

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

**AGAINST NIMESH CHITALIA, AJODHYABHAI KABRA, SANJAY SONI,
ANITA SONI, JAYESH C. SHAH AND DURGA DRUG AGENCY (Proprietor:
KRUPABEN SONI)**

**IN THE MATTER OF INVESTIGATION INTO DEALINGS IN THE SCRIP OF
VIJAY TEXTILES LTD**

WTM/VKC/IVD/ID8/115/07

DATE OF HEARING: JULY 9, 2007

APPEARANCES:

For Noticees : JAYESH SHAH
Shri. DHAVAL PATEL, Employee of Dani Shares & Stocks Pvt.
Ltd for (Mrs. AJODHYABAI KABRA)

For SEBI : Ms. BARNALI MUKHERJEE, Deputy General Manager
Shri NAVEEN SAXENA, Manager
Shri MOHAMED RAHAZ, Legal Officer

ORDER

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

1. BSE conducted snap investigation into the scrip of Vijay Textiles Limited for the period from September 27, 2004 to October 08, 2004. During the period of snap investigation the price of the scrip increased from Rs. 62 on September 27, 2004 to Rs. 88.25 on October 08, 2004, indicating thereby an increase of about 42%. The price of the scrip further increased to Rs. 166 till November 2, 2004, showing an increase of about 167%. During the snap investigation period reversal/circular trading pattern was observed among certain members and as such, the investigation was extended further by BSE for the period October 09, 2004 to November 2, 2004.

2. Based on the above, SEBI conducted detailed investigation into the buying, selling and dealing in the scrip of M/s Vijay Textiles Ltd. The investigation revealed that the scrip of M/s Vijay Textiles Ltd was traded for all the 26 days out of total 26 days available for trading on the exchange during the period of investigation. The volume traded during the investigation period was 153948 shares. From the price volume statement, it was observed that the price increased from Rs. 62 (Opening price) on September 27, 2004 to Rs. 166 on November 2, 2004 (Aprox. a 167% rise) revealing thereby a consistent price rise in the scrip over the period of investigation. Everyday the closing price was higher than the previous day's closing price. The scrip was traded on August 31, 2004 and after that there was no trading in the scrip till September 26, 2004. There was no significant variation in the volume of the scrip from September 27, 2004 to October 26, 2004; the average daily volume was 7250 shares. There was fall in the volumes during October 27, 2004 to November 02, 2004 (5 trading days), during which

the average daily volume was 343 shares. During the same period price increased from Rs. 136.65 (Opening price) to Rs. 166 (Closing price), a rise of 21.48%.

3. Investigation reveals that a group of 5 brokers and 7 clients have traded in the scrip for the said period amongst themselves. Galaxy Broking Ltd. has traded for its client Haresh Soni, while Dani Shares & Stocks Pvt. Ltd has traded for its clients viz. Sanjay J. Soni, Ajodhyabai Kabra and Anita Soni, Wellworth Share & Stock Broking Ltd. has traded mainly for its clients viz. Durga Drug Agency (Proprietor: Krupaben Soni) and Sanjay J. Soni while Arihant Capital Markets Ltd. for Nimesh Chitalia and Bonanza Stockbrokers P Ltd. for Jayesh Chunilal Shah.

4. The above group of 5 brokers and 7 clients had together purchased 112381 shares and sold 111931 shares accounting for 73% and 72.21% respectively of the market volume. These entities were observed entering into circular / reversal trades which were synchronized / structured in nature. They together traded in this manner for 81950 shares in 1098 trades and accounted for 53.23% of the market volume (153948 shares) during the said period.

5. On the basis of the findings of the investigation, SEBI issued show cause notices to the above mentioned 7 clients requiring them to show cause as to why action under Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations 2003 read with Section 11, 11B and 11(4) of the SEBI Act, 1992 including restraining them from accessing the capital market and prohibiting from buying, selling or dealing in securities in any manner whatsoever for a particular period should not be initiated.

6. I find that only 2 of the 7 clients Ajodhyabai Kabra and Nimesh Chitalia have replied to the show cause notice issued to them by SEBI and only 2 clients Ajodhyabai Kabra and Jayesh Shah have attended the personal hearing before me. The remaining clients Sanjay Soni and Anita Soni have received the show cause notice but have failed to reply to it. While in the case of Durga Drug Agency (Proprietor: Krupaben Soni) the

show cause notice could not be delivered to them, but the notice was affixed at the clients last known address. I have also noted that one of the said clients Haresh Soni expired in April 2005, as per the information given by Galaxy Booking Ltd. vide letter dated November 28, 2006.

7. I have carefully considered the findings of the investigation, Show Cause notices and the submissions of the noticees, wherever made. I find that the scrip was traded for all the 26 days available for trading on BSE. The total traded volume (bought/sold) during the period of investigation was 153948 shares. Investigation reveals that there was circular / reversal / synchronized trading for 17 days accounting for 81950 shares i.e. 53.23% of the total market traded quantity at 153948 shares. It has also been observed that on 17 days Sanjay Soni, Haresh Soni, Durga Drug Agency (Proprietor: Krupaben Soni), Anita Soni, Jayesh Chunilal Shah, Ajodhyabhai Kabra, and Nimesh Chitalia had entered into circular / reversal / synchronized trades amongst themselves.

8. It is also observed that Sanjay Soni, Haresh Soni, Durga Drug Agency (Proprietor: Krupaben Soni) and Anita Soni are connected / related to each other. It is found that Haresh Soni, Sanjay J. Soni and Anita Soni have the same address; and that Krupaben Soni (Durga Drug Agency) is the wife of Sanjay J. Soni.

9. The table below shows the total of circular / reversal / synchronized trades executed by the 7 clients.

Name of the client & client code	Name of the Broker & Broker Code	No of Days Traded During the Period / No of Days Done Circular / reversal / synchronized Trading by the clients	Buy Quantity (Circular)	% of market traded Quantity	Sell Quantity (Circular)	% of market traded Qty.	Gross Circular traded Qty. (% to total trading of the broker)	% of gross market traded Qty.
Haresh Soni (H041)	Galaxy Broking Ltd. (513)	20/ 17	34175 (51orders)	22.20	36075 (53 orders)	23.43	70250 (66.28%)	22.82
	Dani							

Sanjay Soni (M01106)	Shares & Stocks Pvt. Ltd. (776)	13/ 11	15050 (16 orders)	9.78	13550 (17 orders)	8.80	28600 (61.90%)	9.29
Sanjay Soni (35548)	Wellworth Share & Stock Broking Ltd (106)	3/ 2	1700 (2 orders)	1.10	500 (1 order)	0.32	2200 (7.90%)	0.71
Durga Drug Agency (35095)	Wellworth Share & Stock Broking Ltd (106)	8/ 5	9525 (9 orders)	6.18	10225 (14 orders)	6.64	19750 (7.09%)	6.41
Ajodhya bai kabra (M01058)	Dani Shares & Stocks Pvt. Ltd. (776)	3/ 3	3700 (3 orders)	2.40	3600 (3 orders)	2.34	7300 (15.80%)	2.37
Nimesh Chitalia (M4099)	Arihant Capital Markets Ltd.(313)	7/6	5200 (7 orders)	3.38	5200 (7 orders)	3.38	10400 (79.56%)	3.38
Jayesh C. Shah (15J181)	Bonanza Stock Brokers Ltd.(235)	13/7	11000 (14 orders)	7.15	11200 (14 orders)	7.28	22200 (71.12%)	7.21
Anita Soni (M01104)	Dani Shares & Stocks Pvt. Ltd. (776)	2/ 1	1600 (2 orders)	1.04	1600 (2 orders)	1.04	3200 (6.93%)	1.04
TOTAL			81950	53.23	81950	53.23	163900	53.23
Market volume on BSE during the period			153948		153948		307896	

10. I find that out of the total 1098 trades accounting for 81950 shares, for almost all the 1044 trades, buy and sell orders were placed within 0 seconds to 52 seconds of each other for 76350 shares accounting for 49.59% of the total traded quantity. The order limit prices and quantities were also matching with those of the counter party broker in most of the trades (876 trades) comprising of 68050 shares accounting for 44.20% of the total traded quantity. Thus I find that the orders placed are very much synchronized as well as structured as the order limit prices and quantities were also matching with those of the counter party clients / brokers in most of the trades. Considering large

number of transactions, I find that it cannot be a mere co-incidence. Thus I find that such type of transactions cannot be genuine transactions.

11. I have further examined the findings of the investigation report and find that a total of 1098 trades (104 buy orders and 110 sell orders) comprising of 81950 shares were executed among the aforementioned clients accounting for 67.11% of the traded quantity during the period of 17 days (122122 shares) and 53.23% of the total traded quantity during the investigation period (153948 shares).

12. I further find that out of 104 synchronized buy orders and 110 sell orders placed between the aforementioned clients, 3 buy orders and 3 sell orders were such that the time difference between buy and sell orders was zero seconds comprising of 2500 shares (2.80% of the total orders placed by them). Further, 9 buy orders and 9 sell orders were so placed that the time difference between buy and sell order was 1 second, 7 buy orders and 7 sell orders were with time difference of 3 seconds. Hence 28.04% of the total orders placed by these clients were synchronized in the nature of reversal of trades / circular trades where the quantity, price of the order matched and the time difference between the buy and sell orders were less than or equal to 3 seconds.

13. Furthermore, it was observed that the synchronized / circular / reversal trades comprised for more than 50% of the total day's traded quantity on 13 days and were more than 70% of the gross volume on 9 days (average daily volume being approx. 67%) on the days when circular trading / reversal of trading was done. The above mentioned clients 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. It has been observed that the delivery was almost nil for the aforementioned clients. Hence I find that the trading was done by the clients without the intention of transferring the beneficial ownership.

14. I find that the cumulative contribution of circular trading to the total traded quantity during the investigation period by the aforementioned clients accounted for

approximately 53.23%. It is also observed that the quantity traded by aforementioned clients during the circular trading period matched exactly in most cases. I find that the circumstantial evidences show that the aforementioned clients have done the circular / reversal / synchronized trades in connivance with each other for a number of days and thus have created artificial volumes.

15. I find it unacceptable that different orders placed on consecutive days can always match with the same set of clients and also reverse with them on the same day by sheer co-incidence. Furthermore, the pattern of their trading clearly points out that the transactions were carried out with the intention as implicit from the conduct that the orders match with each other. No unknown person can trade continuously by putting orders in such pattern contributing significantly to the total volume in the market. The pattern of trading clearly points out that the transactions were carried out with the intention that the orders of particular clients and brokers match with each other and there was a prior understanding with respect to these large numbers of transactions. I further find that the pattern of trading indicates several instances when the time difference between buy and sell orders was almost nil. This essentially shows that the aforementioned clients were trading and synchronizing trades and these trades were not genuine transactions.

16. I am therefore inclined to conclude that the squaring of the deals among the clients which resulted in nil delivery brings out that the dealings in securities were made by the clients without the intention of effecting transfer of beneficial ownership and apparently for creating artificial volume. Furthermore, these transactions which are reversed within seconds contributing to the major portion of the market volume, do impact price movement and volatility in stock markets. Such transactions lead others in the market to get the impression that these are genuine trades of the scrip whereas this is not the fact. Thus I find that the abovementioned clients have indulged in acts which were intended to create misleading appearance of trading in the stock market.

17. In view of the above, I conclude that the contention of the noticees that different orders placed on consecutive days can always match with the same set of clients and also reverse with them on the same day by sheer co-incidence is not convincing. I find that the pattern of trading clearly points out that the transactions were carried out with the intention that the orders of particular clients and brokers match with each other and that there was a prior arrangement with respect to the large number of transactions. Thus I find that the manner of execution of large number of transactions in the scrip in an identical fashion and the fact that these trades constitute significant portion of total market trades give the impression that these trades were all synchronized, or otherwise there was no possibility of such perfect matching of orders between the said entities.

18. In view of the above I find that the submissions made by Ajodhyabai Kabra vide letter dated January 16, 2006 are purely surrounding pleas of ignorance and claims of making bona fide orders placed on good faith. I find no substantial argument that isolates her from the alleged trade practices in the investigation report. She has submitted that she traded on BSE's BOLT trading platform which is an on-line real time computerized and time and price priority matching system for orders keyed-in in different scrips through a large number of terminals spread throughout the country and is anonymous and therefore she was not aware of the counter party broker or their clients. She further submitted that she bought and sold only 3,500 shares for 3 out of the 26 days and her trading is within some time gap which is a normal strategy followed by many investors who do intra trading in different scrips and thus cannot be considered as circular trading. I find that these submissions are weak in argument since from examining the investigation report I find the argument that different orders placed on consecutive days can always match with the same set of clients and also reverse with them on the same day by sheer coincidence is untenable. The pattern in her trading clearly points out that the transactions were carried out with the intention that the orders match with each other so that no unknown person can trade continuously by putting orders in such pattern contributing significantly to the total volume in the market. Further the pattern of trading indicates several instances when the time difference between buy and sell orders was almost nil. I conclude that the squaring of deals by

Ajodhyabai Kabra with the other clients which resulted in nil delivery establishes that the dealings in securities were done by her without the intention of affecting transfer of beneficial ownership but only for creating artificial volume which affected the price of the scrip.

19. I also find that the submissions made by Nimesh Chatalia and Jayesh Shah that they acted upon the advice and instructions of the deceased Haresh Soni as, futile and pointless and just a means to escape liability upon the deceased. The remaining clients Sanjay Soni and Anita Soni have failed to reply to the show cause notice issued to them and therefore the findings in the order shall be applicable to them as the evidence on record indicates their complicity. The show cause notice to Durga Drug Agency (Proprietor: Krupaben Soni) could not be delivered but a notice was affixed on the last known address of the client. In respect to the deceased client Haresh Soni, the present order shall not be applicable to him in lieu of his demise.

20. Therefore, in view of the above I am convinced that the aforementioned noticees have entered into synchronized transactions and thus violated the provisions of Regulation 4(1), 4(2), (a), (b), and (g) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 which 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.

ORDER

21. Therefore in exercise of the powers conferred upon me by section 19 of SEBI Act, 1992, I hereby direct Nimesh Chitalia (Pan No. ADGPC5953K), Ajodhyabhai Kabra (Pan No. AAFPK5081L), Sanjay Soni (Pan No. AAFPS3332L), Anita Soni (Pan No. AAKPS8088C), Jayesh C. Shah (Pan No. AMWPS6919C) and Durga Drug Agency (Proprietor: Krupaben Soni) (Pan No. ANOPS6843C) not to buy, sell or deal in securities for a period of six months.

22. In view of the information given by Galaxy Broking Ltd. vide letter dated November 28, 2006 that one of the Appellants Shri Haresh Soni had expired on April 2005, proceedings against him are closed as having been abated.

23. 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