

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

**IN THE MATTER OF M/S. LALLUBHAI RANCHHODDAS SHARE
BROKERS PVT LTD, MEMBER, BOMBAY STOCK EXCHANGE
LIMITED, SEBI REG NO: INB010983630**

**IN THE SCRIP OF M/S RAVALGAON SUGAR FARMS LTD &
SHRENUJ & CO. LTD**

Date of hearing: 15.2.2007

Appearance:

For Noticee : Shri Sanjiv R. Choksy, Director

For SEBI : Shri. P.K. Nagpal, Executive Director
Shri. Prashant Saini, Manager
Ms. Kshama Chavan, Legal Officer

ORDER

**UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING
ENQUIRY BY ENQUIRY OFFICER AND IMPOSING PENALTY)
REGULATIONS, 2002**

1. M/s Lallubhai Ranchhoddas Share Brokers Pvt Ltd (hereinafter referred to as 'Lallubhai') is a Member of the Bombay Stock

Exchange Ltd (hereinafter referred to as 'BSE'), and registered with SEBI, bearing Registration No. INB010983630.

2. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted investigation in respect of the trading in the scrip of Ravalgaon Sugar Farms Ltd for the period May 02, 2001 to June 29, 2001 (hereinafter referred to as 'Ravalgaon') and in the scrip of Shrenuj & Co Ltd (hereinafter referred to as 'Shrenuj') for the period May 04, 2001 to June 19, 2001. The investigation revealed that Harbinger Trading Co. Pvt. Ltd (hereinafter referred to as 'Harbinger'), client of Lallubhai had traded through Lallubhai and also through another BSE broker, Tropical Securities & Investment Pvt. Ltd (hereinafter referred to as 'Tropical'). It was observed that huge volumes were generated through these trades by both the brokers in the scrips of Ravalgaon and Shrenuj through synchronized deals which were executed with a little time difference of 1 to 11 seconds in most of the transactions. It was alleged from the findings of the investigation that these trades were structured and were in the nature of cross deals.
3. On the basis of the Investigation Report, SEBI vide order dated January 21, 2004 appointed Enquiry Officer under Regulation 5 of the Securities and Exchange Board of India (Procedure for Holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as 'Enquiry Regulations'), to enquire into the alleged violations committed by Lallubhai under Regulations 4(b),

4(c) and 4(e) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulation, 1995 (hereinafter referred to as 'PFUTP Regulations') read with Clause A (1) to (4) of Code of Conduct as specified in Schedule II read with Regulation 7 of the Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992 (hereinafter referred to as 'Broker Regulations') as also Securities and Exchange Board of India Act, 1992(hereinafter referred to as 'SEBI Act').

4. Accordingly, two show cause notices both dated January 29, 2004 were issued to Lallubhai in terms of Regulation 6(1) of the Enquiry Regulations, communicating the alleged violations.
5. Lallubhai replied to the show cause notices vide letters dated February 13, 2004 and submitted that they have done transactions on behalf of their client Harbinger, purely for bailing out their associates Tropical from pay in obligations and not with an intention to create artificial volumes or rig up the prices in the market. They further submitted that trades have not been executed with an intention to make the investors suffer due to such transactions.
6. After considering the reply to the show cause notice given by Lallubhai, the Enquiry Officer granted an opportunity of hearing in the matter on March 5, 2004. Shri Sanjeev Choksy, Director of

Lallubhai attended the hearing before the Enquiry Officer on the said date and reiterated their earlier submissions. The Enquiry Officer, after conducting an enquiry in accordance with the provisions of Enquiry Regulations, submitted a report dated July 22, 2004 observing therein that Lallubhai violated the provisions of Regulations 4(b), 4(c) and 4(e) of the PFUTP Regulations read with Clause A (1) to (4) of Code of Conduct as specified in Schedule II read with Regulation 7 of the Broker Regulations. On the basis of the aforesaid findings, the Enquiry Officer recommended a penalty of suspension of registration of Lallubhai for a period of six months.

7. Pursuant to the receipt of the said Enquiry Report, a show cause notice dated July 23, 2004 along with a copy of the said Enquiry Report was issued to Lallubhai, advising them to show cause as to why action as may be considered appropriate should not be taken against them. Lallubhai submitted their reply to the said show cause notice, vide letter dated August 4, 2004, by and large reiterating their earlier submissions.
8. Vide letter dated January 24, 2007 an opportunity to attend a personal hearing before me was given to Lallubhai on February 15, 2007. On the said date, Shri Sanjeev Choksy, Director of Lallubhai attended the hearing and reiterated their earlier submissions.

9. I have carefully examined the enquiry report, show cause notice, reply of Lallubhai and submissions made at the time of hearing.

10. I observed that the price of Ravalgaon had risen from Rs. 3300 on May 16, 2001 to Rs. 5555.30 on June 4, 2001 with fluctuating volumes.

11. It is further observed during the period of investigation that Lallubhai had traded on behalf of their clients Harbinger on 5th, 13th and 15th of June 2001, amounting to 60.54%, 90.91% and 96.30% of the shares traded on those days. The details of the trades executed by Lallubhai are detailed below-

Date	Ultimate Selling Client	No. of shares executed	Total shares traded during the day	% of synchronized shares traded to the total shares traded
5.6.01	Harbinger Trading Co.	89	147	60.54
13.6.01	Harbinger Trading Co.	30	33	90.91
15.6.01	Harbinger Trading Co.	260	270	96.30

12. It is also observed that these trades were executed by Lallubhai by matching orders with counter party broker, i.e Tropical, as detailed below-

Date	Buying Broker	Ultimate Buying Client	Selling Broker	Ultimate Selling Client	No. of shares executed	Total shares traded during the day	%of synchronized shares traded to the total shares traded
5.6.01	Tropical Sec	TSIL Own Globex Fin Harbinger Tr	Lallubhai Ranch	Harbinger Trading Co	89	147	60.54
13.6.01	Tropical Sec	TSIL Own Trading A/c	Lallubhai Ranch	Harbinger Trading Co	30	33	90.91
15.6.01	Tropical Sec	TSIL Own Trading A/c	Lallubhai Ranch	Harbinger Trading Co	260	270	96.30

13. It is also noted that Lallubhai and their client Harbinger had created most of the volumes in the scrip by synchronised deals with a little time gap of 1 to 11 seconds, which is evident from the table given below-

Date of Trade	Traded Time	Traded Qty	Traded Rate	Buy Qty	Sell Qty	Buy Rate	Sell Rate	Buy Time	Sell Time
31.5.01	02:02:20 PM	10	5140	10	10	5140	5140	14:02:01	14:01:49
05.6.01	11:54:41 AM	20	5450	20	10 10	5549 5545	5549 5545	11:54:40 AM	11:54:01 AM 11:54:31 AM
05.6.01	12:22:51 PM	40	5495	40	40	5495	5495	12:22:51 PM	12:22:49 PM
05.6.01	12:53:16 PM	29	5530	30	30	5530	5530	12:53:14 PM	12:53:16 PM
13.6.01	11:47:42 AM	5	5090	5	5	5090	5090	11:47:41 AM	11:42:39 AM
13.6.01	01:51:23 PM	5	4975	10	5	4975	4975	01:51:12 PM	01:51:23 PM
13.6.01	03:26:10 PM	20	4890	20	20	4890	4890	03:26:09 PM	03:26:00 PM
15.6.01	10:39:17 AM	60	4690	60	60	4690	4690	10:38:59 AM	10:39:16 AM

15.6.01	11:04:20 AM	200	4685	100	100	4685	4685	11:04:20 AM	11:04:20 AM
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14. Apart from the above, I find that the Lallubhai had committed similar violations in the scrip of Shrenuj where the price moved between Rs. 37.05 and Rs. 43.70 with fluctuating volumes. In Shrenuj, Lallubhai traded on behalf of their client Harbinger by matching order with the counter party broker and thereby created artificial volumes. Following are the transactions which Lallubhai executed on behalf of their client Harbinger in which counter party broker was Tropical-

Date of Trade	Traded time	Traded Qty	Traded Rate	Buy Time	Sell Time	Buyer's Name	Seller's Time
03.05.01	11:14:33AM	1000	40.25	11:14:32AM	11:14:26AM	Harbinger	Harbinger
03.05.01	11:52:48AM	2800	40.30	11:52:48AM	11:52:43AM	Harbinger	Harbinger

15. The above Table indicates that the trades executed by Lallubhai on behalf of their client Harbinger with counter party broker Tropical were matched in terms of identical buy rates, sell rates and quantities. Most of these transactions were executed at the same time with very little time gap, which is very unlikely for an illiquid scrip.

16. In this regard I note that Lallubhai had admitted that these trades were executed on behalf of their client Harbinger for bailing out their associate Tropical from pay in obligations. The said argument

cannot be accepted as such transactions, though done for the purposes of temporary funding arrangements for bailing out associates or otherwise, have led to the creation of artificial volumes which is in violation of Regulations. The artificial creation of volumes induces the general investing public to transact in these scrips due to false appearance of the trading activity which actually was largely on account of synchronised trades. This matching of trades hampers with the true price discovery mechanism, resulting in the violation of the provisions of the Regulations.

17. Synchronised deals are possible if the trades are put in the system with prior understanding. In such cases prices and quantities are negotiated outside the system and orders are executed simultaneously. I find that aforementioned transactions give an impression that these were all synchronized and traded to create artificial market. The argument put forth by Lallubhai bailing out Tropical from pay in obligations, and not with an intention to create artificial volumes or rig up the prices in the market, is unacceptable. The said issue was already 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 that,

"Synchronized trading is violative of all prudential and transparent norms of trading in securities. Synchronized trading on a large scale can create false volumes.....In a synchronized trading intention is implicit."

18. As regards mens rea, I would like to refer to the decision of the Hon'ble High Court of Bombay in the matter of **SEBI v. Cabot International Capital Corporation** (2004 (51) SCL 307 (BOM)) wherein the Court noted that,

"The SEBI Act and the Regulations are intended to regulate the Security Market and related aspects, the imposition of penalty, in the given facts and circumstances of the case, cannot be tested on the ground of "no mens rea no penalty". For breaches of provisions of SEBI Act and Regulations, according to us, which are civil in nature, mens rea is not essential."

This view was further reiterated by the Supreme Court in its latest judgment in the case of **SEBI v Shriram Mutual Fund and Another**, (2006 INDLAW SC 237).

19. In view of the above, I find that Lallubhai misused stock exchange mechanism to tide over the financial commitments and thus distorted market equilibrium of the scrips of Ravalgaon and Shrenuj. This type of artificial volume creation in illiquid scrips gives wrong message to the investors and induces them to trade in the shares and face imminent loss. Further, synchronization of trades with malafide intention tampers with price discovery mechanism of stock exchange and also militates against concept of transparency. These trades executed by Lallubhai facilitated in creation of artificial

volumes and false market in the scrips of Ravalgaon and Shrenuj and thus I agree with Enquiry Officer that the trades executed by the Lallubhai were in violation of the provisions of Regulations 4(b) and 4(c) of the PFUTP Regulations.

20. As regards violation of Regulation 4(e) of the PFUTP Regulations, it would be pertinent to reproduce the text of Regulation 4(e) which is as under:

4. No person shall – “(e) pay, offer or agree to pay or offer, directly or indirectly, to any person any money or money's worth for inducing another person to purchase or sell any security with the sole object of inflating, depressing, or causing fluctuations in the market price of securities.”

21. The facts of the present case when considered in the context of above Regulation, do not in any manner indicate that the ingredients of Regulation 4(e) are established. It is nowhere apparent that Lallubhai has paid or agreed to pay any money or its worth to induce any entity or individual to indulge in trading in Ravalgaon and Shrenuj scrips with the objective of causing price fluctuations in both the scrips and neither does the evidence available point to such a possibility. I am therefore not in agreement with the findings of the Enquiry Officer that Lallubhai is in violation of Regulation 4(e) of the PFUTP.

22. I am however in agreement with the findings of the Enquiry Officer that Lallubhai, by indulging in synchronized deals, has failed to exercise due skill and care as a stock broker and attempted to manipulate the price and volume of these scrips. Lallubhai has thus violated Clauses A (1) to (4) of the Code of Conduct for Brokers as specified in Schedule II of the Stock Brokers Regulations.

23. Taking into consideration all facts and circumstances of the matter and in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act read with Regulation 13(4) of Securities and Exchange Board of India (Procedure for Holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, I hereby Censure M/s Lallubhai Ranchhoddas Share Brokers Pvt Ltd bearing Registration no. INB010983630 (PAN No: AAACL5291K) and advise them to be careful in future and not to repeat similar violations, as the same may then result in higher penalty.

24. This order shall come into with immediate effect.

Place: Mumbai

Date: 29. 02.2008

T.C. NAIR

WHOLE TIME DIRECTOR

SECURITIES AND EXCHANGE BOARD OF INDIA