

SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

ORDER

(Against the Trading Member, Galaxy Broking Ltd in the matter of Vijay Textiles Limited)

WTM/VKC/IVD/ID8/118/08

DATE OF HEARING: 23.08.2007

APPEARANCES:

FOR THE NOTICEE:

1. Ms Vasanti Savala, Authorized Representative of Galaxy Broking

FOR SEBI

1. Mrs Barnali Mukherjee, DGM
2. Mr Naveen Saxena, Manager
3. Mr Mohamed Rahaz. P.M, Legal Officer

ORDER

Under Regulation 13(4) SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002

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, Securities and Exchange Board of India (hereinafter referred to as "SEBI") conducted detailed investigations into the scrip of Vijay Textiles Ltd (hereinafter referred to as "VTL") during the period between September 27, 2004 and November 2, 2004.

3. Investigation revealed that out of a total of 153948 shares of VTL traded on the BSE during the investigation period, 81950 shares, i.e. 53.23% of the total quantity traded in the market were circular/synchronized/reversed trades involving a group of clients and the trading members including the trading member, Galaxy Broking Ltd. (hereinafter referred to as "the Noticee") who had the highest concentration in the trading of VTL shares (34.45% on gross purchases and 34.39% in gross sales).

4. Investigations further revealed that a group of connected or related clients namely Haresh Soni, dealt through the Noticee and Sanjay Soni dealt through the trading members, Dani Shares & Stocks Pvt. Ltd. and Wellworth Share & Stock Broking Ltd, Durga Drug Agency (Prop.: Krupaben Soni), dealt through Wellworth Share & Stock Broking Ltd. and Anita Soni dealt through Dani Shares & Stocks Pvt. Ltd., Ajodhyabai Kabra dealt through Dani Shares & Stocks Pvt. Ltd., Jayesh C. Shah dealt through Bonanza Stock Brokers Ltd. and Nimesh Chitalia dealt through Arihant Capital Markets Ltd. and together purchased 81950 shares (53.23% of the market volume) and sold 81950 shares (53.23% of the market volume) during the period of investigation.

5. It was observed from the trading pattern of the Noticee that they had substantially traded in the scrip of VTL by executing circular/reversal of trades and the main counter party trading members to the transactions were Dani Share and Stocks Pvt. Ltd., Bonanza Stock Brokers Ltd, Wellworth Share & Stock

Broking Ltd. and Arihant Capital Markets Ltd. The trades executed by the Noticee had artificially created high volumes and influenced the price in the VTL scrip while trading on BSE and prima facie found to have violated Regulations 4 (1), 4 (2) (a),(b),(g) and (n) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as "PFUTP Regulations") and Clause A (1), (2), (3), (4) and (5) of the Code of Conduct as specified in Schedule II read with Regulation 7 of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as "Stock Broker Regulations")

6. After considering the Investigation Report, SEBI appointed an Enquiry Officer to enquire into the violations allegedly committed by the Noticee as stated in paragraph no. 5 above. The Enquiry Officer issued a Show Cause Notice dated June 16, 2006 to the Noticee who submitted their reply vide letter dated August 4, 2006 which is recorded in the Enquiry Report. An opportunity of personal hearing was also given to the Noticee on August 23, 2006. Shri Anil Gandhi, director of the Noticee attended the hearing before the Enquiry Officer.

7. The Enquiry Officer found the Noticee having violated Clause A (2) of the Code of conduct as specified in Schedule II read with Regulation 7 of Stock Brokers Regulations, by failing to exercise due care and diligence. The Enquiry Officer recommended a minor penalty of 'censure' to the Noticee in his report dated September 18, 2006. Post Enquiry show cause notice was issued to the Noticee on October 03, 2006.

8. The Noticee submitted its reply to the Post Enquiry show cause notice vide letter dated June 11, 2007 stating the following:

- ❖ They had never purchased or sold any shares of VTL in their proprietary account for personal gain.
- ❖ The rise in price of VTL shares was not because of the trades executed by them on behalf of their clients.

- ❖ They had exercised proper due diligence by ensuring that the clients are not fictitious and their pay in and pay out obligations are met in accordance with the stock exchange requirements.
- ❖ They have not executed any structured deals/circular trades with any person and added that it is impossible to synchronize trades in liquid and volatile scrip like VTL.
- ❖ They accepted that sudden interest shown by the client in illiquid scrip coupled with the reversal of trades on many occasions should have alerted them and they promised that they will be cautious and watchful in future.

9. The Board did not agree with the recommendation of the Enquiry Officer and hence another show cause notice dated August 6, 2007 under Regulation 13(2) of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 was issued to the Noticee on observing clear pattern of substantial trades in the nature of circular/reversal trades advising them to show cause as to why a higher penalty be not imposed on them for the violations of Regulation 4(1), 4(2) (a),(b),(g) and (n) of PFUTP Regulation.

10. An opportunity of personal hearing was given to the Noticee before me on August 23, 2007. Ms Vasanti Savala, an authorized representative of the Noticee attended the hearing and filed written submissions vide letter dated August 29, 2007 enclosing therewith a copy of the reply dated August 04, 2006 filed before the enquiry officer and reiterated further that they were not aware of the manipulative intent of their clients.

11. I have carefully examined the enquiry report, show cause notices issued to the Noticee and the replies thereof.

12. The charges levelled against the Noticee are that they actively participated in executing circular / synchronized / reversed trades in the scrip of VTL at BSE

on behalf of their client and violated the provisions of Regulation 4 (1), 4 (2) (a),(b),(g) and (n) of PFUTP Regulations and the Code of Conduct as specified in Schedule II read with Regulation 7 of the Stock Broker Regulations.

13. I find that VTL scrip was traded for 26 days during the period of investigation. The volume traded during the investigation period was 153948 shares. From the price volume statement, it is observed that the price of the scrip increased from Rs.62.00 (Opening price) on September 27, 2004 to Rs.166.00 on November 2, 2004 (Approx. a 168% rise). There was consistent price rise in the scrip over the period of investigation. Every day 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 has increased from Rs.136.65 (Opening Price) to Rs.166.00 (Closing Price), a rise of 21.48%. The details of the price volume data is given hereunder:

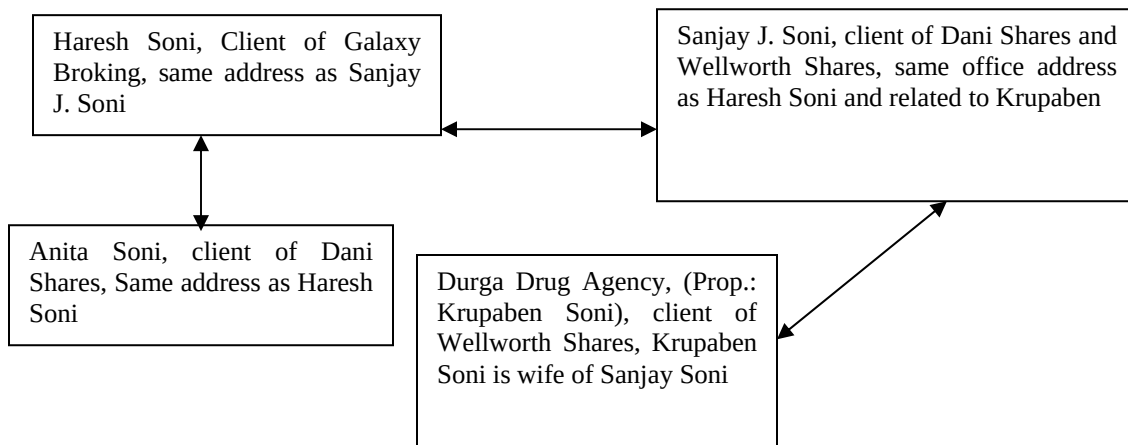
DATE	OPEN	HIGH	LOW	CLOSE	QTY TRADED	LTP	LTP %
27-Sep-04	62.00	68.00	62.00	68.00	15380		
28-Sep-04	70.00	71.40	68.25	70.50	11730	2.50	3.68
29-Sep-04	71.00	74.00	70.10	72.10	7985	1.60	2.27
30-Sep-04	70.10	75.10	70.10	73.00	5860	0.90	1.25
1-Oct-04	71.00	76.65	71.00	74.20	10550	1.20	1.64
4-Oct-04	73.55	77.90	73.55	75.10	6900	0.90	1.21
5-Oct-04	74.55	78.85	74.55	76.70	8100	1.60	2.13
6-Oct-04	76.25	80.50	76.25	80.50	5200	3.80	4.95
7-Oct-04	81.00	84.50	80.50	84.05	10720	3.55	4.41
8-Oct-04	84.00	88.25	83.75	88.25	4152	4.20	5.00
9-Oct-04	88.00	92.10	86.50	90.60	9028	2.35	2.66
11-Oct-04	91.00	94.00	91.00	91.65	3620	1.05	1.16
12-Oct-04	92.50	96.20	92.05	92.50	4697	0.85	0.93
14-Oct-04	97.00	97.00	97.00	97.00	300	4.50	4.86
15-Oct-04	97.05	101.85	97.05	100.00	7727	3.00	3.09
18-Oct-04	101.00	105.00	101.00	103.40	6622	3.40	3.40
19-Oct-04	102.10	108.50	102.10	107.25	6161	3.85	3.72
20-Oct-04	112.50	112.60	111.00	112.60	5393	5.35	4.99

DATE	OPEN	HIGH	LOW	CLOSE	QTY TRADED	LTP	LTP %
21-Oct-04	116.00	118.20	116.00	118.20	8262	5.60	4.97
25-Oct-04	124.10	124.10	112.30	124.10	6445	5.90	4.99
26-Oct-04	126.50	130.15	126.50	130.15	7400	6.05	4.88
27-Oct-04	136.65	136.65	136.65	136.65	1250	6.50	4.99
28-Oct-04	143.45	143.45	143.45	143.45	133	6.80	4.98
29-Oct-04	150.60	150.60	150.60	150.60	126	7.15	4.98
1-Nov-04	158.10	158.10	158.10	158.10	157	7.50	4.98
2-Nov-04	166.00	166.00	166.00	166.00	50	7.90	5.00
					153948		

14 Investigation revealed that out of a total of 153948 shares of VTL traded on the BSE during the investigation period, 81950 shares, i.e. 53.23% of the total quantity traded in the market was due to circular/synchronized/reversed trades involving a group of clients and the trading members. The circular traded quantity by the trading members for the clients is given in the table below:

Name of the trading member	Name of the client	No of Days Traded During the Period / No of Days Done Circular Trading	Buy Quantity (Circular)	% of market traded Quantity	Sell Quantity (Circular)	% of market traded Qty.	Gross Circular traded Qty. (% to total trading of the trading member)	% of gross market traded Qty.
Galaxy Broking Ltd.	Haresh Soni	20/ 17	34175 (51orders)	22.20	36075 (53 orders)	23.43	70250 (68.28%)	22.82
Dani Shares & Stocks Pvt. Ltd.	AjodhyaBhai Kabra	15/ 13	20350 (21 orders)	13.22	18750 (24 orders)	12.18	39100 (84.63%)	12.70
	Anita Soni							
	Sanjay Soni							
Bonanza Stock Brokers Ltd.	Jayesh C. Shah	13/7	11000 (14 orders)	7.15	11200 (14 orders)	7.28	22200 (71.12%)	7.21
Wellworth Share & Stock Broking Ltd	Durga Drug Agency	9/ 5	11225 (14 orders)	7.29	10725 (14 orders)	6.97	21950 (78.81%)	7.13
	Sanjay Soni							
Arihant Capital Markets Ltd	Nimesh Chitalia	8/6	5200 (7 orders)	3.38	5200 (7 orders)	3.38	10400 (79.56%)	3.38
TOTAL			81950	53.23	81950	53.23	163900	53.23
Market Volume on BSE during the Period			153948		153948		307896	

15. During the investigation period, The Noticee purchased 53039 shares (34.45%) and sold 52939 shares (34.39%) on behalf of its client Haresh Soni and executed 967 synchronized/circular/reversed trades on 17 days out of total 26 days, comprising of 70250 shares, i.e. 85.72% of the total circular traded quantity (81950 shares). Haresh Soni was related to other clients transacting in VTL scrip through other trading members and these clients are collectively called as Haresh Soni group and their connection is depicted in the diagram below :



16. The Noticee had executed synchronised/reversal/circular trades with the counterparty trading members viz Dani Shares & Stocks Pvt. Ltd, Wellworth Share & Stock Broking Ltd, Bonanza Stock Brokers Ltd and Arihant Capital Markets Ltd and the details whereof are given as under:

Noticee and Dani Shares & Stocks Pvt. Ltd

- They have traded for 15 days out of 26 days during the period of investigation and have executed reversal / circular / synchronized trades on 12 days.
- A total of 36 buy orders and 39 sell orders (431 trades) were executed between Galaxy Broking Ltd. and Dani Shares & Stocks Pvt. Ltd.
- 431 synchronized reversal/ circular trades were entered by these two trading members during the period September 27, 2004 to November 2, 2004 accounting for 31400 shares accounting to 20.40 % of the total traded quantity during the period of investigation (153948 shares) and

38.32% of circular traded quantity (81950 shares). These volumes on most of the days accounted for about 11% to 72% of the day traded volume (average approx. 22 %).

Noticee and Wellworth Share & Stock Broking Ltd.

- They have traded for 7 days out of 26 days during the period of investigation and have executed synchronized / reversal / circular trades on the 5 days.
- A total of 23 buy and sell orders were executed between Galaxy Broking Ltd. and Wellworth Share & Stock Broking Ltd.
- 238 synchronized / reversal / circular trades were entered by these trading members during the period September 27, 2004 to November 2, 2004 accounting for 18750 shares and accounting for 12.18 % of the total traded quantity during the period of investigation (153948 shares) and 22.88 % of circular traded quantity (81950 shares). These volumes on most of the days accounted for about 11% to 97% of the day traded volume (average approx. 12 %).

Noticee and Bonanza Stock Brokers Ltd.

- They have traded for 9 days out of 26 days during the period of investigation and have executed synchronized / reversal / circular trades on the 6 days.
- A total of 22 buy orders and 24 sell orders were executed between Galaxy Broking Ltd. and Bonanza Stock Brokers Ltd.
- 213 synchronized/ reversal/ circular trades were entered by these two the trading members during the period September 27, 2004 to November 2, 2004 accounting for 11900 shares and accounting for 7.73 % of the total traded quantity during the period of investigation (153948 shares) and 14.52 % of circular traded quantity (81950 shares). These volumes on most of the days accounted for about 4% to 51% of the day volume (average approx. -21 %).

Noticee and Arihant Capital Markets Ltd.

- They traded for 8 days out of 26 days during the period of investigation and have executed reversal / circular / synchronized trades on 5 days.
- A total of 11 buy and sell orders (85 trades) were executed by them.
- 85 synchronized / reversal/ circular trades were entered by these two the trading members during the period September 27, 2004 to November 2, 2004 accounting for 8200 shares and accounting for 5.33 % of the total traded quantity during the period of investigation (153948 shares) and 10.01% of circular traded quantity (81950 shares). These volumes on most of the days accounted for about 2% to 46% of the day traded volume (average approx. 12 %).

17. The details of the reversal / circular / synchronized trades executed by the Noticee and the above referred trading members were provided along with the notice dated June 16, 2006 issued to the Noticee at the enquiry stage itself. The Noticee has not given any explanation to the said synchronised/circular/reversal trades. The Enquiry Officer has also observed that buy and sell orders for almost 960 trades of the Noticees were placed within seconds (0 to 38 seconds) of each other amounting to 69750 shares comprising 45.31% of the total traded quantity. The Enquiry Officer further found that the order limit prices and quantities were also matching with those of the counter party trading members in most of the trades (795 trades) comprising of 62259 shares accounting for 40.44% of the total traded quantity. Further the Noticee on behalf of its client Haresh Soni had executed 13 instances of incremental trades (trades with price rise of Rs 2 or more as compared to previous traded price) as buyer spread across 11 days when the price increased by 52.55% from 70.70 to Rs 107.85 (an increase of Rs 37.15). The details of such incremental trades are given hereunder:

TradeDate	Qty	Price	Diff to Prev Trd	Time	Buy Mem Code	Buy Client Code	Order Time Diff	Order Qty Diff	Order Rate Difference
28-Sep-04	100	70.70	2.45	13:40:48	513	H041	0:00:12	0	0.00
30-Sep-04	100	75.10	2.75	12:48:25	513	H041	0:03:36	0	0.00
01-Oct-04	50	76.50	4.25	12:08:59	513	H041	0:08:41	-350	0.00
01-Oct-04	50	76.50	3.35	12:41:35	513	H041	0:41:17	-100	0.00
04-Oct-04	50	76.00	2.25	11:33:51	513	H041	0:15:02	0	0.00
05-Oct-04	200	78.85	3.40	15:23:13	513	H041	0:00:10	0	0.00
07-Oct-04	54	84.45	2.25	15:24:13	513	H041	0:03:11	146	0.00
09-Oct-04	25	92.00	3.95	13:21:15	513	H041	2:04:01	-75	0.00
11-Oct-04	25	94.00	2.70	11:52:42	513	H041	0:34:23	-75	0.00
15-Oct-04	75	101.85	3.75	12:05:45	513	H041	0:18:46	-24	0.00
15-Oct-04	100	101.80	3.65	14:02:08	513	H041	0:12:47	0	0.00
18-Oct-04	25	105.00	3.95	11:18:49	513	H041	0:05:50	0	0.00
19-Oct-04	1	107.85	2.75	12:54:14	513	H041	1:55:44	-1	0.00

18. The details of trades above indicate that the circular and often immediately reversed trading carried out by the Noticee caused substantial price increase in a

relatively illiquid scrip in a short period of time and it cannot be a mere coincidence, especially when considered in the backdrop of surrounding circumstances like connected clients of the concerned trading members with whom the Noticee executed the reversal / circular / synchronized trades. These actions of the Noticee amount to misleading the ordinary genuine investors at a time when the normal process of price discovery is affected by pre-determined trades carried out by persons acting in concert. The concerted level of activity and that too continuously for several days as seen in the present case is only possible due to lack of diligence and due care on the part of the Noticee.

19. It is the Noticee's plea that identical buy and sell orders merely ensued from the client's instructions and that it is not possible to identify the intention of a client from its trading pattern. It is true that in a normal trade executed through the stock exchange mechanism, it might not be possible for a trading member to know the counter party trading member. But in respect of the trades like the ones in question, considering their nature (no change in beneficial ownership of the shares) and the close connection amongst the clients, the noticee ought to have exercised due diligence to ensure that it did not execute reversed trades which would artificially add volumes and influence the price of the scrip. In this context, it is relevant to recall pertinent observations of the Hon'ble SAT in the case of Nirmal Bang Securities Pvt. Ltd. Vs. SEBI wherein Hon'ble Securities Appellate Tribunal had inter alia observed:

"... ..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... ..”

A similar observation was also made by Hon’ble SAT in the matter of Triumph International Finance Ltd. Vs. SEBI as under:

“.....It is the broker who plays a pivotal role in synchronizing the trades with the counter broker and match the same through the exchange mechanism by punching the buy and sell orders simultaneously. It is true that the brokers act on the advice of their clients but it is they who actually implement the game plan. In the trades now in question the buyer, the seller and CSFB as the seller’s broker have already been found guilty. It is inconceivable that such large number of trades could have matched on the screen without the appellant as the buyer’s broker being a party to the game plan. Since the buy and sell orders were punched into the system simultaneously in such large numbers and they all matched, we cannot believe that it was a coincidence and the only inference that can be drawn is that there was a prior meeting of the minds before the trades were executed and this disturbs the true price discovery mechanism of the exchange. The appellant is only feigning innocence which plea in the circumstances cannot be accepted.....”

20. The Noticee has also argued that the price rise in the scrip due to their excessive trading in the scrip of VTL was not established. On this point, it must be borne in mind that due to the synchronized/circular/reversed trades an artificial volume of 163900 shares (gross) was generated by the trading member trading on behalf of their clients comprising 53.23 % of the total gross market traded quantity, out of which Haresh Soni group has contributed to 76.57% (125500 shares). The price of the scrip increased daily during the entire period of investigation and LTP analysis shows that the price varied in the range between 3.24 % to 10.78 % while the price has increased from Rs. 69.00 to Rs. 130.00 during the period when the clients including the connected / related entities have done reversal of trades/ circular trades/ synchronized trades. During the investigation period the VTL shares were traded for 26 days, out of which on 13 days more than 50% of the daily traded volume in VTL shares was due to synchronized/circular/reversal trading. Further, on 9 days such trading contributed to more than 70% of the gross daily volumes. This has clearly created artificial trading volumes as also a false impression of active trading in the market.

21. There is no response from the Noticee with respect to the issue of incremental trades and their role in artificially raising the price of the scrip of VTL. Further the Noticee vide reply dated August 29, 2007 has admitted that the alleged circular trades had been executed by them on behalf of their client and not on their own account. Synchronized/reversal trades in a circular manner with exact matching of price and quantity in several occasions are only possible if the trades are put in the system with prior understanding. In such cases prices and quantities have been negotiated outside the system and orders are executed simultaneously, or else there is no possibility of such perfect matching of quantity and price etc. The knowledge of the Noticee as a trading member to execute such synchronized/reversed/circular transactions could be inferred from the

above attending circumstances especially execution of several synchronised transactions in a circular / reversal manner continuously for several days.

22. In order to protect the integrity of securities market, all practices of circular trading have to be curbed. In the normal circumstances, reversal / circular / synchronized trading in a particular scrip happens when a close knit set of market entities, buy and sell shares frequently among themselves to influence the stock price. In such cases, there are no bonafide intentions to trade, and accordingly the trading volumes so generated are referred to as artificial volumes. The Noticee and other entities indulged in reversal / circular / synchronized trading with fraudulent or deceptive intention to create misleading appearance of trading and to manipulate the price and volume of the scrip. No unknown person can trade continuously by putting orders in such pattern contributing significantly to total volume in the market. Such trades go to show that all of the above entities were related / connected to each other and they were matching their trades which in fact were not indicative of bonafide transactions and did not result in transfer of beneficial ownership. Not only do such activities seriously affect the market in its price discovery mechanism, it invariably hurts the investors as well. Further, it is a well settled position that synchronized/circular/reversed trading by itself creates artificial volumes in the market because the parties buying and selling the shares do not intend to transfer the beneficial ownership therein. The Noticee have in view of above facts violated Regulation 4(1), 4(2) (a), (b), (g) and (n) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 and Clause A (1), (2), (3), (4) and (5) of the Code of Conduct as specified in Schedule II read with Regulation 7 of the SEBI (Stock brokers and Sub-Brokers) Regulations, 1992.

23. As already explained hereinabove, the price of scrip went up without any justification in spite of the fact that there was no corporate announcement during the period of investigation. Market Intermediaries are expected to observe due

diligence to maintain harmony in the market. In the instant case, the Noticee had executed continuous synchronized/reversal/circular trades and their knowledge thereof is implicit from the attending circumstances. The nature of the execution of the trades by the Noticee in VTL shares are in total disregard of the provisions of the PFUTP Regulations and the Stock Broker Regulations as set out above and therefore calls for a higher penalty than the one recommended by the Enquiry Officer.

24. Therefore, in exercise of the powers conferred upon me under Section 19 of Securities and Exchange Board of India Act, 1992 read with regulation 13 (4) of the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I, hereby impose a minor penalty of suspension of the certificate of registration of M/s Galaxy Broking Ltd., (Registration No. INB010882739 and PAN No. AABCG5457B) for a period of 15 days.

25. This order will come into effect immediately after the expiry of 21 days from the date of this order.

Place: Mumbai

Date: January 11, 2008

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