

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

ORDER UNDER THE REGULATION 28(2) OF SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008, IN THE MATTER OF M. G. CAPITAL SERVICES LTD., MEMBER OF THE NATIONAL STOCK EXCHANGE OF INDIA LIMITED, SEBI REGN NO. INB 230701235 IN THE SCRIP OF EIDER INFOTECH LTD.

- 1.1 Eider Infotech Ltd (hereinafter referred to as "EIL") 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 during the investigation period I, 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 the first period of investigation, 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 the first period. 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 M.G. Capital Services Ltd. (hereinafter referred to as “the broker”), had entered 13 matched deals /cross deals for one share each at a price consistently higher than the last traded price wherein both the buying and selling clients were the same. It was alleged that on June 16, 2000, June 19, 2000, June 21, 2000 and June 22, 2000, the trades executed by the broker in aforesaid manner were the only trades on NSE. The price of the scrip was rigged up between June 14, 2000 and July 10, 2000 from Rs.540 to Rs. 840 with a meagre trading of 14 shares only in the aforesaid manner.
- 2.1 In view of the above findings of investigations, SEBI vide order dated July 2, 2002 appointed an Enquiry Officer to enquire into the alleged violations/contraventions of the broker. The Enquiry Officer conducted the enquiry in terms of the SEBI (Procedure for Holding Enquiry by the Enquiry Officer and Imposing Penalty) (hereinafter referred to as the “Enquiry Regulations”) and found that the broker 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.
- 3.1 Based on the recommendation of the Enquiry Officer, a show cause notice dated November 11, 2003 was issued to the broker under the Regulations 13(2) of the Enquiry Regulations asking it to show cause as

to why appropriate action including penalty as recommended by the Enquiry Officer should not be imposed upon it.

3.2 The broker vide letter dated November 27, 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. The broker further submitted that it had already been penalised with a penalty of Rs. 50,000 by NSE for trading done by sub brokers and therefore had suspended its trading with the concerned sub-brokers. The broker assured that it would be more careful while trading in future and requested SEBI not to impose any penalty. They have already suspended the trading with both the clients of their sub brokers who traded in the scrip of EIL and has also warned the sub brokers not to execute such type of transaction in future.

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 24, 2007 before me wherein no one appeared on behalf of the broker.

4.1 I have carefully considered the investigation report, the enquiry report, the show cause notice issued to the broker and the submissions made by the broker in response to the show cause notice. Having complied with the principles of natural justice, I am proceeding ahead on the basis of material available on record. 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 the broker had traded in the scrip between December 1999 and August 2000 wherein the broker had executed 13 cross deals for one share each at a price higher than the last traded price as under:

Trading Date	Trading Time	Price	Qty	Buy Trade Member	Buy Dealer	Buy Account	Sell Traded Member	Sell Dealer	Sell Account
14.06.00	12:55:53	593.6	1	MGC	6271	CK032	MGC	6271	CK032
15.06.00	10:44:56	640	1	MGC	6271	CK032	MGC	6271	CK032
16.06.00	10:31:31	630	1	MGC	6271	CK032	MGC	6271	CK032
19.06.00	10:04:44	680	1	MGC	6271	CK032	MGC	6271	CK032
20.06.00	10:03:58	729.95	1	MGC	6271	CK032	MGC	6271	CK032
21.06.00	10:28:52	680	1	MGC	6271	CK032	MGC	6271	CK032
22.06.00	10:12:09	729	1	MGC	6271	CK032	MGC	6271	CK032
29.06.00	13:20:01	722.85	1	MGC	6271	CK032	MGC	6271	CK032
03.07.00	10:45:25	709	1	MGC	6271	CK032	MGC	6271	CK032
04.07.00	10:52:15	764	1	MGC	6271	CK032	MGC	6271	CK032
05.07.00	10:42:03	815	1	MGC	6271	CK032	MGC	6271	CK032
06.07.00	14:57:15	830	1	MGC	6271	CK032	MGC	6271	CK032
10.07.00	11:01:06	800	1	MGC	6271	CK032	MGC	6271	CK032

- 4.3 From the analysis of the above table, it is observed that the broker had executed 14 transactions during the aforesaid period in which the buying and the selling client was the same and the transaction was also executed form the same terminal with Dealer ID 6271.

- 4.4 I note that the modus operandi in rigging up of the price from Rs.540 to Rs. 830 between June 14, 2000 to July 10, 2000 was by placing the buy and

sell order for one share each at successively higher rates. Placing of such transactions in a single share at successively higher rates than the last traded price is highly irregular. Further, I note that the share price during the aforesaid period has shot up from Rs. 540 on June 15, 2000 to Rs. 840 on July 7, 2000 as against the low trading volume. Such steep price was not justified as there was no change in economic fundamentals of the company. Further, it is noted that the transactions on June 16, 2000, June 19, 2000 and June 21, 2000 were the only trades on NSE.

- 4.5 I further note that the transactions were entered on behalf of its sub broker Kayeljee Associates, registered sub broker of MG Capital Services Ltd., who in turn traded on behalf of Shri S.C. Gupta and Shri D.K. Gupta. From the above table, it is clear that the buy dealer and sell dealer code is same signifying that both the transactions were entered by one dealer.
- 4.6 I note that these trades for a single share per day for the same client who was both buyer as well as seller at successively higher rates than the last traded price had resulted in price rise with a view to set the prices or benchmark the prices at a desired level and influence the investors to invest on four trading days viz., June 16, 2000, June 21, 2000 and June 22, 2000 and as these were the only trades on NSE. Therefore, I find that these irregular trades are in violation of Regulation 4(a), (b) and (d) of the PFUTP Regulations, 1995 and also in violation of Clause A (1 to 4) of the Code of Conduct as specified in Schedule II read with Broker Regulations. I also note that NSE had imposed Rs. 1 lakh against the broker as a disciplinary action for entering into such cross deals.

- 4.7 After going through the facts and circumstances, I agree with findings of the Enquiry Officer. I have noted the submissions of M.G. Capital that since Shri Santosh Goel, Director of M G Capital was bedridden due to road accident, there was no proper supervision of the sub broker, Kayeljee Associates, which resulted in the impugned transactions. It is also pertinent to note that the broker has already paid a penalty of Rs. 50,000 to NSE for these irregular trades. Having gone through the above, I direct M G Capital to be cautious in future and an imposition of penalty of censure, would be adequate to meet the ends of justice.
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 read with Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, I hereby Censure M G Capital Services Ltd., Member of NSE, SEBI Registration INB 230701235 to the effect that M G Capital Services Ltd 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 M G Capital Services Ltd. 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

MUMBAI

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