

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

ORDER

UNDER SECTION 11, 11B AND 11(4) OF SEBI ACT, 1992 READ WITH REGULATION 11 OF SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKETS) REGULATIONS, 2003 IN THE MATTER OF SHRI SHIRISH C SHAH, SMT. INDUMATI U. GODA, SHRI RAJUBHAI U. GODA, SHRI CHANDRAKANT K SHAH, SHRI HITESH C SHAH, SHRI BABAN SONATE, Ms. CHANDRIKA V. PANDYA, M/s. PLATINUM FINVEST PVT LTD, SHRI SAYYAD QADER YUSUF, M/s. MAHEK CONSULTANTS AND SHRI S. SHAKTISHRAVANA IN THE SCRIP OF DATABASE FINANCE LTD.

- 1.1. Database Finance Ltd. (hereinafter referred to as “Database” or “the company”) is a public limited company. The shares of the company are listed on the Bombay Stock Exchange Ltd.
- 1.2. Securities and Exchange Board of India (hereinafter referred to as “SEBI”) conducted investigation into the buying, selling or dealing in the shares of the company during the period from April 1, 2001 to August 31, 2001 and the period from April 1, 2002 to June 28, 2002. During the investigation, it was observed that the price of the scrip having face value of Re.1 rose from a low of Re.1.00 on April 10, 2001 to a high of Rs.14.45 on August 31, 2001 during the first period

of investigation and from Rs.42.35 on April 1, 2002 to Rs.82.90 on June 28, 2002 during the second investigation period.

1.3. It was observed that during the first investigation period, the following 12 entities, who were prima facie, related/connected to each other, traded significantly, approximately 75% of the total trades in the scrip on BSE through following 14 member brokers/sub-brokers. In the second period, the group accounted for 50% of the gross purchases and 32% of gross sales on the exchange among the related parties and the trading pattern observed was also similar raising the price of the scrip from Rs.42.35 on April 1, 2002 to Rs.82.90 on June 28, 2002.

1.4. It was found that these group of related clients were responsible for creating artificial volumes by circular trading in the scrip and manipulated the price. It was observed that shares bought/sold by one of them had been sold/bought by another entity in the group. These entities mostly entered into transactions which had resulted into nil delivery at the end of the settlements. It was alleged that the aforesaid connected / related clients had influenced the price of the scrip by creating artificial volumes in the market in violation of Regulation 4 (a) to (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995.

2.1 In view of the above findings of investigation, a show cause notice dated November 5, 2004 was issued by SEBI to Shri Shirish C Shah,

Smt. Indumati U Goda, Shri Rajubhai U Goda, Shri Chandrakant K Shah, Shri Hitesh C Shah, Shri Baban Sonate, Chandrika V Pandya, Platinum Finvest Pvt. Ltd., Shri Sayyad Qader Yusuf, Mahek Consultants and Shri S Shaktishravana asking them to show cause as to why action under Section 11, 11B and 11(4) of the SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations 2003 including restraining from accessing the capital market and prohibiting from buying, selling or dealing in the securities in any manner or whatsoever for a particular period should not be initiated them.

2.2 Replies of the above entities

2.2.1 Shri Rajubhai U Goda and Smt. Indumati U Goda vide letter dated December 2, 2004 submitted reply to the show cause notice interalia stating that they had never traded with or opened any account or requested or applied to open any account or had never even entered into any member client agreement with the said brokers or sub-brokers or their authorized representatives nor filed or signed any client registration application form as of that period. Transactions seemed to have been unauthorised and illegally done in their names. They had not signed any paper or documents and therefore there was no independent evidence whatsoever of them being connected with such transactions.

They also requested for the inspection of documents relied upon and used against them in connection with the said investigations.

Accordingly, inspection of documents was provided to Shri Rajubhai U Goda and Smt. Indumati U Goda on June 30, 2006. They further submitted their reply vide letter July 28, 2006 interalia stating that Shri Shirish Shah was well known to them and was active in the securities market. With a view to make investment in shares through application in public issues by use of Stock Invest Account. Shri Rajubhai U Goda and Smt. Indumati U Goda as per advice of Shri Shirish Shah thought of opening Stock Invest account with the bank in the name of their family members. On the request of Shri Shirish Shah, they gave him photographs and copy of the ration card to procure stock invest account opening form to be opened in their individual family members names, which they wanted to use for making applications in the public issues in 1997 with the objective of pure investment. However, during that period, the market declined and as there were no good public issues for making application, they dropped the idea of investment in public issues. Shri Shirish Shah therefore neither obtained any Stock Invest Account Opening forms nor gave any forms to them for signatures to be submitted to the bank. As time passed and no accounts were opened nor even applications were made for public issues and as they lost interest in the market, they even forget to take back their photographs and copy of ration card. They firmly deny having authorized him or anybody else orally or otherwise or having given any Power of Attorney for any dealing or having any understanding with him orally or otherwise for opening any accounts or for doing any trade with him. Shri Shirish Shah opened bogus accounts by impersonating their names and by using their photographs and

copy of the ration card and thereby clearly cheating and involving in fraudulent and illegal act of opening bogus account by signing in their own ways without the knowledge and consent express or implied of them.

2.2.2 Vide letters dated December 1, 2004, June 30, 2006 and October 5, 2006, Shri Chandrakant K Shah and Hitesh C Shah denied any involvement in aforesaid transactions. They further submitted that forgery and fraud had been committed upon them. Shri C K Shah further submitted that he had handed over his son Hitesh's bio-data, photo-ration card and family photos to Shri Shirish Shah for his son's job purpose and Shri Shirish Shah had misused these papers and documents in opening bank, and demat accounts.

2.2.3 Mahek Consultants replied vide letter dated November 22, 2004 and stated that its letter dated September 21, 2004 be taken as their submission to the show cause notice. It interalia stated their trades through broker Kolar Sharex Pvt. Ltd. were genuine trades without any intention and without anybody's influence. Mahek also informed that its client Chandrakant K Shah was introduced by Shri Shirish Shah and all the orders for Shri Chandrakant K Shah were placed by Shri Shirish Shah.

2.2.4 No other client replied to the show cause notice in spite of reminders dated December 16, 2004 and January 10, 2005. Show cause notice could not be delivered to three clients Shri Sayyad Qader Yusuf, Shri

S Shaktishravana and M/s. Platinum Finvest Pvt. Ltd. inspite of sending the show cause notice to the last known addresses.

- 3.1 An opportunity of personal hearing was granted to all the entities on October 11 2006 before me. Mr. Chandrakant K Shah, Mr. Hitesh Shah, Mr. Rajubhai U Goda and Mrs. Indumati Goda appeared before me on October 11, 2006. Shri Shirish Shah requested for adjournment of hearing. Acceding to his request Mr. Shirish Shah was given another opportunity of personal hearing on November 21, 2006. Mr. Shirish Shah appeared on the said date and made submissions. Further written submissions were made vide letter dated November 21, 2006 interalia stating that the findings of investigation were relied upon non-acceptance of the transactions in the scrip of Database Finance Ltd. by Smt. Indumati Goda and Shri Rajubhai Goda and the belief that the clients introduced by him to the brokers were the persons who acted at his behest.

He also informed that his letter dated September 25, 2004 submitted during investigation should be considered as his reply to the show cause notice wherein he has stated that he had not traded in the shares of Database Finance Ltd. at any point of time either in his own name or in the name of others except for the Goda family. But he has accepted that he had introduced some clients to different brokers.

- 3.2 Another opportunity of personal hearing was given to Mahek Consultants, Baban Sonate, Chandrika V Pandya, Sayyad Qader

Yusuf, Platinum Finvest Pvt. Ltd. and S Shaktishravana on March 2, 2007. However, no one appeared on the said date.

4.0 I have carefully considered the findings of investigation report, the show cause notices issued to the noticees and their replies/submissions. I note that enough time and opportunities of hearing were given to Mahek Consultants, Baban Sonate, Chandrika V Pandya, Sayyad Qader Yusuf, Platinum Finvest Pvt. Ltd. and S Shaktishravana for making submissions. However, I note that none of the above entities have availed the same. Therefore having complied with the principles of natural justice, I am proceeding exparte against Baban Sonate, Chandrika V Pandya, Sayyad Qader Yusuf, Platinum Finvest Pvt. Ltd. and S Shaktishravana. My findings are as under:

4.1 I note that the price of scrip went up from Re. 1 to Rs. 14.45 (par value Re. 1) and from Rs.42.35 to Rs.82.90 within a short span of time with hardly any net profit earned by the company. Prior to April 10, 2001, there was no trading in the scrip. The trading started from April 10, 2001 onwards when it opened at a price of Rs. 1.05 and touched the maximum level of Rs. 14.45 on August 31, 2001 (Face value Re.1). During BSE Settlement Nos. 3 to 23, these group entities placed buy orders for a total of 9,11,287 shares and sale orders for a total of 9,15,056 shares which constituted approximately 67% of the total market buy orders and 75% of the total market sale orders. During BSE Sett. Nos. 18 and 19 the buy and sale orders of the group were more than 95% of the total market buy and sale

orders. During Settlement No. 3, entire buy orders (constituting 100% of the total buy orders) were placed by this group. It has also been observed that during Sett. No. 4 & 8, the group had neither placed any buy order nor any sale order and hence market volumes were almost nil. In the first period, the group accounted for 73.53% of the gross purchases and 74.57% of gross sales on the exchange.

4.2 The following table shows that the trading among the related/connected entities constituted about 52 % of the market volume.

Client	Member	Total Trade		Trade with related clients		Trade with related clients % of Market Volume	
		Buy	Sell	Buy	Sell	Buy	Sell
Baban Sonate	ACME & SKSE Securities Ltd. (Narendra Tanna)	91356	91771	75108	69131	6.90%	6.35%
Chandrakant K Shah	ACME Share & Stock Pvt. Ltd. (Mahek consultants)	40970	39486	26920	34290	2.47%	3.15%
Chandrika V Pandya	Satco Securities and Financial Services Ltd.	82320	80720	58850	55566	5.41%	5.10%
Hitesh C Shah	Unique Stockbrokers Pvt. Ltd.	100180	88631	67615	56476	6.21%	5.19%
Indumati U Goda	Networth Stock Broking Ltd.	75897	87066	47663	42154	4.38%	3.87%
Mahek Consultants	Kolar Sharex Pvt. Ltd,	47560	52540	35281	41149	3.24%	3.78%
Platinum Finvest Pvt. Ltd	Rajchandra Capital Services	69500	70700	39637	51810	3.64%	4.76%
Rajubhai U Goda	ASE Capital Markets Ltd. (Deepak Bhogilal Shah)	74060	72360	62545	52540	5.75%	4.83%
Rekha Vakharia	ACME Share & Stock Pvt. Ltd. (M S Consultancy Services)	13400	13400	9830	10450	0.90%	0.96%
S Shaktishravana	Aarayaa Finstock Pvt. Ltd.	78450	78638	46279	62577	4.25%	5.75%
Samir N Shah	Mangal Keshav Share & Stock Brokers Ltd.	81836	88428	58753	60489	5.40%	5.56%
Sayed Qader Yusuf	SKSE Securities Ltd. (Bhavesh Mehta)	42850	44050	31130	31780	2.86%	2.92%
Total		800459	811790	559611	568412	51.41%	52.22%

4.3 Out of these 12 clients and 14 member brokers/ sub-brokers, 6 clients (Chandrakant K. Shah, Baban Sonate, Hitesh C. Shah, Samir

N Shah, Indumati U Goda and Rajubhai U Goda) and 6 member brokers / sub-brokers (Narendra Tanna sub-broker of SKSE Securities Ltd., Unique Stockbrokers Pvt. Ltd., Mangal Keshav Share & Stock Brokers Ltd., Networth Stock Broking Ltd., Deepak Bhogilal Shah sub-broker of ASE Capital Markets Ltd. and Rajchandra Capital Services) were also observed to be trading in the scrip during the second period. In the second period, the group accounted for 50% of the gross purchases and 32% of gross sales on the exchange among the related parties and the trading pattern observed was also similar raising the price of the scrip from Rs.42.35 on April 1, 2002 to Rs.82.90 on June 28, 2002. Trading details of these clients / brokers during the second period are as under:

Member Broker Name	Client (Client Code)	PURCHASES			SALES		
		Qty. Matched with Counter-party Group Members	Actual Qty	% Comparison	Qty. Matched with Counter-party Group Members	Actual Qty	% Comparison
Unique Stock bro Ltd.	Hitesh C Shah (8654)	45236	80287	3.54	49550	49651	3.77
Networth Stock Broking	I U Goda (3214, 3217)	48756	76567	3.63	43844	46379	3.27
Narendra Tanna, broker of SKSE and sub broker of SKSE Securities Ltd.	Baban Sonate (B060)	46482	53432	3.52	38282	38282	3.03
M/s Deepak Bhogilal Shah, broker of ASE and sub broker of ASE Capital Markets Ltd.	R U Goda (R9)	3700	6780	0.29	10900	10900	0.77
M. P. Vora Shares & Securities Ltd.	Chandrakant K Shah	4950	5950	0.39	8188	8188	0.65
Mangal Keshav Securities Ltd.	Samir N Shah	2600	2600	0.21	1755	1755	0.14
Rajchandra Capital Services	Suniti N Shah	25090	39650	1.98	28350	38450	1.92

- 4.4 I find that aforesaid trading pattern of these connected / related clients was of nature of circular trading. It is apparent from the analysis of trading details that the orders of the group members had influenced the price of the scrip which during the investigation period had artificially gone up from a low of Re.1.00 on April 10, 2001 to a high of Rs.14.45 on August 31, 2001 and from Rs.42.35 on April 1, 2002 to Rs.82.90 on June 28, 2002 (i.e. price of Rs.829 if the face value were Rs.10) which was not justified by the fundamentals of the company.
- 4.5 I note that Shri Rajubhai U Goda and Mrs. Indumati U. Goda denied that they had traded in the scrip during the relevant periods. Mr. Rajubhai U Goda has also enclosed a copy of the complaint of impersonation and cheating against Shri Shirish C Shah lodged with the police and also submitted the declaration of Shirish C Shah undertaking the responsibility of all the transactions done in the names of Goda family members. The declaration also stated that he opened demat, bank and trading accounts in their names without their consent.
- 4.6 I further note that the circular trading went on for five months and three months with rising trend in prices during the two investigation periods. Though there was gap of some minutes between the orders on both the sides it is well known that in an illiquid scrip, the orders on both sides can match in the desired manner without synchronization also i.e. even if they are put after considerable time period. In this case, the major trading was among

a set of clients and brokers/ sub brokers and therefore orders had to match even if there was a long time gap.

4.7 While due to screen based system of trading, one may argue of not knowing about the counter party, in this specific case, the pattern of trading clearly points out that the transactions were carried out with the intention that the orders of particular clients and brokers/sub-brokers matched with each other. Further, no unknown persons can trade continuously for many days through orders of such pattern in large number of trades contributing significantly to total volume in the market. When a set of clients and brokers/sub brokers buy and sell among themselves and thus reversing the trades and indulge in circular trading, this shows manipulative intent.

4.8 I note that that Shri Shirish Shah, in his statement recorded on January 11, 2004, had admitted that he knew all the clients, facilitated them by helping them in introducing to different brokers and by letting them use his address and contact number in good faith as they did not had the required documents. I also note that in the same statement he had also admitted trading in the scrip on behalf of Goda family and other clients viz. Mr. Hitesh C Shah and Mr. Chandrakant K Shah who were involved in circular trading. I note that all other clients introduced by Shri Shirish Shah had traded in the scrip of Database Finance Ltd. In the present case, 5 clients were allowed to use his address by Shri Shirish C Shah. Besides it can not be co-incidence that all of these five clients and all other clients introduced by Shri Shirish Shah dealt heavily in the scrip of

Database Finance Ltd. creating volumes by circular trading. There are too many coincidences to accept the submission of Shri Shirish Shah that he had only let the clients use his address and contact number. From the facts and circumstances of the case the preponderance is pointing more towards Shri Shirish Shah having used the name of the clients to trade in the scrip of Database Finance Ltd.

4.9 Thus it can be seen from the facts as enumerated above that Shri Shah was the kingpin behind the transactions of all the clients named above. Benefit of doubt can be given to four clients viz., Smt. Indumati U Goda, Shri Rajubhai U Goda, Shri Chandrakant K Shah and Shri Hitesh C. Shah considering acceptance of Shri Shirish C. Shah of trading on behalf of these four clients. As far as other clients are concerned viz. Shri Baban Sonate, Chandrika V Pandya, Platinum Finvest Pvt. Ltd., Shri Sayyad Qader Yusuf and Shri S Shaktishravana considering their trading pattern and that they neither replied to show cause notice and nor appeared for personal hearing, they were acting in connivance with Shri Shirish C Shah.

4.10 As far as Mahek Consultants is concerned, I note that it acted as a sub broker for one of the client. Vide my order dated January 13, 2009, the sub broker was directed to be careful in future and exercise due care and diligence in the conduct of its affairs as a capital market intermediary. I further note that Mahek Consultant acted as a client and while trading through the broker Kolar Sharex its orders matched with the orders placed by the other entities

introduced by Shri Shirish C Shah. This cannot be a coincidence considering that its client was also introduced by Shri Shirish Shah.

4.11 I find that Shri Shirish Shah along with other aforesaid clients generated artificial volume and tried to influence the price of the scrip. It has been observed that the trades done by him through several clients in nature were of “squaring off” type and the delivery affected was minimal. Shri Shirish Shah employed fraudulent methods to trade in the scrip of Database Finance Ltd. and have opened fictitious accounts on the basis of personal information collected by him. I further note that in the statement recorded by Shri Shirish Shah clearly states that Shri Shirish Shah had obtained photographs and ration cards of Goda family members for the purpose of opening accounts, demat accounts, pan numbers etc. without the consent of clients and Shri Shirish Shah used to trade on behalf of Goda family members, Shri Chandrakant K Shah and Shri Hitesh C Shah.

4.12 After considering the facts and circumstances of the case, I find that Shri Shirish Shah through front entities viz., Smt. Indumati U Goda, Shri Rajubhai U Goda, Shri Chandrakant K. Shah and Shri Hitesh C. Shah and along with other entities viz., Shri Baban Sonate, Chandrika V Pandya, Platinum Finvest Pvt. Ltd., Shri Sayyad Qader Yusuf, Shri S Shaktishravana and Mahek Consultants created a false and misleading appearance of trading which contributed to building up of artificial volumes and price in the illiquid scrip of Database Finance Ltd. having weak fundamentals. I am of the view that

innocent investors may be trapped by such false appearance of trading in securities which is detrimental to the interest of investors and orderly development of the securities market.

4.13 Further, I note that Shri Samir Shah, one of the clients who transacted in the scrip of Database Finance Ltd. had applied for consent terms with SEBI in terms of Circular dated April 28, 2007 the same is under process. In view of the above, I am not giving my findings against Shri Samir Shah.

4.14 I also note that Shri Shirish Shah vide my order dated February 22, 2007, has been restrained from accessing the securities market and prohibited from buying, selling or dealing in securities, either directly or indirectly, for a period of two years.

4.15 From the material available before me, I find that Shri Shirish C Shah, Shri Baban Sonate, Chandrika V Pandya, Platinum Finvest Pvt Ltd., Shri Sayyad Qader Yusuf, Mahek Consultants and Shri S Shaktishravana have violated the provisions of Regulation 4 (a), (b), (c) and (d) of SEBI (Prohibition of fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995.

4.15 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. In view of the above and in exercise of the powers conferred upon me under Sections 19, read with Sections 11, 11B and 11(4) of the Securities and Exchange Board of India Act, 1992 and Regulation 11 of the Securities and Exchange Board of India (Prohibition of fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, I do hereby restrain-
 - i. Shri Shirish C. Shah from accessing the securities market and prohibiting from buying, selling or dealing in securities, either directly or indirectly, for a period of two years from the date of this order;
 - ii. Shri Baban Sonate, Chandrika V Pandya, Platinum Finvest Pvt Ltd., Shri Sayyad Qader Yusuf, and Shri S Shaktishravana from accessing the securities market and prohibiting from buying, selling or dealing in securities, either directly or indirectly, for a period of six months;
 - iii. Mahek Consultants as a client from buying, selling or dealing in securities market in his name for a period of six months.
6. This order shall come into force with immediate effect.

DATE: 14.1.09

PLACE: MUMBAI

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