

WTM/TCN/ID3/43/Sept/2008

SECURITIES AND EXCHANGE BOARD OF INDIA

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

IN THE SCRIP OF M/S. PRIYANS SAREE INDUSTRIES LIMITED

Date of hearing : 23:08:2007

Appearance of parties

For the Noticee : Shri. Jignesh Kantilal Shah

For SEBI : Shri P K Bindlish, CGM
Shri Atul Agarwal, Manager
Smt. Kshama Chavan, Legal Officer

ORDER

Directions under Section 11(4) read with the Section 11B of the SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 against Shri Jignesh Kantilal Shah (Permanent Account Number:AAFPS1881C)

1. The Securities and Exchange Board of India ('SEBI' for short) while inspecting the Ahmedabad Stock Exchange ('ASE' for short) on 7-01-2003, found that the price of the scrip of Priyans Saree Industries Ltd. (PSIL) had risen from Rs.112 on 27-03-2002 to Rs.350 on 18-07-2002. It was found that the scrip was infrequently traded on the ASE earlier. Later,

on 06-09-2002 the price of PSIL, further went up to Rs.107.75 after split in stock price from Rs.10 to Rs.2. The Price of the scrip had gone up during the 25 trading sessions from 27-03-2002 to 6-09-2002 as against thin volumes. It is noted that Priyans Saree Industries Ltd. (hereinafter referred to as "PSIL") was listed on ASE and the Madhya Pradesh Stock Exchange ('MPSE' for short) and the scrip was traded only on the ASE during the period of investigation.

2. As per the information received from ASE, nine members had traded in this scrip through 179 trades for a total volume of 44600 shares during the period of investigation, i.e. from 01.03.2002 to 30.09.2002. However, only three brokers, viz. Ratnakar Finstock Pvt Ltd. (Ratnakar), Neptune Securities Pvt Ltd. (Neptune) and Aagam Securities Pvt Ltd. (Aagam) were the major traders in the scrip of PSIL contributing to more than 80% of the volumes during the period of investigation. The member wise data of the top three members were also submitted by ASE as follows:

Member	Total Value of the Member	%
Ratnakar Finstock Pvt Ltd	3704102	53.56
Neptune Securities Pvt Ltd	1638640	23.69
Aagam Securities Pvt Ltd	375129	5.42
Total	5717871	82.67

4. The abnormal trading pattern in the scrip was collated as under, in accordance with the trade log submitted by ASE and the subsequent information received from the brokers/clients:

Closing price /	Date	Seller		Buyer		Quantity	Nature of trade
		Broker	Client	Broker	Client		
122	27-Mar	Ratnakar	Neeta Soni	Neptune	Dilipbhai Soni	150	Cross deals
124		Neptune	Dilipbhai Soni	Ratnakar	Neeta Soni	150	
124		Ratnakar	Jignesh	Ratnakar	K K Fintrade	5000	Self trades
140	28-Mar	Ratnakar	V K Jain	Ratnakar	K K Fintrade	6950	Self trades
150	9-Apr	Aagam	Jignesh	Aagam	Himgiri	2500	Self trades

170	8-May	Neptune	Abhishek Khare	Ratnakar	V K Jain	800	Crossdeals
170		Ratnakar	V K Jain	Neptune	Abhishek Khare	800	
167		Aagam	Jignesh	Aagam	Himgiri	3000	Self trades
182	28-May	Ratnakar	V K Jain	Neptune	Abhishek Khare	2850	Crossdeals
180		Neptune	Abhishek Khare	Ratnakar	V K Jain	2850	
193	29-May	Neptune	Abhishek Khare	Ratnakar	V K Jain	1450	Cross deals
190		Ratnakar	V K Jain	Neptune	Abhishek Khare	1450	
210	3-Jun	Neptune	Abhishek Khare	Ratnakar	V K Jain	1500	Cross deals
207		Ratnakar	V K Jain	Neptune	Abhishek Khare	1500	
219	4-Jun	Neptune	Abhishek Khare	Ratnakar	V K Jain	800	Cross deals
217		Ratnakar	V K Jain	Neptune	Abhishek Khare	800	
223	6-Jun	Neptune	Abhishek Khare	Ratnakar	V K Jain	400	Cross deals
220		Ratnakar	V K Jain	Neptune	Abhishek Khare	400	
222		Aagam	Jignesh	Aagam	K K Fintrade	2300	Self trades
235	11-Jun	Neptune	Abhishek Khare	Ratnakar	V K Jain	600	Cross deals
231		Ratnakar	V K Jain	Neptune	Abhishek Khare	600	
264	28-Jun	Neptune	Abhishek Khare	Ratnakar	V K Jain	25	Cross deals
263		Ratnakar	V K Jain	Neptune	Abhishek Khare	25	
250		Ratnakar	Jignesh	Ratnakar	K K Fintrade	2000	Self trades
282	1-Jul	Ratnakar	V K Jain	Ratnakar	Dipak Patangia	25	Self trades
300	3-Jul	Ratnakar	Dipak Patangia	Ratnakar	V K Jain	25	Self trades

The investigations had found that the three brokers (Ratnakar, Neptune and Aagam) were involved in huge and continuous structured deals in the form of crossed deals and self trades. From the information obtained from these brokers it was found that the trades were not diversified as to the clients and were restricted to only four clients – the noticee, Shri V K Jain, Shri Abhishek Khare and K K Fintrade Ltd. Information was sought from

the three members who were the major traders in this regard. The said members had submitted their trading details which is as under:

Client	Buy	Sale	Gross	Net	%Volume	Broker
V K Jain	8450	15400	23850	-6950	26.74	Ratnakar
Abhishek Khare	8425	8425	16850	0	18.89	Neptune
K K Fintrade Ltd	13950	0	13950	13950	15.64	Ratnakar
Jignesh Kantilal Shah	0	7800	7800	-7800	8.74	Aagam
Jignesh Kantilal Shah	0	7000	7000	-7000	7.85	Ratnakar
Himgiri Dynamics Ltd	5500	0	5500	5500	6.17	Aagam
K K Fintrade Ltd	2300	0	2300	2300	2.58	Aagam
Soni Nita Dilip	150	150	300	0	0.34	Ratnakar
Dilipbhai Soni-HUF	150	150	300	0	0.34	Neptune
Dipak Patangiya	25	25	50	0	0.06	Ratnakar
Total	38950	38950	77900	0	87.33	

From the above details, the investigating authority had shortlisted the noticee, Shri V K Jain, K K Fintrade Ltd. and Shri Abhishek Khare who traded more than 10% of the volumes in the scrip and had issued summons to them under Section 11C (3) and (5) of the SEBI Act requiring them to furnish additional information. Based on the information so obtained, the investigations had observed that the trading does not appear to be genuine as the trading was not supported by company's fundamentals and that the trades were not diversified and concentrated among three brokers and four of their clients. The investigations had also observed that nearly 100% of the trades were structured either as self trades or as crossed trades and were executed to jack up the price of the scrip.

5. The investigations had also recorded statements of Shri Ajay Jayantilal Shah, Director in Ratnakar , Shri Jignesh Rameshchandra Shah, Director in Neptune and noticees. Based on those submissions, it was found that Shri Shailesh Parekh appeared to be a common entity who had

recommended the other entities to trade in the said scrip. The investigations had further alleged that Aagam formed a cartel of brokers and clients in order to manipulate the market and artificially jack up the prices.

6. The investigations had revealed that Shri Jignesh Kantilal Shah, the noticee was one of the traders in the scrip of PSIL and that by way of his dealing / trading in the said scrip was alleged to have violated the relevant provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995. In view of the above, it was decided to issue a show cause notice to him intimating him the allegations and requiring him to show cause to the same.
7. A show cause notice dated April 5, 2007 was issued to the noticee under Sections 11(4) and 11B of SEBI Act, 1992 for alleged violations of Regulations 3, 4(a), (b), and 6(a) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995. I note that the show cause notice had enclosed the price volume data, trade log submitted by ASE, statement made by Shri Ajay Jayantilal Shah, statement of Shri Jignesh Rameshchandra Shah and statement of Jignesh Kantilal Shah. I find that the Show Cause Notice *inter-alia* alleged that:
 - a. Aagam along with Ratnakar and Neptune formed a cartel of brokers and clients in order to manipulate the market and artificially jack up the prices of PSIL Scrip. Shri Jignesh Kantilal Shah and M/s. K K Fintrade Ltd. were clients of Aagam. M/s. K K Fintrade Ltd. and Shri. V K Jain was introduced by Aagam to Ratnakar through its related entity Shri Shailesh Parekh. Thus Shri Jignesh Kantilal Shah and M/s. K K Fintrade Ltd. were the common clients of Aagam and Ratnakar. Shri Shailesh Parekh introduced Shri Abhishek khare to Neptune and that Aagam used their association with Shri Shailesh Parekh to build a cartel of Brokers and clients.

- b. After formation of such a cartel, the above three brokers through their clients Shri. V K Jain, Shri. Abhishekh Khare, Shri. Jignesh Kantilal Shah and M/s. K K Flnttrade Ltd. had traded in PSIL scrip in a non- diversified and concentrated manner among themselves. Nearly, cent percent trades were structured either as self trades or as crossed deals and hence were made only to jack up the price of the scrip. The brokers and their clients had put the orders at increasing rates and in the process had artificially jacked up the price of the scrip. Thus all of the brokers and their clients named above have contributed to artificial price discovery which is in opposition to sound market principles and practice.
- c. The fundamentals of the PSIL was not strong and the trades made by the three brokers namely, Ratnakar, Neptune and Aagam through their clients Shri. V K Jain, Shri. Abhishekh Khare, Shri. Jignesh Kantilal Shah and M/s. K K Flnttrade Ltd. during the investigation period 1-3-2002 to 30-9-2002 were not genuine.
- d. The noticee had indulged in structured trades and put such orders with the brokers as to enter into structured deals which were made only to jack up the price of the scrip. The orders were successively put at increasing rates and in the process have artificially jacked up the price of the scrip of PSIL.
- e. The noticee was alleged to have dealt in securities in a fraudulent manner. The noticee brokers had aided and abetted in making artificial price discovery which was very much against the sound market principles and practices and that the noticee had engaged in acts which had operated as fraud in dealing in securities.
- f. That in view of the above said acts, it was alleged that the noticee had violated Regulations 3, 4(a) and (b) and 6 (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.

10. I note that the noticee had replied to the show cause vide his letter dated 21-04-2007. In the said reply the noticee had interalia stated that:
- a. All the allegations made against him by the show cause notice dated 5/4/2007 to be false.
 - b. He had purchased the 19000 shares of PSIL through one Maheshwari Finvest (P) Ltd. in June/July 2000 and the same has been transferred to his name on 31/10/2000 by PSIL and the copy of the bills along with the letter of delivery from PSIL was placed along with the reply.
 - c. The said shares were dematerialized in 2002 and the copy of demat statement and contract notes are placed along with.
 - d. He has not aided and abetted any person as alleged in the notice and he is not aware as to who were counter parties when he sold the shares. Further, he denies knowledge of transactions entered by broker between two of their clients and thereby, denies to have violated provisions of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.
11. Pursuant to his reply, an opportunity of hearing was afforded on August 23, 2007 to the notice, which was intimated to him vide letter of SEBI dated July 16, 2007. Subsequently, the noticee had replied vide letter dated 25/07/2008, denying his dealings in the scrip of Hindustan Continental Limited and agreed to avail the opportunity of hearing on the fixed date. On the appointed day, the noticee appeared before me and made his submissions.
12. I have perused the show-cause notice, the reply/submissions of the noticee and other material on record. On perusal, I find that the following issues arise for my consideration in the instant case:

- Whether Aagam along with Ratnakar and Neptune had formed a cartel of brokers and clients in order to manipulate and artificially jack up the price of the scrip of PSIL?
- Whether clients Shri V K Jain, Shri Abhishekh Khare, Shri Jignesh Kantilal Shah and M/s. K K Fintrade Ltd. through their brokers had structured their deals in PSIL scrip resulting in cross deals and self trades?
- Whether the trades of the noticee was illegitimate and violative of Regulations 3, 4(a) and (b) and 6 (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995?

13. I note that in order to have first hand information of all the dealing made during the period of investigation, statements of persons who were related to the case were recorded on oath by the Investigating Authority. I note that during his submissions on January 25, 2006, Shri Ajay Jayantilal Shah, Director in Ratnakar had deposed that the clients in the scrip were new to them and had not traded in any scrip other than PSIL and they were introduced to them by Shri Shailesh Parekh who was a relative of Shri Jignesh V Shah, Director of Aagam, a member of the ASE. Similarly, Shri Jignesh Rameshchandra Shah, Director of Neptune had during his statement made before the Investigating Authority on January 25, 2006 had deposed that Shri Dilip Soni was introduced to them by Shri Shailesh Parekh and Shri. Abhishek Khare was introduced to them by Shri Dhirenbbhai Shah and all those clients who were new had not traded in any scrip other than PSIL.

14. I note that the noticee had deposed on January 24, 2006 that he was recommended to buy PSIL shares by Shri Shailesh Parekh, who was known to him. Further, the noticee deposed that Shri Parekh introduced him to the three brokers M/s. Maheshwari Finvest P Ltd., Ratnakar and Aagam and he only sold 14800 shares in 2002 through two brokers Ratnakar and Aagam. However, the noticee agreed that he was again recommended by Shri Shailesh Parekh to sell

those shares. It would thus be clear that Shri Shailesh Parekh is a common entity, who is alleged to have introduced / recommended / instigated the other entities to trade in the scrip of PSIL. I note that Shri Shailesh Parekh is a relative of Shri Jignesh V Shah, Director of Aagam.

15. I find that M/s. Aagam Securities Pvt. Ltd. (ASPL) along with M/s. Ratnakar Finstock Pvt. Ltd. and M/s. Neptune Securities Pvt. Ltd. formed a cartel of brokers and clients in order to manipulate the market and artificially jack up the prices of PSIL Scrip. The noticee and M/s. K K Fintrade Ltd. were already clients of Aagam. I note that M/s. K K Fintrade Ltd., the noticee and Shri V K Jain were introduced to Ratnakar by Shri Shailesh Parekh. Thus, it can be seen that the noticee and M/s. K K Fintrade were clients of Aagam and Ratnakar having been introduced by Shri Shailesh Parekh. I also note that Shri Dhirenbbhai Shah had introduced Shri Abhishek khare to Neptune. It is to be noted that Shri Ajay Jayantilal Shah, director of Ratnakar had stated (vide his statement on 25-01-2006 before the Investigating Authority) that his clients, M/s. V K Jain, the noticee, K K Fintrade, Deepak Patangia, Nita Dilip Soni and Dilip Soni HUF were introduced to it by Shri Shailesh Parekh and that the said clients were new to them and did not trade in any scrip other than PSIL.
16. From the trade log (at para 8 of the SCN and reproduced hereinabove at para 4 of this order), I find that noticee on 27-03-2002 sells 5000 shares through Ratnakar. It is a self trade as far as the broker is concerned as counter party client is K K Fintrade who trades through Ratnakar only. On 09-04-2002, the noticee sells 2500 shares to Himgiri and the broker at both the sides is Aagam. On 08-05-2002, the noticees sells 3000 shares to Himgiri through Aagam and again on 06-06-2002, the noticee sells 2300 shares to K K Fintrade through Aagam. I also find that on 28-06-2002, the noticee sells 2000 shares to K K Fintrade through Ratnakar.
19. I note that a cartel was formed comprising Aagam, Neptune, ratnakar and the clients including the noticee. After forming such a cartel, which included the noticee, in and around March 2002, the 3 brokers, Aagam, Ratnakar and

Neptune had started creating artificial volumes in the scrip through abnormal structured deals in the form of circular trades between the 3 brokers or in the form of self trades between the clients of one of the 3 brokers themselves. The cartel in the process continuously put the orders at constantly increasing rates and thus not only created artificial volumes but also jacked up the price of the scrip of PSIL. I note that the noticee had sold 5000 shares of the scrip on 27-03-2002 through Ratnakar, 2500 shares on 09-04-2002 through Aagam, 3000 shares on 08-05-2002 through Aagam, 2300 shares on 06-06-2002 through Aagam and 2000 shares on 28-06-2002 through Ratnakar. Thus, in all the noticee has sold 14,800 shares during the period under investigation. I note that the investigations had observed that the noticee had purchased shares of PSIL at an average price of Rs.1.50/- per share during 2002 and there were no strong fundamentals in the company for such investment being made. I also find that the shares were dematerialized only on 20-03-2002 just before the noticee had sold those shares. The act of the noticee in dealing with 2 brokers (Ratnakar and Aagam) on the same exchange coupled with the fact that the said brokers were among the 3 brokers who had substantially dealt with the scrip creates a strong suspicion on the bonafides of the noticee in dealing in the shares of the company. Further, it is noted that the noticee had purchased shares at an average price of Rs.1.50/- and had sold the same in the price range of Rs.123-250/-, thereby making whopping profit. The investigations have noted that the noticee had sold the shares at a profit and in the process had accrued capital gains through manipulating the market in the scrip. I note that the investigations had alleged that the noticee had indulged in structured deals which were made only to jack up the price of the scrip and that orders were successively put at increasing rates and in the process have artificially jacked up the price of the scrip of the company. As per the contract notes submitted by the noticee, I observe that the noticee has bought the shares at an aggregate amount of Rs.23501.49 and sold them at Rs.2488671.39 making a net profit of Rs.2465169.90. Here it may be noted again that the scrip of PSIL was not at all

backed by any strong fundamentals and in fact was a non-compliant of the listing agreement of the exchange.

19. Further, the analysis of the trading in PSIL shares done on basis of the information received from ASE, expose that the trades of the brokers and clients trading through brokers were not bonafide as the trading was not supported by company's fundamentals. The company vide its letter dated June 07, 2005 had itself stated that there was no business operation in the company and the company had been facing paucity of funds to pay back creditors including preferential creditor and had stated that on account of lack of business and acute financial crunch at its end, there were no personnel to handle the legal compliance on behalf of the company. Further, it is pertinent to note that the company was non-compliant of the listing agreement with the exchanges.
20. It is also evident from the trade log submitted by ASE that the trades were not diversified and were concentrated on three brokers only and that too among their four clients. Moreover, as elaborated earlier in para 9, nearly 80% of the trades were structured either as self trades or as crossed deals and hence were made only to jack up the price of the scrip. The brokers/clients including Shri. Jingsh Kantilal Shah had successively put the orders at increasing rates and in the process has artificially jacked up the price of the scrip. At large, the three brokers and the clients including Shri. Jignesh Kantilal Shah had aided and abetted artificial price discovery which is very much against the sound market principles and practices.
21. Therefore, I find
 - that only 3 brokers, viz Aagam, Ratnakar and Neptune had dealt / traded in the scrip for their clients during the investigation period
 - that the company was not backed by any strong fundamentals
 - that the clients had not traded in any other scrip other than PSIL during the relevant period.

- that Shri Shailesh Parekh was the introducer , who introduced the noticee to Aagam, Ratnakar and Maheswari Finvest
- that the noticee had purchased the scrip at Rs.1.50/- and sold the same at higher rates
- that the presence of self trades with respect to the brokers concerned. All the trades of the noticee were self trades with respect to the brokers, 3 trades through Aagam and 2 trades through Ratnakar.
- that the three members were involved in huge and continuous structured deals in the form of crossed deals and self trades
- that the client-wise trades were not diversified, but was restricted to only four clients i.e. the noticee, Shri V K Jain, Shri Abhishek Khare and K K Fintrade Ltd. and
- that no prudent person would act on the advise of a third party in the sale or purchase of securities without applying his individual judgment.

Thus, based on the above findings, I conclude that the noticee has dealt in the scrip in a fraudulent manner and directly or indirectly transacted in the scrip of PSIL with the intention of artificially raising the price of the scrip and inducing the sale or purchase of the shares. The said act of the noticees had created a false or misleading appearance of trading in the securities market. By doing so, the noticee has also indulged in unfair trade practices. The said provisions are reproduced below for convenience:

"Prohibition of certain dealings in securities

3. No person shall buy, sell or otherwise deal in securities in a fraudulent manner.

Prohibition against Market Manipulation

4. No person shall -

(a) effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of securities and thereby inducing the sale or purchase of securities by any person;

(b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market;

.....

6. No person shall -

(a) in the course of his business, knowingly engage in any act, or practice which would operate as a fraud upon any person in connection with the purchase or sale of, or any other dealing in, any securities;

.....”

It is to be noted that, any person of reasonable prudence will not invest in a scrip only on the recommendations of a third person especially when he himself has the knowledge about the poor fundamentals of the company. He could however do so with an intention to defraud the market and the investors as the said transactions could create a false or misleading appearance of trading on the securities market. Thus, in the end I find that the noticee has violated the provisions of Regulations 3, 4(a) and (b) and 6 (a) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 read with Regulation 13 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

- 22 In view of the facts, circumstances and the above reason, I find that it would be just in the interest of the capital markets and in the general interest of the investors, the noticee must be debarred for a reasonable period from accessing the market.
23. I, therefore, in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992 and Sections 11 (4) and 11B of the SEBI Act, 1992 read with Regulation 11 of the corresponding provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, hereby, restrain Shri Jignesh Kantilal Shah, from accessing the securities

market and also prohibit him from buying, selling or otherwise dealing or associating with the securities market for a period of one month.

24. This order shall come into force with immediate effect.

DATE: 22 September, 2008

PLACE: MUMBAI

**T. C. NAIR
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**