

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: PRASHANT SARAN, WHOLE TIME MEMBER**

**IN THE MATTER OF SHRI MANU N SONATE, SHRI P B
CHNADRASHEKHAR AND SHRI S THIRUNAVUKARASU**

IN THE MATTER OF DATABASE FINANCE LIMITED

Date of hearing: 14.10.2009

Appearances:

For Noticee: None

For SEBI: Shri Amol Ramchandra Hogade, Assistant General Manager,
Shri Amitesh Kumar, Legal Officer, and
Shri Priyam Ray, Presenting Officer

ORDER

Under Section 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

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI") conducted investigation into the buying, selling or dealing in the shares of Database Finance Ltd. (hereinafter referred to as "Database" or "the company") during the period from April 1, 2001 to August 31, 2001 and the period from April 1, 2002 to June 28, 2002. It was observed that during the first period i.e. from April 1, 2002 to August 31, 2001, the price of the shares of Database having face value of Re.1 rose from a low of Re.1.00 to a high of Rs.14.45 while during the second period of investigation i.e. from April 1, 2002 to June 28, 2002 from Rs.42.35 on to Rs.82.90 at Bombay Stock Exchange Ltd. where the shares of the company were listed.
2. The investigation *inter alia* revealed that a group of entities including Shri Manu N Sonate, Shri P B Chandrasekhar and Shri S Thirunavukarasu who were prima facie, related/connected to each other, were responsible for creating artificial volumes by circular trading in the shares and manipulating its 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, therefore, alleged that the aforesaid connected / related clients including the noticees had influenced the price of the scrip by creating artificial volumes in the market in violation of Regulation 4 (a), (b), (c) & (d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 1995.

3. Accordingly, vide notice dated January 18, 2007, Shri Manu N Sonate, Shri P B Chandrasekhar and Shri S Thirunavukarasu were asked 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 against them.
4. The show cause notice was delivered to Shri Manu N Sonate but he didn't reply to the show cause notice despite reminders. The show cause notices issued to Shri P B Chandrasekhar and Shri S Thirunavukarasu returned undelivered from the addresses available on record. To proceed with the matter, SEBI issued a press notification on August 9, 2009 in the local and on August 13, 2009 in the national daily newspapers about the show cause notices, requiring thereby, the two noticees to reply within 15 days of publication. However, no reply has been received from these two entities.
5. An opportunity of personal hearing was granted to Shri Manu N Sonate on September 30, 2009 before me. However, no one appeared for the noticee on the said date. I am, therefore, proceeding in the matter ex-parte on the basis of the material available on record.
6. I note that the price of shares of Database 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 shares of Database. The trading started from April 10, 2001 onwards when it opened at a price of Rs.1.05 and touched the maximum of Rs.14.45 on August 31, 2001 (Face value Re.1).

7. I also note that the net profit of the company was the negligible amount of Rs.3.6 lac for the year ended July 2001 and Rs.3.7 lac for year ended July 2002. In subsequent two quarters ending October 31, 2002 and January 31, 2003, the company incurred losses of Rs.5.8 lac and Rs. 0.2 lac respectively. In the year ended July 2003, net profit of the company was only Rs.0.9 lac. Thus, the company has shown a profit of hardly a few lacs rupees over the years and was quoted 84 times of the face value which was unjustifiable.
8. I further note that a group of clients including Shri Manu N Sonate, Shri P B Chandrasekhar and S Thirunavukarasu indulged in circular trading i.e. buying and selling among themselves and contributed to significant volume and aforesaid rise in the price of the scrip. I note that during the period April 01, 2002 to June 30, 2002, the group aggregately purchased 558579 shares and sold 403955 shares constituting 44.15% on gross purchase basis and 31.93% on gross sale basis on the exchange. This shows that more buyers and sellers entered the market under the impression of the rise in price and volume of trading. Also, 70.79% of purchases and 97.89% of the sales made by these clients are from and to related clients.

	Broker	Client	Total Buy Quantity	Total Sell Quantity	Buy among these clients	Sell among these clients	Buy % of Trade with related clients	Sell % of Trade with related clients
1	Vijay Bhagwandas Shah	Ridhi K Shah	32638	31570	29806	31570	91.32%	100.00%
2	Unique Stock Bro	Hitesh Shah	80287	49651	44837	47650	55.85%	95.97%
3	Networth Stock	Indumati Goda	75567	44379	45951	41420	60.81%	93.33%
4	G. R Pandya	Manu Sonate	53850	42980	46330	42980	86.04%	100.00%
5	Bhaves R Mehta	Nimish U Goda	49620	28720	35102	26663	70.74%	92.84%
6	Narendra Tanna	Baban Sonate	52432	38282	44482	38282	84.84%	100.00%
7	Deepak Bhogilal Shah	Rajubhai U Goda	6780	10900	3700	9800	54.57%	89.91%
8	M. P. Vora Shares	Chandrakant K Shah	5950	8188	4950	8188	83.19%	100.00%
9	Action Financial	P B Chandrasekhar	82520	62570	61975	62170	75.10%	99.36%
10	Rajchandra Capital Services	Suniti K Shah	39650	24350	25090	24350	63.28%	100.00%
11	Mangal Keshav	Samir N Shah	2600	1755	2600	1755	100.00%	100.00%
12	Sushil Finance	Ajay Goda	1225	1500	1155	1500	94.29%	100.00%
13	Bharati Thakkar	S Thirunavukarasu	75460	59110	49460	59110	65.54%	100.00%
	Total		558579	403955	395438	395438	70.79%	97.89%

9. I further note that their purchases and sales constituted 99% of total traded volumes in the month of April 2002. During the month of April 2002 the price of the scrip increased from Rs.42.35 to Rs.63.75. Thereafter in the month of May 2002 their purchases constituted 42% and sales constituted 36% and the price had increased from Rs. 62.65 to Rs.71.85. Hence the major concentration of these clients was in the period

of significant price rise in the scrip. I further note that noticees traded only during the second period of investigation.

10. I note that the pattern of circular trading indicates that it was usually among a group of 3-4 clients i.e. A→B→C→D→A and the same number of shares were rotated in a circular manner among clients in the group on daily basis so that the same number of shares go back to the original seller at the end of the day and net position of each client remains nil. It shows that this trading operation was planned very carefully to avoid any easy detection. This group entered into circular trades almost on all days they traded in the market.

11. For example-

11.1. On April 10, 2002, between 10:06:34 pm to 13:22:40 pm, the quantity aggregating to 6000 shares was circularly traded amongst the following members:

Selling Member	Client Code	Buying Member	Client Code	Qty. Traded
Action Financial (Clg. No.444)	P B Chandra	Narendra Tanna. (Clg. No. 258)	Baban Sonate	1500
Narendra Tanna. (Clg. No. 258)	Baban Sonate	Mangal Keshav (Clg. No. 491)	Samir Shah	750
Narendra Tanna. (Clg. No. 258)	Baban Sonate	Bharati Thakkar (Clg. No. 737)	S Thirunavukarasu	750
Mangal Keshav (Clg. No. 491)	Samir Shah	Bhavesh R Mehta (Clg. No. 258)	Nimish Goda	750
Bharati Thakkar (Clg. No. 737)	S Thirunavukarasu	Bhavesh R Mehta (Clg. No. 258)	Nimish Goda	750
Bhavesh R Mehta (Clg. No. 258)	Nimish Goda	Action Financial (Clg. No.444)	P B Chandra	1500

11.2. On May 6, 2002, the quantity aggregating to 10000 shares was circularly traded amongst the following members:

Selling Member	Client Code	Buying Member	Client Code	Qty. Traded
Action Financial (Clg. No.444)	P B Chandra	Bharati Thakkar (Clg. No. 737)	S Thirunavukarasu	2500
Bharati Thakkar (Clg. No. 737)	S Thirunavukarasu	G R Pandya (Clg. No. 222)	Manu Sonate	2500
G R Pandya (Clg. No. 222)	Manu Sonate	Unique Stockbro (Clg. No. 170)	Hitesh Shah	2500
G R Pandya (Clg. No. 222)	Manu Sonate	Action Financial (Clg. No.444)	P B Chandra	2500

12. I further note that on many instances, the buy and sell order quantities and rates were similar and time difference between the buy and sell order entered was negligible (mostly less than 1 minute). During the period April 01, 2002 to June 30, 2002, for 3704 trades with volume of 194105 shares accounting for about 49.05% of volume of trades among group clients, the time difference between 396 buy orders and 396 sell orders was less than or equal to 1 minute. Hence, the orders of most of these trades were structured /

synchronized. It suggests that the orders were punched in with a preconceived motive that the orders would be picked up by a particular client on the opposite side, which also indicates that there was a prior arrangement with respect to these brokers and clients to execute such transactions. Such type of transactions does not appear to be genuine transactions. It can therefore be said that the aforesaid connected / related clients in connivance with the brokers have influenced the price of the scrip along with creating artificial volumes.

13. I find that aforesaid trading pattern of these connected/related entities was in the 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 which was not justified by the fundamentals of the company.
14. I further note that the circular trading went on for five 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 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.
15. Thus, it can be seen from the facts as enumerated above that I find that Shri Manu N Sonate, Shri P B Chandrasekhar and S Thirunavukarasu along with others created a false and misleading appearance of trading which contributed to building up of artificial volumes and price in the illiquid shares 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.
16. It is pertinent to note here that pursuant to the repeal of 1995 Regulations, the corresponding provisions are contained in 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.

17. I note that SEBI has passed order dated January 14, 2009 in this matter against Shri Shirish Shah and other entities of the group. As mentioned in SEBI order, Shri Shirish Shah was the kingpin behind the transactions of all the entities named above and was debarred for a period of two years. Benefit of doubt was given to four entities 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. Other entities viz. Shri Baban Sonate, Chandrika V Pandya, Platinum Finvest Pvt. Ltd., Shri Sayyad Qader Yusuf, Mahek Consultants and Shri S Shaktishravana considering their trading pattern and the fact they neither replied to show cause notice and nor appeared for personal hearing, they were debarred for a period of six months for violation of 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.
18. In view of the above, I, 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, do hereby restrain Shri Manu N Sonate, Shri P B Chandrasekhar and Shri S Thirunavukarasu from buying, selling or dealing in the securities market in any manner whatsoever or accessing the securities market, directly or indirectly, for a period of six months from the date of this order.
19. A copy of this order shall be served on all recognized stock exchanges and depositories to ensure that the noticees do not undertake transactions prohibited in Para 18 above.
20. This order shall come into force with immediate effect.

Place: Mumbai
Date: November 17, 2009

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA