provisions of Regulation 4(1), 4(2)(a), 4(2)(b) and 4(2)(g) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003. Considering the relation/connection between the Noticees and the stock brokers, the time difference between the placing of the buy and sell orders, the trades done by them are synchronized/structured in nature so as to create artificial market in the scrip. It, therefore, is a concerted effort of all the above referred entities.

27. The regulations which have been violated by the Noticees state that:

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.

28. Therefore, taking into consideration the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Section 19 of the SEBI Act read with Sections 11, 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. M/s. Net Equity Broking Pvt. Ltd. (PAN AABCN5677N), M/s Enpee Enterprises Pvt. Ltd. (PAN AAACE4930G), Shri Sujal Shah (PAN AAEPS4618Q), Shri Atul Gandhi, Ms. Anju Gandhi, Shri Narendra Mistry, Shri Pratik Shah (PAN AAJPS1909E) and Shri Rajkumar Masalia (PAN AKNPM02484H) from buying, selling and dealing or accessing the securities market in any manner for a period of one year.

29. The order shall come into force with immediate effect.

Place: Mumbai

Date: 11.12.2007

V K CHOPRA

Whole Time Member

Securities Exchange Board of India