

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

**IN THE MATTER OF DHANLAXMI COTEX LTD (PAN NO.AABCD2387H)
IN THE SCRIP OF SOUNDCRAFT INDUSTRIES LTD.**

Date of hearing : November 22, 2006

Appearances

For Noticees : Shri Ravikumar Varanasi, Advocate
Shri R K Pandey, Accountant

For SEBI : Shri P.K. Bindlish, Chief General Manager
Shri Atul Agarwal, Manager
Ms. Kshama Chavan, Legal Officer

ORDER UNDER SECTION 11 AND 11B OF SEBI ACT, 1992 READ WITH REGULATION 11 OF THE SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO THE SECURITIES MARKET) REGULATIONS, 1995 AND THE CORRESPONDING REGULATIONS UNDER SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO THE SECURITIES MARKET) REGULATIONS, 2003.

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. It was further noted that Shri Basantani along with other entities including Dhanlaxmi Cotex Ltd., M R Share Broking Pvt. Ltd. (hereinafter referred to as “M R Share Broking”) and VRM Share Broking Pvt. Ltd. (hereinafter referred to as “VRM”) contributed 96% and 65% of the trading in the scrip at BSE and NSE respectively.
- 1.4 It was alleged that Dhanlaxmi Cotex Ltd. (hereinafter referred to as “Dhanlaxmi”) indulged in activities which created false or misleading appearance of trading on the securities market and thereby violated the provisions of Regulation 4 (a), (b), (c) and (d) of

the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.

2.1 In view of the findings of the investigation, a show cause notice dated August 31, 2005 was issued to Dhanlaxmi to show cause as to why suitable directions including restraining from accessing the capital market and prohibiting from buying, selling or dealing in securities for a specified period should not be issued under section 11 (4) and section 11B of the SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulation, 2003.

2.2 Dhanlaxmi submitted their reply vide their letters dated October 10, 2005 and November 14, 2006 and stated that :

- i. *They exclusively traded for jobbing purposes. Jobbing transactions should not and cannot be given the colour of circular trades.*
- i. *Their trading was not artificial as the deliveries have been taken /given on the net position.*
- ii. *They as a client did not knew as to whom the brokers traded with but presumed that in the transparent and electronic system of the exchange, it is impossible to know the identity of counter party broker or client(s).*
- iii. *Their trading volume being a small percentage of market volume cannot have influenced the price particularly when the delivery volume was negligible.*

- iv. *It is denied that Dhanlaxmi is a Basantani entity as implied and that they had indulged in structured deals and attempted to create market volume. Further they were not aware of the fact that there was manipulation going on among certain brokers and Basantani had made a cartel of entities.*
- v. *Shri Ramautar Jhawar is not designated director of either M R Share Broking Pvt. Ltd. or VRM Share Broking Pvt. Ltd. and as such he being a common director in all three concerns is of no importance and is irrelevant in so far as trades in SIL are concerned.*
- vi. *The Noticee company has investment in several shares and securities and sometimes carry on jobbing activities in the market.*

3.1 An opportunity of personal hearing was also granted before me to Dhanlaxmi Cotex Ltd. on November 22, 2006 wherein Shri Ravikumar Varanasi, Advocate and Shri R. K. Pandey appeared before and made submissions. Further written submissions were made vide letter dated December 07, 2006 interalia stating that:

- (i) *Dhanalaxmi commenced the dealing in the scrip on May 21, 2001, when the price was prevailing at Rs. 508. Further, till June 29, 2001, the price was at Rs.503 and Rs. 505 per share.*
- (ii) *During the investigation period, the scrip was at Rs. 505 per share and Dhanalaxmi Cotex had carried out transactions till October 11, 2001 and the price was prevailing at Rs. 472 to Rs.474 per share. Thereafter there were no transactions. The summary of the transactions show that the total quantity traded is 19% to the total*

dealing in the other scrips prior to investigation and during the investigation period

(iii) The fall in the scrip from Rs. 474 to Rs. 429 had happened after October 11, 2001 after exiting from the scrip and there were no dealings till January 2002. Therefore, they should not be held responsible for the fall in the scrip.

4.1 I have carefully considered the investigation report, the show cause notice and submissions of Dhanlaxmi. My findings are as under:

4.2 I note that the company had passed 3 resolutions during the year 2001 for preferential allotment of shares. However, the shares were not allotted by SIL. From the records, it is noted that SIL was in negotiation with some financial institution for subscription of its shares on a preferential basis. As the negotiations failed, the company could not allot the shares within the prescribed time limit.

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. In view of this, 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 to attract investors at the price on which the preferential allotments were proposed to be made. 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:

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
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

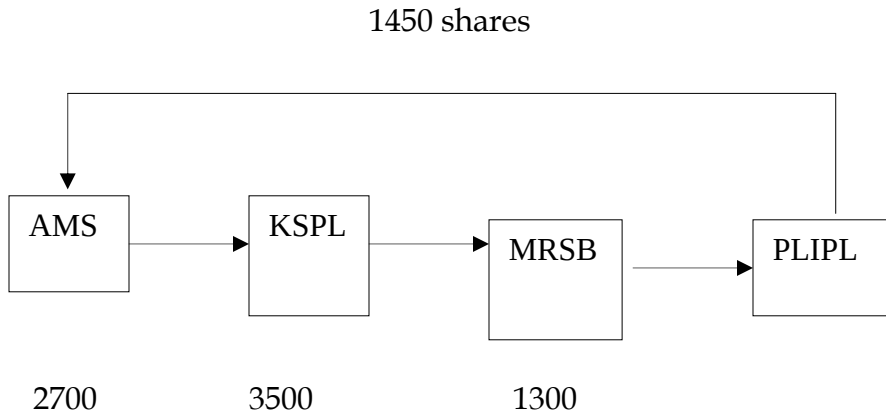
4.3 I find that brokers and their clients inter se were related. VRM Share Broking Pvt. Ltd. is the broker of NSE, M R Share Broking Pvt. Ltd. is the broker of BSE and Dhanlaxmi Cotex Ltd. has acted as client to both M R Share Broking and VRM. I further find that Shri Ramautar Jhawar is the director of all the 3 entities, viz., M R Share Broking, VRM and Dhanlaxmi. I note that all the entities are sister concerns and all the 3 are associated with the capital market. Also, Dhanlaxmi through VRM was involved in structured deals at NSE with many entities including Basantani's entity, viz., Jaitra Estate Holding Pvt Ltd. Dhanlaxmi through M R Share Broking was involved in circular trades at BSE with Basantani's entity including Kolar Sharex Pvt. Ltd., Born Free Finance Pvt. Ltd. and Panna Agrofine Pvt. Ltd. From above, I find that the entities, viz., Dhanlaxmi Cotex Ltd., VRM Share Broking Pvt. Ltd. and M R Share Broking Pvt. Ltd. had in a network of relationships actively traded in conjunction with each other and at the behest of Basantani only.

4.4 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 Dhanlaxmi Cotex Ltd. had indulged in structured deals to create market artificial price and volumes in the scrip. I find that 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. Dhanlaxmi Cotex Ltd. is involved in 105 structured deals including 101 structured deals with Shri Rajkumar Basantani and related entity, viz., Jaitra

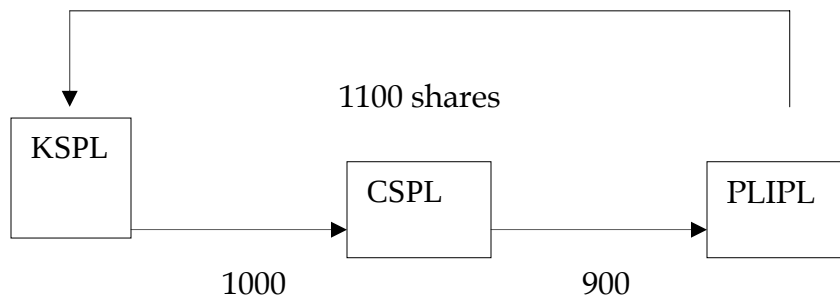
Estate Holding Pvt Ltd. The detailed list of the structured deals carried out by Dhanlaxmi Cotex Ltd. is placed at Annexure.

- 4.5 It is also 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 Dhanlaxmi Cotex Ltd. 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:

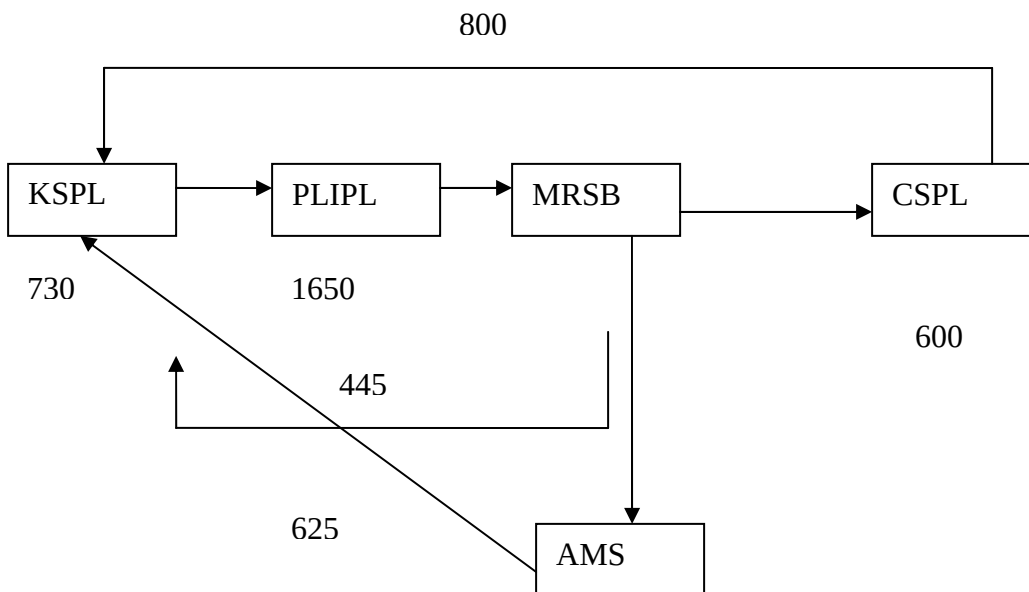
(a) July 2, 2001



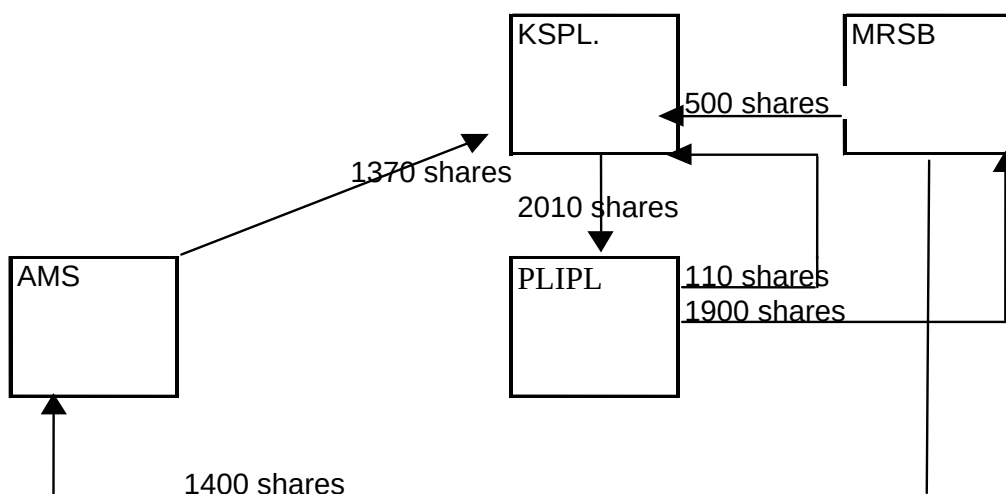
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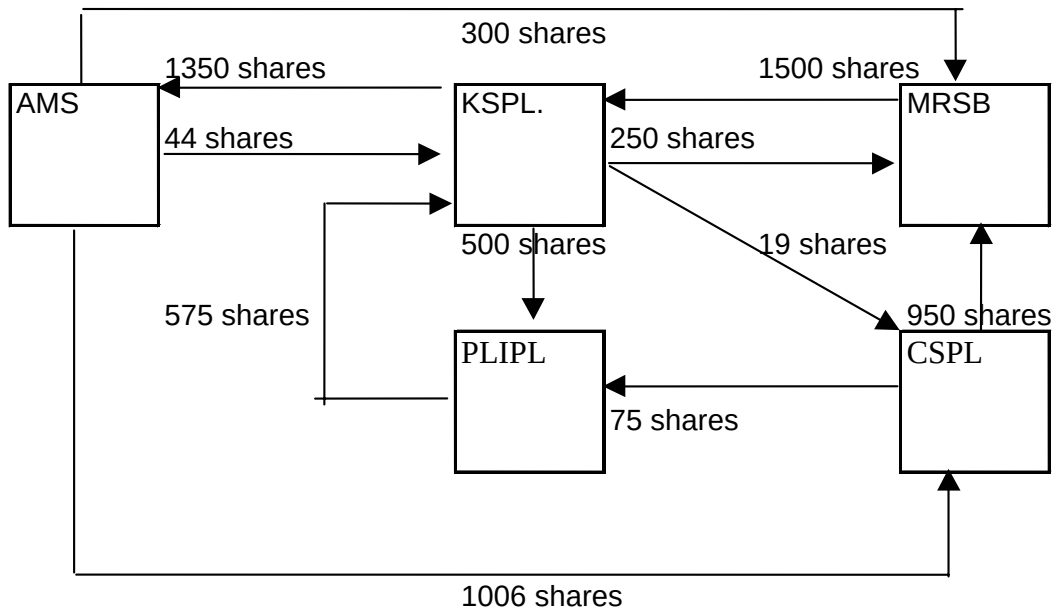
(c) July 30, 2001



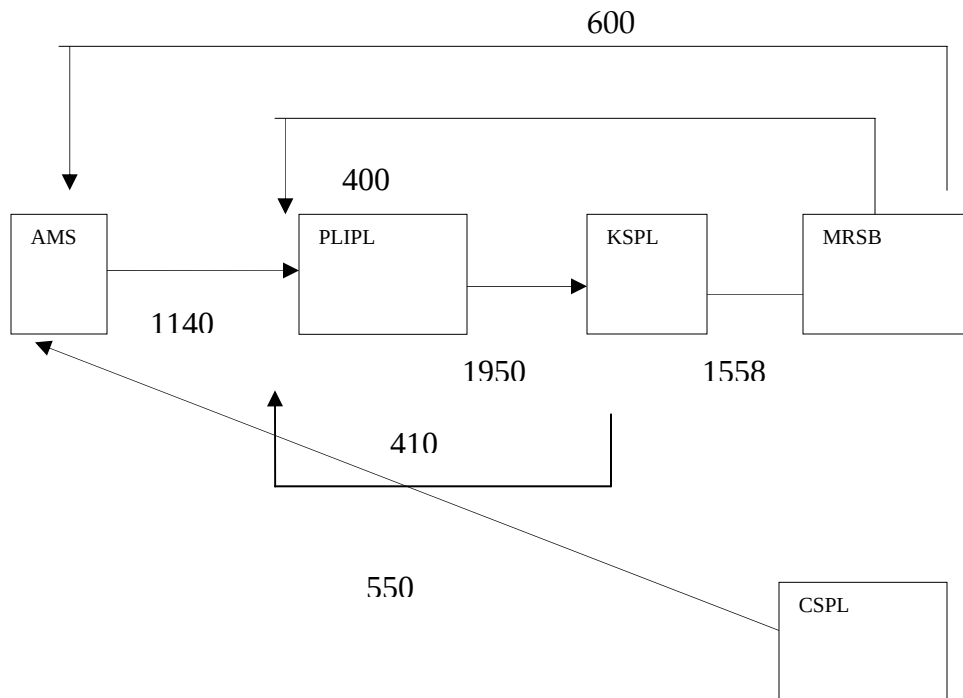
(d) August 14, 2001



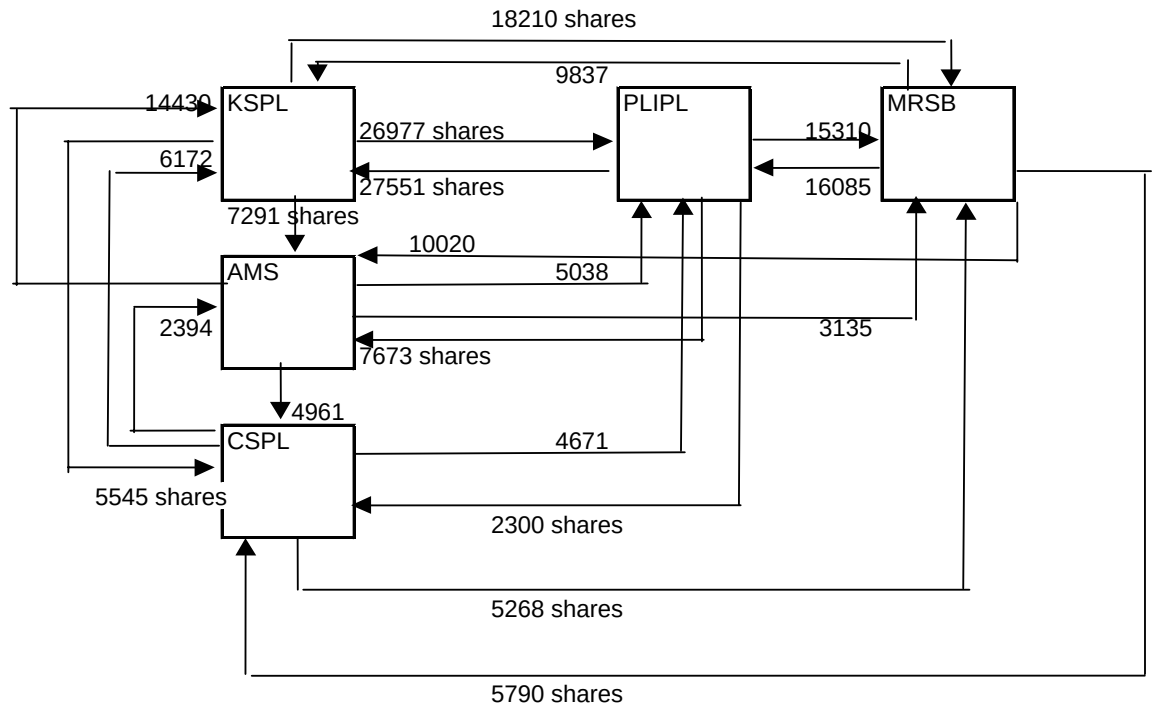
(e) August 16, 2001



(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 as illustrated under:



- 4.6 From the chronology of events, I find that Dhanlaxmi through its associated brokers indulged in circular and structured trading for creating artificial market and general interest in the scrip. I find that the client Dhanlaxmi Cotex, M R Share Broking and VRM Share Brokers are associated with each other. Further the trading pattern also indicates they traded in close association with Rajkumar Basantani to create artificial movement in price and the volumes of the scrip through a network of brokers. I note that the trading of Dhanlaxmi Cotex has contributed 21% of the volume at BSE and 7%

volume at NSE. From the facts and circumstances of the case, it is evident that Dhanlaxmi Cotex Ltd. and its related broking entities were well known to Shri Rajkumar Basantani and that they had acted in concert with him to create artificial volume in the market. In view of the above, considering the large number of circular and structured transactions executed by Dhanlaxmi Cotex, I find that they have violated the provisions of Regulation 4(a),(b),(c) and (d) of PFUTP Regulations, 1995.

- 4.7 It is pertinent to note here that pursuant to the repeal of 1995 Regulations, the corresponding provisions are contained in Regulations 3 and 4 of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003. It is pertinent to note here that pursuant to the repeal of 1995 Regulations, the corresponding provisions are contained in Regulations 3 and 4 of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003. Therefore, the present order is being passed under 2003 Regulations.

5.0 Order

- 5.1 In view of the above, I, in exercise of powers conferred in terms of Section 19 read with Section 11 and 11 B of SEBI Act, 1992, read with Regulation 11 of the SEBI (Prohibition of Fraudulent And Unfair Trade Practices relating to the Securities Market) Regulations, 1995 and the corresponding regulations under SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003, hereby direct that Dhanlaxmi Cotex Ltd.

PAN No. AABCD2387H. be debarred from accessing the securities market and prohibited from buying, selling or dealing in securities, either directly or indirectly, for a period of six months.

5.2 This order shall come into effect immediately.

PLACE: MUMBAI

T .C. NAIR

DATE: 9.01.2009

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA