

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 KOLAR SHAREX PVT. LTD., MEMBER, THE BOMBAY STOCK EXCHANGE LTD., SEBI REGN NO. INB011105138 IN THE SCRIP OF SOUNDCRAFT INDUSTRIES LTD.

- 1.1 Soundcraft Industries Limited (hereinafter referred to as "SIL"/ "Company") is a public limited company. The shares of the company are listed at the Bombay Stock Exchange Limited (hereinafter referred to as "BSE") and the National Stock Exchange of India Limited (hereinafter referred to as "NSE").
- 1.2 Shri Rajkumar Chainrai Basantani (hereinafter referred to as "Shri Basantani") is the Chairman of the company. Rajkumar Chainrai Basantani is also an individual trading member of NSE (hereinafter referred to as "the broker"). He is also one of the Directors of Kolar Sharex Pvt. Ltd., member, BSE.
- 1.3 As the scrip witnessed sharp fluctuations in the price and volume at both BSE and NSE during the period July 2, 2001 to January 2, 2002, SEBI initiated investigation into the dealings in the scrip of SIL. It was observed from the investigation report that the fluctuation in the price was more than the change in indices with substantially

fluctuating volumes during the relevant period. It was observed that a handful of brokers and clients had deliberately tried to establish a price in the scrip and maintained the price at specific level. These volumes were artificial, as only a set of few brokers and clients were involved throughout the trading in this scrip during the relevant period.

1.4 Investigation revealed that M/s. Kolar Sharex Pvt. Ltd. (hereinafter referred to as “the broker”), member of BSE executed circular trades at BSE for its clients Panna Agrofine Pvt. Ltd. and Born Free Finance Pvt. Ltd. The broker along with these clients was alleged to have indulged in activities which created false or misleading appearance of trading in the securities market in violation of the provisions of Clause A (2), (3), (4) of the Code of Conduct as specified in schedule II of the Regulation 7 of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as “Stock Broker Regulations”) and Regulation 4 (a), (b), (c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as “PFUTP Regulations”).

2.1 In view of the findings of investigation, an enquiry officer was appointed in terms of the then SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalties) Regulations, 2002 (hereinafter referred to as “Enquiry Regulations”) to enquire into the violations / contraventions alleged to have committed by the broker. The Enquiry Officer conducted the enquiry in terms of the

Enquiry Regulations and found that the broker executed large number of synchronised transactions on behalf of the client on the buy side as well as sell side in the scrip of SIL and was instrumental in creating false and misleading appearance of trading in the scrip. The Enquiry Officer submitted report dated March 31, 2006 recommending a penalty of suspension of certificate of registration for a period of six months.

- 2.2 In terms of Regulation 13(2) of the Enquiry Regulations, a copy of the enquiry report along with show cause notice dated April 7, 2006 was forwarded to the broker advising it to show cause as to why the appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed upon it. The said show cause notice was sent to the broker through BSE. However, BSE could not trace the broker at its last known address available with them and thus the show cause notice was returned to SEBI. Vide letter dated May 10, 2006, BSE was asked to paste the show cause notice on the premises of the broker. Accordingly, BSE pasted the show cause notice on the premises of the broker and forwarded the report on service of pasting of the show cause notice vide their letter dated May 17, 2006. It is noted that there is no reply to the show cause notice till date.
- 3.1 An opportunity of personal hearing was granted to the broker before me on October 5, 2006. The hearing notice dated September 5, 2006 was forwarded through BSE which was pasted by them at the

premises of the broker on September 7, 2006. However the broker did not appear before me on the said dated of hearing.

- 3.2 In adherence to the principles of natural justice, another opportunity of hearing was given to the broker on November 22, 2006. The hearing notice dated November 13, 2006 was pasted at the premises of the broker on November 15, 2006. However, the broker again did not appear on the said date for hearing.

From the above, I am of the view that the broker is not interested in availing the opportunity of hearing and therefore I feel that no useful purpose would be served in giving further opportunity of hearing to the broker. Therefore, I am proceeding with the matter ex-parte on the basis of available records.

- 4.1 I have carefully considered the investigation report, the enquiry report and the show cause issued to the broker. Though, Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer And Imposing Penalty) Regulations, 2002 was repealed with effect from the notification of 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. The issue that arises for consideration is whether the broker had executed circular trades in the scrip while acting on behalf of its clients Panna Agrofine Pvt Ltd.

and Born Free Finance Pvt. Ltd. and thereby violated the aforesaid provisions.

4.2 I note that SIL had passed 3 resolutions during the year 2001 for preferential allotment of shares. However, the shares were not allotted. From the records, it is noted that SIL was in negotiation with some financial institutions for subscription of its shares on preferential basis. However, the deal between the financial institutions and SIL did not materialise as the market price of the scrip at the relevant time was not at the level on which the preferential allotment was sought to be made, though an attempt was made by Shri Basantani, Chairman, SIL along with some of the brokers and the clients related to SIL to maintain the price of the scrip at a desired level. In order to maintain the price these entities indulged in circular trading at BSE and synchronised trading at NSE as set out in the subsequent paragraphs.

4.3 I find that the broker along with its related entities created approximately 30% of the volume in SIL at both the exchanges. Following are the details of trading in SIL by the broker and related entities at both the exchanges :

Table 1

Client	Broker	%	Exchange
Born Free Finance Pvt. Ltd.	Kolar Sharex Pvt. Ltd.	27.63	BSE
Panna Agrofine Pvt. Ltd.	Kolar Sharex Pvt. Ltd.	2.93	BSE
Dhanlaxmi Cotex Ltd.	M R Share Broking Pvt. Ltd.	21.33	BSE

Client	Broker	%	Exchange
Ashmita R Shah (introduced by Bharat H Jain)	Parklight Investment Pvt. Ltd. through sub broker Gini Enterprises	14.13	BSE
Bharat H Jain (introduced by Tarun K Gandhi)	Parklight Investment Pvt. Ltd. through sub broker Gini Enterprises	5.6	BSE
Sparkling Securities	Churiwala Securities Pvt. Ltd.	7.42	BSE
Jain Investment (Ramila Jain) (introduced by Bharat H Jain)	AMS Stock Management	16.81	BSE
Jaitra Estate Developers Pvt. Ltd.	Rajkumar Chainirai Basantani	22.3	NSE
Panna Agrofine Pvt. Ltd.	Rajkumar Chainirai Basantani	6.05	NSE
Bharat H Jain (introduced by Asmita R Shah)	Makestar Securities Pvt. Ltd.	10.97	NSE
Dhanlaxmi Cotex Ltd	VRM Share Broking Pvt. Ltd.	7.29	NSE
Own Account	VRM Share Broking Pvt. Ltd.	2.43	NSE
Ashmita R Shah (introduced by Bharat H Jain)	H Nyalchand Financial Services Ltd. through sub broker Gini Enterprises	7.88	NSE
Bharat H Jain (introduced by Tarun K Gandhi)	H Nyalchand Financial Services Ltd. through sub broker Gini Enterprises	1.73	NSE
AMS Finance & Securities Ltd. (introduced by R.K. Bhagchandka)	R K Global Shares & Securities Ltd.	6.6	NSE

4.4 I find that the broker and its clients inter se were related. Rajkumar Chainirai Basantani is the Director of the broker. He is also the

Chairman cum Managing Director of SIL and also a broker at NSE in his individual capacity. Rajkumar Basantani, member of NSE has dealt for its clients Panna Agrofine Pvt. Ltd. and Jaitra Estate Developers Pvt. Ltd. The directors of Panna Agro Fine Pvt. Ltd. are Hiralal Yadav and Nitin Sawant whereas the directors of Jaitra Estate Developers Pvt. Ltd. are Ramesh Verma and Nitin Sawant. It is pertinent to note that the above clients has one common directors namely, Nitin Sawant. Hence, from the above, it can be concluded that the clients, Panna Agro Fine Pvt. Ltd. and Jaitra Estate Developers P. Ltd. are associated and related to each other. Further, the old registered office address of the client Jaitra Estate Developers P. Ltd. and registered office address of Rajkumar Basantani is the same i.e., 1 Cosmos Commercial Center, 2nd Floor, 3rd Road, Khar (W), Mumbai 400 052. Further, one of the directors of Jaitra Estate Developers Pvt. Ltd. namely, Ramesh Verma, is also one of the dealers of Rajkumar Basantani . Hence, from the above it may be stated that the clients Panna Agrofine Pvt. Ltd., Jaitra Estate Developers Pvt. Ltd. and Rajkumar Basantani are associated and related to each other. Further these clients were direct clients at the stock broking units of the Rajkumar Basantani.

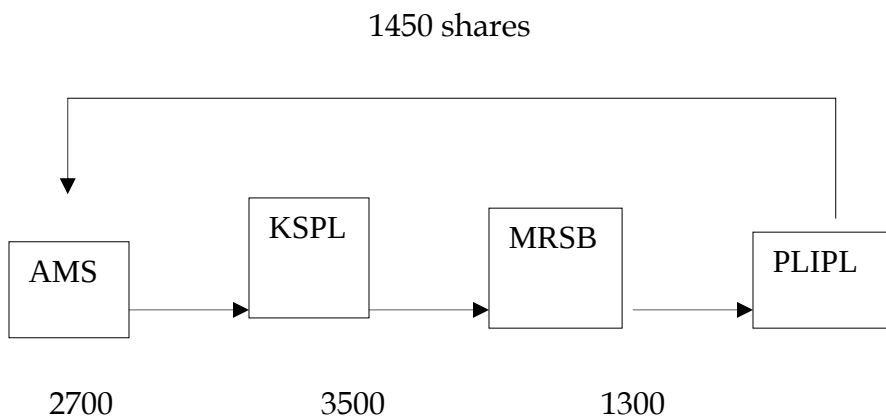
- 4.5 Also, another client Born Free Finance Pvt. Ltd., is a direct client of the broker. The trading of Bornfree contributed around 30% of the volume at BSE in the scrip. These trades of Bornfree also formed part of circular trading at BSE as detailed in subsequent paragraphs. From the facts of the case, it appears that Born Free has also traded at the behest of Shri Basantani. To ascertain the relationship of Born

Free with Basantani, summons were issued to Born Free calling for information as also for their personal appearance before the Investigating Authority. However, Born Free did not comply with the summons. Subsequently the summons was also routed through their broker, viz. Kolar Sharex Pvt. Ltd., however, Bornfree again did not comply with the summons.

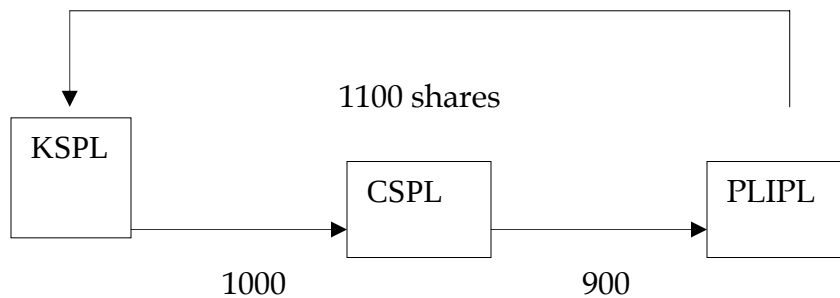
- 4.6 I note that SIL, Shri Basantani (member NSE) and Kolar Sharex Pvt. Ltd. (member BSE) were also issued various summons from time to time to furnish details/information regarding the dealings in the scrip at both exchanges and were advised to appear in person before the investigating authority. However, they neither complied with the summons nor appeared before the investigating authority at any point of time.
- 4.7 As observed above from paras 4.2 and 4.3, the clients Panna Agro Fine Pvt. Ltd. and Born Free Finance Pvt. Ltd. and the broker are all associated with each other and have traded in close association with each other to create artificial movement in the price and the volume of the scrip. It is evident that the clients were well known to the broker and that these clients had acted solely on behalf of Shri Basantani.
- 4.8 It is observed that in order to maintain the price level for the purpose of making the preferential allotment successful, a set of few brokers at BSE including Kolar Sharex Pvt. Ltd. (KSPL), AMS Stock Management Pvt. Ltd. (AMS), Churiwala Securities Pvt. Ltd. (CSPL), M R Share Broking Pvt. Ltd. (MRSB) and Park Light Investment Pvt.

Ltd. (PLIPL) and their clients including Panna Agro and Born Free indulged in circular trading at BSE in their attempt to create artificial volumes. Daywise analysis of trades during the period of investigation reveals the pattern of circular trading among the aforesaid BSE brokers, illustration of which is as under :

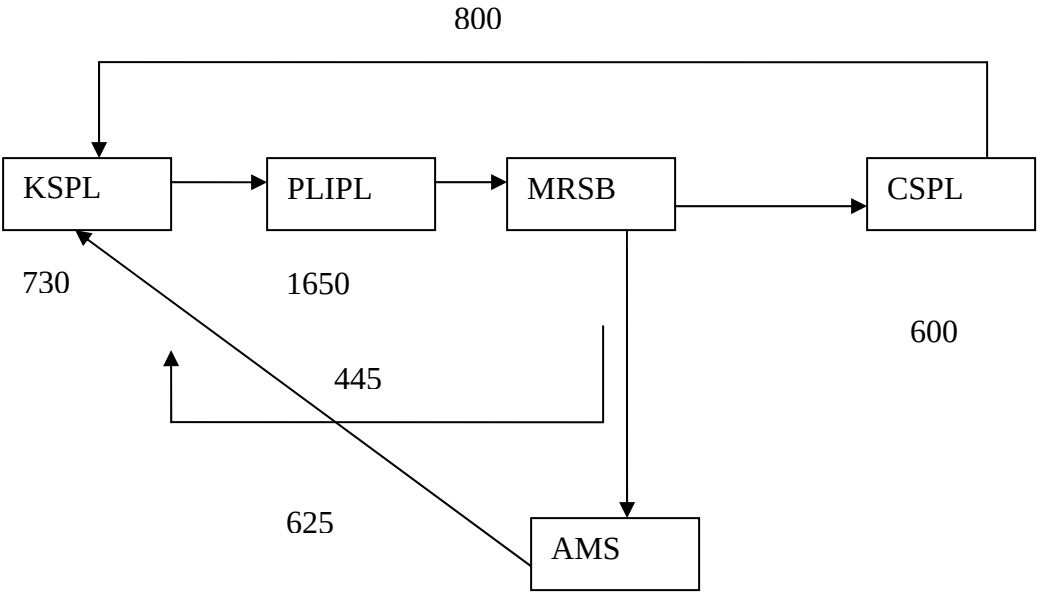
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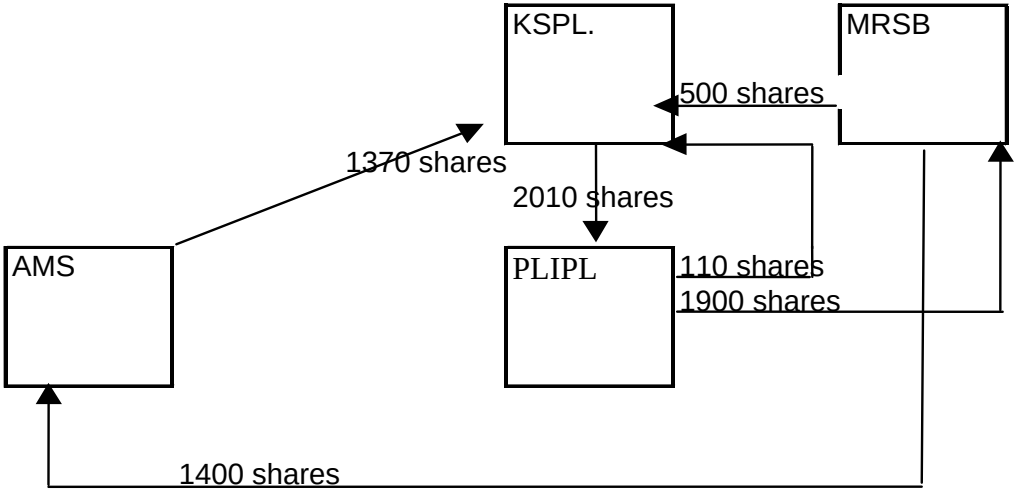
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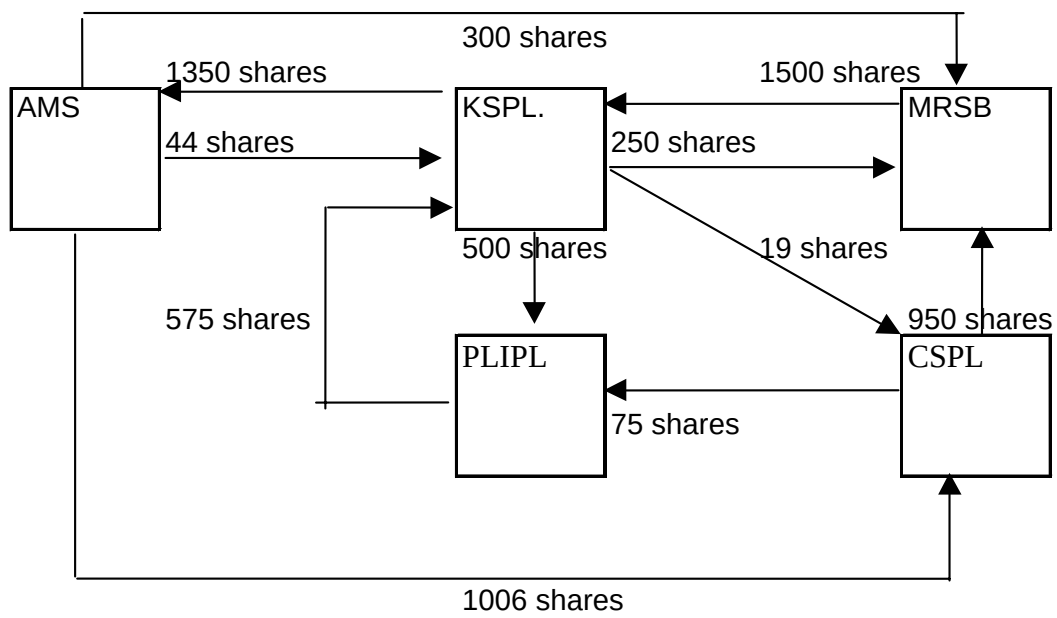
(c) July 30, 2001



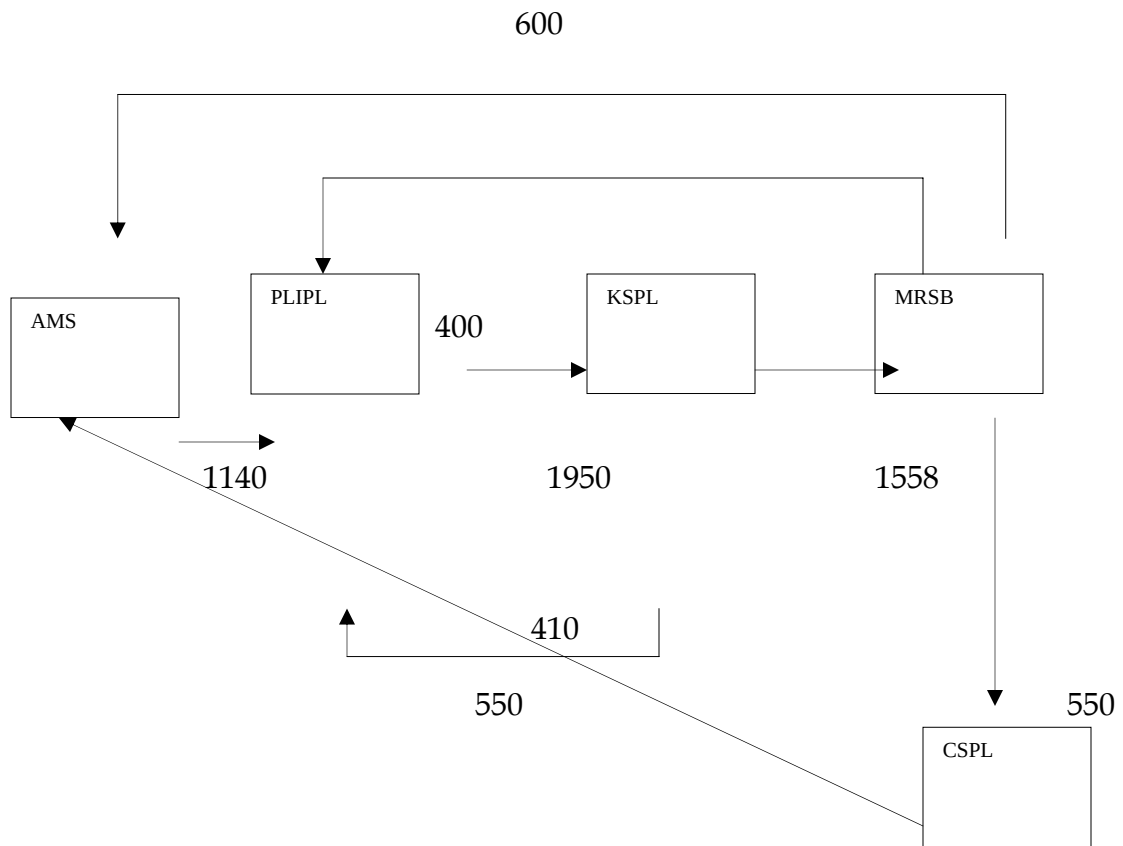
(d) August 14, 2001



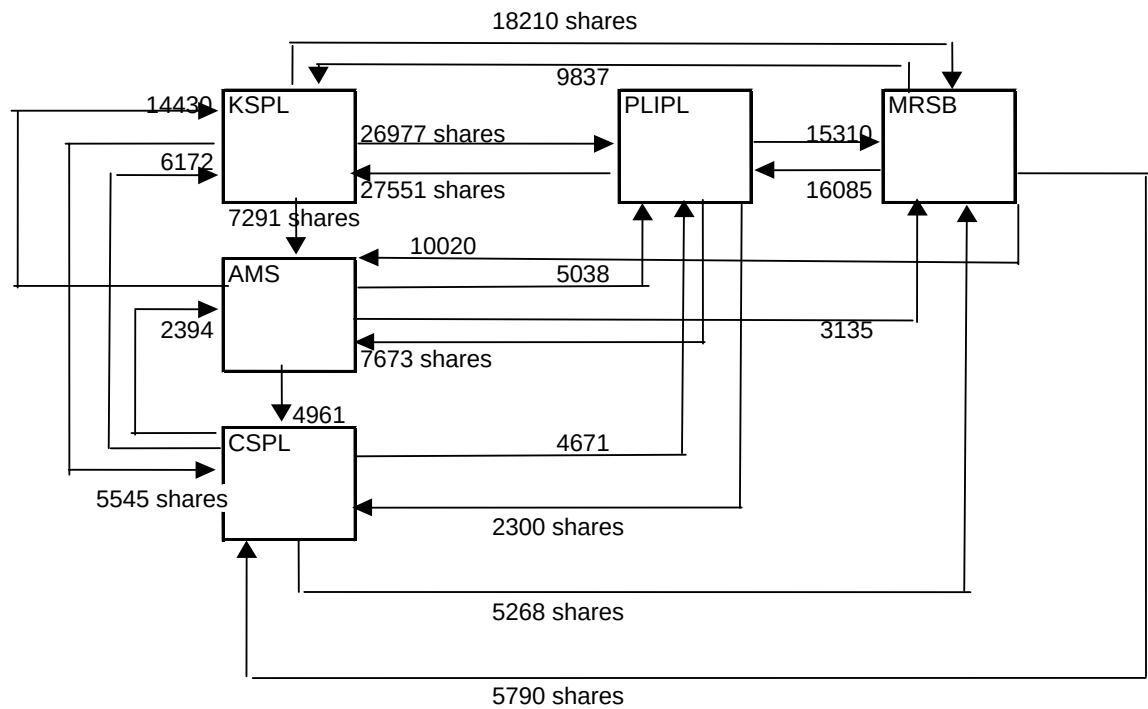
(e) August 16, 2001



(f) October 1, 2001:



- (g) I note that for the period from August 1, 2001 to September 28, 2001, total of 1,97,558 shares have been traded through circular trading among these brokers. The total volume traded in SIL shares during these period was 2,01,963. I thus note that during the above period, the circular trading contributed about 98% of the total volume in the scrip at BSE.



- 4.9 Further, that NSE brokers including Rajkumar Chainrai Basantani, Mekaster Securities Pvt. Ltd., VRM Share Broking Pvt. Ltd., H Nyalchand Financial Services Ltd. and R K Global Shares & Securities Ltd. and their clients including Jaitra Estate had indulged in structured deals to create artificial price and volume in the scrip. In all the structured deals, sell and buy orders were placed by the brokers and their clients either simultaneously or within the time period of less than 15 seconds. I find that at NSE, Rajkumar Chainrai

Basantani and its clients were involved in 913 structured deals. It is observed that Mekaster Securities Pvt. Ltd., H Nyalchand Financial Services Ltd, V R M Share Broking Private Limited and R K Global Shares & Securities Ltd have acted as counter party brokers in the above trades executed by Shri Basantani. The details of the said trades vis-à-vis the counter-party brokers are as follows:

Trading Member	RCB as Buyer	RCB as Seller	No. of Trades
Mekaster Securities Pvt. Ltd.	230	150	380
H Nyalchand Financial Services Ltd	130	119	249
V R M Share Broking Private Limited	69	138	207
R K Global Shares & Securities Ltd	37	40	77
Total	466	447	913

4.10 I also observe that during investigations SIL, the broker and its clients viz. Panna Agro and Born Free did not cooperate with the investigation proceedings despite being issued numerous summons and reminders. The entities have also neither submitted any reply to the show cause notice and nor attended the personal hearing before me. I further note that adjudication proceedings were initiated against the company, SIL, the broker and its clients viz. Panna Agro and Born Free for non compliance of summons issued under section 11C(3) and 11C(5) of the SEBI Act, 1992. I further note that prosecution have been initiated against the broker and its client Born Free for non payment of the penalty.

4.11 Having gone through the chronology of events, I find the Born Free Finance Pvt. Ltd and Panna Agrofine Ltd. indulged in circular trading through the broker and created artificial market and artificial interest in the scrip. I conclude that the clients Panna Agro Fine Pvt. Ltd. and Born Free Finance Pvt. Ltd., Shri Rajkumar Chainrai Basantani, the company SIL and the broker are associated with each other. The trading pattern of the said clients and the broker also indicate that they had traded in close association with each other to create artificial movement in price and the volume of the scrip at both the exchange through a network of brokers. From the facts and circumstances of the case, it is evident that the clients were well known to Shri Rajkumar Basantani and that these clients had acted solely on the instructions of and on behalf of Shri Rajkumar Basantani. In view of the above, considering the facts and circumstances of the case, I find that the broker has violated the provisions of Regulation 4 (a), (b), (c) and (d) of PFUTP Regulations, 1995. Apart from the above, I also find that the broker has violated the provisions of clause A(2), (3) and (4) of the Code of Conduct as specified under schedule II of Regulation 7 of Stock Broker Regulations. On careful perusal of the charges and the findings, I do not find any reason to disagree with the recommendation of the enquiry officer.

5.1 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 hereby impose a penalty of suspension of certificate of registration

for a period of six months on M/s Kolar Sharex Pvt. Ltd., Member,
BSE, SEBI Registration no. INB 011105138

- 5.2 This order shall come into effect on expiry of 21 days from the date
of this order.

PLACE: MUMBAI
DATE: 12.12.2008

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