

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

ORDER

UNDER REGULATION UNDER REGULATION 28(2) OF SEBI (INTERMEDIARIES) REGULATIONS, 2008, IN THE MATTER OF SPARKLING SECURITIES, SUB BROKER AFFILIATED TO CHURIWALA SECURITIES PVT. LTD., MEMBER, THE BOMBAY STOCK EXCHANGE LTD., SEBI REGN. NO. INS0101952211/ 0109841 IN THE SCRIP OF SOUNDCRAFT INDUSTRIES LTD.

- 1.1 Soundcraft Industries Limited (hereinafter referred to as "SIL"/ "the 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 and is also an individual trading member of NSE. 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 a few brokers and clients were involved throughout the trading in this scrip. Investigation Report further noted that Shri Basantani along with other entities contributed 96% and 65% of the trading in the scrip at BSE and NSE respectively. These entities also included Sparkling Securities Pvt. Ltd.

- 1.4 Sparkling Securities Pvt. Ltd., (hereinafter referred to as “Sparkling Securities”), a sub - broker affiliated to Churiwala Securities Pvt. Ltd., member BSE was alleged to have executed circular trades at BSE on its own account thereby violating the provisions of Clause A(2) the code of conduct enumerated under scheduled II of Regulation 15 (1) (b) of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 and Regulations 4 (a), (b) (c) & (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995.
- 2.1 Accordingly, an enquiry officer was appointed in terms of 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. It was alleged that Sparkling Securities had created artificial volume in the market and thereby violated the provisions of Clause 4 (a), (b), (c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations 1995, Clause A (2), (3), and (4) of the Code of Conduct as specified in Schedule II of Regulation 15(1) (b) of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.
- 2.2 The Enquiry Officer conducted the enquiry in terms of the Enquiry Regulations and found that Sparkling Securities had violated the provisions of clause A (2) of the code of conduct as enumerated under schedule II of Regulation 15 (1)(b) of the Stock Brokers Regulations and provisions of Regulations 4 (a), (b), (c) and (d) of PFUTP Regulations. The Enquiry Officer submitted report dated July 21, 2006 recommending a penalty of suspension of certificate of registration for a period of six months.
- 3.1 A copy of the enquiry report along with show cause notice dated August 31, 2006 was forwarded to Sparkling Securities, in terms of Regulation 13 (2) of the Enquiry Regulations 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 served on Sparkling Securities through M/s. Churiwala Securities Pvt. Ltd. M/s Churiwala replied to the said show cause notice stating that party did not accept the envelopes/show cause notice. The said show cause notice was then

pasted at the premises of Sparkling Securities at the latest address available on record.

- 3.2 An opportunity of personal hearing was granted before me on November 28, 2006 to Sparkling Securities. The hearing letter was returned undelivered and therefore the said letter was pasted at the premises of Sparkling Securities. However, no one appeared for the hearing. Owing to the fact that earlier also the show cause notice and hearing letter have been pasted on the premises of Sparkling Securities and now they failed to appear before me for personal hearing, I am proceeding ex-parte on the basis of material available with me on record.
- 4.1 I have carefully considered the Enquiry Report and the show cause notice issued to Sparkling Securities. 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. The issue that arises for consideration is whether Sparkling Securities had indulged in circular trading in the scrip thereby violated the aforementioned provisions.
- 4.2 I note that SIL had passed 3 resolutions during the year 2001 for preferential allotment of shares. However, it is observed that the shares were not allotted to the allottees. I note that SIL was asked the reasons for non allotment of the shares on preferential basis for which resolutions were passed repeatedly. From the records, it is noted that at the company SIL was in negotiation with some financial institution for subscription of its shares on a preferential basis. However, the deal between the financial institutions and SIL did not materialize 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 of SIL along with some of the brokers and 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 subsequent

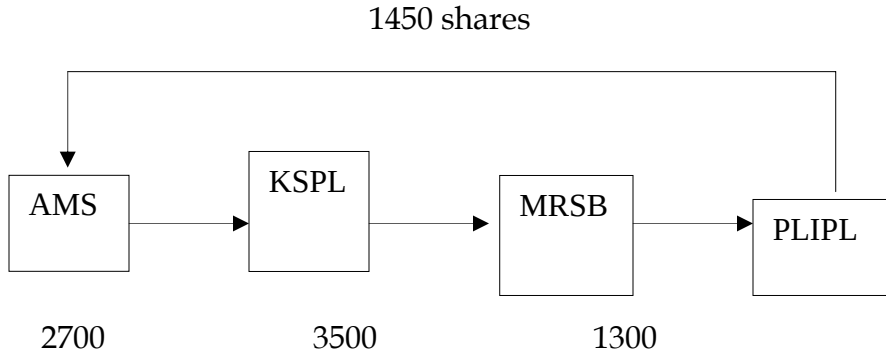
paragraphs. The details of dealings of these entities and the volume of trading are as under:

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
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

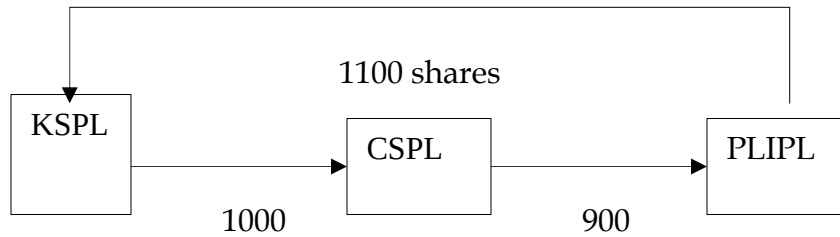
- 4.3 After perusal of the trading pattern of the brokers and the clients, I have observed that Sparkling Securities had a gross trading of 91900 shares and a nil net trading in the shares of SIL at BSE. The trades of Sparkling Securities constituted 7.42% of the total volume at BSE. Further, I observe that Sparkling Securities had no investment interest in the scrip and it had squared off the transactions resulting in circular trades. I note that during the investigation proceedings, Churiwala Securities submitted that Sparkling Securities had its trading terminal as it was its sub-broker. However, Churiwala was not sure whether Sparkling Securities had traded for themselves or for their clients.
- 4.4 During investigations, Sparkling was issued summons for submission of documents as also for examination on oath. However, they never responded to the summons even though the summonses were routed through their broker, Churiwala Securities Pvt. Ltd. On account of non-compliance with the summons u/s 11C (3) and (5) of SEBI Act 1992, adjudication proceedings were initiated against Sparkling Securities. The adjudicating officer vide Order dated June 30, 2006 imposed a penalty of Rs. 1 lakh on Sparkling Securities. However, I note that Sparkling did not pay the penalty also and so prosecution proceedings have been initiated against it.
- 4.5 I also note that Sparkling Securities did not reply to the show cause issued during the enquiry proceedings despite giving sufficient time and opportunity. Further, post enquiry, show cause notice and hearing letter have been pasted on the premises of Sparkling Securities and now they failed to appear before me for personal hearing also. This clearly indicates that Sparkling Securities is deliberately not cooperating with SEBI which is viewed seriously.
- 4.6 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/sub-broker including Sparkling securities 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:

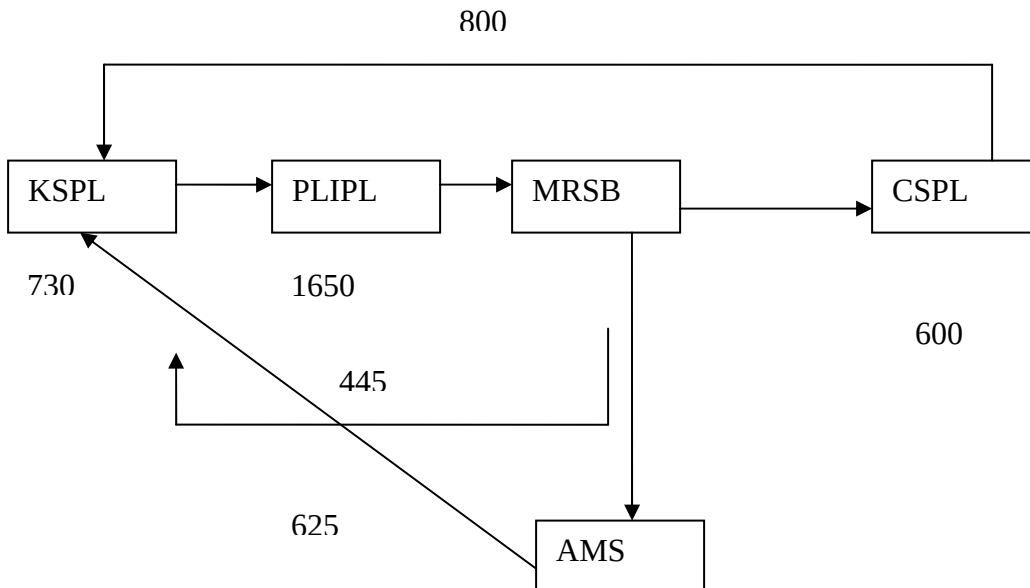
(a) July 2, 2001



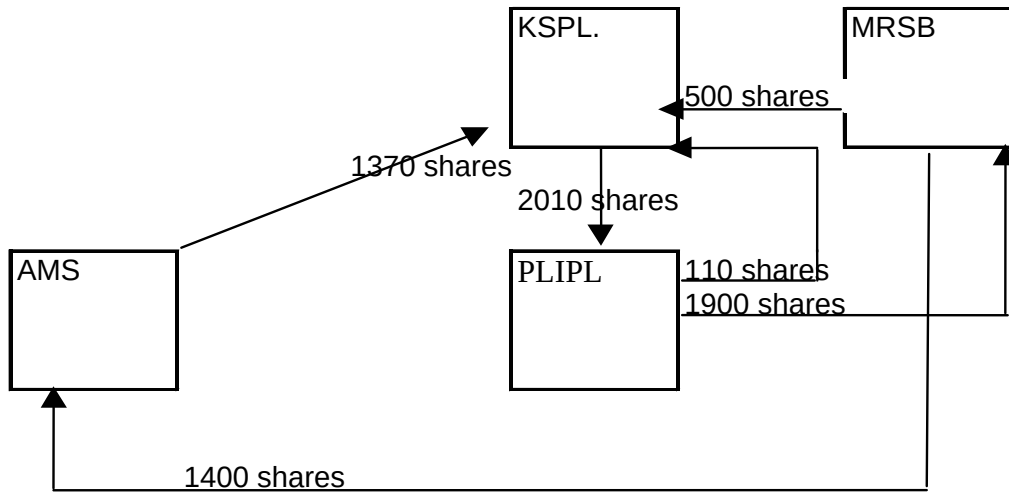
(b) July 2, 2001



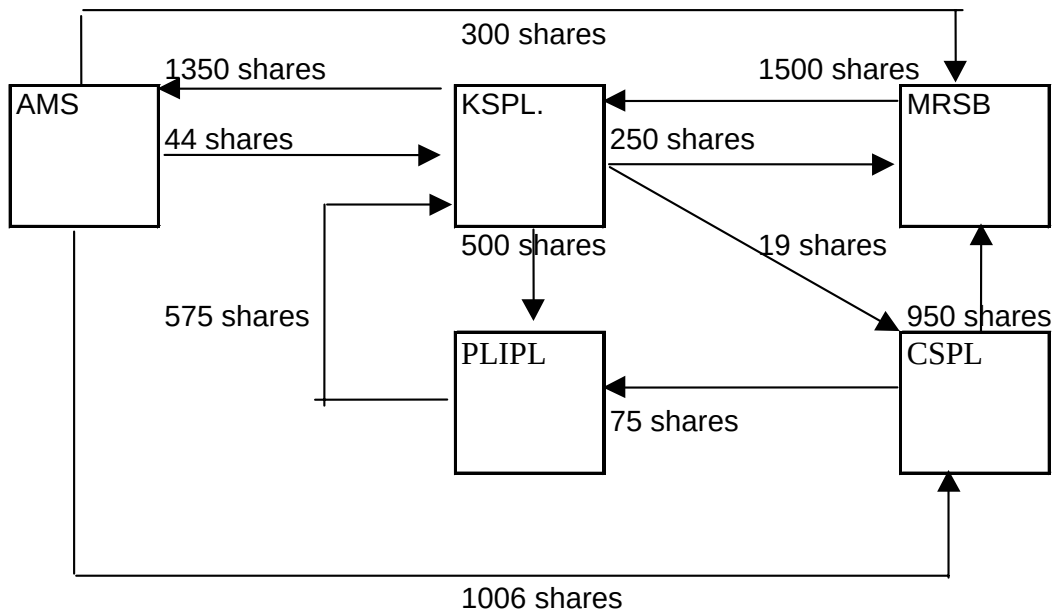
(c) July 30, 2001



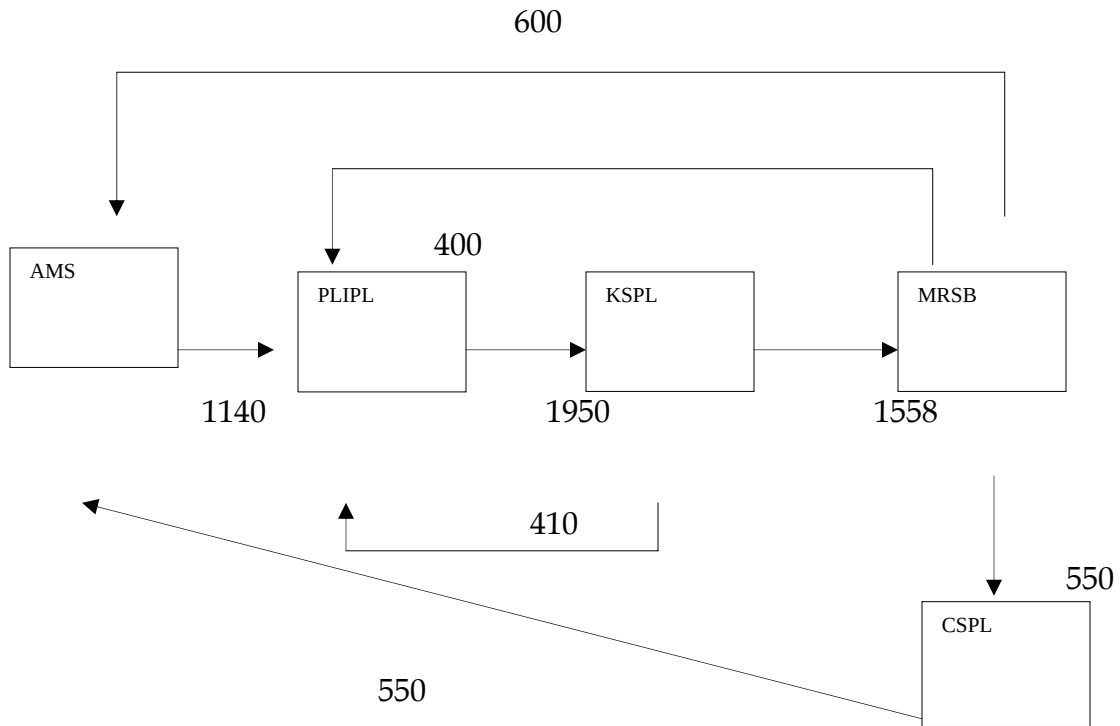
(d) August 14, 2001



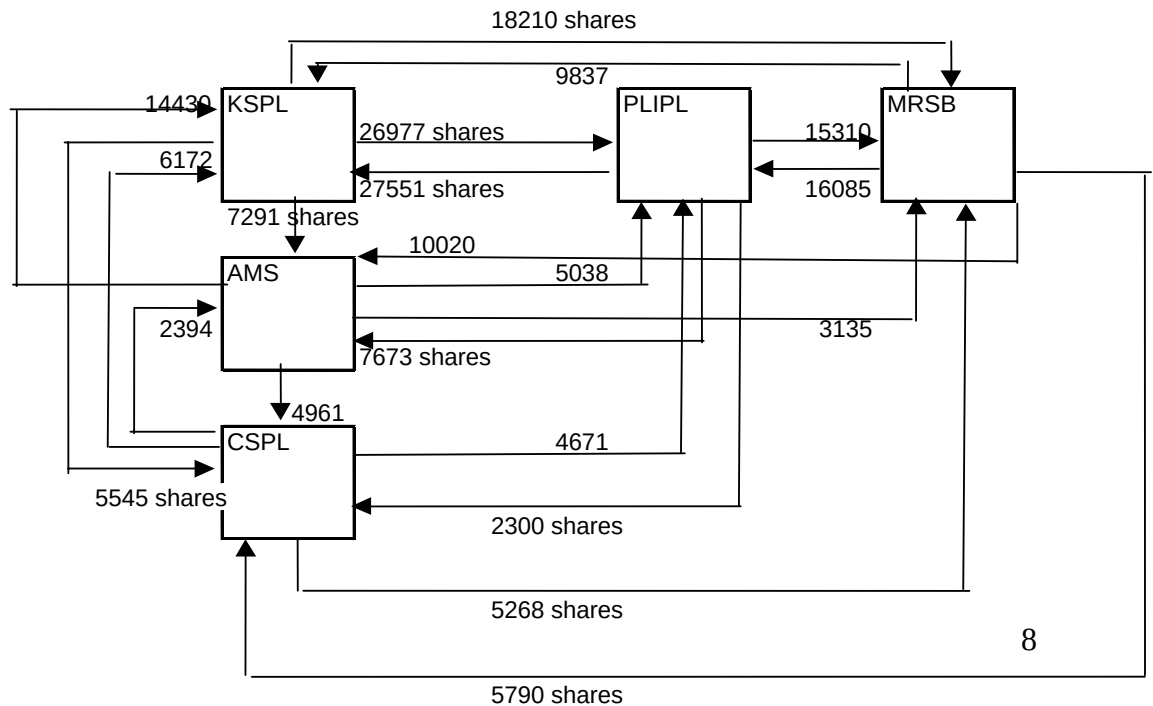
(e) August 16, 2001



(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.



- 4.7 It is apparent that the purpose of the said trades was to maintain the price of the scrip at a desired level to attract investors at the price on which the preferential allotment was proposed by SIL. Large quantity of trades without intention of obtaining the beneficial ownership in the shares indicate that the same were executed for the purpose of creating artificial trades in the scrip. The role played by Sparkling Securities is evident from the fact that it had executed 7.42% of trades in the scrip. The manner in which the trades were executed with counterparties clearly indicates that the same were artificial trades. I note that Sparkling Securities was executing these trades on the trading terminal provided to it by its broker Churiwala Securities. Purchase and sale of similar quantities of shares between the same parties over a period of time clearly prove that the same were artificial trades.
- 4.8 Having gone through the facts and circumstances of the case and considering the number of artificial transactions executed by Sparkling Securities in collusion with a group of entities, I find that Sparkling Securities has violated the provisions of Regulations 4(a), (b), (c) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. I agree with the findings of the Enquiry Officer who has found Sparkling guilty of violating the provisions of clause A(2) of the Code of Conduct specified under Schedule II of the Regulation 15(1)(b) of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992. I am of the view that penalty of suspension of certificate of registration for a period of six months as recommended by the Enquiry Officer is excessive. Considering the facts and circumstances of the case, the imposition of penalty of three months would be adequate to have a deterrent effect on M R Share Broking Pvt. Ltd.
- 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 three months on M/s. Sparkling Securities, Sub Broker affiliated to Churiwala Securities Pvt. Ltd, member, BSE SEBI Registration No. INS0101952211/ 0109841.

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

DATE:12.12.2008
PLACE: MUMBAI

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