

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

**IN THE MATTER OF M/s. P.P.CHOUDHARY - HUF, M/S.P.L.
CHOUDHARY & CO, M/s. PAWAN KUMAR CHOUDHARY - HUF,
MRS.SABITARIDEVI CHOUDHARY, SMT.SARITA CHOUDHARY
IN THE SCRIP OF JAGSONPAL PHARMACEUTICALS LIMITED.**

Date of hearing : 30.08.2006

Appearances:

For Noticees : Mr. P. L. Choudhary
Mr. P. K. Choudhary

For SEBI : Mr. P.K.Bindlish, Chief General Manager
Mr. Pradip Bhowmick, Manager
Ms. Kshama Chavan, Legal Officer

ORDER

**DIRECTIONS UNDER SECTIONS 11(4)(b) AND 11B OF THE SEBI
ACT, 1992 READ WITH REGULATIONS 11 AND 13(3) OF SEBI
(PROHIBITION OF FRAUDULENT AND UNFAIR TRADE
PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS,
2003**

1. The Securities and Exchange Board of India (hereinafter referred to as SEBI) had conducted investigation into the alleged price manipulation in the scrip of Jagsonpal Pharmaceuticals Ltd. (hereinafter referred to as 'Jagsonpal') for the trades during the period August, 2000 to December, 2000 (hereinafter referred to as

first period) and July, 2001 to October, 2001(hereinafter referred to as second period).

2. From the investigation, it appeared that M/s. P. L. Choudhary & Co, M/s. Pawankumar Choudhary - HUF, M/s. P. P. Choudhary - HUF, Smt. Sabitaridevi Choudhary and Smt. Sarita Choudhary (hereinafter referred to as noticees) had entered into synchronized trade in the said scrip during the said periods in BSE. The noticees had also carried out off-market transactions in the scrip of Jagsonpal during the said period. Further, it was observed that the noticees are related to each other as per the statement dated May 06, 2004 of Mr. Pawankumar Parmeshwarlal, son of Mrs. Sabitaridevi Choudhary and the husband of Mrs. Sarita Choudhary, who is a broker at BSE.
3. From the price-volume data (PV data), it was noticed that there was abnormal price-volume movement in the scrip of Jagsonpal during the first and second period. It was also noted that the price of the scrip which was Rs. 599.00 on August 18, 2000 shot up to Rs. 660.00 on November 01, 2000 touching a high of Rs. 700.00 on September 11, 2000 and a low of Rs. 541.00 on October 09, 2000. On analysis of the volumes traded, it was observed that the volumes varied between 39,200 shares on October 31, 2000 to only 5 shares on August 18, 2000. At BSE, the scrip witnessed comparatively less trading volume and the price of the scrip which was Rs. 576.70 on August 18, 2000 increased to Rs. 694.00 on November 20, 2000. At both the exchanges, volumes in the scrip were observed mainly on

those days when few selected individuals/ entities traded in the scrip.

4. During the second period, price of the scrip at NSE fell from Rs. 319.20 on July 02, 2001 to Rs. 129.50 on October 31, 2001, whereas the volume varied between 1 share on October 08, 2001 to 18,985 shares on July 16, 2001. On the other hand at BSE, price fell from Rs. 345.00 July 02, 2001 to Rs. 149.50 October 29, 2001, while the volume fluctuated between 1 share on September 18, 2001 and October 08, 2001 to 21,815 shares on August 06, 2001. In most of the trading days, the volumes of the said scrip in both exchanges were few hundreds only.
5. Investigation revealed that the noticees had entered into synchronized trade in the said scrip with the Tropical/ CFL group viz., CFL Securities Ltd, Tropical Securities & Investment P Ltd (hereinafter referred to as Tropical), Harbinger Trading Co P Ltd, Globex Financial Services Ltd, Shriya Capital Services P Ltd, Smt. Aditi Dalal and M/s. S. Ramdas (proprietary account of Tropical) in BSE. The time gap between the buy and sell orders put by the noticees and the counter party were few seconds only. The price and quantity placed by concerned parties were, in most of the cases, same. The orders were put at consistently higher price than the previous day's close price. Therefore, the orders were placed with a malafide intention of creating a false market for the scrip. The combined sales by the noticees during the first period were 46,400 shares, accounting for 54.21% of the market volume.

6. In his statement recorded u/s 11C (5) of the SEBI Act, 1992 on May 06, 2004 before the Investigating Officer, Shri Pawankumar Parmeshwarlal, Proprietor of M/s Pawankumar Parmeshwarlal [member - BSE] has stated that the noticees, i.e, Pawankumar Parmeshwarlal group entered into financial deals with the CFL/ Tropical group viz, CFL Securities Ltd, Tropical Securities & Investment P Ltd, Harbinger Trading Co P Ltd, Shriya Capital Services P Ltd, Smt. Aditi Dalal and M/s. S. Ramdas (proprietary account of Tropical) to assist them to avoid default with their financial commitment with the respective stock exchanges.
7. In view of the above, SEBI issued a notice dated September 02, 2005 to the noticees asking them to show cause as to why appropriate directions should not be issued against them, inter-alia, under section 11 B and 11 (4) (b) of SEBI Act, 1992 (hereinafter referred to as the "Act") read with Regulations 11 & 13 (3) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Markets) Regulations, 2003 (hereinafter referred to as PFUTP Regulations) for the alleged violation of Regulation 4 (a), (b), (c), (d) and (e) of PFUTP Regulations.
8. M/s. S. K. Jain & Co, Company Secretary, forwarded the reply of the noticees dated September 17, 2005, vide their letter dated September 19, 2005 denying the allegations.
9. A personal hearing was also granted on August 30, 2006 to the

noticees. Shri P. L. Choudhary appeared as Proprietor of M/s. P. L. Choudhary & Co and Karta of M/s. P. P. Choudhary - HUF and also on behalf of his wife Mrs. Sabitaridevi Choudhary and Shri Pawan Kumar Choudhary appeared as Karta of M/s. P. K. Choudhary - HUF and on behalf of his wife Mrs. Sarita Choudhary and made their submissions. They also submitted their written submissions dated August 30, 2006 and relevant documents in support of their contentions which are examined.

10. I have carefully examined the facts and circumstances of the case, Investigation Report, the submissions of the noticees, the materials available on record.
11. The charge against the noticees is that they had entered into synchronized trade in the said scrip and they had also entered into financing deals in collusion with other entities/ persons, had helped CFL/ Tropical group to avoid their payment obligation crisis at the respective exchanges and thereby helped in creating artificial volume and price in the scrip and thus they had violated provisions of regulation 4 (a), (b), (c), (d) & (e) of the PFUTP Regulations, 1995.
12. The noticees had stated that Section 11B was not applicable to them as they are not intermediaries as per Section 12 of the SEBI Act and Section 11B is for safeguarding the securities market and not for penalizing persons. I am of the view that the primary function of SEBI is to protect the interest of investors in the securities market and to regulate the securities market. Further, Section 11B provides

power for SEBI to issue directions to any person or class of persons referred to in Section 12 or any persons associated with the securities market or to any company in respect of matters specified in Section 11A in the interests of the investors of the securities market and the orderly development of the securities market.

13. The Hon'ble High Court of Gujarat in Karnavati Finacap Ltd. case (1996 Indlaw Guj 87) had observed regarding "other persons associated with the securities market" in the following words:

*"The words "other persons associated with the securities market" have not been defined in the Act. The question then arises whether "persons associated with the securities market" takes its colour from persons enumerated in clause (ba) If one has to go by the literal meaning, the interpretation which restricts the meaning of "persons associated with the securities market" to the persons enumerated in clause (ba) is not acceptable. In ordinary meaning, the persons associated with the securities market would include all and sundry who have something to do with the securities market. It is to be noted that the securities market in the sense is not confined to stock exchanges only. The words "persons associated with the securities market" are of much wider import than intermediaries. "Persons associated with" denotes a person having connection or having intercourse with the other; in the present case that "other" with whom a person is to have connection or intercourse is the securities market".
.....Nonetheless, a market cannot be conceived of without a seller or buyer who are the primary persons for whose purpose the market exists. All activities of business of selling and buying are related to the seller or the buyer. It is inconceivable to think that a buyer or seller of a scrip is not a person associated with the securities market, where or through which he transacts his business, whether as trader or as investor, of selling or buying the required scrip."*

14. The first charge is that they had entered into financing deals in collusion with other entities/ persons and had helped CFL/

Tropical group to avoid their payment obligation crisis at the respective exchanges. In their reply, the noticees had stated that they were spot financiers and they used to provide finance against any scrip after deducting 1.5% from the sale proceeds offered to them and they did not had any intention of artificially raising or depressing the prices of securities and thereby inducing the sale or purchase of any securities. They had submitted that they had entered into 'spot finance' transactions with various entities during the period of enquiry in various scrips apart from Jagsonpal.

15. It is pertinent to note that Shri Pawankumar Parmeshwarlal Choudhary, Proprietor of M/s. Pawankumar Parmeshwarlal [member - BSE] in his stament recorded u/s 11C (5) of the SEBI Act, 1992 on May 06, 2004 before the Investigating Authority, had stated that he along with his family members, viz, his father Shri Parmeshwarlal, mother Mrs. Sabitaridevi, his wife Mrs. Sarita and bigger HUF M/s. P. P. Choudhary and smaller HUF M/s. P. K. Choudhary were engaged in 'Vyaj Badla' and financing since 1983. He further stated that they entered into financial deals with M/s. Tropical Securities and Investment P Ltd (hereinafter referred to as Tropical) and their group companies to assist them to avoid default in their financial commitment with the respective stock exchanges.
16. He had further stated in his statement that the transactions in Jagsonpal was in their normal business practice and when they were approached by Tropical for urgent finance against the shares held by them, he sold the shares through the exchange which were either

purchased by Tropical or any outside party. Once the shares were sold, they took delivery of the shares from Tropical by entering into off market deal with Tropical after adjusting badla charges (interest) from the sale value.

17. Further, the contention of the noticees that they were in the business of 'Sell N Cash' and had no concern for their financial commitments or defaults is not agreeable since the noticees had financed the transactions. It is apparent that they had misused the stock exchange mechanism to tide over the financial commitments of Tropical and distorted the equilibrium of the scrip.
18. The other charge is that they had entered into synchronized trade in the said scrip and thereby helped in creating artificial volume and price in the scrip. The noticees had denied that they had entered into structured/synchronized trade. They had further submitted that, in the second period, they had traded in the said scrip only on 6 days, viz, July 12, 2001, July 13, 2001, October 01, 2001, October 04, 2001, October 22, 2001 and October 29, 2001 for a total quantity for 5,469 shares.
19. Synchronized/ structured deal is a type of transaction/trade wherein the buyer and seller execute the trade for almost same quantity and price at substantial the same time. Synchronized deals are not per se illegal but the synchronized deal with fraudulent or deceptive intention to create misleading appearance of trading and to manipulate the price and the volume of the scrip to tamper the

price discovery mechanism of stock exchange mechanism is serious in nature. The following table gives the details of the structured/synchronized deals of M/s. Pawankumar Parmeshwarlal dealing on behalf of the noticees and Tropical (during the first period):

Settlement No. 23:						
Date	Member	B/S	Qty.	Price	Time	Client
31/08/00	Pawankumar Parmeshwarlal (550)	S	1000	601	14:44:25	Not entered
31/08/00	Tropical Securities (650)	B	1000	601	14:44:28	Harbinger Trading
31/08/00	Pawankumar Parmeshwarlal (550)	S	1600	601	14:44:42	Not entered
31/08/00	Tropical Securities (650)	B	1600	601	14:44:43	Harbinger Trading
31/08/00	Pawankumar Parmeshwarlal (550)	S	400	601	14:45:10	Not entered
31/08/00	Tropical Securities (650)	B	400	601	14:45:11	Harbinger Trading
Settlement No. 26:						
Date	Member	B/S	Qty.	Price	Time	Client
21/09/00	Pawankumar Parmeshwarlal (550)	S	3000	640	13:26:25	Not entered
21/09/00	Tropical Securities (650)	B	3000	640	13:26:28	Harbinger Trading
Settlement No. 28:						
Date	Member	B/S	Qty.	Price	Time	Client
5/10/2000	Pawankumar Parmeshwarlal (550)	S	350	665	12:26:53	Not entered
5/10/2000	Tropical Securities (650)	B	350	665	12:26:53	Harbinger Trading

5/10/2000	Pawankumar Parmeshwarlal (550)	S	1850	665	12:27:29	Not entered
5/10/2000	Tropical Securities (650)	B	1850	665	12:27:33	Harbinger Trading
Settlement No. 29:						
Date	Member	B/S	Qty.	Price	Time	Client
12/10/2000	Pawankumar Parmeshwarlal (550)	S	2000	609	12:06:02	
12/10/2000	Pawankumar Parmeshwarlal (550)	S	1500	609	12:06:21	
12/10/2000	Pawankumar Parmeshwarlal (550)	S	700	609	12:06:36	
12/10/2000	Tropical Securities (650)	B	2000	609	12:06:42	Harbinger Trading
12/10/2000	Tropical Securities (650)	B	2200	609	12:07:36	Harbinger Trading
Settlement No. 30:						
Date	Member	B/S	Qty.	Price	Time	Client
18/10/00	Pawankumar Parmeshwarlal (550)	S	2000	605	15:23:10	
18/10/00	Pawankumar Parmeshwarlal (550)	S	3000	606	15:23:35	
18/10/00	Pawankumar Parmeshwarlal (550)	S	1500	606	15:23:59	
18/10/00	Tropical Securities (650)	B	2000	605	15:24:22	Harbinger Trading
18/10/00	Pawankumar Parmeshwarlal (550)	S	1000	607	15:24:36	
18/10/00	Tropical Securities (650)	B	4500	606	15:24:46	Harbinger Trading

18/10/00	Tropical Securities (650)	B	1000	607	15:25:00	Harbinger Trading
18/10/00	Pawankumar Parmeshwarlal (550)	S	2000	607.5	15:25:05	
18/10/00	Tropical Securities (650)	B	2000	607.5	15:25:19	Harbinger Trading
18/10/00	Pawankumar Parmeshwarlal (550)	S	500	607.5	15:26:13	
18/10/00	Pawankumar Parmeshwarlal (550)	S	1500	609	15:26:34	
18/10/00	Pawankumar Parmeshwarlal (550)	S	1000	609	15:26:59	
18/10/00	Tropical Securities (650)	B	500	607.5	15:27:02	Harbinger Trading
18/10/00	Tropical Securities (650)	B	2500	609	15:27:24	Harbinger Trading
Settlement No. 31:						
Date	Member	B/S	Qty.	Price	Time	Client
25/10/00	Tropical Securities (650)	B	10	579	12:33:44	Harbinger Trading
25/10/00	Pawankumar Parmeshwarlal (550)	S	2000	579	12:34:54	
25/10/00	Tropical Securities (650)	B	1990	579	12:35:02	Harbinger Trading
25/10/00	Pawankumar Parmeshwarlal (550)	S	2000	579	12:36:55	
25/10/00	Tropical Securities (650)	B	2000	579	12:37:03	Harbinger Trading
25/10/00	Pawankumar Parmeshwarlal (550)	S	2000	579	12:40:22	
25/10/00	Tropical Securities (650)	B	2000	579	12:40:30	Harbinger Trading

Settlement No. 32:						
Date	Member	B/S	Qty.	Price	Time	Client
1/11/2000	Tropical Securities (650)	B	10	585	14:04:03	Harbinger Trading
1/11/2000	Pawankumar Parmeshwarlal (550)	S	2500	585	14:06:18	
1/11/2000	Tropical Securities (650)	B	2490	585	14:06:25	Harbinger Trading
1/11/2000	Pawankumar Parmeshwarlal (550)	S	2500	585	14:08:17	
1/11/2000	Tropical Securities (650)	B	2490	585	14:08:22	Harbinger Trading
1/11/2000	Pawankumar Parmeshwarlal (550)	S	500	588	14:09:50	
1/11/2000	Tropical Securities (650)	B	500	588	14:09:55	Harbinger Trading
Settlement No. 34:						
Date	Member	B/S	Qty.	Price	Time	Client
16/11/00	Tropical Securities (650)	B	1500	675	14:48:36	Harbinger Trading
16/11/00	Pawankumar Parmeshwarlal (550)	S	1500	675	14:48:38	
16/11/00	Tropical Securities (650)	B	900	675	14:54:20	Harbinger Trading
16/11/00	Pawankumar Parmeshwarlal (550)	S	900	675	14:54:25	
16/11/00	Tropical Securities (650)	B	600	675	14:55:08	Harbinger Trading
16/11/00	Pawankumar Parmeshwarlal (550)	S	600	675	14:55:17	

20. From the above table, it is clear that there were structured/synchronized deals executed by the member M/s. Pawankumar Parmeshwarlal (client name not entered since trades were done on behalf of related entities) and the member Tropical for its client M/s. Harbinger Trading. The time difference between the buy and sell order were from 0 second to 45 seconds and the quantity and price are also the same in most of the cases.
21. The noticees in their written submissions had denied the allegations that they had entered into structured/synchronized deals in the said scrip and the difference between the low, high and at the end of the period was not abnormal at any stretch of imagination. They had further submitted that they had no dealing with Globex Financial Services Ltd, Shriya Capital Services P Ltd. and M/s S. Ramdas out of the alleged 7 entities, viz., M/s. CFL Securities Ltd, Tropical Securities & Investment P Ltd, Harbinger Trading Co P Ltd, Globex Financial Services Ltd, Shriya Capital Services P Ltd, Smt Aditi Dalal and M/s S. Ramdas. They had submitted that they had entered into thousands of similar transactions with Tropical in the same manner in other scrips also. The time gap between the sell order and buy order was upto 75 seconds in some cases.
22. The trading pattern of Pawankumar Parmeshwarlal group for the first period in the above table clearly shows that, in most of the cases, the time difference between the buy and sell orders were from 0-45 seconds and the counter party was Tropical in all the cases. The Hon'ble SAT in Nirmal Bang Securities Pvt. Ltd Vs SEBI (SAT order

dated October 31, 2003 in Appeal Nos. 54- 57/ 2002) had observed regarding synchronized trades as follows:

“BEB has been charged for synchronized deals with First Global. I have examined the data provided by the parties on this issue. I find many transactions between BEB and FGSB. There are many instances of such transactions. I find the scrip, quantity and price for these orders had been synchronized by the counter party brokers. Such transactions undoubtedly create an artificial market to mislead the genuine investors. Synchronized trading is violative of all prudential and transparent norms of trading in securities. Synchronized trading on a large scale, can create false volumes. The argument that the parties had no means of knowing whether any entity controlled by the client is simultaneously entering any contra order elsewhere for the reason that in the online trading system, confidentiality of counter parties is ensured, is untenable. It was submitted by the Appellants that it was not possible for the broker to know who the counter party broker is and that trades were not synchronized but it was only a coincidence in some cases. Theoretically this is OK. But when parties decide to synchronize the transaction the story is different. There are many transactions giving an impression that these were all synchronized, otherwise there was no possibility of such perfect matching of quantity price etc. As the Respondent rightly stated it is too much of a coincidence over too long a period in too many transactions when both parties to the transaction had entered buy and sell orders for the same quantity of shares almost simultaneously.In a synchronized trading intention is implicit.”

23. They had contributed for 54.21% of the total volume during the first period of investigation. During the second period of investigation also, they had contributed a significant volume in the trading of the scrip. In illiquid scrip like Jagsonpal, there would not be such a volume without the intervention of the noticees and the Tropical group. It is apparent that they had intentionally misused the stock exchange mechanism for their own use and distorted the

- equilibrium of the scrip and they had induced the gullible investors to trade in the scrip.
24. The notices had further stated that they had similar dealings during this period in the scrips of CEAT Ltd., VXL Instruments Ltd., Surya Roshni Ltd., etc and had stopped doing spot finances after receiving warning letters from SEBI. They further submitted that they had traded in the scrip of Jagsonpal also in the same period in identical manner; they pleaded that a lenient view should be taken. They also submitted that they had traded in a similar and identical manner in approximately 50 different scrips and if they were punished like this, they had to suffer as many times as the scrips.
25. I had noticed that an administrative warning had been issued by SEBI to Mrs. Sarita Choudhary and Mrs. SabitariDevi Choudhary for dealing in the scrip of V. B. Desai Financial Services Ltd. Further, M/s. P. L. Choudhary & Co, Mrs. Sabitaridevi Choudhary and Mrs. Sarita Choudhary had been prohibited from accessing the capital market and dealing in securities for a period of three months for similar violations while dealing in the scrip of Surya Roshni Ltd. Further, Mr. Pawankumar Parmeshwarlal, Broker of BSE, who is the son of Mrs. Sabitaridevi Choudhary and husband of Mrs. Sarita Choudhary had executed the aforesaid trades.
26. On a careful examination of the material on record and the facts and circumstances, it is apparent that noticees had artificially created a market in the shares of Jagsonpal with a view to show increased

trading activity in the scrip and to increase the price of the scrip. They had misused the stock exchange mechanism to tide over the financial commitments of Tropical as admitted by Mr. Pawankumar Parmeshwarlal in his statement and distorted the equilibrium of the scrip and induced the gullible investors to trade in the said scrip by creating artificial volume. These acts are violative of the provisions of Regulations 4 (a), (b), (c), (d) and (e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.

27. In this context it is relevant to note the provisions of Regulation 4 of the SEBI(Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulation, 1995 which reads as under Regulation 4 :

No person shall

- a) effect, take part in, or enter into, either directly or indirectly, transactions in securities, within the intention of artificially raising or depressing the prices of securities and thereby inducing the sale or purchase of securities by any person;*
- b) indulge in any act, which is calculated to create a false or misleading appearance of trading of securities market;*
- c) indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions*
- d) enter into purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as device to inflate, depress or cause fluctuations in the market price of securities;*

e) pay, offer or agree to pay of offer, directly or indirectly, to any person any money or money's worth for inducing another person to purchase or sell of any security with the sole object of inflating, depressing or causing fluctuations in the market price of securities".

28. Persons who operate in the market are required to maintain high standards of integrity, promptitude and fairness in the conduct of the business dealings. People, who indulge in manipulative, fraudulent and deceptive transactions or abet the carrying out of such transactions, which are fraudulent and deceptive, are not fit or proper persons to operate in the market since the market safety and integrity is put to great jeopardy through such actions.

29. For the aforesaid reasons and having regard to the nature and gravity of the charges established and the facts and circumstances of the case and for the protection of investors, I find that a direction restraining them from accessing the securities market and dealings in the securities market for a specified period is essential.

30. Now, therefore, in exercise of the powers conferred upon me under the Section 19, read with Section 11 B of the SEBI Act, 1992 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003, I hereby restrain M/s. P. L. Choudhary & Co, M/s. Pawankumar Choudhary – HUF PAN NO. AAAHP4710L, M/s. P. P. Choudhary – HUF PAN NO. AAAHP4899N, Smt. Sabitaridevi Choudhary PAN NO. ACTPC7703P and Smt. Sarita Choudhary PAN NO.

ACYPC9216A from accessing the securities market and from buying, selling or dealing in securities for a period of three months.

31. This order shall come into force with immediate effect.

DATE: 09.01.2009

T. C. NAIR

PLACE: MUMBAI

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA