

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

**IN THE MATTER OF M/s MAYEKAR INVESTMENTS PVT. LTD., SUB
BROKER SEBI REGN. NO. INS010608532, AFFILIATED (PAN NO. AAACM
3475G) TO M/s. RAMANLAL. D. SHAH MEMBER OF BOMBAY STOCK
EXCHANGE LTD. IN THE SCRIP OF MALVIKA ENGINEERING LTD.**

Date of hearing : October 12, 2006

Appearances :

For Noticees: Shri Pankaj A. Desai, Director

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

ORDER

**UNDER REGULATION 28(2) OF THE SECURITIES AND EXCHANGE
BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008**

1.1 The Bombay Stock Exchange Ltd. (hereinafter referred to as "BSE") conducted investigations into the trading in the scrip of Malvika Engineering Ltd. (hereinafter referred to as "MEL"). After examining the investigation reports of BSE, Chairman, Securities and Exchange Board of India (hereinafter referred to as "SEBI") vide his order dated August 31, 2002, directed investigation to be conducted into the alleged irregularities in the trading of the scrip of MEL for the period December 20, 1999 to March 31, 2000 and August 7, 2000 to August 31, 2001 (hereinafter referred to as "investigation period")

- 1.2 Investigation revealed that the trading volume in MEL increased substantially in the period from December 1999 to January 2000 (from 100 shares on December 20, 1999 to 1,50,800 shares on January 7, 2000). The price of the scrip increased from Rs. 8.95 on December 20, 1999 to Rs. 20.15 on January 12, 2000. Further, during August 7, 2000 to August 31, 2000, the price of the scrip touched a high of Rs. 11.10 on August 14, 2000 and a low of Rs. 5.00 on August 31, 2000. Further it was found that due to non genuine trades executed by the related entities, the volume of the scrip was increased artificially from 100 shares on August 4, 2000 to 1,19,500 shares on August 7, 2000 and 1,59,900 shares on August 8, 2000.
- 1.3 It was noted that MEL came out with a public issue in June 1996 and issued 56,26,500 shares to the public. In March 1999, MEL forfeited 37,63,500 shares held by the public on account of non payment of call money. MEL re issued 35,14,100 shares out of 37,63,500 forfeited shares in December 1999 to 246 allottees. It was found that the 46 allottees to whom the shares were reissued were related to each other.
- 1.4 Mayekar Investments Pvt. Ltd. (hereinafter referred to as “Mayekar Investments”), a sub broker having registration number INS010608532 affiliated to BSE Broker, Ramanlal D Shah was found to have traded significantly in the scrip of MEL during the investigation period. Both Mayekar Investments and KP Investments are related to Shri Pankaj Desai, Director, Mayekar Investments and it was alleged that these two entities matched trades and created artificial volumes in the market.

- 2.1 Pursuant to the above findings of the investigation, SEBI vide order dated July 24, 2003, appointed an Enquiry Officer under the then SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2004 (hereinafter referred to as “Enquiry Regulations”) to enquire into the dealings of Mayekar Investments in the scrip of MEL and possible violations of SEBI Act, 1992, SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as “Stock Brokers Regulations”) and SEBI (Prohibition of Fraudulent and Unfair Trade Practices), Regulations, 1995 (hereinafter referred to as “PFUTP Regulations”) by it.
- 2.2 The enquiry officer conducted enquiry in terms of Enquiry Regulations and found that Mayekar Investments had created artificial volume in the scrip of MEL and thereby violated provisions of Regulations 4 (b), (c) and (d) of PFUTP Regulations and Clause A of Code of Conduct for sub brokers specified in schedule II read with Regulation 15 of the Stock Broker Regulations. The enquiry officer submitted his report dated March 15, 2004 recommending a penalty of cancellation of certificate of registration of Mayekar Investments.
- 3.1 A copy of the enquiry report along with show cause notice dated March 24, 2004 was forwarded to Mayekar Investments, in terms of Regulation 13 (2) of the Enquiry Regulations advising it to show cause as to why action as considered appropriate should not be taken against them.

3.2 Mayekar Investments vide letter dated April 12, 2004 submitted their reply reiterating most of the submissions made before the enquiry officer, It inter alia submitted as under:

- (i) *They were not linked, related or concerned with the transactions in MEL of other associated /related entities. Mayekar Investment as SEBI registered sub broker carried out trades through M/s R.D.Shah in the normal and usual course of sub broking business. Their privity was with M/s RD Shah who had issued contract notes, bills to them for MEL trades. Their contractual privity in turn was with their clients in terms of confirmation memos issued by them to and fro payment/delivery of shares inter se etc.*
- (ii) *Mayekar Investment as sub broker is different from its individual directors. Mayekar Investment is a private Ltd company with three directors, their dealing in MEL scrip was limited and was delivery based depending upon the business exigencies, market situations, transactions were routed to through other sub brokers/brokers. There is not a single case of default of monetary commitment to any one till date.*
- (iii) *With regard to the transactions of MEL, it is clarified that the concerned trades were instructed to be done by M/s RD Shah (and other brokers and sub brokers) in the name /code as per clients instructions at the relevant time on certain days and were not conducted continuously and throughout the period.*
- (iv) *The concerned trades were carried out on BOLT screen in the price and order matching mechanism of BSE during the official trading hours. There was no bad deliveries in respect of shares sold/ delivered in the market.*
- (v) *The enquiry officer has failed to consider that during the entire period from December 1999 to July 2000 they had bought 1,51,400 shares, sold 2,20,900 shares, thereby net sales being 62,400 shares only by their clients through them and by them through M/s. R D Shah.*
- (vi) *With regard to their dealings with other sub brokers, it clarified that there is no legal bar and one can operate through multiple members/sub brokers.*

(vii) *With reference to few synchronised trades in MEL scrip, it is clarified that BSE's BOLT system is anonymous and its algorithm is not known. Merely trades getting matched by the computer system against orders of others (who happened to be associate concerns of directors and who dealt through others) per se do not become irregular/invalid /illegal. Had there been any major irregularity, BSE would have annulled the trades or expunged the quotations. BSE therefore did not see any wrongdoing in the matter.*

3.3 An opportunity of personal hearing was granted to Mayekar Investments on October 12, 2006 before me wherein Shri Pankaj A Desai, Director, of Mayekar Investments appeared and made submissions.

4.1 I have carefully examined the facts and circumstances of the case, investigation report, enquiry report, show cause notices and the replies/ submission of Mayekar Investments and other material on record. I note that though the Enquiry Regulations were repealed with effect from the notification of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, anything done and any action taken under the said enquiry regulations shall be deemed to have been done or taken or commenced under the corresponding provisions of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008. My findings are as under:

4.2 At the outset, I note that SEBI had vide order dated April 28, 2004, debarred Shri Pankaj Desai and their associates from buying, selling and dealing in securities market for a period of two years for their dealing in the scrip of MEL. From the perusal of the said order, I note that the following entities are related to Shri Pankaj Desai:

i. The director of Mayekar Investment is Shri Pankaj Desai.

- ii. Smt. Kirtida P. Desai, wife of Shri Pankaj Desai is proprietor of M/s. K P Investments.
- iii. M/s. K P Securities is proprietary concern of Shri Pankaj Desai HUF
- iv. Shri A L Desai, father of Mr. Pankaj A Desai looks after the affairs of M/s Shagufta Investments, a group company of above companies.
- v. M/s Dayanand Finance is also group company of the above companies.

4.3 The directors and the proprietors of the above entities, i.e. M/s. K P Investments, M/s. K P Securities, M/s Shagufta Investments, M/s Dayanand Finance who are related to each other, subscribed 8,50,000 shares in the re-issue of the forfeited shares by MEL in January 2000.

4.4 I find that MEL had extended loans amounting to Rs. 1.25 crore to certain entities related to Shri Pankaj Desai in the month of December, 1999. It is observed that the loan given by MEL to the following related entities was as under:

Sr. No.	Name of the party	Amount of advance given
1	K P Securities	10,00,000
2	K P Investment	40,00,000
3	Mayekar Investments	15,00,000
4	Shagufta Investments	30,00,000
5	Dayanand Finance	30,00,000
	Total	1,25,00,000

4.5 The above entities are identified as group entities related to Shri Pankaj Desai who was also one of the allottees of the re-issued shares.

4.6 I note that 8,50,000 reissued shares were allotted by MEL to the persons related to Shri Pankaj Desai, Director of Mayekar Investments. After the shares were allotted, these entities indulged in creating artificial volume in the scrip at BSE. As regards Mayekar Investments, following are the synchronized trades executed by it :

Order Number (Buy)	Ordered Qty (Buy)	Trade Price	Time of placing order(Buy)	Buy Broker Name	Buy Client Name	Order Number (Sell)	Ordered Qty (Sell)	Time of placing order(Sell)	Sell Broker Name	Sell Client Name	Total Traded Quantity
60100400000005246	20000	10	15:18:11	Ramanlal D Shah	MIPL	3700200000006161	20000	15:21:21	Bipin Vora	KPI	20000
3700200000006162	25000	9.9	15:23:19	Bipin Vora	KPI	60100400000005250	3000	15:23:47	Ramanlal D Shah	MIPL	17000
						60100400000005251	5000	15:24:07	-do-	MIPL	
						60100400000005252	1000	15:24:15	-do-	MIPL	
						60100400000005253	2000	15:24:22	-do-	MIPL	
						60100400000005254	1000	15:24:35	-do-	MIPL	
						60100400000005255	2000	15:24:51	-do-	MIPL	
						60100400000005256	2000	15:25:26	-do-	MIPL	
						60100400000005257	1000	15:25:36	-do-	MIPL	

4.7 From the trade log and order log which were part of show cause notice issued by SEBI, I note that Mayekar Investments placed buy order for 20,000 shares at 15:18:11 through the broker M/s. Ramanlal D Shah and the same was matched by a sell order of 20,000 shares at 15:21:21 placed by M/s. KP Investments through M/s Bipin R Vora. Further, in another transaction a buy order for 25,000 shares were placed by M/s. KP Investments at 15:23:19 through M/s. Bipin R Vora and the same was matched through eight sell orders placed by Mayekar Investments between 15:23:47 and 15:25:36 through M/s. Ramanlal D Shah matching 17,000 shares of buy order.

- 4.8 I find that Mayekar Investments has dealt with sub-broker namely M/s. Prakash & Co. and Sai Investment Corporation Pvt. Ltd. who were also the sub brokers affiliated to brokers - Kishore R. Ajmera and Bipin R. Vora respectively. Further I find that Mayekar Investments and its related entities traded through various brokers and their sub brokers in the scrip.
- 4.9 I find that Mayekar Investment, K P Investments and other related entities namely, Havmore Financial Services (I) Ltd. and Harvic Management Services (I) Ltd. created volume in the market by executing arranged deals. Both Mayekar Investments and KP Investments are entities related to Shri Pankaj Desai and these two entities matched trades and created artificial volume in the market.
- 4.10 I further note that SEBI vide order dated April 24, 2004, have debarred Havmore and its directors, Shri Hemanshu Chawalla, Shri Hemang Jangla and Shri Kalpesh Chawalla from buying, selling and dealing in securities market for a period of two years. From the perusal of the said order, I note that MEL had allotted 1,64,100 shares and 1,50,000 shares respectively to M/s Harvic Management Services (I) Ltd. and M/s Havmore Financial Services (I) Ltd. which amounted to 3,14,100 shares constituting 5.80% of the total issued and subscribed capital of MEL. M/s. Harvic Management Services (I) Ltd. was a sub broker to BSE broker, namely, M/s. B M Gandhi Securities Ltd. M/s. Havmore Financial Services Ltd. is an investment company and Shri Hemang Jangla and Shri Kalpesh Chawalla, the directors in these companies were allotted 1,00,000 shares each. Ms. Sangita Chawalla, wife of Shri Kalpesh Chawala and Ms. Vibha Jangla the wife of Shri Hemang Jangla were

allotted 1,00,000 shares each. Total acquisition of these four persons along with their two companies in MEL amounted to 7,14,100 shares which was 13.19% of the issued and subscribed capital of MEL.

4.11 From the nature of the trades executed by Mayekar Investments, I am of the view that in order to subvert the surveillance mechanism of the stock exchange, the sub broker had diverted his business to various brokers on the stock exchanges so that his concerted trading does not show up on the surveillance screens of the stock exchanges.

4.12 I have also observed that Mayekar Investments has not countered the allegations made with respect to synchronisation of the trades and creation of artificial volumes neither before the Enquiry Officer nor before me. The trade and order log of all the alleged synchronised transactions executed by it on BSE were supplied to it along with the show cause notice issued by enquiry officer. I however find that Mayekar Investments did not rebut these very serious charges except for taking a standard plea that in BOLT system, the identity of counterparty brokers/clients are not known. I also note that Shri Pankaj Desai who is the director of Mayekar Investment has admitted that he was placing the orders from both the sides. Specific references were made in this regard in the show cause notice issued into Mayekar Investments. In view of this clinching evidence, the defence taken by Mayekar in this regard is unsustainable. Therefore, considering the whole case in its totality, I have no doubt holding that Mayekar Investments was indeed involved in creation of artificial volume in the scrip of MEL in violation of Regulation 4 (b), (c) and (d) of the PFUTP Regulations, 1995.

- 4.13 From the chronology of events, I am of the view that even a little amount of due diligence would have been able to caution the sub broker about the activity of its clients. From the facts and circumstances of the case, I conclude that the acts of Mayekar Investments were willful and with the intention to create a false and misleading appearance of trading in relatively illiquid scrip.
- 4.14 I note that SEBI vide order dated April 28, 2004, has restrained M/s. Malvica Engineering Ltd. and its promoters under section 11 and 11B of the SEBI Act from accessing the securities market for a period of three years. Further, vide order dated April 28, 2004, Shri Pankaj Desai and associate entities including K P Investments and K P Securities, M/s Shagufta Investments Pvt. Ltd., M/s Dayanand Finance, Mrs. Kirtida P Desai were restrained from buying selling or dealing in securities in any manner for a period of two years. Also vide order dated April 27, 2004, M/s Havemore Financial Services Ltd. and its promoter Shri Hemanshu Chawalla, Shri Kalpesh Chawalla and Shri Hemang Jangla were restrained from buying, selling or dealing in securities in any manner for a period of two years. Further vide order dated December 27, 2006, SEBI had suspended the certificate of registration of the brokers namely, M/s. Ramanlal D Shah, M/s. Kishore Ajmera and M/s. B M Gandhi Securities P. Ltd. for a period of six months, two months and four months respectively. The registration of M/s. Harvic Management Services (I) Ltd., sub broker was cancelled vide order dated January 25, 2006 and no appeal has been filed by the sub broker in this regard.

4.15 In view of the above, I hold that the sub broker, Mayekar Investments has created artificial volume in the market thereby violating Regulation 4 (b), (c) and (d) of SEBI (PFUTP), Regulations, 1995 and Clause A of the code of conduct for sub brokers specified in schedule II read with Regulation 15 of Stock Brokers Regulations. In view of the above, I agree with the findings and recommendation of Enquiry Officer.

5.0 ORDER

5.1 Now, therefore, in exercise of the powers conferred, by Section 19 of the SEBI Act, 1992 with read with Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, I hereby cancel the certificate of registration of M/s. Mayekar Investments Pvt. Ltd., having registration No. INS010608532 (PAN No. AAACM3475G), sub broker affiliated to M/s. Ramanlal D. Shah.

5.2 This order shall come into force after three weeks from the date of this order.

Date : 17.11.2008
Place : Mumbai

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