

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: DR. K. M. ABRAHAM, WHOLE TIME MEMBER

DIRECTIONS UNDER SECTIONS 11, 11B AND 11(4) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AGAINST G.R. INDUSTRIES AND FINANCE LIMITED

1. It was noticed that the share price of G.R. Industries and Finance Limited (hereinafter referred to as the company) increased from Rs.2/- to Rs.170.20/- at Calcutta Stock Exchange Association Limited (hereinafter referred to as CSE) during the period September 7, 2004 to February 28, 2005. The Ministry of Finance, Government of India had also referred the matter to Securities and Exchange Board of India (hereinafter referred to as SEBI) alleging the execution of trades in the shares of various companies (including the company) within a certain group in a circular manner. As per the reference, the said shares were sold later on at an inflated price. Thereafter, SEBI conducted an investigation into the buying, selling and dealing in the shares of the company to find out as to whether the provisions of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the Act) and the Rules and Regulations framed thereunder are *inter alia* violated by the company, or any persons associated with the securities market, during the period September 7, 2004 to February 28, 2005 (hereinafter referred to as the period of investigation)

2. The investigation conducted by SEBI *inter alia observed* that 1,15,08,500 shares of the company were traded through the period of investigation and that the stock brokers namely Bubna Stock Broking Services Limited, Shyamlal Sultania, M. Bhuwaniwala & Co. and Ashok Kumar Kayan (Members of CSE)

traded for more than 83% of the total volume of the shares of the company at CSE during the period of investigation. The said trades *prima facie* created misleading appearance of trading in the securities market and further manipulated the price of the shares of the company. It was *prima facie* found that the said stock brokers executed cross deals in the shares of the company during such period. The investigation conducted by SEBI *inter alia* revealed that Bubna Stock Broking Services Limited was one of the major shareholders of the company and was holding 16.20% of the total equity shareholding as on March 31, 2005. Some of the clients of the aforesaid stock broker (Bubna Stock Broking Services Limited) which had traded in the shares of the company were found to be connected with the company by way of common address. In the facts and circumstances, it was alleged that the company and its directors *prima facie* violated the provisions of Regulation 4(2)(a) and 4(2)(e) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as the said Regulations).

3 Accordingly, a notice dated June 30, 2008 was issued to the company asking it to show cause as to why directions under Sections 11, 11B and 11(4) of the Act read with Regulation 11 of the said Regulations should not be issued against them. They were also advised to inform SEBI as to whether they desire to avail a personal hearing. Though, the said notice was acknowledged by the company, no reply was received by SEBI. Thereafter, the time to file the reply was extended by SEBI (vide letter dated July 31, 2008) upto August 14, 2008. The said letter was also acknowledged by the company. Subsequently, the time to file the reply was extended from time to time i.e. to October 15, 2008 (vide SEBI letter dated September 23, 2008) and thereafter to November 21, 2008 (vide letter dated November 6, 2008). Needless to say, all these letters issued by SEBI were acknowledged by the company. I note that sufficient opportunities were given to the company to file its submissions/explanation in respect of the

charges leveled against them, vide show cause notice dated June 30, 2008. However, the company failed to file any reply to the aforesaid show cause notice. In the facts and circumstances, I do not consider it necessary to provide another opportunity to the company to make its submissions. In the interests of justice, I therefore shall deal with the charges leveled against the company on the basis of the material available on record. The only issue for consideration is whether the company had any role in the manipulation in its shares and thus violated Regulation 4(2)(a) and 4(2)(e) of the said Regulations.

4. The investigation conducted by SEBI found that the stock brokers mentioned in Para 2 of this order executed trades which collectively accounted for 83% of the total volume in the shares of the company at CSE during the period of investigation. One of the stock brokers namely Bubna Stock Broking Services Limited executed trades for 27,46,100 shares of the company which accounted for 23.86% of the total volume in the said shares during the relevant period at CSE. It is also mentioned in the show cause notice that, trades for 18,74,800 (68.27%) shares were executed by way of cross deals. The said stock broker traded in the shares of the company when its price range was in the range of Rs.2/- to Rs.170.20/-. These details were specified in the show cause notice dated June 30, 2008 issued to the company. The fact that Bubna Stock Broking Services Limited was one of the top shareholders of the company as on March 31, 2005, is not disputed. Besides, one of the directors of the said stock broker and the company was common. The trades executed by in the shares of the company during the period of investigation have to be seen from the established close nexus.

5. I note that the major clients of Bubna Stock Broking Services Limited which had traded in the shares of the company viz. Ashi Forge Private Limited, Elexi Consultancy Services Private Limited, Vayudoot Commercial and Excel Vyapaar Private Limited shared the same address as that of the company i.e

33, C.R.Avenue, 9th Flr, Room No.916, Kolkata–12. Similarly, the stock broker, Ashok Kumar Kayan traded *inter alia* for Truly consultancy Private Limited, Stem Travels Private Limited in the shares of the company during the period of investigation. The said clients also shared the same address as that of the company. The details of which are given below:

Name of the clients	Address of the clients	Address of the company
Elexi Consultancy Services Private Limited	33, C.R.Avenue, 9 th Flr, Room No.916, Kolkata–12	33, C.R.Avenue, 9 th Flr, Room No.916, Kolkata–12
Ashi Forge Private Limited	-do-	-do-
Vayudoot Commercial Private Limited	-do-	-do-
Excel Vyapaar Private Limited	-do-	-do-
Truly Consultancy Private Limited	-do-	-do-
Mill Stone Vyapaar Private Limited	-do-	-do-
New Wave Dealer Private Limited	-do-	-do-
Graceful Advisors Private Limited	-do-	-do-

6. Besides, Mr. Gopichand Bansal (director of the company) was also a director of the stock broker, Bubna Stock Broking Services Limited. Similarly, Mr. Rajendra Bubna (director of Bubna Stock Broking Services Limited) was found to be the director of clients viz. Ashe Forge Private Limited, Excel Vyapar Private Limited. Details of such common directorship amongst the company/Bubna Stock Broking Services Limited and their clients which had traded in the shares of the company are given below:

Name of the Director	Directorship details
Mr. Gopichand Banshal	Bubna Stock Broking Services Limited G.R. Industries and Finance Limited Ashi Forge Private Limited) Excel Vyapaar Private Limited) clients Truly Consultancy Private Limited) Millstone Vyapaar Private Limited)
Mr. Rajendra Bubna	Bubna Stock Broking Services Ltd Ashi Forge Private Limited) Excel Vyapaar Private Limited) Truly Consultancy Private Limited) Millstone Vyapaar Private Limited) clients Vayudoot commercial Private Limited) Elexi Consultancy Private Limited)
Mr. Hare Krishna Behra	G.R. Industries and Finance Limited Graceful Advisors Private Limited - client

7. The investigation conducted by SEBI also found that Mr. Anil Khemka, was a common director amongst the clients viz. Anushree and Tradelink Private Limited, Swan Ganga Trading Private Limited, SKM Travels Private Limited. Mr. Abhiset Basu, another director of the company had signed as witness for all the aforesaid clients.

8. The investigation conducted by SEBI *inter alia* observed that entities namely, Anushree Trade Links Private Limited, Swarna Ganga Trading Private Limited, Ashi Forge Private Limited, Elexi Consultancy Private Limited, Vayudoot Commercial Private Limited, Excel Vyapar Private Limited, Truly Consultancy Private Limited, SKM Travels Private Limited etc. traded substantially in the shares of the company during the period of investigation. Needless to say, some of these entities had direct link and nexus with the company by way of common directors and the common address. The fact that the company and some of the entities which had traded in the shares of the

company had common address makes the role of the company in the transactions executed by the said entities, evident. The failure of the company to respond to the show cause notice issued by SEBI, in the facts and circumstances, further corroborates the role of the company in the transactions executed by certain entities. I note that the show cause notice issued to the company (mentioned in the table at para 5 of this order) specified that eight entities which had traded in the shares of the company during the period of investigation had the very same address as that of the company. The trades of these entities in the shares of the company were found to be substantial during the period of investigation, as mentioned in the show cause notice issued to the company. The details of the trades executed by the entities having common address as that of the company were furnished to the company by SEBI, vide show cause notice dated June 30, 2008. These entities merely acted as “front companies” of the company to trade in the shares of the company to the detriment of the genuine investors. No explanation was given by the company in respect of the allegations leveled against it, despite repeated reminders. The company was silent about such allegations. The attitude of the company, even during the course of investigation, was not different. It had failed to appear before the investigating officer of SEBI to furnish additional information required for the purpose of investigation. The fact that the share price of the company increased from Rs. 2/- to Rs. 170.20/- during the period of investigation is not disputed before me. Some of these clients are connected to the company by way of common address.

9. During the period of such trades the share price of the company increased substantially. These facts are not disputed by the company. No explanation was provided by the company. The clients which traded in the shares of the company were having the same address of that of the company. These clients were found to have executed large number of trades for large number of shares. The said trades created misleading appearance of trading in

the securities market. Thus, the shares of the company were traded substantially by certain entities close to the company itself. The close relationship that existed between the company and the said clients was borne out by their common directors and common address. Undoubtedly, the trades created misleading appearance of trading in securities market and manipulation in the shares of the company. Several opportunities was provided to the company to explain its case. The show cause notice and the subsequent letters (as stated above in this order) were acknowledged by the company. However, the company failed to submit any submissions. The company facilitated the entities by providing its address. There were common directors amongst the company and certain entities which had traded in the shares of the company. The involvement of the company in the manipulation of its shares is evident, as discussed above. In view of the above, I do not have any hesitation to hold that the company violated Regulation 4(2) (a) and 4(2) (e) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003. Such a company needs to be appropriately punished in accordance with law.

10. On taking into consideration the case in its totality and the nature of the violations committed, I, in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 and read with Section 11B of the Securities and Exchange Board of India Act, 1992 read with Regulations 11 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, hereby restrain G.R. Industries and Finance Limited from accessing the securities market and also prohibit it from buying, selling or otherwise dealing or associating with the securities market in any manner and in any capacity for a period of six months.

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

K. M. ABRAHAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

Place: Mumbai

Date: April 22, 2009