

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA, MUMBAI

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

**IN THE MATTER OF CREDENTIAL STOCK BROKERS LTD., Member, National
Stock Exchange of India Ltd., SEBI Registration No. INB230903331
IN THE SCRIP OF VATSA MUSIC LTD.**

DATE OF HEARING: October 26, 2006

APPEARANCES:

FOR NOTICEE: Shri D.K. Agrawal

FOR SEBI: Shri P. K. Nagpal, ED
Shri Bibhudutta Samal, Manager
Ms. Kshama Chavan, Legal Officer

ORDER

**UNDER REGULATION 13(4) OF SEBI (PROCEDURE FOR HOLDING ENQUIRY BY ENQUIRY
OFFICER AND IMPOSING PENALTY) REGULATIONS, 2002 READ WITH REGULATION 28 (2) OF
SEBI (INTERMEDIARIES) REGULATIONS, 2008.**

1. This order will dispose of the Enquiry Proceedings initiated by Securities and Exchange Board of India (hereinafter referred to as "SEBI") against Credential Stock Brokers Ltd. (hereinafter referred to as "CSBL") to enquire into the trading conducted by CSBL in the scrip of Vatsa Music Ltd. (hereinafter referred to as "VML").
2. The shares of VML were listed at National Stock Exchange of India Ltd. (hereinafter referred to as "NSE") and The Bombay Stock Exchange Ltd. (hereinafter referred to as "BSE"). Between January 7, 1998 and June 30, 1998,

substantial price movements were observed in the shares of VML at NSE consequent to which SEBI asked NSE to conduct an investigation in the scrip and submit a report.

3. NSE conducted the investigation and submitted its report to SEBI in September 1998. Based on its findings for the period January 7, 1998 to June 30, 1998, NSE concluded that the spurt in prices was for reasons other than strong fundamentals of the company. During the investigation period, while trading in the scrip of VML was infrequent and negligible, the prices of the scrip showed manifold increase. The trades resulting in the upward price movement were in the nature of cross trades, with majority of the transactions being undertaken by a set group of brokers. NSE also observed that entities allegedly associated with the Vatsa group had dealt in the scrip during the above periods.
4. The price volume data for VML at NSE for the relevant investigation period i.e. January 7, 1998 to June 30, 1998 is furnished below:

TABLE A

Date	Opening Price	High Price	Low Price	Closing Price	Traded Quantity
January 7, 1998	440	448	440	448	700
January 8, 1998	485	485	443	443	3100
January 9, 1998	486	486	444	446	5600
January 12, 1998	445.9	452	441	451	8000
January 13, 1998	451	451	445	445	3300
January 14, 1998	448	458	418.5	418.5	1200
January 15, 1998	424	424	424	424	1000
January 16, 1998	424	424	424	424	1000
January 19, 1998	436	439	436	437	5000
January 20, 1998	429	434	410	410	1600

January 22, 1998	451	451	418	418	1600
January 23, 1998	416	459	416	459	600
January 27, 1998	450	500	450	500	1300
January 28, 1998	545	545	545	545	100
January 30, 1998	573	573	573	573	100
February 2, 1998	576	576	576	576	900
February 3, 1998	576	576	530	549.25	5500
February 5, 1998	506	506	506	506	1000
February 6, 1998	556	556	556	556	100
February 9, 1998	605	605	605	605	100
February 10, 1998	602	602	602	602	100
February 17, 1998	602	602	602	602	200
February 24, 1998	604	604	604	604	500
February 25, 1998	647.2	647.2	545	545	5600
March 2, 1998	596	596	596	596	100
March 3, 1998	625	640	625	640	200
March 19, 1998	577	577	577	577	100
April 17, 1998	590	590	590	590	600
April 21, 1998	595	595	595	595	600
April 30, 1998	565	565	565	565	400
May 20, 1998	621	621	621	621	600
May 21, 1998	625	625	625	625	300
June 24, 1998	685	685	660	660	500
June 25, 1998	705	705	705	705	500

5. It can be observed from the aforesaid trading pattern of the scrip that it was highly illiquid. During the entire investigation period, there were three instances wherein there was a gap of nearly one month between two trades in the scrip.
6. While a total 52,100 shares of VML were traded over the entire investigation period, actual trading took place only on 34 days. Accordingly, the average

traded volume per day works out to 1,530 shares. However of these 34 days, on 20 days, less than 1,000 shares were traded in each session. As against this marginal trading, the price of the scrip of VML increased from Rs. 440/- to Rs. 705/- i.e. an increase of 60% in 34 trading days. Furthermore, of these 52,100 shares, trades in 37,600 shares were executed as cross trades.

7. As mentioned above, during the investigation period, VML was listed both at the BSE and NSE. Typically, for a scrip listed simultaneously on both NSE and BSE, there is a congruence in the trading pattern of the scrip i.e. if there is trading interest in a scrip at NSE, similar trading interest is also reflected in the scrip at BSE. However, in the present case while the scrip of VML reflected high movement on one exchange (i.e. NSE) there was negligible/ no trading on the other exchange (i.e. BSE) during the relevant period.
8. The Investigation Report submitted by BSE in October 1998 reflects that for the period under investigation, while there was trading in the shares of VML at NSE, there were no corresponding trades at BSE. Trading in the scrip of VML on BSE took place on July 16, 1998 and July 17, 1998 at prices significantly lower than those reflected at NSE. Whereas the last traded price at the NSE was Rs.705 on June 25, 1998; the scrip was traded at BSE on July 16, 1998 at Rs. 376 and on July 17, 1998 at Rs.379.75. Thus, it was reasonably concluded therein that the prices of VML at NSE were not genuine but set up prices.
9. Vide order dated November 27, 1998 SEBI initiated a formal investigation into the dealings in the scrip of VML. During the investigation, it was found that four trading members of NSE namely Credential Stock Brokers Ltd., Narayan Securities Pvt. Ltd., Dimensional Securities Pvt. Ltd. and Prabhat Financial Services Ltd. had a cumulative trading volume of 76,800 shares out of the total 1,04,200 shares which accounted for 73.70% of the total trading in the scrip of VML at NSE. It was further found that CSBL, (SEBI Registration No. INB230903331) individually dealt in 42,800 shares out of the aforesaid 76,800

shares which accounted for 41.07% of the total trading at NSE. On the basis of the investigation, it was *inter alia* alleged that the scrip of VML was manipulated by these four brokers of NSE.

10. On the basis of the Investigation Report, an Enquiry Officer was appointed under the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the "Enquiry Regulations") to enquire into the involvement of CSBL in the alleged manipulation in the scrip of VML and possible violations of SEBI Act, 1992, SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the "PFUTP Regulations") and SEBI (Stock Brokers and Sub brokers) Regulations, 1992 (hereinafter referred to as "Stock Broker Regulations".)
11. Based on the evidence and materials available on record, the Enquiry Officer found CSBL guilty of violating Regulations 4(a), 4(b) and 4(c) of PFUTP Regulations and Clauses A(2) to A(5) of the Code of Conduct for Brokers specified in Schedule II read with Regulation 7 of the Stock Brokers Regulations. On the basis of the aforesaid findings, the Enquiry Officer, vide his report dated January 31, 2005 recommended that the registration of CSBL be suspended for a period of 2 months.
12. Pursuant to the Enquiry Report, a Show Cause Notice under Regulation 13(2) of the Enquiry Regulations was issued to CSBL on February 25, 2005 enclosing therewith a copy of the Enquiry Report. Vide the said Show Cause Notice, CSBL was *inter alia* advised to show cause as to why action, as considered appropriate should not be taken against them.
13. CSBL vide its reply dated April 18, 2005 submitted as under:

- a) During the investigation period from January 1, 1998 to June 30, 1998, CSBL had executed transactions of sale and purchase in the scrip of VML on behalf of its clients. The clients who sold shares of VML during the said period through them were registered shareholders and had delivered the share certificates along with transfer deeds duly executed by them as holders. Also the entities/ individuals who had bought shares of VML had taken deliveries and had paid for the same.
 - b) It had issued contract notes/bills in the manner and procedure prescribed under NSE byelaws and Stock Broker Regulations.
 - c) It had not entered into any transaction in the scrip of VML with the intention of artificially raising or depressing the prices or to create false or misleading impression of trading or to induce any person to purchase or sell shares of VML.
 - d) It had not indulged in any transactions which were not genuine.
 - e) The allegations in the notice do not flow out of the factual position and therefore cannot be legally sustained and deserve to be dropped forthwith.
14. An opportunity of personal hearing was granted to CSBL on October 26, 2006 wherein CSBL was represented by its Managing Director Shri D. K. Agarwal. Shri Agarwal made oral and written submissions at the time of the personal hearing, reiterating the earlier submissions made by CSBL.
15. I have carefully considered the findings of the investigation, Enquiry Report, Show Cause Notices, charges levied, replies received, oral as well as written submissions and other relevant material available on record. I note that the main issues for consideration are as follows:

- a. Whether CSBL has violated the PFUTP Regulations while dealing in the shares of VML during the relevant period? and
- b. Whether CSBL has violated the Code of Conduct specified for Stock Brokers under the Stock Broker Regulations when undertaking the dealings in the shares of VML?

16. As stated earlier, I note that during the entire investigation period, four trading members namely Credential Stock Brokers Ltd., Narayan Securities Pvt. Ltd., Dimensional Securities Pvt. Ltd. and Prabhat Financial Services Ltd. had a cumulative trading volume of 76,800 shares out of the total 1,04,200 shares traded which accounted for 73.70% of the total trading in the VML scrip at NSE. It was further found that CSBL individually dealt in 42,800 shares (Settlement No.1-1998001 to 1998006) of these 76,800 shares accounting for 41.07% of the total trading at NSE. The details of trading are given below:

TABLE B

Sr. No.	Trading member name	Buy Qty.	Sell Qty.	Gross Qty.	Net Qty.	% of total trading at NSE
1.	Credential Stock Brokers Ltd.	21400	21400	42800	0	41.07
2.	Narayan Securities P. Ltd.	8700	7800	16500	900	15.83
3.	Dimensional Securities P. Ltd.	5600	5600	11200	0	10.75
4.	Prabhat Fin. Services Ltd.	4100	2200	6300	1900	6.05
	Total			76800		73.70%

17. An examination of the trade and order logs obtained from NSE reveal that CSBL placed orders for shares of VML at set up price and even indulged in cross trades on several days. The details of cross trades executed by CSBL are mentioned in the table below:

TABLE C

Date	Time	Trade No.	Price	Qty	Buy Member Name (Code)	Buy Client Code	Sell Member Name (Code)	Sell Client Code
January 7, 1998	11:58:34	9801070089258	448	500	Credential (9271)	CAGR	Credential (9271)	CG12
January 9, 1998	13:40:36	9801090138081	445	800	Credential (9271)	CAGR	Credential (9271)	CV15
January 12, 1998	13:23:39	9801120100239	450	800	Credential (9271)	CSIB	Credential (9271)	CR19
January 12, 1998	13:24:56	9801120100539	452	1300	Credential (9271)	CRGC	Credential (9271)	CR20
January 13, 1998	15:18:57	9801130145916	446	1000	Credential (9271)	CAGR	Credential (9271)	CA16
January 15, 1998	13:02:02	9801150084338	424	500	Credential (9271)	CAGR	Credential (9271)	CH11
January 15, 1998	13:03:30	9801150084466	424	500	Credential (9271)	CAGR	Credential (9271)	CD14
January 16, 1998	11:23:50	9801160049371	424	1000	Credential (9271)	CAGR	Credential (9271)	CD15
January 19, 1998	12:05:18	9801190063305	436	1000	Credential (9271)	CJER	Credential (9271)	CA33
January 19, 1998	12:05:32	9801190063340	436	1000	Credential (9271)	CJK1	Credential (9271)	CA34
January 19, 1998	14:41:04	9801190108629	439	1000	Credential (9271)	CAGR	Credential (9271)	CS39
January 20, 1998	14:14:00	9801200105677	434	400	Credential (9271)	CAGR	Credential (9271)	CS37
January 20, 1998	14:14:58	9801200114993	410	1000	Credential (9271)	CS24	Credential (9271)	CJ14
January 23, 1998	13:06:26	980123006021	416	500	Credential (9271)	CAGR	Credential (9271)	CH11
February 2, 1998	14:10:01	9802020094068	576	200	Credential (9271)	CS24	Credential (9271)	CS38
February 2, 1998	14:10:37	9802020094224	576	200	Credential (9271)	CSGR	Credential (9271)	CP17
February 2, 1998	14:42:55	9802020094685	576	200	Credential (9271)	CS24	Credential (9271)	CP18
February 3, 1998	15:23:54	9802030112857	576	500	Credential (9271)	CS24	Credential (9271)	CA33
February 3, 1998	15:26:20	9802030113978	576	500	Credential (9271)	CS24	Credential (9271)	CV17

February 3, 1998	15:28:17	9802030114873	570	500	Credential (9271)	CAGR	Credential (9271)	CA33
February 3, 1998	15:31:50	9802030116203	564	500	Credential (9271)	CAGR	Credential (9271)	CV17
February 3, 1998	15:35:28	9802030118801	560	1000	Credential (9271)	CR12	Credential (9271)	CV17
February 3, 1998	15:54:26	9802030136374	550	1000	Credential (9271)	CAGR	Credential (9271)	CA33
February 3, 1998	15:56:52	9802030139782	540	1000	Credential (9271)	CAGR	Credential (9271)	CM17
February 3, 1998	15:59:18	9802030142781	530	500	Credential (9271)	CJK1	Credential (9271)	CM17
February 5, 1998	15:24:09	9802050107620	506	1000	Credential (9271)	CAGR	Credential (9271)	CM18
February 17, 1998	13:40:07	9802170090585	602	200	Credential (9271)	CAGR	Credential (9271)	C112

18. The details concerning the contribution of CSBL to the total trading in the scrip of VML through cross trades is mentioned in the table below:

TABLE D

Date	Total Traded Quantity in the Market	Quantity traded by CSBL through Cross Trades	Cross Trades as % of Market Volume
January 7, 1998	700	500	71
January 9, 1998	5600	800	14
January 12, 1998	8000	2100	26
January 15, 1998	1000	500	50
January 16, 1998	1000	1000	100
January 19, 1998	5000	3000	60
January 20, 1998	1600	1400	88
January 23, 1998	600	500	83
February 2, 1998	900	600	67
February 3, 1998	5500	5500	100
February 5, 1998	1000	1000	100
February 17, 1998	500	200	40

19. As can be seen from Table D, on January 7, 1998 CSBL entered into cross trade for 500 shares at Rs.448/- which was the highest price for VML on that day. On January 12, 1998 CSBL again entered into two cross trades at Rs.450/- and Rs.452/- for 800 and 1,300 shares respectively. The opening and the highest price on January 12, 1998 was Rs.445.90/- and Rs.452/- respectively. Similarly on February 2, 1998 and February 3, 1998 also CSBL entered into three and eight cross trades respectively.

20. I further note that on February 2, 1998 the three cross trades that were executed by CSBL were at prices which were pre determined by two NSE broker-members namely Prabhat Financial Services Ltd. (hereinafter referred to as "PFSL") and Priyash Meven Financial Ltd. (hereinafter referred to as "PMFL"). This led to sustenance of the set up price of VML. The details of the cross trades executed by CSBL on the said day are as below

TABLE E

Date	Time	Trade No.	Price in Rs.	Qty	Buy Member Name (Code)	Buy Client Code	Sell Member Name (Code)	Sell Client Code
February 2, 1998	13:15:23	9802020076608	576	300	Prabhat	M001	Priyash	26011
February 2, 1998	14:10:01	9802020094068	576	200	Credential (9271)	CS24	Credential (9271)	CS38
February 2, 1998	14:10:37	9802020094224	576	200	Credential (9271)	CSGR	Credential 9271)	CP17
February 2, 1998	14:42:55	9802020094685	576	200	Credential (9271)	CS24	Credential (9271)	CP18

21. From the foregoing, it can be reasonably inferred that the trades entered into by CSBL were not genuine and were executed only to sustain the pre determined price of the VML scrip.

22. I also note that according to the statements of Managing Director of CSBL, Shri D. K. Agarwal recorded on April 8, 1999 and April 9, 1999 CSBL had dealt with large number of small clients across the country. I note that these clients dealt only in the shares of VML. However CSBL was not in possession of any member-client agreement. Further, even after repeated opportunities, CSBL

failed to produce the member- client agreement. Further, it is noted that Shri D. K. Agarwal contradicted his own statement given to the investigation authorities that the client introduction forms could not be submitted by them due to an Income Tax Raids. But in his statement given to the investigating team by the member on April 08, 1999 and in reply to a specific question on client introduction forms, the member has replied that the client introduction forms would be made available to the investigating team by April 09, 1999.

23.I also note that majority of the clients of CSBL were introduced by Shri S.K. Gupta, Chartered Accountant. According to his statement recorded on April 8, 1999, Shri S. K. Gupta is a friend and Chartered Accountant of Shri D. K. Agarwal, Managing Director of CSBL.

24.I note that CSBL has taken a plea that non-execution of member client agreement cannot be treated as evidence of their involvement in any fraudulent trade practices requiring suspension of their trading membership right for a period of two months. In this regard, I wish to state that non availability of the member-client agreement is only corroborative evidence giving the strength to the findings of Enquiry Officer while upholding the charges against CSBL. The charges of fraudulent trade practices were upheld by the Enquiry Officer against CSBL after careful analysis of the trading pattern of the scrip and investigations conducted therein.

25.I also note that CSBL had entered into off-market deals in 1,000 shares of VML each for Citi Construction and Dinesh Kumar. CSBL submitted that the off-market transactions were not reported to NSE as it was not aware of such practice. This appears to be an excuse as in any case a SEBI registered entity and member-broker of NSE, CSBL cannot be allowed to take the plea that it was unaware of the acts, rules, regulations of SEBI and the rules, regulations and bye-laws of the Stock Exchange.

26. Though CSBL rejected the charge of alleged circular movement of share certificates by its clients the fact that such circular movement of share certificates took place is indicated as under:

TABLE F

Sett. No.	Cert. No.	Delivering TM	Delivering Client	Receiving TM	Buying Client
1998002	111272	Credential	Sanjay Agarwal	Credential	Radhey Shyam Pani
1998003	111272	Credential	Harish Bhutani	Credential	Agarwal & Co.

27. From the above I note that the Share Certificate Number 111272 was delivered in Settlement No.1998002 by client Sanjay Agarwal to Radhashyam Pani. The same certificate was then delivered in the next settlement i.e. Settlement No. 1998003 by another client Shri Harish Butani to Sanjay Agarwal, suggesting that the movement of share certificates among the clients of CSBL took place without any corresponding trades. It can be inferred from this circular movement of shares that there is a close connection between the clients of CSBL. Though CSBL denied these trades as 'clerical error'; it never produced any document to support its claims. Instead, it just took the excuse that all the relevant documents, floppies and books of accounts were seized during an Income Tax search at their premises.

28. Be that as it may, the other trades referred above in Tables C, D and E clearly establish the involvement of CSBL in market manipulation and violation of the Code of Conduct as prescribed for Brokers. Transactions that fall within the purview of Regulation 4(a) must be with the intention of distorting the prices of securities so as to induce any other person to sell or purchase the securities. The element of deceit is an underlying factor in the transaction.

29. In this regard, the Hon'ble SAT has noted in Appeal No.2 of 2004 in the case of **Ketan Parekh v. SEBI** that under Regulation 4(a) once the factum of market manipulation is established, **it will necessarily follow that the investors in the**

market have been induced to buy or sell and no further proof is required in this regard. This is because in a system of screen based trading, investors track the scrips through the screens of the exchanges only to see whether a particular scrip is active or not, whether it is trading in large volumes and whether the price is going up or down. Having regard to these factors he makes up his mind to invest or disinvest in the securities. When a person takes part in or enters into transactions in securities with the intention to artificially raise or depress the price he thereby automatically induces the innocent investors in the market to buy / sell their stocks.

30. In view of the foregoing findings and observations, I find that the trading by CSBL in the scrip of VML generated substantial volumes and created artificial market in the scrip of VML. By entering into cross trades and indulging in trades at set up prices, CSBL was able to create a false and misleading appearance of trading in the shares of VML. I thus find that CSBL was in violation of Regulation 4 (a), (b) and (c) of the PFUTP Regulations.
31. I am also in agreement with the findings of the Enquiry Officer that CSBL, by indulging in synchronized and cross deals and creating a misleading appearance of trading in the scrip of VML, failed to exercise due skill and care as a stock broker. CSBL has thus violated Clauses A(2) to A(5) of the Code of Conduct for Brokers as specified in Schedule II of the Stock Brokers Regulations read with Regulation 7 of Broker Regulations 1992.
32. The aforesaid violations committed by the Broker calls for a penalty and considering the facts and circumstances of the case, I, find that imposing a penalty of suspension as ordered herein under would be appropriate.
33. In light of the fact that the Enquiry Regulations have since been repealed, now in exercise of the powers conferred under Section 19 of SEBI Act, 1992 read with Regulation 28(2) of SEBI (Intermediaries) Regulations, 2008, I hereby impose a

penalty of suspension of the certificate of registration of CSBL having SEBI Registration No. INB INB230903331 for a period of 2 months.

34. This order shall come into force on the expiry of 21 days from the date of passing of this order.

DATE: 13.01.2009

T. C. NAIR

PLACE: MUMBAI

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA