

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

IN THE MATTER OF PRRANETA INDUSTRIES LTD.

In respect of Mr. Rajesh Waghwal

Date of hearing: June 14, 2010

Appearances:

**For Noticee: Mr. Rajesh Waghwal
Ms. Jayshree Rajesh Waghwal**

**For SEBI: Mr. Kirtikumar Jadhav, Presenting Officer
Mr. Aliasgar Mithwani, Deputy General Manager
Mr. Siddhesh Lotlikar, Assistant General Manager
Ms. Vasudha Goenka, Legal Officer**

ORDER

Under Section 11, 11B and 11(4) of the Securities and Exchange Board of India Act, 1992 read with Regulation 11 of SEBI (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 investigation into the buying, selling and dealings in the scrip of Prraneta Industries Ltd. (hereinafter referred to as 'Prraneta') for the period of March 06, 2002 to October 13, 2002, *inter alia* to ascertain any violation of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations').
- 2.** The trading details of the persons who had traded in the scrip were collected and analyzed along with the data of the volume contributed during the relevant period of time. During the period, the price of the scrip increased from Re.0.90 (par value of Rs.10) as on March 06, 2002 to Rs.31.70 as on October 11, 2002. The investigation period was broadly divided in two parts i.e.:

- a. **March 6, 2002 to May 15, 2002** – sharp rise in price of scrip with low volumes.
 - b. **May 16, 2002 to October 13, 2002** – sudden spurt in the quantity traded and relatively low price rise.
- 3. The investigation *inter alia* revealed that during the first phase Mr. Rajesh Waghwala (hereinafter referred to as 'noticee') was found executing self trades, entering orders with higher last traded price in the scrip of Prraneta and thereby had influenced the price of scrip.
- 4. Based on the findings of investigation, SEBI *inter alia* issued a show cause notice (hereinafter referred to as 'SCN') dated December 31, 2007, to noticee under Section 11, 11B and 11(4) of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as 'SEBI Act') read with Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulation, 2003. The SCN alleged that the noticee had placed orders on both buy and sell side which resulted into the reversal of trades on the same day. Further, noticee had entered orders at higher price than the previous traded price. All this contributed to the price rise in the scrip of Prraneta. The SCN, therefore, alleged that the acts of the noticee were in violation of Regulations 4(a), (b), (c) and (d) of PFUTP Regulations as applicable at the relevant period. Accordingly, it called upon the noticee to show cause as to why action under Section 11, 11B and 11(4) of SEBI Act, including restraining him from accessing the capital market and prohibiting from buying, selling or dealing in the securities for a particular period should not be initiated against him.
- 5. The noticee replied to the SCN vide its letter dated January 14, 2008 and requested for an opportunity of personal hearing. In the meantime inadvertently a SCN dated May 15, 2009 was issued to the noticee in the same matter by SEBI. Noticee replied to this SCN also vide his letter dated May 23, 2009 and relied upon his earlier reply. As two similar SCNs have been issued to noticee, I am proceeding with the SCN issued earlier in terms

of date, the second SCN will merge with the said SCN. As per the request of noticee, an opportunity of personal hearing was granted to him on April 26, 2010, before me. However, the noticee requested for an adjournment in order to inspect the case file. This request of noticee was acceded to and the matter was adjourned. In the mean time the noticee inspected the documents. Thereafter another opportunity of personal hearing was granted to the noticee on June 14, 2010. On the date fixed Mr. Rajesh V. Waghwalwa and Jayshree R. Waghwalwa appeared for the personal hearing and made submissions. Noticee also filed an affidavit, which was taken on record.

6. I have carefully considered the SCN, reply of noticee dated January 14, 2008 and the affidavit filed by the noticee during the hearing. The contentions of the noticee, in brief are:
 - a. The trading in the scrip was done by his client viz. Mr. Alok bhai Ladha. Mr. Alok bhai Ladha was the client of sub-broker R. Waghwalwa Investment Corporation (hereinafter referred to as 'RWIC') of which noticee was the sole proprietor.
 - b. He was never been associated nor registered with the sub-broker Ravi Securities (affiliated to Anand Rathi Securities Ltd.) and he had never signed any document of Ravi Securities. Had no business contacts or any association or registration with Anand Rathi Securities or Ravi Securities.
 - c. Had closed trading business since April, 2005 due to ill-health and old age problems. His registration of sub-broker through Angel Broking Ltd. has been cancelled.
 - d. Had demanded the particulars of his documents from Anand Rathi Securities but have not received any response.
 - e. Was not involved in the alleged transactions
7. After having examined the above details, the issue arises for my consideration is whether the noticee indulged in entering non-genuine trades, leading to increase in prices of the scrip of Prraneta?

My finding on this issue is as under:

8. Whether the noticee indulged in entering non-genuine trades, leading to increase in prices of the scrip of Prraneta?

- a. It is seen that there was no trading in the scrip of Prraneta during the months of January – February, 2002. Trading in the scrip started in March, 2002, along with the price rise. I note that the major concentration on both buy and sell sides during the first part of the investigation was that of noticee. I have seen the details and note that on one side of such trades RWIC (a sub-broker affiliated to broker, Angel Broking Ltd.) was present for its client Mr. Alok bhai Ladha, of which noticee was the sole proprietor. On the other side of trades noticee himself appeared as a client of Ravi Securities (a sub-broker affiliated to broker, Anand Rathi Securities Pvt. Ltd.). The price and quantity of buy and sell orders in the scrip by noticee and his sub-broker entity was found exactly matching. I note that these trades executed by the noticee were in the nature of self trades. Table-A below shows the details of such trades executed on behalf of the noticee and RWIC, during the relevant period of time:

Table - A

Trade Date	Trade No.	Quantity	Buyer	Seller	Trade Rate (Rs.)
18/3/2002	1	100	RWIC	Rajesh Waghwala	1.75
18/3/2002	2	100	Rajesh Waghwala	RWIC	1.80
19/3/2002	1	200	RWIC	Rajesh Waghwala	2.10
19/3/2002	2	200	Rajesh Waghwala	RWIC	2.15
20/3/2002	1	200	Rajesh Waghwala	RWIC	2.50
20/3/2002	2	200	RWIC	Rajesh Waghwala	2.40
21/3/2002	1	100	Rajesh Waghwala	RWIC	2.65
21/3/2002	2	100	RWIC	Rajesh Waghwala	2.80
26/3/2002	1	100	Rajesh Waghwala	RWIC	3.95
27/3/2002	1	100	Rajesh Waghwala	RWIC	4.30
27/3/2002	2	100	RWIC	Rajesh Waghwala	4.70
28/3/2002	1	125	RWIC	Rajesh Waghwala	5.35
28/3/2002	2	125	Rajesh Waghwala	RWIC	5.60
02/4/2002	2	50	RWIC	Rajesh Waghwala	7.95
02/4/2002	3	100	RWIC	Rajesh Waghwala	7.90
Total Quantity		1,900			

- b. The above details show that the noticee was present on the both buy sides of trade in the capacity of client and of a sub-broker. I note that the trades as shown in table-A above had increased the price of the scrip

from Re.0.90 as on March 06, 2002 to Rs.7.90 as on April 2, 2002. It is observed that trades were reversed on the same day at higher price leading to price rise in the scrip without any change in the beneficial ownership. I also note that on the days when noticee has traded in the scrip, his trading volume constituted 100% of the total volume traded in the market. This shows that on such days, noticee was the only trader in the market, who was appearing on both sides of the trades on most of the occasions.

- c. I note that noticee while trading in the scrip had also entered orders at higher price than the previous traded price during the relevant period. Table below shows the details of such trades:

Table - B

Trade Date	Buy order rate (Rs.)	Buyer	Seller	Previous Trade	
				Price (Rs.)	Date
06/03/02	1.05	Rajesh Waghwala	Sudha K Sharma	0.90	06/03/02
07/03/02	1.15	Rajesh Waghwala	Sudha K Sharma	1.05	06/03/02
18/03/02	1.75	RWIC	Rajesh Waghwala	1.50	12/03/02
18/03/02	1.80	Rajesh Waghwala	RWIC	1.75	18/03/02
19/03/02	2.10	RWIC	Rajesh Waghwala	1.80	18/03/02
19/03/02	2.15	Rajesh Waghwala	RWIC	2.10	19/03/02
20/03/02	2.50	Rajesh Waghwala	RWIC	2.15	19/03/02
21/03/02	2.65	Rajesh Waghwala	RWIC	2.40	20/03/02
21/03/02	2.80	RWIC	Rajesh Waghwala	2.65	21/03/02
26/03/02	3.95	Rajesh Waghwala	RWIC	3.30	22/03/02
27/03/02	4.30	Rajesh Waghwala	RWIC	3.95	26/03/02
27/03/02	4.70	RWIC	Rajesh Waghwala	4.30	27/03/02
28/03/02	5.35	RWIC	Rajesh Waghwala	4.70	27/03/02
28/03/02	5.60	Rajesh Waghwala	RWIC	5.35	28/03/02
02/04/02	7.70	Rajesh Waghwala	RWIC	6.65	01/04/02
02/04/02	7.95	RWIC	Rajesh Waghwala	7.70	02/04/02
05/04/02	11.05	Rajesh Waghwala	Mahavir Corpn.	10.00	04/04/02
09/04/02	12.50	Rajesh Waghwala	Mahavir Corpn.	11.70	08/04/02
11/04/02	13.00	Rajesh Waghwala	Mahavir Corpn.	13.45	10/04/02
12/04/02	13.30	Rajesh Waghwala	Mahavir Corpn.	13.00	11/04/02

I note from the table above that the trades of noticee had increased the price of the scrip. It is seen that the price of the scrip has increased continuously by the orders of noticee.

- d. I note the argument of the noticee that he was never associated nor registered as a client with Ravi Securities (the sub-broker affiliated to

Anand Rathi Securities Ltd.). Further, the trades executed by RWIC were on behalf of his client viz. Mr. Alok bhai Ladha. In support of this the noticee has also filed an affidavit stating all the details. Noticee has also denied about any knowledge about the price rise in the scrip. I have seen the KYC documents of noticee with sub-broker, Ravi Securities and note that as pointed out by noticee, the same do not find mention of the account number. I further note that the KYC form does not show the introducer name and the details of registration with other broker. However, except these all other details are complete in the form along with the proof of identities of noticee.

- e. Considering the facts and argument of noticee, I note that noticee was not a layman and was a person conversant with the intricacies of securities market, as he was active in the market as a sub-broker at the relevant point of time. There is a clear pattern of reversal of trades between Rajesh Waghwalwa as a client of Ravi Securities and RWIC. Rajesh Waghwalwa admits to being proprietor of sub-broker RWIC but denies being client of Ravi Securities, a sub broker of Anand Rathi Securities Ltd. The information that particular trades were done by Rajesh Waghwalwa as a client of Ravi Securities was made available by the trade logs furnished by Bombay Stock Exchange (hereinafter referred to as 'BSE'). There is no reason not to believe in trade logs given by BSE. Mr. Rajesh Waghwalwa during hearing has propounded a thesis that his identity was stolen by misusing the documents given to Angel Broking and one Joinder Securities. However, he has not given any documentary evidence as to what action he took if his identity was misused by Ravi Securities. In absence of evidence of any such action, the presumption is that he is just denying an obvious evidence of his involvement with a theory of identity theft. Even if the stand of noticee is accepted and it is believed that the only involvement of Rajesh Waghwalwa had in the scrip was as a sub broker of Mr. Alok bhai Ladha, it is curious that RWIC had not raised any doubt when his client was actively trading in an illiquid scrip and influencing the share prices. I also note that the trades in the scrip were

being carried out continuously at the increasing prices and noticee being the proprietor of RWIC was well aware of the movement and nature of the scrip. On some days he was the only person who had traded in the scrip. Howsoever considered, it is clear that Mr. Rajesh Waghwal was very much a part of these manipulative transactions.

- f. From the above discussion, I find that the increase in the volume in the scrip can primarily be attributed to the trades done by the noticee. Such pattern of trading leads to the reasonable conclusion that the transactions were carried out with the intention of creating artificial volume and to impact the prices of the scrip on the basis of transactions which were not genuine. I note that such transactions give an impression to others that the scrip is being traded actively at prevailing prices as genuine prices, but actually this was not the case.
- 9. In view of the above stated facts, I find that the noticee had entered the impugned trades with a view to create misleading appearance of trading which tampers with the price discovery mechanism of stock exchange and is against the concept of transparency. I note that the fictitious and reversal trades entered into by the noticee had facilitated the creation of false market in scrip of Prraneta. This is most likely to induce the innocent genuine investors to trade in the scrip. The noticee is therefore guilty of violating the provisions of Regulations 4 (a), (b), (c) and (d) of PFUTP Regulations (since repealed) read with Regulation 4(1) and (2) (a), (b), (e), (g) and (n) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.
- 10. 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 11, 11B and 11(4) of SEBI Act, 1992, do hereby restrain the noticee viz. Rajesh Waghwal (PAN: AAFPW 4227N) 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.

- 11.** The stock exchanges are hereby directed to permit the respective members to square off his existing open positions, if any, at the earliest in Futures and Options segment.
- 12.** 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 10 above.
- 13.** This order shall come into force with immediate effect.

DATE : 15/JULY/2010
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA