

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

ORDER UNDER REGULATION 28(2) OF THE SEBI (INTERMEDIARIES) REGULATIONS, 2008 IN THE MATTER OF M/s EQUISEARCH BROKING PVT LTD., MEMBER OF THE BOMBAY STOCK EXCHANGE LTD., SEBI REGN. NO. INB010992338, IN THE SCRIP OF SHREE YAAX PHARMA AND COSMETICS LTD.

- 1.1 Shree Yaax Pharma & Cosmetic Ltd. is a public limited company (hereinafter referred to as “company”). The shares of the company are listed at the Bombay Stock Exchange Ltd. (BSE).
- 1.2 Due to unusual rise in the prices, SEBI conducted investigation into buying, selling or dealing in the shares of the company 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 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) creating 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 Equisearch Broking Pvt Ltd (hereinafter referred to as “the broker”), a member of Bombay Stock Exchange Ltd. bearing registration no. INB 010992338 was identified as one of them who along with other stock brokers was alleged to have acted in concert in manipulation of the scrip.
- 2.1 In view of the findings of the investigation, an Enquiry Officer was appointed by SEBI Board vide order dated July 26, 2004 in terms of provisions of the then SEBI (Procedure for holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as “Enquiry Regulations”) to enquire into the violations/contraventions committed by the broker. The Enquiry Officer conducted enquiry in terms of Enquiry Regulations, and 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 vide letter dated June 02, 2005 replied to the said show cause notice which are as follows :

- (i) *Their transactions in the company for their clients viz. Trans Fiscal Pvt Ltd and & Samir D Patel were carried out on BOLT system during the trading hours. They issued contract notes and their contractual obligations were fulfilled at the relevant time. Their transactions in the company's scrip were of intra-day trading nature and the said constituents generally ensured that no delivery of shares come to them.*
- (ii) *With respect to Trans Fiscal Pvt Ltd., the net sales was 100 shares only while in the case of Shri Samir D Patel there was no to/fro delivery of shares. Thus orders of buy/sale in the scrip did not originate from them. They were not concerned with rise and fall in the share price of the company as the orders were executed in normal and usual course at prevailing market prices on BOLT system.*
- (iii) *They never received any cautionary notice from BSE regarding undesirable activity taking place in the scrip. The trading volume in the company's scrip was insignificant compared to their total volume of trading in a day. They did not make any gains from the rise or fall of the scrip except for brokerage.*
- (iv) *The trading pattern of the clients was of square up nature and suspicion of any manipulative activity did not arise.*

- (v) *The very fact that orders used to get matched after a considerable time, after inputting them clearly establish the fact they were not synchronized trades with any pre-design motive for matching it.*
- (vi) *They clarify that they were not aware as to who were the counter parties of their clients. They had no knowledge as to any rotation of shares taking place between group of people. Further, as the trading pattern of their client clearly showed intra day jobbing, there was no question of suspecting any circular trading or creating of any artificial volume in the market.*
- (vii) *They disagree that a nexus could be deemed to have been established just because one of the directors of Trans Fiscal Pvt Ltd., Shri Manish Patel is also a Director of the company.*
- (viii) *They did not indulge in any act, which was calculated to create and false or misleading appearance of trading on the securities market Their client's sale orders were placed on the trading system in the usual way and the resultant trades were accepted and acted upon. The trades were genuine and they reflected a particular trading method and strategy of squaring up of position at the end of the day and to avoid lifting of delivery as far as possible.*

3.2 An opportunity of personal hearings were granted to the broker before me on March 2, 2007, August 30, 2007 and December 24, 2007. However no one appeared for the hearing.

4.1 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 Securities and Exchange Board of India (Intermediaries) Regulations, 2008. Having complied with the principles of natural justice, I am proceeding ahead based on the material available on record. 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 viz. Shri Paresh Champaklal Shah, Kajol Impex Ltd, Trans Fiscal Pvt. Ltd., Sameer D Patel, Gaurang D Patel, these clients traded very significantly in the scrip and were connected or related to each other or with the company. I note that Shri Manish Patel is one of the directors of the company and also one of the directors of the client Trans Fiscal Pvt. Ltd.
- 4.6 I observed that the broker had executed large number of trades for its clients M/s Trans Fiscal Pvt. Ltd., and Shri Sameer D Patel. I note that majority of the dealings of the clients of the broker was by M/s. Trans Fiscal Pvt. Ltd. It is pertinent to note that Manish Patel is a common director on the Board of M/s. Trans Fiscal Pvt. Ltd. and the company which is an important factor to establish nexus and to prove the charge of manipulation. The said client has accounted for selling 14,14,420 shares and buying 14,14,520 shares out of total buying of 17,78,170 shares and selling 17,78,278 by the clients of the broker. The quantity of shares here is an important factor which should have alerted the broker had it exercised due skill, care and diligence in its dealings.
- 4.7 I further note that the price of the scrip increased from Re.1 to Rs.10.90 within a period of 4 months. The entire trading in the scrip during this period was among few clients and 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 the director of the company and was trading in order to create artificial market in the scrip. 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 its position without delivery. The broker should have exercised due skill, care and diligence in terms of Clause A (2) of the Code of Conduct prescribed for Stock Brokers under Schedule II read with Regulation 7 of the SEBI(Stock Brokers and Sub Brokers) Regulations, 1992.

- 6.1 Now, therefore, in exercise of powers conferred upon me in terms of section 19 of SEBI Act, 1992 read with Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, I direct M/s Equisearch Broking Pvt. Ltd., SEBI Registration No. INB010992338 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 M/s Equisearch Broking Pvt. Ltd to note that any instance of violation or non compliance of SEBI Act and Rules and Regulations in future shall be dealt with stringently.

DATE: 12.12.2008
PLACE: MUMBAI

T.C. NAIR
WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA