

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

IN THE MATTER OF KARUNA CABLES LTD.

In respect of Mr. Kenneth Pinto

ORDER

Under Section 11, 11B and 11(4) of the Securities and Exchange Board of India Act, 1992 read with Regulation 11 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted an investigation into the buying, selling or dealings in the scrip of Karuna Cables Ltd. (hereinafter referred to as 'Karuna') for the period July 01, 2004 to October 29, 2004, *inter alia*, to ascertain whether there was any violation of the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as 'PFUTP Regulations'). During the period of investigation the scrip of Karuna was listed on Bombay Stock Exchange (hereinafter referred to as 'BSE'). The trading in the scrip on National Stock Exchange (hereinafter referred to as 'NSE') was suspended with effect from October 06, 1999 for non-compliance of listing agreement.
2. The trading details of the persons who had traded in the scrip were collected and analyzed along with the data of the volumes contributed by the entities traded during the relevant period of time. During the period of investigation, the price of the scrip had risen by 110.5% from an opening price of Rs.9.50 on July 01, 2004 to the period high of Rs.20.00 on October 28, 2004 and closed at Rs.17.09 on October 29, 2004. It was revealed that the price had mainly increased from Rs.12.50 to Rs.17 during the sub-period from September 27, 2004 to October 19, 2004 i.e. almost 36% rise in 17 trading days. This rise in price of scrip was 79.9% during the 4 month period (86 trading days). The average daily volume traded during this period was 48,621

shares. The investigations *prima facie* revealed that the above trading contributed to an unusual spurt in the traded volumes of the scrip. It was found that a group of persons had traded significantly in the scrip, the group aggregately purchased 35,34,831 shares and sold 35,34,681 shares. This accounted for almost 84.5% of the gross volumes on the exchange and 78.45% of the total market volume during the period under investigation.

3. On completion of the investigations, SEBI issued Show Cause Notice dated November 24, 2006 (hereinafter referred to as 'SCN') to Mr. Kenneth Pinto (hereinafter referred to as 'noticee') along with other clients of the said group under Section 11, 11B and 11(4) of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as 'SEBI Act') read with Regulation 11 of PFUTP Regulations. The SCN alleged that noticee was observed to be a part of group of clients/ brokers involved in circular trading/ reversal of trades and had actively traded in the shares of Karuna during the relevant period among the group, created artificial volumes and thereby contributed to the price rise in the scrip of Karuna. The SCN, therefore, alleged that the acts of the noticee were in violation of Regulation 4(1), 4(2) (a), (b), (e) and (g) of PFUTP Regulations. Accordingly, it called upon the noticee to show cause as to why suitable directions under Section 11, 11B and 11(4) of SEBI Act read with Regulation 11 of PFUTP Regulations including restraining him from accessing the capital market and prohibiting from buying, selling or dealing in securities in any manner for a particular period should not be issued against him.
4. Noticee replied to the said SCN vide its letter dated December 11, 2006. Pursuant to this, an opportunity of personal hearing was also granted to the noticee before me on February 26, 2010. However, the noticee failed to appear for the personal hearing. Another opportunity of personal hearing was granted to the noticee on March 19, 2010, in compliance of the principles of natural justice. However, this time again the noticee did not appear for the personal hearing in spite of due intimation. Moreover, the noticee did not request for another opportunity of personal hearing. I have seen that sufficient

opportunities have already been given to the noticee to explain his 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.

6. I have carefully considered the SCN, reply of the noticee and material available on record. The submission of the noticee in his reply dated December 11, 2006, in brief, are:
 - a. Had traded for a mere 75,600 shares which was less than one percent of the traded volume in the scrip.
 - b. Had not traded in the group.
 - c. Transactions entered were jobbing transactions.
 - d. No relation with the counterparty member brokers and/ or their clients.
8. I note that the SCN has described the transactions entered by the noticee clearly, along with supporting evidence (price-volume data, order log, trade log, instances of circular trades, etc.) of movement of shares in between the clients and brokers. I find that the noticee has not declined or raised doubt on the data. However, the noticee has argued and taken a defense that it was a mere coincidence that the orders were identical with respect to rate and quantity and appeared to be synchronized. In this regard, it is pertinent to state that the noticee had carried out large quantities of trades over a period of time and the timings for the orders were so placed that these got matched at most of the instances, and the time difference ranged between 0 to 10 seconds. In view of this, I do not find any merits in the argument preferred by the noticee.
9. After having examined the above details, the issue arises for my consideration is: Whether the noticee indulged in circular trading and was responsible for creating artificial volumes along with other group clients/ brokers while trading in the scrip of Karuna?

10. Whether the noticee indulged in circular trading and was responsible for creating artificial volumes while trading in the scrip of Karuna?

- a. The SCN has alleged a pattern of circular trading among a group of 3-4 clients/ brokers who were trading in their own account. It was found that the same number of shares were rotated in a circular manner among the group on daily basis and the trades were so well organized that the same number of shares went back to the original seller at the end of the day and the net position of each client/ broker remained nil. The trade quantities of the noticee along with other group clients/ brokers in the scrip during the period of the investigation (July 01, 2004 to October 29, 2004) are given below (Table A):

Table - A

Broker	Client Name	Total Buy Quantity	Buy among these clients	Buy among group of clients % of market volume	Total Sell Quantity	Sell among these clients	Sell among group of clients % of market volume
Adolf Pinto	Kenneth Pinto	39,150	38,850	0.93	39,150	39,150	0.93
Bhagwandas & Co.	Dipank Shah	62,050	61,578	1.47	62,450	60,850	1.47
	Sunil Purohit	4,28,567	4,21,650	10.08	4,27,567	4,13,004	10.08
	Tejas Ghelani	2,49,673	2,43,506	5.82	2,49,273	2,40,868	5.82
Peninsular Capital Market Ltd.	Haresh Posnak	1,85,935	1,76,680	4.23	1,85,935	1,85,935	4.23
Sanchay Fincom Ltd	Sunil Purohit	76,215	70,364	1.68	7,6215	76,215	1.68
Vijay J. Thakkar	Mehul Shah	1,58,770	1,58,020	3.78	1,58,770	1,57,798	3.78
M/s Harikishan Hiralal	Mahesh Bissa	2,25,150	2,13,050	5.1	2,25,150	2,18,308	5.1
	Vasantkumar Bissa	1,17,240	1,16,940	2.8	1,18,090	1,17,455	2.8
Galaxy Broking Ltd	Kapil Bhuptani	2,69,430	2,18,706	5.23	2,69,430	2,21,906	5.23
S.P. Jain Securities Pvt. Ltd.	Sunil Kuril	1,55,835	1,51,935	3.63	1,55,835	1,51,235	3.63
SPJ Stock Brokers Pvt. Ltd.	Shripal Jain (Own)	9,96,711	8,49,689	20.32	9,96,711	8,48,249	20.32
P.J. Chaudhary	Own	3,81,165	3,76,245	9	3,81,165	3,73,865	9
Uttam Financial Services Ltd	Own	1,70,465	1,64,795	3.94	1,70,465	1,57,170	3.94
ISJ Securities Pvt. Ltd.	Vijay Rathod	18,475	18,475	0.44	18,475	18,475	0.44
Total		35,34,831	32,80,483	78.45	35,34,681	32,80,483	78.45

- b. I observe that the group of clients including the noticee and the brokers who were trading in their proprietary account had together created a volume of 32,80,483 shares accounting for 78.45% of the total trading volume of 41,81,409 shares during the relevant period of time. I note that while trading,

this group had entered 2,181 buy orders and 1,837 sell orders in the scrip of Karuna which resulted in 24,492 trades among the group of clients and brokers.

- c. Further, during the relevant period of time, about 382 instances of circular trading have been observed among the said group of clients and brokers. A few instances of such exact circular/ reversal trades have been brought out below (Table - B):

Table - B

Selling Member	Client Name	Buying Member	Client Name	Quantity Traded
July 05, 2004 (between 14:16:20 to 14:47:37)				
SPJ Stock	Own	Uttam Fin.	Own	2,500
Uttam Fin.	Own	Bhagwandas & Co.	Tejas G	2,500
Bhagwandas & Co.	Tejas G	Adolf Pinto	Kenneth	2,500
Adolf Pinto	Kenneth	SPJ Stock	Own	2,500
July 06, 2004 (between 11:13:51 to 11:53:26)				
SPJ Stock	Own	Adolf Pinto	Kenneth	1,750
Adolf Pinto	Kenneth	Bhagwandas & Co.	Tejas	1,750
Bhagwandas & Co.	Tejas	Hari Hiralal	Vasant	1,750
Hari Hiralal	Vasant	Uttam Fin.	Own	1,750
Uttam Fin.	Own	SPJ Stock	Own	1,750
July 07, 2004 (between 11:07:43 to 11:54:24)				
SPJ Stock	Own	Bhagwandas & Co.	Tejas	1,900
Bhagwandas & Co.	Tejas	Uttam Fin.	Own	1,900
Uttam Fin.	Own	Adolf Pinto	Kenneth	1,900
Adolf Pinto	Kenneth	Hari Hiralal	Vasant	1,900
Hari Hiralal	Vasant	SPJ Stock	Own	1,900
July 08, 2004 (between 14:12:16 to 14:39:00)				
SPJ Stock	Own	Bhagwandas & Co.	Tejas	2,500
Bhagwandas & Co.	Tejas	P.J. Chaudhary	Own	2,500
P.J. Chaudhary	Own	Adolf Pinto	Kenneth	2,500
Adolf Pinto	Kenneth	SPJ Stock	Own	2,500

I note from the above instances of circular trades as pointed out by the investigations and also annexed with the SCN that there was an exact matching of quantities entered. I consider that the exact matching of

quantities entered by the entities was not accidental and points to the concerted efforts of the group to get the orders matched with each other.

- d. The details of buy and sell orders and trades have been brought out below for ready reference (Table - C):

Table - C

Member Name	Client Name	No. of buy orders	No. of buy orders resulted in trades among group	No. of sell orders	No. of sell orders resulted in trades among group	No. of buy trades	No. of buy trades among group clients	No. of sell trades	No. of sell trades among group clients
Adolf Pinto	Kenneth Pinto	30	25	26	26	289	288	308	308
Bhagwandas & Co.	Dipank Shah	37	33	28	25	395	392	452	433
	Sunil Purohit	231	228	169	165	2,777	2,716	2,856	2,767
	Tejas Ghelani	159	156	163	149	2,058	1,997	2,076	2,036
Peninsular Capital Market Ltd.	Haresh Posnak	105	98	68	68	771	714	1246	1,246
Sanchay Fincom Ltd.	Sunil Purohit	46	41	45	44	570	535	582	582
Vijay J. Thakkar	Mehul Shah	88	87	82	80	828	812	1002	992
M/s Harikishan Hiralal	Mahesh Bissa	101	97	83	82	1,197	1,136	1,579	1,536
	Vasant Bissa	85	73	76	72	884	882	887	884
Galaxy Broking Ltd	Kapil Bhuptani	709	227	390	181	3,029	2462	2233	1,848
S. P. Jain Securities Pvt. Ltd.	Sunil Kuril	131	91	119	53	937	915	899	884
SPJ Stock Brokers Pvt. Ltd.	Shripal Jain (Own)	1,424	691	898	571	8,904	7,306	7,551	6,520
P. J. Chaudhary	Own	223	223	216	212	2,839	2,810	2,767	2,733
Uttam Financial Services Ltd.	Own	106	102	105	99	1,444	1,404	1,672	1,582
ISJ Securities Pvt. Ltd.	Vijay Rathod	9	9	10	10	123	123	141	141
Total		3,484	2,181	2,478	1,837	27,045	24,492	26,251	24,492

From the table above, I note that the noticee had entered 30 buy orders in the scrip of Karuna during the relevant period, of this 25 buy orders had resulted in trades among the group clients. On the sell side the noticee had entered 26 sell orders in the scrip of Karuna during the relevant period and all these had resulted in the trades among the group clients.

- e. I note that the noticee had entered into circular trades on 7 days out of the total 9 day on which he had traded in the scrip of Karuna. Further, I note that the investigation has found about 30 instances of circular trading by the noticee among the group clients and brokers.

- f. From the above discussion, I find that the noticee while acting in a group, had indulged in circular/ reversal trades regularly as may be clear from the details given hereunder:
- i. A total of 24,492 trades (2,181 buy orders and 1,837 sell orders) were executed among the group of clients and brokers and created a volume of 32,80,483 shares accounting for 78.45% of the total trading volume of 41,81,409 shares.
 - ii. The time difference between 1,071 buy orders and 1076 sell order (which accounts for 12,779 trades, resulting in 54.83% of total volume among these group entities) was less than or equal to 10 seconds.
 - iii. The net delivery of all the group members including the noticee was nil.
- g. Above facts, point out that the orders of most of the trades entered by the noticee were punched in with preconceived motive and prior arrangement that the orders would be picked up by a particular client on the opposite side. I note that there is startling proximity in the time of entering of orders at the exact price and quantity resulting in matching of the trades. This clearly indicates synchronization in the logging of the orders, even as these were executed on the screen of the exchange. A large number of trades were got matched regularly. I note that the noticee had indulged in such trades with regularity which added to the volumes in the scrip of Karuna in a way that was not market determined but was with a motive to induce innocent investors to enter in the market. Such transactions are clearly not genuine transactions and all these facts point that the trades entered by noticee were for creating misleading appearance of trading in the scrip.
- h. I also observe that the trades in the scrip of Karuna were executed at a price difference of Re.0.50 or more than the previous traded price, there were 42 such instances when the price difference was in the range of Rs.0.50 - to Rs.2.75. Out of the said instances, the trades on 7 instances were the first trades of the day. It is observed that on majority of the instances the buy and

sell clients comprise one of the said group clients/ broker including the noticee and the same resulted to have influenced the price of the scrip. 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.

- i. The said entities were also found putting orders at lower prices and due to this the rise in price of the scrip was gradual. The probable reason for the same could be to avoid attention of regulatory authorities.
 - j. I note that the pattern of trading in the present case reveals manipulative intent. These transactions, apart from creating artificial volume of trading, also influenced the prices, by giving an impression to others that the scrip is being actively traded at prevailing prices which are genuine prices.
- 11.** From the facts given in para 10 above, I find that the trading pattern indulged into by the noticee was in the nature of circular trades since the group of clients/ brokers including the noticee were the main entities who traded amongst themselves by executing synchronised trades with the intention that the orders of a particular entity get matched with the other. I find that the transactions of the noticee had resulted in creation of artificial volume in the scrip. The pattern of trading indicates several instances when the time difference between buy and sell orders was nil. In several instances there was a perfect matching of quantity and price. From this, I note that unknown persons can not trade continuously by putting orders in such a pattern and contribute significantly to the total volumes in the market. The execution of circular trading repeatedly for several days by noticee in a group reveals that they were having some nexus with each other. I find that these entities had executed trades with a pre-determined plan to match their trades which were not indicative of genuine transactions, since, it did not result into transfer of beneficial ownership. As discussed above, the increase in the volume in the scrip can be attributed to the trades done by the noticee. Thus, from the aforesaid acts of the noticee, I am of the view that the charges against

noticee of violation of provisions of Regulation 4(1), 4(2) (a), (b), (e) and (g) of PFUTP Regulations are established.

12. 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 Sections 11, 11B and 11(4) of SEBI Act, 1992 read with Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, do hereby restrain the noticee, Mr. Kenneth Pinto [PAN: AHUPP 6300K] from buying, selling or dealing in securities market whatsoever or accessing the securities market, directly or indirectly, for a period of one year from the date of this order.
13. The stock exchanges are hereby directed to permit the respective members dealing for the noticee to square off his existing open positions, if any, at the earliest in Futures and Options segment. They must strictly ensure that no fresh positions are created for him.
14. This order shall be served on all recognized stock exchanges and depositories to ensure that the Noticee is not allowed to undertake transactions as prohibited in Para 12 above.
15. This order shall come into force with immediate effect.

DATE: 10/MAY/2010
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA