

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

**IN THE MATTER OF M/s ESS ESS INTERMEDIARIES PVT. LTD.,
MEMBER OF THE AHMEDABAD STOCK EXCHANGE LTD., SEBI
REGN. NO. INB021135638, IN THE SCRIP OF SHREE YAAX PHARMA
AND COSMETICS LTD.**

Date of hearing : March 2, 2007

Appearances

For Noticees : Shri Anish Kharadia, Company Secretary

For SEBI : Shri P.K. Nagpal, Executive Director
Shri Amol Hogade, 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 AGAINST, ESS ESS INTERMEDIARIES PVT. LTD., MEMBER OF THE AHMEDABAD STOCK EXCHANGE LTD. SEBI REGN NO. INB021135638 IN THE SCRIP OF SHREE YAAX PHARMA AND COSMETICS LTD.

- 1.1 Shree Yaax Pharma & Cosmetic Ltd. (hereinafter referred to as company) is incorporated at 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. Its shares are listed at the Bombay Stock Exchange Ltd. (BSE).
- 1.2 SEBI conducted investigation into buying, selling or dealing in the shares of the company due to unusual rise in the prices during the period August 01, 2002 to November 22, 2002 (hereinafter referred to as investigation period). It was found that the price of the scrip had gone up from Re. 1.00 on August 1, 2002 to Rs. 10.90 on November 22, 2002 which indicated significant increase in the price of the scrip during the

- 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. The rise in the price in the scrip was not backed by fundamentals of the company or its financial performance.
- 1.3 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 namely, Equisearch Broking Pvt. Ltd., Grishma Securities Pvt. Ltd., Ess Ess Intermediaries Pvt. Ltd., Share Aids, broker of SKSE and sub broker of SKSE Securities Ltd., Bonanza Stock Brokers Pvt. Ltd. and Lagan Fincap Leasing Ltd (Sub-broker of Bonanza Stock Broker Ltd) created artificial volumes in the scrip which distorted market equilibrium of shares. Further, on scrutiny of the trades of these five member brokers, it was found that they had mainly traded on behalf of 7 clients ultimate clients viz. Kajol Impex Ltd., Trans Fiscal Pvt. Ltd., Gaurang G Patel, Samir D Patel, Paresh Champaklal Shah, Umit Vinodbhai Patel and Sudhirbhai Shah.
 - 1.4 M/s Ess Ess Intermediaries Pvt. Ltd. (hereinafter referred to as “the broker”), a member of Ahmedabad Stock Exchange Ltd. bearing registration no. INB021135638 was identified as one of the broker who along with other stock brokers was alleged to have acted in concert in manipulation of the scrip.
 - 2.1 Pursuant to the investigation, an Enquiry Officer was appointed by SEBI Board vide order dated July 26, 2004 in terms of provisions of Regulation 5 of the SEBI (Procedure for holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as Enquiry Regulations) to enquire into the affairs of the broker in the matter of alleged manipulation in the scrip.
 - 2.2 After completion of enquiry, the Enquiry Officer submitted his report dated April 29, 2005 recommending a suspension of certificate of registration for a period of two months.
 - 3.1 Based upon recommendation of the Enquiry Officer, a show cause notice dated May 20, 2005 was issued to the broker in terms of Regulation 13(2) of the Enquiry Regulations, advising them to show cause as to why the penalty as recommended by the Enquiry Officer should not be imposed upon them. A copy of the Enquiry Report was also forwarded to the

broker with the said show cause notice. The broker sought extension of time on various occasions on the pretext for filling the reply or asking the copies of show cause notices and documents relied upon by SEBI. However the broker never replied to the show cause notice even though the copies of show cause notices and relied upon documents were provided with.

- 3.2 An opportunity of personal hearing was granted to the broker before me on March 2, 2007 wherein Shri Anish Kharidia, authorised representative of the broker appeared and made submissions. The broker further submitted its written submission vide letter dated March 8, 2007 and inter alia stated there is no nexus between the broker and their clients , or with other brokers or clients inter se.
- 4.1 I have carefully examined the investigation report, show cause notice, reply of the broker and my findings are as under:
- 4.2 I note that there was rise in the price and volume of the scrip traded during the period under investigation. The performance of the company, Shree Yaax does not justify such rise in the price. The seven clients of different brokers had traded significantly in the scrip during the period under investigation.
- 4.3 From the settlement wise trade details of the concerned brokers, the trades of the said 7 clients during the period under investigation had accounted for approximately 98.65% of gross purchases and 98.91% of the gross sales in the scrip.
- 4.4 I find that most of these clients had squared up their individual positions among themselves within the respective settlements. Though there was a gap of some minutes between orders on both the sides, it is well known that in illiquid scrips, the order on both sides can match in the desired manner without synchronisation also. This indicates that the shares have been 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 trades and had created artificial volume in the market.
- 4.5 I find that the following clients traded frequently namely, Paresh Champaklal Shah, Kajol Impex Ltd., Trans Fiscal Pvt. Ltd. Samir D Patel, Gaurang G Patel. These clients traded very significantly in the

scrip and were connected / related to each other or with the company as under:

- (i) Shri Shalesh S. Patel is Managing Director of the company (Shree Yaax) 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 (Shree Yaax) 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 (Shree Yaax).
- (iv) The clients Kajol Impex Ltd. and Transfiscal Pvt. Ltd. have a common Director – Shri Kirit S. Pandya.
- (v) Paresh Champaklal Shah sold 39,000 shares of the company which were delivered from the demat account of Gaurang Patel, one of the Directors of Shree Yaax.

- 4.6 I find that the broker had executed number of trades for its client Gaurang G. Patel who is one of the director of the company. The said observation is important to establish nexus and to prove the charge of manipulation. Shri Gaurang Patel, Director of the company had accounted for buying and selling equal quantity of 394430 shares. If a director of the company was doing large amount of trading in the shares of his own company, which constituted around 15% of the total trading volume, the intention of the client to manipulate the prices cannot be ruled out.
- 4.7 I also note that Gaurang Patel, the client and Managing Director of the company was doing large number of trading on his own account through its another company, Kajol Impex Ltd. constituting 20% of the total trading. It is difficult to believe that in such type of cases the brokers are unaware of the identity of their client especially when the client is trading heavily in an illiquid scrip.
- 4.8 I further note that the price of the scrip increased from Re. 1/- to Rs. 10.90/- within a period of four months. I note that the entire trading in the scrip was among few clients and the brokers. I find that though some of the clients had acted in concert in manipulating the scrip of the company, the broker had dealt with one of those clients who happen to be one of the Directors of the company. I note that there is no concrete evidence to suggest that the broker was aware that the client was acting in concert with other clients. Further, I note that there is no finding in

the Enquiry Report that the broker was aware that his client is a Director of the Company and was trading in order to create artificial market in the scrip. However considering the weak fundamentals of the company and illiquidity of the scrip, the broker could have suspected the trading pattern of its client, who was squaring up his positions without any delivery. The broker should have exercised due care and diligence in terms of Clause A(2) of the Code of Conduct prescribed for stock brokers, in Schedule II in terms of Regulation 7 of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.

- 5.1 Therefore in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992 read with Regulation 13(4) of the said Regulations, 2002 I direct Ess Ess Intermediaries Pvt. Ltd. SEBI Regn. no. INB021135638, to be careful in future and exercise due care and diligence in the conduct of its affairs as a capital market intermediary. I also direct Ess Ess Intermediaries Pvt. Ltd. to note that any instances of violation or non compliance of the SEBI Act and Rules and Regulations in future shall be dealt with stringently.

Date: 26.08.2008

Place: Mumbai

T. C. Nair
Whole Time Member
Securities and Exchange Board of India