

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

**IN THE MATTER OF STEEL CITY SECURITIES PVT. LTD, MEMBER,
NATIONAL STOCK EXCHANGE OF INDIA LIMITED, SEBI REGN NO.
INB 230806132 IN THE SCRIP OF M/s EIDER INFOTECH LTD**

Date of hearing: August 31, 2007

Appearances:

For Noticees: Shri Satish Kumar Arya, Director
Shri V. Srinivas Sr. Manager

For SEBI : Shri P.K.Bindlish, Chief General Manager
Shri Siva Govindo Patra, Manager
Ms. Kshama Chavan, Legal Officer

ORDER

**UNDER REGULATION 28(2) OF SEBI(INTERMEDIARIES)
REGULATIONS, 2008.**

- 1.1 Eider Infotech Ltd. (hereinafter referred to as "EIL/company") is a public limited company incorporated in 1990. The shares of EIL were listed for trading at National Stock Exchange of India Limited (hereinafter referred to as "NSE"), The Bombay Stock Exchange Ltd. (hereinafter referred to as "BSE"), Ludhiana Stock Exchange (Regional) (hereinafter referred to as "LSE"), Ahmedabad Stock Exchange (hereinafter referred to as "ASE"), Delhi Stock Exchange (hereinafter referred to as "DSE") and Calcutta Stock Exchange (hereinafter referred to as "CSE") at the time of investigation.

- 1.2 Securities and Exchange Board of India (hereinafter referred to as “SEBI”) had conducted an investigation for the period December 1999 to March 2000 (hereinafter referred to as “Investigation Period-I”) and April 2000 to August 2000 (hereinafter referred to as “Investigation Period II”) [hereinafter both the periods referred to as “the relevant period”] into the buying /selling/dealing in the scrip of EIL. Investigation revealed that trading in the scrip of EIL was not very active at both BSE and NSE during the above investigation relevant period. It was found that only 200 shares at BSE and 1,800 shares at NSE were traded during the period January 1998 to August 1999. During September 1999 to March 2000, 6,500 shares and 3,04,200 shares were traded at BSE and NSE respectively. During September 2000 and March 2001 the trading at BSE was nil whereas 26,295 shares were traded at NSE.
- 1.3 Investigation further revealed that on November 24, 1999, the closing price of EIL at NSE was Rs.32, which touched a high of Rs. 292 by the end of the first week of January 2000 and came down to Rs.228 by second week of January 2000. By 11th February 2000, the price reached its highest of Rs.800. Correspondingly volumes had gone up in November 1999 from average volume of 490 shares to 4,030 shares in January 2000. Volumes started to decrease in March 2000. Further, during investigation period II, around 12th April 2000 when the scrip was trading at about Rs. 500, the scrip was suspended by NSE till 26th April 2000 due to non compliance of listing agreement.
- 1.4 It was further found that during period-I, M/s Eider Infotech Ltd. and their associates/group companies played a major role in the price

movement. From the trading records and bank records, it was found that EIL and its group companies directly funded the brokers and other entities who had significantly traded in the scrip during period-I. The bank records, revealed the flow of funds on a continuous basis from group or associate company of EIL to the accounts of brokers/sub-brokers etc.

1.5 It was alleged that Steel City Securities Ltd. (hereinafter referred to as “Steel City”), member NSE had executed cross deals during the period June 5, 2000 to June 8, 2000 for the same client on both buy and sell side thereby violating Regulation 4(a), (b) and (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995 (hereinafter referred to as “PFUTP Regulations”). It was further alleged that Steel City had not exercised due skill, care and due diligence in its dealings with its clients which is in violation of Clause A(1), A(2) and A(4) of the Code of Conduct as specified in Schedule II read with Regulation 7 of the SEBI (Stock Broker and Sub Broker) Regulations, 1992 (hereinafter referred to as “Stock Broker Regulations”)

2.1 In view of the above findings, SEBI vide order dated July 2, 2002 appointed Enquiry Officer to enquire into the alleged violations/contraventions of Steel City. The Enquiry Officer conducted the enquiry in terms of the SEBI (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the “Enquiry Regulations”) and found that Steel City by executing irregular trades was responsible for steep price and violated

the provisions of Regulation 4 (a) (b) and (d) of the PFUTP Regulations and Clause A(1) to A(4) of the Code of Conduct as specified in Schedule II read with Regulation 7 of the Stock Broker Regulations. The Enquiry Officer submitted its report dated November 3, 2003, recommending a minor penalty of Censure on Steel City.

- 3.1 Based on the recommendation of the Enquiry Officer, a show cause notice dated November 11, 2003 was issued to Steel City under the Regulations 13(2) of the Enquiry Regulations asking it to show cause as to why the appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed upon it. Steel City vide letter dated December 1, 2003 replied to the said show cause notice denying all the allegations made against it and stated that it does not have any connection with EIL and that there was no malafide intention on its part to influence the mindset of investors.
- 3.2 Steel City further submitted that it was not aware of the transactions entered into by one of its registered sub broker, Sai Share Consultants at Srikakulam (hereinafter referred to as "sub broker) on behalf of Smt. Indumati till a notice from NSE was received. They stated that they had no idea about the price manipulation and could not recognize the nature of these deals as about 40,000 trades that were daily taking place in those days in all their centres.
- 3.3 Due to change in the competent authority, the matter was put afresh before me. Accordingly, an opportunity of personal hearing was granted on August 31, 2007 before me wherein Shri Satish Kumar Arya, Director,

and Shri V. Srinvas Sr. Manager, appeared on behalf of Steel City Securities Ltd. and made submissions.

4.1 I have carefully considered the enquiry report, show cause notice issued to Steel City and the submissions made by Steel City in response to the show cause notice. 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. My findings are as under:

4.2 I note that Steel City had traded in the scrip between December 1999 and August 2000 when the price and the volumes had registered a continuous rise. The transaction details of Steel City during the period December 1999 and August 2000 are as under :

Period	Buy	Sell	Net	Gross
December 1999-March 2000	7600	7000	600	14600
April 2000 to August 2000	155	65	90	220

4.3 I note that Steel City had executed cross deals wherein the buy and sell dealer and the client were same in the four instances as under:

Trading Date	Trading Time	Price	Qty	Buy Trade Member	Buying Member	Buy Account	Sell Trade Member	Selling Member	Sell Account
05.06.00	12:56	428.35	1	Steel City	2666	CO14	Steel City	2666	CO14

Trading Date	Trading Time	Price	Qty	Buy Trade Member	Buying Member	Buy Account	Sell Trade Member	Selling Member	Sell Account
06.06.00	10:27	435	25	Steel City	2666	CO14	Steel City	2666	CO14
07.06.00	10:06	464.4	1	Steel City	2666	CO14	Steel City	2666	CO14
08.06.00	10:51	501	1	Steel City	2666	CO14	Steel City	2666	CO14

From the above table, it is observed that Steel City had executed cross deals for one share each on behalf of one client i.e Smt Indumati (Client Code C014) on June 5, 2000, June 7, 2000 and June 8, 2000. All the above cross deals were executed at price which was higher by over 7.87% of the previous day's closing price. I further note that the buy deals executed by Steel City were at a price which was higher by over 7.61% of the previous day's closing price on May 23, 2000, May 30, 2000, June 5, 2000 and June 12, 2000.

4.4 I have noted the submissions of Steel City that these cross deals were executed by its sub broker, Shri Sai Share Consultant and filed a letter from NSE in support of his claim showing that the dealer ID 2666 from which the trades have emanated belonged to Shri Jami Nayan Rao who was located at Srikukulam.

4.5 I note that the modus operandi in rigging up of the price was by placing a buy and a sell order for 1 share each at successively higher rates. The Enquiry Officer found that during settlement nos. 2000102W, 2000111W and 2000119W, the net traded quantity of Steel City constituted 100% of the net traded quantity for the market and 50% of the gross traded quantity for the market. All these trades were done by the registered sub

broker of Steel City and a common client for one share each was Smt. K Indumati.

4.6 I observe that on June 6, 2000, in one cross deal for 25 shares, buying client was Shri Kalimulla, client of Steel City and selling client was Smt. K Indumati, client of its sub broker. The rest of the trades were placed at sub broker's end for one share each, the common client in all these trading was Smt. Indumati.

4.7 I note that Steel City had indulged in certain cross deals in which it had executed transactions for single share for the same client who appeared both on sell and buy side and these transactions were executed from the same terminal of the registered sub broker of Steel City. The Enquiry Officer found that the deals cannot be termed as cross deals because in cross deals there are two parties i.e a buyer and a seller to transact through the same broker whereas in the instant case, the buyer and the seller is the same person. Placing of such transactions in a single share at successively higher rates than the last traded price is highly irregular and the share price had shot up during this period against low trading volumes with no change in the economic fundamentals of the company, and hence the price rise was not justified. From the analysis of details of trades, it shows that there was no general trading interest by investors and trading volumes were low. The method and manner of execution of these cross deals by Steel City for the same client by placing orders of single share per day at successively higher rates than the last traded price is a manipulative practice which resulted in the price of the scrip going up and were done with a view to set the prices or benchmark the prices

at a desired level and influence the investors to invest. Therefore the price of the scrip was rigged with low trading volume due to lack of liquidity.

4.8 From the chronology of events and facts and circumstances, I note that the cross deals were done by the sub broker of Steel City which indicated that these trades had originated from the sub broker's office at Srikakulam. Taking into account the fact that the ultimate client was a housewife who had no connection with the promoters of the company and in absence of any receipt of funds from the associates of the target company for dealing in the scrip of Eider Infotech, I am inclined to take a lenient view. However, I observe that when the sub broker was placing orders for 1 share each at successively higher rates, the bulk of the trades belonged to Sri Sai Share Consultants, registered sub broker of Steel City. I find that that the buying and the selling client were the same. I am of the view that Steel City should have exercised due diligence and effectively supervised the transactions of the sub broker.

4.9 After going through the facts and circumstances of the case, I find that the trades have been executed by the sub broker Shri Sai Share Consultants. Further, I note that Steel City has admitted that it did not directly deal in the scrip on its account and that it has been already penalized by NSE for its account. In view of the above facts, I am of the view that the Steel City should be careful in its future dealings.

5. Therefore, in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992, read

with Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, I hereby Censure M/s. Steel City Securities Limited., Registration No. INB 230806132 to the effect that the broker should be careful in future and exercise due skill, care and diligence in the conduct of its affairs as a capital market intermediary. I also direct Steel City Securities to note that any instances of violation or non-compliance of the SEBI Act and Rules and Regulations in future shall be dealt with stringently.

DATE : 15.1.2009

**T.C.NAIR
WHOLE TIME MEMBER**

PLACE: MUMBAI SECURITIES AND EXCHANGE BOARD OF INDIA