

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

IN THE MATTER OF GRANULES INDIA LTD.

In respect of Ramrakh R. Bohra

SEBI REGISTRATION NO. INB 010022711

Date of hearing: November 05, 2009

Appearances:

For Noticees: Mr. Ankit Lohia, Advocate
Mr. Aditya Bhansali, Mindspright Consultant
Ms. Akshaya Bhansali, Mindspright Legal
Mr. Shantilal Purohit, Accountant

For SEBI: Mr. Priyam Ray, Presenting Officer
Mr. G. Ramar, Deputy General Manager
Mr. Atul Agarwal, Assistant General Manager
Mr. Pradeep Kumar, Legal Officer

ORDER

Under Regulations 28(2) read with Regulation 38(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') had conducted investigation into the affairs relating to the trading of the scrip of Granules India Ltd. (hereinafter referred to as 'GIL') subsequent to the unusual increase in the price and volume of the scrip during the period December 19, 2002 to January 23, 2003. GIL was listed at Bombay Stock Exchange Ltd. (hereinafter referred to as 'BSE') on December 19, 2002 and on the same day there was commencement for trading in the shares of GIL. In the initial days of listing there was hardly any interest in the scrip.
2. During this period, the price of the scrip rose from Rs.17.95 on December, 2002 and touched a high of Rs.52.90 on January 17, 2003 (intra day high) and fell down to Rs.39.70 on January 17, 2003 (closing price). The volume of

the scrip also rose from 450 shares on December 20, 2002 to a high of 5,76,840 shares on January 3, 2003. The movement of price and volume of the scrip was neither in tandem with the general market sentiments nor with any announcements from the company which might have generated such an unusual interest in the scrip.

3. Investigation revealed that GIL had allotted 14,02,524 shares on May 24, 2002 and 10,51,894 shares on June 14, 2002 aggregating to 24,54,418 shares at the rate of Rs.14.26 on preferential basis to the promoter Mr. C. Krishna Prasad. It was revealed that C. Krishna Prasad, Managing Director of GIL wanted to sell his existing holding in the company to raise resources for investment in the company for its expansion plan. Therefore, liquidity was required to be brought in to facilitate the off-loading of shares by the MD of GIL to some entities who in turn would off-load the same to the general investing public. C. Krishna Prasad approached Mr. C.P. Khandelwal of M/s. Southern Shares & Stocks Ltd. (hereinafter referred to as 'Southern Shares'), member of BSE to offload the shares at BSE who in turn approached Mr. Arun Kumar Dalmia of M/s. Satya Securities, who assured that it would arrange for the buyers for the shares when they are offloaded by Prasad.
4. During the course of investigations, it was *inter alia* revealed that the broker Ramrakh R. Bohra, member BSE, bearing SEBI registration no. INB 010022711 (hereinafter referred to as 'noticee') had dealt in the scrip on behalf of his client ASK Holdings Pvt. Ltd. (hereinafter referred to as 'ASK'). In this capacity the acts of noticee were found violative of the provisions of SEBI (Prohibitions of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations') and the Code of Conduct as specified in Schedule II of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as 'Broker Regulation').
5. Based on the findings of the investigations, SEBI initiated enquiry proceedings against the noticee in terms of SEBI (Procedure for Holding

Enquiry by the Enquiry Officer and Imposing Penalty) Regulations (hereinafter referred to as 'Enquiry Regulations'), by appointing an Enquiry Officer under Regulation 5(1) of Enquiry Regulations vide order dated April 07, 2006. SEBI appointed the Enquiry Officer, to enquire into the alleged violations/ contraventions of the provisions of Regulation 4 (a), (b), (c) and (d) of the PFUTP Regulations and Regulation 7 read with Clause A (1), (3), (4) of the Code of Conduct as specified in Schedule II of the Broker Regulation. The Enquiry Officer submitted his report dated September 26, 2007, recommending thereby a penalty of censure to the noticee.

6. Subsequently, a Show Cause Notice dated September 27, 2007 (hereinafter referred to as 'SCN'), under Regulation 13(2) of the Enquiry Regulations was issued by SEBI, asking him to show cause as to why the appropriate penalty including penalty recommended by the Enquiry Officer should not be imposed upon him. The noticee was advised to reply to the SCN, together with documents, that he may choose to rely upon in support of his reply within 21 days of the receipt thereof. It was also informed that in case of failure, it would be presumed that it had no explanation to offer and SEBI shall be free to take such action in the manner as it deemed fit. A copy of the Enquiry Report was also forwarded to the noticee along with the said SCN.
7. The noticee failed to reply to the SCN despite of due service of the same. In the mean time, the noticee applied for settlement of the proceedings through a consent order in terms of SEBI Circular dated April 20, 2007. SEBI, however, did not agree to settle the proceedings by consent as the terms offered by the noticee were not adequate and finally rejected the application on March 23, 2009.
8. Pursuant to this, in order to comply with the principles of natural justice an opportunity of personal hearing was granted to the noticee before me on November 05, 2009. On the date fixed Mr. Ankit Lohia, Advocate, Mr. Aditya Bhansali, Ms. Akshaya Bhansali and Mr. Shantilal Purohit appeared before me on behalf of the noticee and made submissions. During the course of

hearing the noticee also filed the written submissions dated November 04, 2009. Noticee also sought 15 days time to file the additional written submissions, which was allowed. I note that noticee filed the written submissions vide his letter dated November 16, 2009, which have been taken on record.

9. I have carefully considered the SCN and the written submissions of the noticee. Mainly these are as under:

- a. Opportunity of cross-examination his client (ASK) has not been provided to him.
- b. Terminal was granted to the ASK after having a long standing relationship with it and it was a normal practice at the relevant time.
- c. The client, ASK was a corporate client in the year 2002-03 and had huge turnover with excellent track record in terms of meeting their payment and delivery obligations and never defaulted in past. ASK altogether purchased 7,86,500 shares through it.
- d. Terminal allotted was operated in his supervision and he could exercise control over it as and when required. The terminal was located in his office premises and only authorized person of ASK was allowed to trade through it.
- e. Integrity cannot be put on doubt as there is nothing on record that cast doubt on integrity. As there was no investor complaint against him and had executed business with the clients as per the instructions and further had not misguided the investors/ clients.
- f. No business relationship was continued with ASK as soon coming to know about the investigations initiated on the trading done by it.
- g. Was not aware of the motive of his client and merely acted as a broker.
- h. The identity of the counter party broker/ client was not known to him.
- i. Was not aware that his client was placing contra orders through other brokers.
- j. That there were no off-market transactions carried out by it.

10. I have carefully considered the Enquiry Report, the show cause notice issued to noticee and reply thereof. The noticee has argued that he has not been provided the cross examination of ASK. I have seen that the noticee has been provided with the statement of ASK and he has also countered the statement of the noticee in his reply. I note that for the present proceedings there is no need to provide cross-examination to the noticee as the statement of ASK is not being relied upon solely and the matter is being examined independently.
11. While proceeding further with the matter, the short issue that arises for my consideration is whether the noticee has violated the provisions of Regulation 7 read Clauses A (1) of the Code of Conduct as specified in schedule II of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992.
- a. I note that the noticee had acted in the scrip of GIL on behalf of its client ASK. During the relevant period, ASK was found to have registered as a client of four brokers including the noticee. The dealings of ASK during the relevant period of time have been brought out below for reference:

Broker	Gross Purchase	Gross Sell	Purchase/ sell
Ramrakh R. Bohra	9,09,580	-1,23,080	7,86,500
Ramaben Samani Pvt. Ltd.	0	-2,90,000	-2,90,000
Ajemra Associates	0	-95,000	-95,000
Total	9,09,580	-5,08,080	4,01,500

From the above, it is seen that while trading in the scrip, the client of noticee had made a gross purchase of 9,09,580 shares through it, this was equivalent to 27.72% of the total shares traded during the relevant period. Further, ASK sold 1,23,080 shares, equivalent to 3.75% of the total shares traded during the relevant period through the noticee in the market.

- b.** The Enquiry Officer has found that the noticee had granted an independent terminal to its client/ ASK and did not supervise its business on that terminal by not fixing any trading limit/ position. As regards this allegation the noticee has submitted that the terminal was located in his office and he could exercise control over it in abnormal situation. I note from the earlier discussion that the quantity traded by ASK was substantial and the same must have raised some suspicion in the mind of the noticee through its risk management measures.
- c.** From the facts and submissions, it appears that the noticee had not paid attention to the increasing volumes from its terminal only because the noticee was having a long standing relationship with ASK. Further, as admitted by the noticee, the client had been allowed to enter the trades itself through a terminal at the premises of noticee. I note that this method of conducting business by a market intermediary can result in huge financial implications to itself and to other market participants active in the market. This act of the noticee can be termed as gross negligence.
- d.** The noticee has argued that he was not aware of the motive of ASK and as soon as he came to know about the shady dealings of ASK, it took necessary steps to terminate the broker-sub-broker agreement that had been earlier entered into between the noticee and ASK. I note that these are the steps in the nature of preventing any further damage by his client to the market. However, had the noticee fixed trade limit/ position on its client, as per the normal market practice, then the same could have prevented ASK to succeed in its game plan. I note that the same has subsequently led to a situation wherein the client had traded substantially in the scrip and executed the trades without the intention of transferring beneficial ownership in the scrip.
- e.** I take note of the argument of the noticee that at the relevant period of time there was no prohibition on allotment of terminals to the client and SEBI vide its circular dated August 21, 2003 bearing no. SEBI/MRD/Policy/SE/15864/ 2003 required the exchanges to get an affidavit-cum-undertaking ensuring

that the trading terminals are not provided to others. I find that this circular relates to the usage of software by the brokers/ sub-brokers and has no relevance with the present proceedings. Hence, I find no merits in the argument of the noticee.

f. From the above, I find that the noticee while dealing in the scrip of GIL for its client had:

- Granted an independent terminal to his client;
- Not set any trading limit on the said terminal; and
- Generated huge volumes which went unnoticed by him.

These three observations, points that the noticee failed to prevent his client in carrying out his nefarious design and the noticee had thus aided and abetted his client in creating the artificial volumes in the subject scrip. I find that such type of trading which has resulted in gross misuse of stock exchange mechanism would not have been possible without the negligence of the broker.

g. The above findings lead to the conclusion that the noticee had failed to comply with his duties as a stock broker as specified under the provisions of the Broker Regulations. It is the duty of the stock broker to maintain high standards of integrity, promptitude and fairness, further, he shall not *inter alia* indulge in manipulative transactions with a view to distort the market equilibrium. It is already established that the noticee has aided and abetted the misleading appearance of trading of its client in the securities market. From this it is clear that the noticee has failed to comply with his duties as expected of a registered intermediary and instead became a party to the manipulation in the shares of the company to the detriment of genuine investors. Thus, I hold that the noticee has failed to maintain high standards of integrity, promptitude and fairness in the conduct of the business dealings as specified in Regulation 7 read with Clause A (1) of the Code of Conduct as specified in Schedule II of the Broker Regulation. An intermediary who fails to perform such duties deserves to be punished in accordance with law.

- 12.** I note that pursuant to the notification of the SEBI (Intermediaries) Regulations, 2008, the Enquiry Regulations have been repealed and in terms of Regulation 38(2) of the SEBI (Intermediaries) Regulations, 2008, notwithstanding such repeal, any enquiry commenced under the Enquiry Regulations, shall be deemed to have been commenced under the corresponding provisions of SEBI (Intermediaries) Regulations, 2008.
- 13.** Having regard to the above discussion, I find no reason to differ with the recommendations of the Enquiry Officer. Accordingly, 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 Regulation 28 (2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby warn the noticee, Ramrakh R. Bohra (SEBI Registration No. INB 010022711) to be careful and cautious in the conduct of his business and to adhere to and comply with all the statutory provisions while carrying out his activities in the securities market.

Date:28/Jan/2010
Place: Mumbai

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA