

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

**IN THE MATTER OF HINDUSTAN CONTINENTAL LTD. AND
PRIYANS SAREE INDUSTRIES LTD.**

In respect of Sunil Shares and Stock Brokers Pvt. Ltd.

ORDER

Under Section 11 (4) and 11B of the Securities and Exchange Board of India Act, 1992

- 1.** Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted investigations into buying, selling and dealings in the shares of Hindustan Continental Ltd. (hereinafter referred to as 'HCL') and Priyans Saree Industries Ltd. (hereinafter referred to as 'PSIL'), pursuant to the inspection of low cap stocks at Ahmedabad Stock Exchange (hereinafter referred to as 'ASE'). The instances of abnormal trades were found in the scrip of HCL and PSIL during the period of October 16, 2002 to August 05, 2003. The investigation period for the above said scrips were as under:
 - a. PSIL:** March 01, 2002 to July 24, 2003 (the investigation period was further divided into two sub periods owing to the fact that two different patterns were observed during such period in the scrip of PSIL).
 - i.** Period I: From March 01, 2002 to September 30, 2002.
 - ii.** Period II: From October 16, 2002 to July 24, 2003.
 - b. HCL:** October 16, 2002 to August 05, 2003.
- 2.** During investigations the scrip of HCL was listed at ASE, Madhya Pradesh Stock Exchange (hereinafter referred to as 'MPSE') and Bombay Stock Exchange (hereinafter referred to as 'BSE'). The scrip of PSIL was listed at ASE and MPSE.

3. ASE reported total volume in the scrip of PSIL as 44,600 during March 01, 2002 to September 30, 2002 and 11,73,310 during January 01, 2003 to July 24, 2003. Price of the scrip of PSIL went up from Rs.112 on March 27, 2002 to Rs.350 on July 18, 2002. There was a stock split in the scrip of PSIL from Rs.10 – Rs.2. Thereafter again, the price of the scrip went up to Rs.107.75 on September 06, 2002. Further the price of the scrip fell to Rs.3 on July 24, 2003 on ASE, on this day the scrip was suspended for trading. During the second period of investigations in the scrip of PSIL i.e. January 01, 2003 – July 24, 2003, ASE reported that only one of its member viz. M/s Jaisharefin Ltd. (hereinafter referred to as 'JSL'), was dealing in the scrip and thereby raising the traded volumes in the scrip with corresponding fall in the prices of the scrip.
4. As regard, the scrip of HCL, ASE reported that during October 16, 2002 – August 05, 2003 only one member i.e. JSL was dealing in the scrip and thereby raised the volumes traded in the scrip with corresponding fall in the prices of the scrip. The price of HCL on ASE moved from Rs.1.40 on February 05, 2003 to Rs.6.75 on May 21, 2003.
5. During the same time, SEBI also conducted an inspection of JSL through the SEBI appointed Chartered Accountants. Before proceeding further, the findings of the inspection conducted of JSL by SEBI appointed Chartered Accountants in the scrip of PSIL and HCL during October 16, 2002 – August 05, 2003, may be recalled. It was observed during the relevant period that JSL was the sole broker who dealt in the shares of PSIL and HCL. Two of the client of JSL, viz. M/s Sunil Shares & Stock Pvt. Ltd. (hereinafter referred to as the 'noticee') and K.K. Fintrade Ltd. (hereinafter referred to as 'Fintrade') were the only major clients trading in the subject scrips. The orders of purchases and sales between the noticee and Fintrade

were found to be punched from the same terminal of JSL. The major findings of the inspection were:

- i. Similar *modus operandi* adopted for trading in HCL and PSIL.
- ii. Contract notes were issued for a large number of unreported internal trades in scrips like Reliance, Satyam, Tisco, Zee TV, SBI and L&T. Such abnormal trades may be to accommodate clients for fake capital gains bills and to allow badla trading among clients.
- iii. Opened several fictitious client accounts for accommodating fake capital gain bills.
- iv. Had not collected the upfront margin and did not make payments to clients within prescribed time limit.
- v. Deficiencies in maintenance of client agreement and client registration forms.
- vi. Contract notes did not bear preprinted serial numbers and were not acknowledged by the clients. Even brokerage was not charged on all internal trades.
- vii. Unique client code was not mentioned during the client registration and client trades. JSL entered into proprietor trading under different client codes.
- viii. Demat statement did not buttress the sauda register/ contract note details as submitted by JSL to SEBI.
- ix. Avoided the market mechanisms to trade and had made 70% of the trades by off-market transaction and did not report the same to ASE.
- x. Settlement of trades had taken place after several days of trades.
- xi. JSL charged a flat rate of brokerage irrespective of whether the trades were market trades or off-market trades and irrespective of the price of the scrip.
- xii. JSL could not provide the details regarding their settlement mechanism in the scrips of PSIL and HCL.

6. On completion of the investigations, SEBI *inter-alia* issued Show Cause Notice dated April 05, 2007 (hereinafter referred to as 'SCN') to the noticee herein under Sections 11(4) and 11B of the SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003. The SCN alleged that the noticee had entered transactions which do not appear to be according to sound market practices. The SCN, therefore, alleged that the acts of the noticee were in violation of the Regulations 3, 4 (a), (b), (c), (d) and 6 (a) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations'). Accordingly, it called upon the noticee to show cause as to why suitable directions under Section 11(4) and 11B of SEBI Act read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 including restraining him from accessing the capital market in securities should not be issued.
7. The SCN was duly served on the noticee. However, no reply was received from the noticee. In order to proceed with the matter an opportunity of personal hearing was granted to the noticee before the then Whole Time Member on August 23, 2007. On the date fixed Ms. Isha Bubna, employee of Sarda Soni Associates, Chartered Accountants appeared as authorized representative of the noticee and submitted a letter dated August 14, 2007 of the noticee. Vide this letter the noticee submitted that it had closed its business and could not produce any documents. It was further requested that the matter be decided on merits. Due to change in authority another opportunity of personal hearing was granted to the noticee before me on November 18, 2009. Noticee did not turn up for the personal hearing in spite of due intimation. Further, no request for adjournment has been received from the noticee. I have seen that sufficient opportunities have already been given to noticee to explain its case. In view of this, I am compelled to proceed with

the matter *ex-parte*, on the basis of material available on record, as against the noticee, having complied with the principles of natural justice.

- 8.** I have carefully considered the SCN and material available on record. Upon consideration of the said material, the issue arises for my consideration is whether the noticee had acted fraudulently and in an unfair manner while dealing in the scrips of PSIL and HCL during investigation period?
- a.** I note that at ASE during the period of January 01, 2003 to July 24, 2003, only one broker, viz. JSL was active, who mainly dealt in the scrip of PSIL and HCL. The buy/ sell orders in the said scrips were punched in from the same terminal of JSL for its clients i.e. the noticee and Fintrade. Both of these clients, as per the statement made by JSL, were related and traded exclusively in the scrips of HCL and PSIL.
- b.** I note that the price of the scrip of PSIL was Rs.104 on January 03, 2003 and the same fell to Rs.3 on July 24, 2003. Further, the scrip of PSIL was suspended from trading for an indefinite period on July 24, 2003. ASE reported nil trading for the period October 16, 2002 to February 05, 2003 in the scrip of HCL. During the period, February 05, 2003 to May 21, 2003, the scrip was trading in the price range of Rs.1.35 to Rs.6.75. The price further moved from Rs.10.50 as on May 29, 2003 to Rs.34.60 as on July 24, 2003. Thereafter again nil trading was observed from July 25, 2003 to August 05, 2003. I note that ASE had reported a total volume of 17,64,300 shares in the scrip of HCL, during the period of October 16, 2002 to August 05, 2003.
- c.** I note from the findings of investigations that the noticee along with Fintrade traded through JSL, placed orders on both buy and sell side in the scrip of HCL. These two clients of JSL were the major traders in the scrip at the relevant point of time. There were 250 other clients of JSL

who remained generally on the other side of the transaction made by the noticee and Fintrade. I note that together they had created a volume of 45,80,377 shares of HCL out of the total volume of 56,37,678 shares as submitted by JSL. Therefore, both the clients had traded about 80% of the traded volume in the scrip of HCL. In the scrip of HCL, Fintrade appeared as a net seller and noticee was found squaring off its trades. The orders placed in the scrip of HCL were at continuously higher prices.

- d. The orders for both the said clients were placed by JSL at the decreasing prices in the scrip of PSIL. I note that the noticee and Fintrade had together created a volume of 31,42,320 shares out of the total volume of 58,77,120 shares traded in the scrip of PSIL. For these trades the noticee appeared as a major buyer and Fintrade appeared as major seller. Thus, it is concluded that the noticee and Fintrade had together created about 50% of the total volume in the scrip of PSIL.
- e. The pattern of trading of noticee and Fintrade shows that they traded only in the scrips of PSIL and HCL. I also note the submissions of the authorized representative of JSL that the noticee and Fintrade were registered with it on August 11, 2003 and both had only traded in the scrips of PSIL and HCL during the relevant period. He further stated that the said clients had approached them directly and expressed their interest in trading through it. I find this submission of JSL contrary to the fact that both these clients were trading through JSL much prior to the stated date of registration as client. JSL at the relevant point of time had only two trading terminals at its office premises and all orders for the above said clients were punched through these terminals only. Further, JSL was the sole broker who was dealing in the shares of PSIL and HCL during the period under consideration. These facts points to that the noticee was having hand in glove with Fintrade and JSL, while executing orders in the

scrip of PSIL and HCL. All these had acted in concert and created misleading appearance of trading in the securities market.

9. I also note that the noticee had not co-operated with the investigating authority during investigations. Noticee vide its letter dated August 14, 2007, has submitted that its business has been closed from last three years. Further it has lost documents and computers in a theft and is not in position to produce any papers and documents required in the matter. I note that vide this letter the noticee has not even tried to explained its objective of trading in the scrips of PSIL and HCL.
10. To summarize the above, it may be said that here is a case in which one broker (JSL) having just two terminals carries out 100% of the trades exclusively in two scrips (HCL and PSIL). Of these, two of its clients (i.e. noticee and Fintrade) account for 80% of HCL trades and 50% of PSIL trades. The HCL scrip moves from Rs.1.35/- to Rs.34.60/- and that of PSIL moves from Rs.104/- to Rs.3/-. There were other 250 clients who acted as counterparty to the noticee and the Fintrade. There can be no other explanation for the above scenario but that JSL, Fintrade and the noticee had connived with each other to artificially create volumes and move the prices of the scrips i.e HCL and PSIL, thereby enticing the other 250 clients into the fraud. Therefore, I find that the noticee has violated the provisions of Regulations 3, 4 (a), (b), (c), (d) and 6 (a) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995. In view of the facts, circumstances and the above reason, I find that it would be just in the interest of the capital markets and in the general interest of the investors, the noticee must be debarred for a reasonable period from accessing the market.
11. Therefore, taking into consideration the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Sections 19 of the SEBI

Act read with Section 11B of SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulation, 2003, do hereby restrain the noticee viz. M/s. Sunil Shares & Stock Pvt. Ltd., from buying, selling or dealing in securities market whatsoever or accessing the securities market, directly or indirectly, for a period of two years from the date of this order.

12. In view of the above, the concerned stock exchanges are hereby directed to permit M/s. Sunil Shares & Stock Pvt. Ltd. to square off its existing open positions in the Futures and Options segment, if any, at the earliest. Further, the concerned stock exchanges must strictly ensure that no fresh positions are created for the noticee.

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

DATE : 29/MARCH/2010
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA