

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: DR. T. C. NAIR, WHOLE TIME MEMBER**

**IN THE MATTER OF M/s. SHALIBHADRA SECURITIES, MEMBER OF THE
NATIONAL STOCK EXCHANGE OF INDIA LIMITED, BEARING SECURITIES
AND EXCHANGE BOARD OF INDIA REGISTRATION NO. INB230921636**

IN THE SCRIP OF ELECTROLUX KELVINATOR LIMITED

ORDER

**[DIRECTIONS UNDER SECTION 11 (4) READ WITH SECTION 11B OF THE
SEBI ACT, 1992]**

1. The investigations in the dealing in the scrip of Electrolux Kelvinator Limited ('EKL' or 'the company') was initiated by the Securities and Exchange Board of India ('SEBI' for short) based on an investigation carried out by National Stock Exchange ('NSE' for short) for the period from August 02, 2000 to September 05, 2000 wherein it was observed by the NSE that on August 09, 2000 the quantity traded in the scrip witnessed a sudden spurt. Based on the price volume chart analysis, the period from February 01, 2000 to March 31, 2000 was also included for the purposes of investigation. Further, NSE forwarded another investigation report for the period November 08, 2000 to March 20, 2001. Accordingly, investigations in respect of the alleged price manipulation available with SEBI pertain to the following periods:
 - a) February 01, 2000 to March 31, 2000 – Phase I
 - b) August 02, 2000 to September 05, 2000 – Phase II
 - c) November 08, 2000 to March 20, 2001 – Phase II

2. I learn from the investigation report that the company was incorporated in August 1989 as Maharaja International. The company came out with a right issue of equity shares aggregating to Rs.34.16 crores offered at Rs.10/- each at par in the ratio of 1:1 to the existing shareholders. Further during December 1999, the company came out with another rights issue in the ratio of 1:1 offered at Rs.10/- each at par to the existing shareholders. The company has a capital of Rs. 135.94 crores and is listed in the Mumbai, Delhi, Calcutta, Ahmedabad, Bangalore, Jaipur Stock Exchanges and NSE.
3. During the investigations, the following were noticed by the investigating team:
 - a) M/s. Harsh Pranav Securities Private Limited (herein after referred to as HPSPL), M/s. New Fin Financial Services Private Limited (herein after referred to as NFSPL) and M/s. Vivensari Financial Services Limited (herein after referred to as VFSPL) (all the three clients are hence forth called 'the entities' or 'clients' for brevity), trading through different brokers/members were alleged to have directly or indirectly entered into transactions in the scrip of EKL with the intention of artificially manipulating the market, indulging in acts intended to create a false or misleading appearance in the trading of the scrip of the company and entering into purchase or sale of the same not to effect transfer of beneficial ownership but only to cause fluctuations in the market price of the scrip, thereby contravening the provisions of Regulation 4 (a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995.
 - b) The trading pattern revealed that when one sold, either of the other two entities were the purchasers, and that the entities were related to each other by reason that one of the directors was common in all

the entities or all were private limited companies who were engaged in investing in securities. The said 3 entities are associate/group companies, which fact has also been agreed upon by them under oath. Further, the said three entities have a common director in Shri P. V. Muralikrishna.

- c) The entities had purchased around 6 lakh shares from M/s. Ankur Finlease. They had also acquired 20 lakh cum rights shares from M/s. Harish Kumar and Associates, promoter of EKL and the funds for such purchases came from M/s. Shalibhadra Securities Limited (herein after referred to as 'member' or 'broker'), a member of NSE. After getting these shares transferred in their name, application for rights was made. After the rights issue, the clients had about 45 lakh shares of EKL and traded extensively in the said scrip through various brokers, among themselves, thereby creating artificial picture of trading in the said scrip.

4. Details of trades executed by the trading member at NSE:

SN	Buy	Sell	Client	Net
2000033	19600	0	NFFSPL	19600
2000036	140000	0	NFFSPL	140000
2000046 n	125000	0	NFFSPL	125000
2000046h	696161	0	HPSPL	696161
2000046 v	25000	550000	VFSL	-525000
2000047 v	0	432500	VFSL	-432500
2000047 n	232500	0	NFFSPL	232500
2000047 h	201999	0	HPSPL	201999
2000048 v	570940	0	VFSL	570940
2000048 h	0	163500	HPSPL	-163500
2000049 h	165000	0	HPSPL	165000
2000050 h	400258	10350	HPSPL	389908
2000051 v	0	197004	VFSL	-197004
2000051 h	289851	0	HPSPL	289851
2000052 h	450945	0	HPSPL	450945
2000053 h	492489	0	HPSPL	492489
2001001h	545988	0	HPSPL	545988
2001002 h	338300	0	HPSPL	338300
2001003 h	554046	0	HPSPL	554046

2001004 v	610200	0	VFSL	610200
2001005 h	530887	0	HPSP	530887
2001006 h	408350	0	HPSP	408350
2001007 h	781910	0	HPSP	781910
2001008 h	549201	313589	HPSP	235612
2001009 v	0	100000	VFSL	-100000
2001010 v	0	80000	VFSL	-80000
2001011 v	0	20000	VFSL	-20000

The following details can be inferred from the above table -

- The member has dealt extensively for the clients – M/s VFSL, M/s HPSP and M/s NFFSP. In most of the settlements the member has been a net purchaser. The total net purchase position of the MEMBER cumulated for the whole period is 61,02,082 shares.
- The client M/s HPSP has traded in 8 settlements through the member accounting for nearly 74% of the net quantity for the market. M/s VFSL has traded in 8 settlements through the member, accounting for nearly 59% of the net quantity for the market. M/s NFFSP has traded in 2 settlements through the MEMBER accounting for nearly 42% of the net quantity for the market.

As brought out in the NSE report, the details of structured deals executed by the member are as under:

Sett.No.	DATE	Buy TM	Buy Clt	Sell TM	Sell Clt	QTY	No. of trds
2000046	13-11-00	MKSSBL	VFSL	SSL	VFSL	142100	11
2000046	14-11-00	SSL	HPSP	MKSSBL	VFSL	199522	4
2000047	15-11-00	MKSSBL	VFSL	SSL	VFSL	200000	6
2000047	16-11-00	SSL	NFFSP	MKSSBL	VFSL	100000	2
2000047	17-11-00	SSL	HPSP	MKSSBL	VFSL	50000	1
2000047	21-11-00	SSL	HPSP	MKSSBL	VFSL	96699	2
2000048	23-11-00	SSL	HPSP	NAMAH	VFSL	24800	2
2000051	15-12-00	SSL	HPSP	NAMAH	VFSL	2500	1
2000052	22-12-00	SSL	HPSP	NAMAH	VFSL	99900	5
2000053	01-01-01	SSL	HPSP	NAMAH	VFSL	2000	2
2000053	02-01-01	SSL	HPSP	NAMAH	VFSL	5000	1
2001001	03-01-01	SSL	HPSP	NAMAH	VFSL	6000	3
2001001	08-01-01	SSL	HPSP	NAMAH	VFSL	44044	8
2001003	17-01-01	SSL	HPSP	NAMAH	VFSL	73700	1
2001003	18-01-01	SSL	HPSP	DIMEN	VFSL	50000	1

2001003	22-01-01	SSL	HPSPL	NAMAH	VFSL	50500	1
2001004	24-01-01	SSL	HPSPL	NAMAH	VFSL	244500	7
2001005	31-01-01	SSL	HPSPL	NAMAH	VFSL	49714	1
2001005	05-02-01	SSL	HPSPL	DIMEN	VFSL	21786	9
2001005	06-02-01	SSL	HPSPL	DIMEN	VFSL	71300	3
2001006	07-02-01	SSL	HPSPL	NAMAH	VFSL	300864	21
2001006	09-02-01	SSL	HPSPL	DIMEN	VFSL	15650	3
2001007	14-02-01	SSL	HPSPL	NAMAH	VFSL	205592	14
2001007	16-02-01	SSL	HPSPL	NAMAH	VFSL	48950	1
2001008	22-02-01	SSL	HPSPL	DIMEN	VFSL	493697	11
						2598818	121

(SSL – Shalibhadra Securities Ltd; DIMEN – Dimensional Securities Pvt. Ltd; MKSSBL – Mangal Keshav Shares and Stock Brokers Limited; NAMAH – Namah Capital Resources Limited; VFSL – Vivenasri; HPSPL – Harsh Pranav Securities Pvt Ltd; NFFSPL – New Fin Financial Services Pvt Ltd.)

5. I note that when the member was questioned about the trades (trades illustrated above) Shri Hemendra Shah, the Director stated under oath that the clients M/s.Vivenasri, M/s. Harsh Pranav and M/s. New Fin were known to him from 1999 onwards and that only on a tacit understanding with them, he had financed them for acquiring approx. 20 lakh cum-rights shares from the promoters of M/s. Electrolux, as an off-market deal, sometime during November / December 1999. Subsequently, when rights were announced by the company (rights issue opened on December 27, 1999), the rights application for approx. 15 lac of the 20 lac cum-rights shares were made by him on behalf of the above mentioned 3 clients. On receipt of money, the shares were subsequently transferred to these clients. He had stated that the clients had started trading in the shares of M/s. Electrolux through the member. While the shares were credited from member's Pool a/c. to the purchasing client (mostly M/s. Harsh Pranav's) Beneficiary A/c., the money for the pay-in was received in the form of "pay orders". He had stated that during the last 3-4 settlements (February 2001) the member was asked to purchase the shares in order to meet its (member's) earlier pay-in obligations. He was also aware that the same clients were selling through other brokers and we were buying the shares. He also stated that he did not have any option but to purchase the shares because if it had not continued to purchase the shares, the member would

not have been able to meet its pay-in obligations for the earlier settlements, which in turn was being financed from the proceeds from sales being made by through other brokers.

6. Based on the above, the investigations found that the member has aided and abetted the above said entities in the:

- a) manipulation of market by directly/indirectly entering into transactions in securities
- b) creation of false market or misleading appearance of trading in the market
- c) execution of transactions that are not genuine trade transactions
- d) execution of transactions not intended to effect transfer of beneficial ownership but intended to operate only as a devise to cause fluctuations in the market price of securities,

thereby violating the provisions of clauses (a), (b), (c) and (d) of Regulation 4 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 and sub-clauses (3) and (4) of clause A under Regulation 7 of SEBI (Stock Brokers and Sub-Brokers) Rules and Regulations 1992.

7. In view of the above, a Show Cause Notice (SCN) dated 24-04-2003 in terms of Section 11 (4) of the SEBI Act, 1992 was issued to the member mentioning the charges against it. The notice required the member to show cause as to why in the interest of investors and for the orderly development of securities market, appropriate direction(s) including orders restraining it from accessing the securities market and prohibiting it to buy, sell or otherwise deal in securities for a period of 5 years should not be directed against the member for the alleged violations. The SCN required the member to send its reply within 15 days from the date of receipt of the show cause notice.

8. The member replied to the show cause notice by its reply dated 23-05-2003. A notice dated 22-07-2004 for hearing was issued to the member intimating them to appear for a personal hearing on 13-08-2004. The hearing was postponed to 06-09-2004 and subsequently to 14-09-2004. On 14-09-2004, Shri Hemendra Shah, the Director of the member had appeared before the erstwhile Whole Time Member, SEBI. Due to the Member resigning from office, the orders could not be passed on time and when the cases were referred to me, I thought it fit to hear the parties before passing any final orders in the matter. In view of this, a notice for hearing dated 07-04-2006 was sent to the member advising it to attend a hearing before me on 02-05-2006. Shri Hemendra Shah, the Director of the member appeared before me and reiterated their submissions made earlier in their reply.
9. I have perused the Investigation Report, Show Cause Notice, the reply submitted by the member and their oral submissions made during the hearing before me. The issues that arise for consideration in this case are:
- a) Whether the member had aided the clients in their manipulative designs thereby contravening the provisions of Regulation 4 (a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995?
 - b) Whether the member has violated the relevant provisions of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992?
 - c) Whether directions in the nature of restraining them from accessing the securities market are warranted in the instant case?

10. I note that the investigations have revealed that the member has transacted extensively in the scrip of EKL for its clients - M/s. Harsh Pranav Securities Private Limited, M/s. Newifn Financial Services Private Limited and M/s. Vivensari Financial Services Limited aiding the clients in building up their reserves in the shares of EKL. The member is also alleged of aiding their clients in executing matched and structured deals.
11. I also note that the member has stated that only on a tacit understanding between them and their clients, it had financed them in acquiring 20 lakh cum rights shares of EKL. The clients traded in the scrip after building reserves in the scrip of EKL. The member has also stated that, subsequently when rights were announced by the company, the rights application for approximately 15 lakh of the 20 lakh cum rights shares were made by them on behalf of their clients and that on receipt of money, the shares were subsequently transferred to these clients. Thus if the member had not financed them they would not been able to trade in an unfair manner. A very vital aspect in those trades was that they had sold and purchased among themselves. It was also discovered that the shares were sold by one of the clients and the purchases were made by either of the other two entities and the shares received by the purchasers were aggregated and then transferred to the dematerialized account of the seller who in turn had effected further sales. Thus when VFSL sold the shares of EKL, either HPSPL or NFSPL were the purchasers. By this way the entities with limited shares and capital were able to generate volumes in the scrip of EKL.
12. I also note that HPSPL has traded in 8 settlements through the member accounting for nearly 74% of the net quantity of the market. VFSL had traded in 8 settlements through the member accounting for nearly 59% of the net quantity of the market. NFSPL has traded in 2 settlements through the member accounting for nearly 42% of the net quantity of the market.

The member has also stated that the purchases of shares were made in order to meet their earlier pay-in obligations. The member has also stated that they were aware that the clients were also trading through other members of the exchanges.

13. The member in their reply dated 23-05-2003 has stated that they had fallen prey to the malafide intentions of the clients and that only because of their non-payment they had become a defaulter to the exchange. This reply is only evasive to cover the lapses on the part of the member. A member could have prevented such malafide intentions of their client which in turn paved the way for manipulation in the scrip of EKL. Therefore, by the aforesaid acts, the noticee is guilty of having violated the provisions of clauses (a), (b), (c) and (d) of Regulation 4 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.
14. The member by aiding its clients to pursue their malafide intentions has clearly violated the code of conduct specified for members under the SEBI (Brokers and Sub-Brokers) Regulations, 1992. The relevant portions are reproduced below for convenience:

"A. GENERAL

(1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

(2) Exercise Of Due Skill and Care: A stock-broker, shall act with due skill, care and diligence in the conduct of all his business.

(3) Manipulation: A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(4) Malpractices: A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

(5) Compliance With Statutory Requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the stock exchange from time to time as may be applicable to him.”

Thus, I find that the member has acted in a manner contravening the provisions of clause A of the Code of Conduct prescribed for stock brokers prescribed under the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.

15. I note that the certificate of registration of the broker's certificate as a stock broker at the NSE was cancelled when the current proceedings were initiated against it. It would have served no useful purpose if enquiry was initiated under the SEBI Enquiry Regulations, as the said enquiry would have resulted in suspension / cancellation of the member's certificate which was already cancelled. Thus, enquiry under the Enquiry Regulations would have been purposeless. Therefore, it became necessary to enquire and pass necessary directions under Sections 11 and 11B of the SEBI Act, 1992. Since the broker has been found to have violated the relevant provisions as mentioned above, suitable measures are required to be taken in the interest of the securities market and for proper regulation.
16. I, therefore in exercise of powers conferred under Section 19 of SEBI Act, 1992 read with Sections 11 and 11B of the SEBI Act, 1992, do hereby direct that M/s. Shalibhadra Securities Limited, erstwhile member of the

National Stock Exchange, is restrained from accessing the securities market and prohibited from buying, selling or otherwise dealing in securities in any manner for a period of six months.

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

DATE: 13.10.2008

PLACE: MUMBAI

T. C. NAIR

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA