

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

DIRECTIONS UNDER SECTIONS 11B AND 11(4)(b) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH REGULATIONS 11 AND 13(3) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS 2003 AGAINST MR. SANDEEP JANAMDAS MERCHANT IN THE MATTER OF SOMPLAST LEATHER INDUSTRIES LIMITED

1. Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted an investigation into the alleged price manipulation in the shares of Somplast Leather Industries Limited (hereinafter referred to as the company) during the period January 2, 2002 to October 1, 2002 (hereinafter referred to as the investigation period). It was observed that the share price of the company had increased from Rs. 283/- (on January 2, 2002) to Rs. 416.90/- (on April 23, 2002). During the period under investigation, the share price reached its peak at Rs. 482/- on September 13, 2002. The traded volumes were found to be irregular, with volumes ranging between 7,000 shares on January 31, 2002 to 5 shares on May 30, 2002. The investigation conducted by SEBI observed that Mr. Sandeep Janamdas Merchant (hereinafter referred to as the noticee) had entered into structured/synchronized/circular trades in the shares of the company during the investigation period. The noticee was found to have traded through multiple stock brokers namely Crescent Finstock Limited and Bharti Thakkar India Securities Private Limited, the counter party being (i) M/s Om Gayatri Securities [Trading Member- M/s Shripal B. Jain] and (ii) M/s Shree Shyam Investment [Trading Member-Sanchay Fincom Limited]. It was *inter alia* observed that the trades of the noticee not only created artificial volume in the shares of the company but also impacted its market price and hence the noticee had *prima facie* violated

Regulation 4 (a), (b), (c) and (d) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the PFUTP Regulations). Accordingly, SEBI issued a show cause notice dated September 23, 2005 to the noticee in respect of the alleged violations. The trade details of the noticee and the price-volume data in the shares of the company were also provided to the noticee with the show cause notice. Thereafter, M/s Thakurdas Madgavkar, Advocates & Solicitors, on behalf of the noticee, vide letter dated December 22, 2005, informed that they would reply to the show cause notice, shortly. As no reply was received on behalf of the noticee, SEBI sent letters dated January 30, 2006 and March 2, 2006 to the noticee advising it to file the reply within the period specified therein. However, the noticee failed to submit any reply to the show cause notice.

2. Thereafter, an opportunity of hearing was granted to the noticee on March 31, 2009. However, the letter intimating the date of such hearing could not be delivered at the last known address of the noticee. In view of the above, another opportunity of hearing was granted to the noticee on July 14, 2009. The said letter was posted in SEBI website under the heading '*undelivered notices and summons*'. Since, the hearing notice could not be delivered on the noticee, an advertisement was published on August 13, 2009 in a national news paper and a vernacular news paper having wide circulation in the region where the last known address of the noticee was located, giving fifteen days time to the noticee to respond to SEBI in case he wish to file a written submission or to appear for a personal hearing. It was also mentioned in the said advertisement that in case of failure, SEBI would proceed ex-parte. Despite the said advertisements and the efforts made by SEBI in this regard, no response was received by SEBI from the noticee, till date. I note that the noticee had already acknowledged the receipt of the show cause notice. Thereafter, sufficient opportunities were given to the noticee to make its submissions. However, the noticee chose not to respond. In the facts and circumstances, I do not consider it necessary to grant another

opportunity to the noticee and the present proceeding is being considered and disposed of on the basis of the materials available on record.

3. I have considered the show cause notice issued to the noticee, and other material available on record. The issue for consideration in the present case is whether the noticee had contravened the provisions of the PFUTP Regulations as alleged in the show cause notice while dealing in the shares of the company during the investigation period. One of the allegations leveled against the noticee is that he had entered into structured/synchronized/circular trades in the shares of the company while trading through multiple stock brokers namely Crescent Finstock Limited and Bharti Thakkar India Securities Private Limited, the counter party being M/s Om Gayatri Securities [Trading Member- M/s Shripal B. Jain] and M/s Shree Shyam Investment [Trading Member- Sanchay Fincom Limited]. It was observed that, Crescent Finstock Limited traded on behalf of the noticee and M/s Shripal B. Jain had traded on behalf of M/s Om Gayatri Securities. The aforesaid clients had executed number of trades in the shares of the company on June 18, 2002. The trades of Crescent Finstock Limited and M/s Shripal B. Jain had influenced the share price by Rs. 27.50/-.It was found that the order time difference varied from 58 seconds and above. Similarly, the time difference for the trades executed on June 19, 2002 was found to have varied from 13 seconds and above. Considering the liquidity of the scrip, it can be inferred that the said deals were structured and synchronized in nature. It was also observed that 100% of the valid orders placed by the said stock brokers were executed and the buy and sell orders quantities constituted about 95% of the total buy orders and sell order quantities.

4. The investigation conducted by SEBI observed that the noticee had traded in the shares of the company through the stock brokers namely Crescent Finstock Limited and Bharti Thakkar India Securities Private Limited. The counter party stock broker to these trades was found to be M/s Shripal B Jain who had dealt on

behalf of its client M/s Om Gayatri Securities. It is observed that they had entered into circular trades, thus netting off their position. The circular trades were observed on April 22, 2002 in 3 trades. It was noted that 100% of the orders of M/s Shripal B. Jain on behalf of M/s Om Gayatri Securities and Bharti Thakkar India Securities Private Limited on behalf of the noticee were executed. It is also alleged that the stock brokers namely M/s Shripal B. Jain, Crescent Finstock Limited and Sanchay Fincom Limited had influenced the share price on June 21, 2002 by Rs. 10.50. It is observed that 100% of the orders of the clients viz., M/s Om Gayatri Securities [Trading Member-M/s Shripal B. Jain], the noticee [Trading Member-Crescent Finstock Limited] and M/s Shree Shyam Investment [Trading Member-Sanchay Fincom Limited] were executed, as stated above in this order. Further out of the 12 trades executed on the day, the order time gap for 10 trades was 15 seconds, whereas for the other 2 trades the order time gap was 23 seconds and 4:08 minutes. The noticee was also found to have involved in the execution of reversal of trades, as given below:

Client (stock broker)	Counter party Client (stock broker)	Settlements no. (period)	% of reversal/circular trades (volume) to the gross market volume)	Total market volume during these days	Volume of trade reversal/circular by the noticee	% of reversal /circular trades to the total trades of the noticee	Price influence attributed to these trades
Noticee (Crescent Finstock Ltd.)	Om Gayatri Securities (Shripal Jain)	23(24/04/2002), 60 & 61 (18/06/2002, 19/06/2002)	100% on all three settlements	1800 shares	1800 shares	100%	+ Rs.27.5/-
Noticee (Bharti Thakkar)	Om Gayatri Sec (Shripal Jain)	16 (15/04/2002)	65.11%	4300	2800	100%	+Rs.30/-
Noticee (Crescent Finstock)	and Ventura Securities						
Noticee (Bharti Thakkar)	Shree Shyam Investment (Sanchay Fincomm)	21 (22/04/2002)	27.45%	2550	1050	100%	--
	Om Gayatri Sec (Shripal Jain)						
Noticee (Crescent)	Shree Shyam Investment (Sanchay)	63 (21/06/2002)	100%	300	300	100%	+Rs.10.50/-

Finstock)	Fincomm)						
	Om Gayatri Securities (Shripal Jain)						

The said details were also furnished to the noticee along with the show cause notice. It can be seen from the above table that, initially the noticee was involved in circular/reversal trades with the clients Om Gayatri Securities (stock broker M/s Shripal Jain), Shree Shyam Investment (stock broker: Sanchay Fincom Limited), and Ventura Securities. The noticee himself was dealing through two stock brokers. Totally, these reversal of trades were made in six settlements. They had contributed to entire 100% of the market volumes on 4 days and on the other days the contribution was 65.11% and 27.45%. On the days when their trades contributed to 100% of the market volume, their trades increased the prices by Rs.38/- which was quite significant. Their circular/reversal trading contributed significantly to the market volume which was otherwise negligible. The noticee or his counterparties (on the aforesaid settlements) had not executed any other trade. In other words 100% of their trading was within the aforesaid group.

5. As already established, in a short span of time and with trades amounting to less than six thousand shares, the noticee and his counter parties were able to influence movement in the price of the scrip by about Rs.38/-. The entire trading by the noticee in the shares of the company during the investigation period was either reversal or circular trades which clearly establish that there was no intention of transfer of beneficial ownership of the shares but was a scheme intended to inflate the share price of the company. Needless to say, the real motive behind these trades was not to transfer the beneficial ownership in the scrip but to create an impression of artificial trading in the market and generate interest among the genuine investors. Besides, the trades executed by the noticee had created false and misleading appearance of trading in the shares of the company. The pattern of trades executed by the noticee indicates that the same were not genuine. On the other hand, the same were executed for making an impact on the share price.

The fact that the noticee was involved in executing trade reversal is not in dispute. The increase in share price of the company during such trades is also not disputed before me. The continuous execution of reversal of trades, as stated above in this order, accounted for most of the total market volume in the shares of the company. The reversal of trades impacted the share price artificially to the detriment of the genuine investors. Such type of activities cannot be let off lightly. I also note the following observation of the Hon'ble Securities Appellate Tribunal in the matter of Ketan Parekh vs. SEBI:

"When a person takes part in or enters into transactions in securities with the intention to artificially raise or depress the price he thereby automatically induces the innocent investors in the market to buy / sell their stocks. The buyer or the seller is invariably influenced by the price of the stocks and if that is being manipulated the person doing so is necessarily influencing the decision of the buyer / seller thereby inducing him to buy or sell depending upon how the market has been manipulated. We are therefore of the view that inducement to any person to buy or sell securities is the necessary consequence of manipulation and flows therefrom. In other words, if the factum of manipulation is established it will necessarily follow that the investors in the market had been induced to buy or sell and that no further proof in this regard is required. The market, as already observed, is so wide spread that it may not be humanly possible for the Board to track the persons who were actually induced to buy or sell securities as a result of manipulation and law can never impose on the Board a burden which is impossible to be discharged."(underline supplied)

6. The details of the trades executed by the noticee in the shares of the company during the investigation period were provided to the noticee along with the show cause notice dated September 23, 2005. Though, the noticee had received the show cause notice, no effort was taken by it to controvert the allegations leveled against it. Sufficient opportunities were provided by SEBI to the noticee to represent its case. However, he failed to avail of all the opportunities. In

the facts and circumstances of the case as brought out above in this order, I do not have any hesitation to hold that Mr. Sandeep Janamdas Merchant has violated Regulations 4(a) to 4(d) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. Considering the totality of the facts and circumstances, the present proceeding is disposed of as ordered hereinunder.

7. In view of the foregoing, I, in exercise of the powers conferred upon me under Section 19 read with Sections 11B and 11(4) of the Securities and Exchange Board of India Act, 1992 and Regulations 11 and 13 of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, hereby restrain Mr. Sandeep Janamdas Merchant (Permanent Account Number: AGRPM8085C) from accessing the securities market and also prohibit him from buying, selling or dealing in securities in any manner and in any capacity, for a period of six months.

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

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

Place: Mumbai
Date: November 27, 2009

Assistant General Manager

Investigation Department

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IVD/IVD1/MS/SY/

/2009

June 30, 2009

Shri Sandeep J. Merchant

10, Flla Griha, North Avenue Road,

Sir Vithaldas Nagar,

Santacruz (W)

Mumbai – 400 054

Sir,

Ref: Personal Hearing in the matter of Somplast Leather Industries Ltd.

Please refer to SEBI show cause notice no. IVD/ID5/MSR/PB/50222/2005 dated September 2005 with regard to the SEBI investigation into the dealings in the scrip of Somplast Leather Industries Ltd. The letter dated February 18, 2009 intimating you of the personal hearing on March 31, 2009 returned undelivered at your last known address. In view of this final opportunity of personal hearing is given to you by SEBI, Whole Time Member (Dr. K M Abraham) on **July 14, 2009 at 03:30 p.m.** at the venue stated below:-

Securities & Exchange Board of India

SEBI Bhawan, Plot C-4, Block G,

Bandra Kurla Complex, Bandra (East),

Mumbai – 400 051

Tel Number 022-26449000

You are advised to confirm your attendance as well as the names of the persons appearing for the aforesaid hearing. You are advised to carry on your person a proof of identity, PAN card and also proper authorization for the proceedings in case of any other person attending the same.

You are advised to submit your reply, if any, to the show cause notice mentioned above while appearing for personal hearing. You may note that this opportunity is given to you to adduce all evidences and clarifications in support of your contentions, if any, with regard to the charges levelled against you in the said case. If you do not appear before WTM on the said date of hearing, it will be presumed that you have nothing further to state and SEBI may proceed further in this matter and pass order as it deems fit based on the material available on record including your submissions made earlier.

You may also note that vide circular no EFD/ED/Cir-1/2007 dated 20th April, 2007 (Available at www.sebi.gov.in), SEBI has come out with guidelines for passing of consent orders. If you wish to avail the consent process, you may apply in the prescribed form given in the said Circular; your application should be forwarded to the address mentioned in the said circular under intimation to the undersigned.

Yours faithfully,

Sachin Yadav

