

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

ORDER

UNDER REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKETS) REGULATIONS 2003 READ WITH SECTION 11, 11B AND 11(4) OF SEBI ACT, 1992 AGAINST SHREE YAAX PHARMA & COSMETIC LTD., KAJOL IMPEX LTD., TRANS FISCAL PVT. LTD., GAURANG G. PATEL, SAMIR D. PATEL, PARESH CHAMPAKLAL SHAH, UMIT VINODBHAI PATEL, SUDHIRBHAI SHAH IN THE MATTER OF SHREE YAAX PHARMA & COSMETIC LTD.

- 1.1. Shree Yaax Pharma & Cosmetic Ltd. (hereinafter referred to as "the company") was incorporated in Ahmedabad on March 09, 1995. The company is primarily engaged in manufacturing / export of pharmaceuticals and cosmetic products. The company had come out with a public issue in the year 1996. The shares of the company were listed at the Bombay Stock Exchange Ltd. (BSE) on February 28, 1996.
- 1.2. Securities and Exchange Board of India (SEBI) conducted investigation into the buying, selling or dealing in the shares of the company during the period August 2002 to November 2002. During the investigation, it was observed that the price of the scrip had risen from a low of Re.1.00 on August 01, 2002 to a high of Rs. 10.90 (closing price) on November 22, 2002 during a short span of less than 4 months. During this period, the volume of shares traded at BSE had also risen significantly from around 500 shares to more than 3,00,000 shares.
- 1.3. During the year 2000-01, the company had incurred loss to the tune of Rs. 4.16 lakh and the loss brought forward from previous years was approx. Rs. 84.43 lakh. During the year 2001-02 the company

had very small amount of total income of Rs. 10.9 lakh and earned a small net profit of Rs.1.55 lakh against high equity capital of Rs. 24.4 crore. As per unaudited results for the quarter ended June 30, 2002, the net profit of the company was to the tune of Rs. 4.5 lakh only and for the next quarter i.e. September 30, 2002, it was Rs.14.60 lakh only. It was observed that the rise in the price of the scrip was not backed by the fundamentals of the scrip or its financial performance.

- 1.4. During the period under investigation, a total of 46,94,040 shares were traded (purchase and sale) on BSE. The scrutiny of the trades in the scrip showed that the trades were executed mainly by five member brokers and created artificial volumes in the scrip which distorted market equilibrium of shares. On scrutiny of the trades of these five member brokers, it was observed that they had mainly traded on behalf of the following 7 clients which accounted for approximately 98.65 % of the gross purchases and 98.91% of the gross sales in the scrip namely,

- i. Kajol Impex Ltd.
(Directors: Shailesh S. Patel, Kirit S. Pandya, Hemrajsinh Vaghela)
- ii. Trans Fiscal Pvt. Ltd.
(Directors: Manish D Patel, Kirit S Pandya)
- iii. Gaurang G Patel
- iv. Samir D Patel
- v. Paresh Champaklal Shah
- vi. Umit Vinodbhai Patel
- vii. Sudhirbhai Shah

- 1.5. It was alleged that above seven clients of the different brokers had traded significantly in the scrip during the period of investigation and indulged in circular trades in connivance with the other related / connected clients thereby instrumental in creating artificial volume in the scrip and distorting the market equilibrium of the shares. The above act of the clients were in violation of provisions of Regulation 4 (a), (b), (c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995 (hereinafter referred to as "PFUTP Regulations") as applicable when the act was committed.

- 2.1 In view of the findings of investigation, a show cause notice dated August 9, 2004 was issued to the company and above seven clients to show cause as to why action under Regulation 11 of SEBI (PFUTP) Regulations, 2003 read with Section 11, 11B and 11(4) (b) of SEBI Act, 1992 including restraining them from accessing the capital market and prohibiting from buying, selling or dealing in the securities in any manner whatsoever for a particular period should not be initiated. The above clients had been given 21 days to submit their replies, if any, failing which it would be presumed that they had no explanation / submission to offer. They were also requested to indicate whether they would prefer a personal hearing in this regard.
- 2.2 However, none of the above clients submitted their replies to the show cause notice. An opportunity of personal hearing was granted before me to the company and all the above clients on September 4, 2006 wherein Shailesh Patel, Director of Shree Yaax Pharma & Cosmetics Ltd. appeared for the hearing wherein it was submitted that they did not receive the show cause notice. Even though the show cause notice was properly served on the company, the company was once again given a copy of show cause notice and was directed to reply to the same within a period of ten days. Shri Hemrajsinh Vaghela, Director of Kajol Impex Ltd. appeared for hearing and made submissions. Another opportunity of hearing was given to remaining six entities on September 28, 2006. However, no one appeared for the hearing. Shri Sudhirbhai Shah vide letter dated September 28, 2006 requested for adjournment of hearing. Vide letter dated January 31, 2007, Sudhir Shah was advised to reply to the show cause notice, however no reply was received from him.
- 3.1 I have carefully examined the facts of the case, investigation report and the show cause notice issued to the clients. I note that none of the above clients have replied to the show cause notice inspite of giving enough time and opportunity. Further, I note that Shri Sudhirbhai Shah refused to accept the show cause notice sent through his sub-broker. None of the other entities have replied to the show cause notice in spite of sending reminder. In view of the fact that principles of natural justice have been complied with, I am inclined to proceed on the basis of material available on record and merits.

- 3.2 There was a rise in the price and volume of the scrip traded during the period under investigation. The performance of the company except the news of positive corporate development does not justify such rise in price. After the scrutiny of the trades in the scrip, it was observed that the trades were executed mainly by the five member brokers namely, Equisearch Broking Pvt. Ltd., Grishma Securities Pvt. Ltd., Ess Ess Intermediaries Pvt. Ltd., Share Aids, Bonanza Stock Brokers Pvt. Ltd. and Lagan Fincap Leasing Ltd (sub-broker of Bonanza Stock Broker Ltd) who created artificial volume in the scrip which distorted the market equilibrium of the shares. These brokers have mainly traded on behalf of seven clients. I note that separate action is being taken against the above entities.
- 3.3 From the settlement wise trade details of the aforesaid brokers, it is observed that the trades of the said seven clients during the period under investigation had accounted for approximately 98.65 % of the gross purchases and 98.91% of the gross sales in the scrip. A summary of trades of these clients is as under:

Sr. No.	Name of the client	Stock Broker	Gross purchase	Gross Sale	Net Purchase	Net Sale
1.	Trans Fiscal Pvt. Ltd.	Equisearch Broking Pvt. Ltd.	1414420	1414520	0	100
2.	Samir D. Patel	-do-	363750	363750	0	0
3.	Kajol Impex Ltd.	Grishma Securities Pvt. Ltd.	1067405	1079505	0	12100
4.	Gaurang G. Patel	ASE Capital Market Ltd. (their sub-broker Ess Ess Intermediaries	394430	394430	0	0
5.	Umit Vinodbhai Patel	-do-	338100	338100	0	0

6.	Paresh Shah	SKSE Securities Ltd. (their sub broker Share Aids)	568735	563735	5000	0
7.	Lagan Fincap Leasing Ltd. (sub-broker) on behalf of Sudhirbhai Shah	Bonanza Stock Brokers Pvt. Ltd.	484025	484025	0	0
		TOTAL	4630865	4638065		

3.4 I find that whereas the scrip had opened higher than the previous day's closing price on 33 days it had closed more than previous day's closing price on 43 days. The clients to the first trades on such days were repetitively five of the above referred seven clients namely Paresh Champaklal Shah, Kajol Impex Ltd., Trans Fiscal Pvt. Ltd., Samir D. Patel and Gaurang G. Patel. Five of the above referred seven clients have been observed to be related / connected to each other and / or with the company as under:

- i. Shri Shalesh S. Patel is Managing Director of the company and also one of the Directors of the client, Kajol Impex Ltd.;
- ii. Shri Manish D. Patel is one of the Directors of the company and also one of the Directors of the client, Transfiscal Pvt. Ltd.;
- iii. Shri Gaurang G. Patel is one of the Directors of the company.
- iv. The clients Kajol Impex Ltd. and Transfiscal Pvt. Ltd. have a common Director - Shri Kirit S. Pandya.;
- v. Paresh Champaklal Shah -The client sold 39,000 shares of the company during which were delivered from the demat account of Gaurang G. Patel, one of the Directors of the Company.

3.5 From the above table at para 3.3 of the order, I note that the total purchase and sale figures for the said five related /connected clients during the relevant period when taken together comes out to 38,08,740 and 38,20,940 shares respectively. Their trades accounted for approximately 81.14% of the gross purchase and sales volume in

the scrip at BSE during the investigation period. The analysis of the clients' trades are as under:

3.5.1 I note that Samir D. Patel is one of the directors of the company. He traded in the scrip through the stock broker Equisearch Broking Pvt. Ltd. During the investigation period November 22, 2002, Shri Samir Patel purchased and sold 3,63,750 shares and within each settlement he squared up his position. From the trade log details for the period August 19 to November 22, 2002, I observe that buy and sale orders of this client mostly matched with the buy and sale orders of the other four related/connected clients in the following manner :

- i. Purchase orders for approximately 1,21,800 shares and sale orders for 1,13,330 shares matched with the corresponding sale and buy orders of Kajol Impex Ltd. on different dates during the aforesaid period. These buy and sale orders were executed in approximately 1314 and 1169 trades respectively.
- ii. Similarly, in case of trades on different dates involving purchase of 1,39,300 shares and sale of 1,10,900 shares (approx.) the counter party was Paresh Shah. These buy and sale orders were executed in about 845 and 633 trades respectively.
- iii. Again, for purchase of 1,00,400 shares and sale of 1,39,020 shares (approx.) the counter party was Gaurang Patel & others and these buy/sale orders were respectively executed in 1181 and 1541 trades.

3.5.2 I further note that Gaurang G. Patel is also one of the directors of the company. He traded in the scrip through the stock broker ASE Capital Market Ltd. During the investigation period, he purchased and sold 3,94,430 shares and within each settlement he squared up his position i.e. purchased and sold the same quantity of shares. From the available trade log details for the period August 19 to November 22, 2002, it was observed that the buy and sale orders of this client mostly matched with the buy and sale orders of the other four related/connected clients in the following manner:

- i. Purchase orders for approximately 1,91,820 shares and sale orders for 1,65,100 shares matched with the corresponding sale

and buy orders of Samir D. Patel / Trans Fiscal Pvt. Ltd. on different dates during the aforesaid period. For these buy and sale orders the counter party was either Trans Fiscal Pvt. Ltd. or Samir D. Patel. These buy and sale orders were executed in approximately 2311 and 1894 trades.

- ii. Similarly, in case of trades on different dates involving purchase of approximately 83,355 shares and sale of 1,10,330 shares the counter party client was Paresh Shah (these buy/sale orders were executed in 1382 and 1702 trades respectively) and for trades involving purchase of 79,530 shares and sale of 73,050 shares on different dates, the counter party was Kajol Impex Ltd. Orders were executed in 955 and 901 trades respectively.
- iii. Buy /sale orders for approximately 800 shares of the client had matched with his own sale/ buy orders.

3.5.3 As regards the client Kajol Impex Ltd., I note that the client traded in the scrip through the stock broker Grishma Securities Ltd. During the investigation period they purchased 10,67,405 shares and sold 10,79,505 shares of the company. It was observed that the client had squared up its positions i.e. purchased and sold the same quantity of shares during the BSE sett. Nos. 115/02-03 to 134/02-03. However, during sett. Nos. 135/02-03 to 165/02-03 they had sold a total of 12100 shares more than the quantity purchased. As mentioned in the earlier paragraphs, Shri Kirit Pandya, Hemrajsinh Vaghela and Shalesh Patel are the directors of the client, Kajol Impex Ltd. Further, Shri Shalesh Patel is also the Managing Director of the company. From the trade log details for the period August 19 to November 22, 2002, I observe that buy and sale orders of this client matched with the buy and sale orders of the other four related/connected clients in the following manner :

- i. Orders of the client executed on various dates for purchase of approximately 7,31,030 shares and sale of 7,73,380 shares matched with the corresponding sale and buy orders of Samir D. Patel /Trans Fiscal Pvt. Ltd. The counter party for these buy and sale orders was either Trans Fiscal Pvt. Ltd. or Samir D. Patel. These orders were respectively executed in 7883 and 8418 trades.

- ii. Similarly, in case of trades involving purchase of approximately 94,905 shares and sale of 65,210 shares on different dates, the counter party client was Paresh Shah
- iii. Orders executed in 1037 and 588 trades for purchase of 1,56,850 shares and sale of 1,38,860 shares on different dates the counter party was Gaurang Patel and others. These orders were respectively executed in 2065 and 1624 trades.
- iv. Buy /sale orders for approximately 15,700 shares of the client had matched with his own sale/ buy orders.
- v. The client's buy orders for 56,120 shares and sale orders for 58,055 shares also matched with the corresponding orders of Lagan Fincap Ltd.

3.5.4 The client Transfiscal Pvt. Ltd., traded in the scrip through the stock broker, Equisearch Broking Pvt. Ltd. During the investigation period they purchased 14,14,420 shares and sold 14,14,520 shares. It was observed that except for the BSE Sett. No. 106/02-03 within each settlement the client had squared up his positions. Directors of the client are Kirit S. Pandya and Manish Patel. As mentioned earlier Manish Patel is also one of the directors of the company. From the available trade log details for the period August 19 to November 22, 2002 it was observed that buy and sale orders of this client mostly matched with the buy and sale orders of the other four related/connected clients in the following manner –

- i. Orders of the client made on different dates for purchase of approximately 6,52,935 shares and sale of approximately 6,19,650 shares had matched with the corresponding sale and buy orders of Kajol Impex Ltd. by way of 7113 and 6733 trades respectively. For these buy and sale orders of the client the counter party was Kajol Impex Ltd.
- ii. Similarly, in case of trades for purchase of 1,02,400 shares (orders executed in 1387 trades) and sale of 1,06,455 shares on different dates (orders executed in 1596 trades) the counter party client was Paresh Shah and for purchase of 1,93,560 shares and sale of 2,22,970 shares the counter party was Gaurang Patel and others. These orders were respectively executed by way of 2241 buy trades and 2576 sale trades.

- iv. It was observed that Lagan Fincap Leasing Ltd. was the counter party in case of the buy orders for 4,24,450 shares and sale orders for 4,25,915 shares of this client.
- 3.5.5 Shri Paresh Shah, traded in the scrip through the stock broker SKSE Securities Ltd. During the investigation period, he purchased 5,63,735 shares and sold 5,68,735 shares of the company. It has been observed that mostly within each settlement the client had squared up his position. From the available trade log details for the period August 19 to November 22, 2002, it has been observed that buy and sale orders of this client mostly matched with the buy and sale orders of the other four related/connected clients in the following manner:
- i. Orders of the client made on various dates for purchase of approximately 2,17,855 shares and sale of 2,42,950 shares had matched with the corresponding sale and buy orders of Trans Fiscal Pvt. Ltd./ Samir D. Patel in 2232 and 2238 buy and sale trades respectively. For these buy and sale orders of the client the counter party was either Trans Fiscal Pvt. Ltd. or Samir D. Patel.
 - ii. Similarly, in case of trades executed on different dates for purchase of approximately 65,210 shares and sale of 94,905 shares (orders executed in 588 and 1037 trades respectively) the counter party client was Kajol Impex Ltd. and for purchase of 2,79,520 shares and sale of 2,28,180 shares the counter party was Gaurang Patel and others. These buy and sale orders were executed by way of 3248 and 2772 trades respectively.
- 3.5.6 There are two more clients namely, Umit Vinodbhai Patel and Shri Sudhirbhai Shah purchased and sold 3,38,100 and 4,84,025 shares of the company during the investigation period. From the material available on record, though the orders of these clients had matched with the above referred clients / related clients, I observe that their connection / relation could not be established. Although, from the details available, no apparent relationship could be established between Sudhirbhai Shah and the other related/connected clients or the company, the pattern of his trades, indicate his involvement in the manipulation as under:

- i) In approx. 4,25,915 shares purchased and 4,25,250 shares sold by the client, the counter party to the trades was Trans Fiscal Pvt. Ltd. These orders had matched in respectively 5896 and 5939 trades.
- ii) For 58,055 shares purchased and 56,370 shares sold the counter party to the trade was Kajol Impex Ltd. (orders executed in respectively 724 and 544 trades). In case of orders for 805 shares its buy orders have matched with its own sale orders.

3.5.7 Umit Vinodbhai Patel also traded significantly in the scrip during the investigation period. The client had purchased approximately 3,38,100 shares and sold the same quantity. The pattern of his trades as given below also prima facie, indicates his involvement in the manipulative transactions:

- i) In case of his orders for purchase of 1,39,020 shares and sale of 1,00,900 shares the counter party client was Trans Fiscal. These buy and sale orders were respectively executed by way of 1541 and 1189 trades.
- ii) Similarly, Paresh Shah was the counter party client in case of his buy and sale orders for 1,44,825 shares and 1,66,800 shares respectively (executed by way of 1390 and 1515 buy/sale trades) and Kajol Impex in case of purchase orders for 53,005 shares (executed in 597 trades) and sale orders for 69,800 shares (executed in 934 trades) respectively.

3.6 Form the analysis of trade log and order log, I find that all these clients had squared up their individual positions among themselves within the respective settlements. Though there was gap of some minutes between orders on both the sides, it is well known that in illiquid scrips the orders on both sides can match in desired manner without synchronization also i.e. even if they are put after considerable time period. In this case, it was observed the entire trading was among seven clients and five brokers and therefore orders had to match even if there is long time gap. However, from the trading details, I find that during the settlements, in most of the trades, one of these clients and brokers was the buyer and the other one was the seller and vice versa. This indicates that the shares were rotated among the group in such a manner that mostly at the end of the settlement their net positions were 'nil'. Such deals were in the nature of circular trade and created artificial volume in the market. It

is clear that the said seven clients had indulged in circular trading and five member brokers executed orders of these clients.

- 3.7 From the show cause notice, I observe that though the details of trading were communicated to the clients and the company, only three of them namely, Samir Patel, Gaurang Patel and Transfiscal Pvt. Ltd. responded stating that they would reply after few days. However, I note that none of them offered their comments on the allegations.
- 3.8 From the facts and circumstances of the case, I find that there was rise in price and volume of the scrip. This artificial volume was created by the above seven clients of different brokers who had traded significantly in the scrip during the investigation period. Five of these clients are connected to each other and three of them are the Directors of the company. Although, no apparent relationship could be established between the remaining two clients with the other clients or the company/directors, the pattern of their trades is indicative of their connection with them and their manipulative intent. The trades of all these clients have not only influenced the price of the scrip but also generated artificial volumes in the scrip.
- 3.9 From the above chronology of events, I find that the directors of the company were also acting as clients in their names or in the names of their associate entities in the above mentioned trading operation. Further, I note that the company was to furnish inter alia information regarding its present and previous directors, their directorship in other companies, details of their shareholding and also details in regard to their dealings in the scrip, etc. A reply in this regard was submitted by the company vide letter dated November 01, 2003. After perusal of the case, I observe that :
- (i) Shri Gaurang G. Patel, who dealt in the scrip actively, was also one of the directors of the company. However, his name was not included in the list of the present / previous directors furnished by the company to SEBI. Shri Manish Patel and Shri Shailesh Patel, the two directors of the company are directors of Trans Fiscal Pvt. Ltd. and Kajol Impex Ltd. respectively who indulged in circular trading. However, the company

furnished incorrect information that none of its directors are holding directorship in any other company.

- (ii) These directors of the company had traded significantly in the scrip either in their individual capacity or through the firms of which they were directors. Despite our specific query made in this regard, the company did not bring the above fact regarding purchases/sales made by its directors/entities related or connected to directors in the scrip, to the notice of the investigating authority.

3.10 All the above discrepancies were brought to the notice of the company and their comments on the same were sought. In reply, the company admitted vide letter dated March 17, 2003, that some people known to them had traded in the scrip and also made submissions to the effect that after knowing the activity of their Director, Gaurang Patel, they forced him to resign from the company. In regard to directorship of Manish Patel and Shailesh Patel in other companies, the company informed that they had resigned from the directorship, but their names are still appearing in the list of directors of these companies and they will take steps in this regard.

3.11 From the chronology of the events, I am of the view that persons, who indulge in manipulative, fraudulent and deceptive transactions, or abet the carrying out of such transactions which are fraudulent and deceptive, should be suitably penalized for the said acts of commissions and omissions. From the above facts, it is established that the above clients along with other related / connected clients including the directors of the company and the entities connected to and controlled by them had actively traded in the scrip and were responsible for creating volume in the scrip which distorted the market equilibrium in the scrip and therefore is guilty of violating the provisions of Regulation 4 (a) (b) (c) and (d) of the FUTP Regulations, 1995. As regards the charge against the company, from the above facts of the case, it is evident that the Directors of the company in connivance with the clients were responsible for creating the artificial volume in the market. I am of the view that since there is no material evidence to show the involvement of the

company in the manipulation, Shree Yaax Pharma & Cosmetics Ltd. cannot be charged for the above violation.

4.0 Order

- 4.1 Now, therefore in exercise of the powers conferred upon me under Section 19 of SEBI Act, 1992 read with Section 11B and 11 (4) (b) of SEBI Act, 1992 and Regulation 11 of the Securities and Exchange Board of India (Prohibition of fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995, I hereby restrain Kajol Impex Ltd., Trans Fiscal Pvt. Ltd., Gaurang G. Patel, Samir D. Patel, Paresh Champaklal Shah, Umit Vinodbhai Patel and Sudhirbhai Shah from accessing the securities market either directly or indirectly and also prohibit them from buying, selling or dealing in securities for a period of three months. This order shall come into force with immediate effect.

PLACE: MUMBAI

DATE: 20.8.2008

T .C. NAIR

WHOLE-TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA