

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

IN THE MATTER OF G.G. AUTOMOTIVE GEARS LTD.

**In respect of Mr. Subhash Chaturvedi, Mr. Kenneth A. Pinto, Mr. Abhayaraj
Shukla and Mr. Mangiram Sharma**

Date of Hearing: October 30, 2009 and November 30, 2009

Appearance

**For noticee: Mr. Subhash Chaturvedi
Mr. Vinod Parekh, Advocate**

**For SEBI: Mr. Jai Sebastian, Presenting Officer
Ms. Medha Sonparote, Deputy General Manager
Mr. Bhagwandas, Manager
Ms. Kshama Wagherkar, Assistant Legal Adviser**

ORDER

Under Sections 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 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 G.G. Automotive Gears Ltd. (hereinafter referred to as 'GGAGL') for the period of August 1, 2002 to October 16, 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 volumes contributed by the entities traded during the relevant period. During the period, the price of the scrip increased from Rs.23 as on August 01, 2002 to Rs.115.30 as on October 16, 2002. A sharp fluctuation in volumes were also observed in the scrip i.e. from

16,847 shares as on August 01, 2002 to 1,05,776 shares as on September 17, 2002 and from 77,041 shares to 19,962 shares during the period of September 18, 2002 to October 16, 2002.

3. The investigation *prima facie* revealed that circular trading by two groups of brokers and clients contributed to an unusual spurt in the traded volumes of the scrip. Out of these two groups, the group consisting of six brokers namely Adolf Pinto, Inventure Growth and Securities Ltd., Ramaben Samani Finance Pvt. Ltd., Shree Hari Hira Stock Broking Pvt. Ltd. (formerly known as Shiv Kumar H. Bissa), NCJ Shares and Stock Brokers Ltd., G.R. Pandya Share Broking Ltd. and their clients were found trading intra-day for 25 days in circular manner during the relevant period in the scrip. The total volume generated by way of such circular trades was 2,68,555 shares, contributing generally between 7 and 22% of day-wise volume. The price of the scrip increased from Rs.46.05 to Rs.100.02 during the period of circular trading (i.e. August 26, 2002 to September 30, 2002) by the said group. *Inter alia* it was found that Mr. Subhash Chaturvedi, Mr. Kenneth A. Pinto, Mr. Abhayaraj Shukla and Mr. Mangiram Sharma (hereinafter referred to as 'noticees') while trading in the scrip of GGAGL, through the above said group of brokers, had created artificial volumes by trading in circular manner.
4. Based on the findings of investigation, SEBI *inter alia* issued a common show cause notice dated June 13, 2006 (hereinafter referred to as 'SCN') to noticees 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 noticees were observed to be part of a group of clients/brokers involved in the circular trading and had actively traded in the shares of GGAGL during the relevant period among themselves, created artificial volumes and thereby contributed to the price rise in the scrip of GGAGL. The SCN, therefore, alleged that the acts of the noticees 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 noticees 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 in any manner whatsoever for a particular period should not be initiated against them.

5. Noticees namely Subhash Chaturvedi and Kenneth A. Pinto replied to the SCN vide their letters dated July 26, 2006 and June 17, 2006 respectively. The SCN issued to noticees namely Abhayaraj Shukla and Mangiram Sharma returned undelivered. Attempts were made to deliver the SCN through the broker of Mangiram Sharma and the SCN was again issued to Abhayaraj Shukla. However, no reply was received from Abhayaraj Shukla and Mangiram Sharma to the SCN. Pursuant to this, an opportunity of personal hearing was granted to all the noticees on July 14, 2009. This date was postponed to September 02, 2009 due to some administrative exigencies.
6. On the date fixed noticee namely Subhash Chaturvedi appeared and requested for adjournment as he was not having the records of the case. He further asked for a copy of SCN and trading records. Acceding to his requests another opportunity of personal hearing was granted to him on October 30, 2009. On the date fixed only Mr. Subhash Chaturvedi appeared along with Mr. Vinod Parekh, Advocate and made submissions. He requested for 15 days time to file the written submissions and the same was granted to him vide letter dated November 27, 2009, he submitted his scrip wise summary.
7. In the mean time a noticee namely Kenneth A. Pinto applied for settlement of proceedings through consent order in terms of SEBI Circular dated April 20, 2007. However, he withdrew the said consent application. Pursuant to such withdrawal of said consent application of noticee, again an opportunity of personal hearing was granted to the noticee before me on October 30, 2009. On the date fixed he failed to appear inspite of confirmation from his side. In the interest of justice another opportunity of personal hearing was granted to the noticee on November 30, 2009. However, this time again he failed to

appear for the personal hearing. Abhyaraj Shukla also failed to appear for the personal hearing in spite of due intimation.

8. I note that the hearing notice issued to Mangiram Sharma was returned undelivered. To proceed with the matter, a press notification was issued as a mode of substituted service on him, with an advice that in absence of any reply, the matter would be proceeded ex-parte. I note that the stipulated period mentioned in the publication has expired. I have seen the service report and find that the principles of natural justice have been duly complied with, and it appears that the noticee is not interested in submitting his stand in the present proceedings. 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, who have neither replied to SCN nor appeared for hearing, having complied with the principles of natural justice.
9. I have carefully considered the SCN, replies of noticees who have replied to the SCN, the written submissions of Subhash Chaturvedi and material available on record. The contention of the noticees in their replies, in brief, are:
 - a. Kenneth A. Pinto vide his letter dated June 17, 2006:
 - Had not entered opening trades.
 - Trade matching was a co-incidence.
 - b. Subhash Chaturvedi vide his letter dated July 26, 2006:
 - Transactions effected were genuine and with sole intention of making profit.
 - Had effected transactions in various other scrips which were squared off on the same day or in the settlement.
 - Had no relation with the counterparty member brokers or their clients.
 - No material to substantiate that the trades were effected in a synchronized manner.
 - Allegations leveled are bald and based on hypothecations and presumptions.

10. I note that SCN has described the transactions entered by the noticees clearly, along with supporting evidence (i.e. trade details, instances of circular trades etc.). I note that the noticees herein has carried out large quantities of trades over a period of time and the timings for the orders so placed that these got matched at most of the instances and the time difference ranged between 0 to 30 seconds.
11. After having examined the above details, the issue arises for my consideration is: Whether the noticees indulged in circular trading and were responsible for creating artificial volumes while trading in the scrip of GGAGL?
- My findings on this issue are as under:
12. **Whether the noticees indulged in circular trading and were responsible for creating artificial volumes while trading in the scrip of GGAGL?**
- a. The SCN has alleged a pattern of circular trading among six brokers and their clients who were trading in the scrip of GGAGL for clients and in their own account. It was found that the same or nearly same number of shares was 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 remained nil. This group consisting of noticees had traded in the scrip of GGAGL on 25 days. The trade quantities of the noticees in the scrip during the period of investigation were as under (Table - A):

Table- A

S.No.	Broker	Client	Bought	Sold
1.	Adolf Pinto	Kenneth A. Pinto	66,450	71,200
2.	NCJ Shares and Stock Brokers Ltd.	Proprietary Account	52,450	54,650
3.	Inventure Growth and Securities Ltd.	Mangiram Sharma	61,050	71,905
4.	G.R. Pandya Share Broking Ltd.	Office Trading Account	47,300	46,700
5.	Ramaben Samani Finance Pvt. Ltd.	A.R. Shukla	70,955	51,950
6.	Shiv Kumar H. Bissa	Subhash Chaturvedi	31,900	33,700
Total			3,30,105	3,30,105

- b. I note that the total volume alleged to have been created by the noticees and other clients constituting the group has been shown by the investigations as 2,68,555 shares. However, as per the table-A above, the volume contributed is 3,30,105 shares. This appears to be an error in calculating the total volume contributed by the group consisting of noticees. For proceeding further, even if, I, take the lowest figure as given in the SCN i.e. of 2,68,555 shares, this too comes around 12% of the total trading volume of 22,75,804 shares, constituting thereby the substantial portion, during the relevant period.
- c. Further, I observe that the noticees had traded heavily in the scrip of GGAGL. I note that the group consisting of noticees had traded in a circular pattern. The number of circular trades entered by brokers on behalf of their clients in the scrip of GGAGL have been brought out below (Table – B):

Table B

Name of broker	No. of Trades
Adolf Pinto	805
NCJ Shares and Stock Brokers Ltd.	981
Inventure Growth and Securities Ltd.	675
G R Pandya Share Broking Ltd.	821
Ramaben Samani Finance Pvt. Ltd.	530
Shiv Kumar H. Bissa	718

- d. Further, during the relevant period of time, various instances of circular trading among the said group including noticees have been observed. A few instances of such exact circular trade have been brought out below (Table - C):

Table C

Selling Member	Sell Client	Buying Member	But Client	Qty. Traded
August 28, 2002 (Between 11:09:57 to 02:54:23)				
Inventure Growth	Mangiram	Ramaben Samani	Abhayraj Shukla	1,700
Ramaben Samani	Abhayraj Shukla	Adolf Pinto	Kenneth Pinto	1,700
Adolf Pinto	Kenneth Pinto	S.K. Bissa	Mahesh Bissa	1,700
S. K. Bissa	Mahesh Bissa	G.R. Pandya	Own account	1,700
G. R. Pandya	Own account	NCJ Shares	Own account	1,700
NCJ Shares	Own account	Inventure Growth	Mangiram	1,700
September 04, 2002 (Between 11:11:07 to 02:38:01)				

Inventure Growth	Mangiram	Ramaben Samani	Abhayraj Shukla	2,500
Ramaben Samani	Abhayraj Shukla	Adolf Pinto	Kenneth Pinto	2,500
Adolf Pinto	Kenneth Pinto	G.R. Pandya	Own account	2,500
G.R. Pandya	Own account	NCJ Shares	Own account	2,500
S.K. Bissa	Mahesh Bissa	Inventure Growth	Mangiram	2,500
September 16, 2002 (between 11:12:27 to 02:08:42)				
Inventure Growth	Mangiram	Ramaben Samani	Abhayraj Shukla	3,500
Ramaben Samani	Abhayraj Shukla	Adolf Pinto	Kenneth Pinto	3,500
Adolf Pinto	Kenneth Pinto	S.K. Bissa	Subhash Chaturvedi	3,500
S.K. Bissa	Subhash Chaturvedi	NCJ Shares	Own account	3,500
NCJ Shares	Own account	G.R. Pandya	Own account	2,500
NCJ Shares	Own account	Inventure Growth	Mangiram	1,000
G.R. Pandya	Own account	Inventure Growth	Mangiram	2,500
September 24, 2002 (between 11:22:43 to 03:38:50)				
Inventure Growth	Mangiram	Ramaben Samani	Abhayraj Shukla	4,000
Ramaben Samani	Abhayraj Shukla	Adolf Pinto	Kenneth Pinto	4,000
Adolf Pinto	Kenneth Pinto	S.K. Bissa	Subhash Chaturvedi	4,000
S.K. Bissa	Subhash Chaturvedi	G.R. Pandya	Own Account	4,000
G.R. Pandya	Own Account	NCJ Shares	Own Account	4,000
NCJ Shares	Own Account	Adolf Pinto	Kenneth Pinto	1,000
NCJ Shares	Own Account	Inventure Growth Sec. Ltd	Mangiram Sharma	3,000

I note from the above instances of circular trades that there was an exact matching of quantities entered by the noticees. From this, I consider that the exact matching of quantities entered by the entities was not accidental and clearly shows some concerted efforts to get the orders matched with each other.

- e. From the above discussion, I find that the noticees while acting in a group, had indulged in circular trades regularly as may be clear from the details given hereunder:
 - i. A total of 4,530 trades were executed among the group of clients/ brokers and thereby a substantial volume was created.
 - ii. The time difference between buy orders and sell orders ranged from 0-30 seconds at most instances.

- iii. The net delivery of noticees was nil on most of the occasions.
 - iv. The total intra-day volume contributed by the group ranged between 7% and 22%.
- f. Aforesaid facts point out that the orders of most of the trades entered by the noticees were punched in with preconceived motive and prior arrangement that the orders would be picked up by a particular client of the group 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 into 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. The noticees had indulged in such trades with regularity which projected volumes in the scrip in a way that was not market determined but was with a motive to induce innocent investors to enter the market. Such transactions are clearly not genuine transactions and were solely entered by the noticees for creating misleading appearance of trading in the scrip.
- g. Most of the trades in circular pattern were synchronized. The said trades were carried out for number of days and the timing for the orders so placed also matched at most instances ranging from 0-30 seconds. The occurrence of such structured and synchronized deals in circular manner persistently cannot be a co-incidence because the shares were rotated intraday within a closed group of brokers and clients. Even though screen based trading system is faceless in nature and maintain anonymity of the counterparty broker/ client, it is also an established fact that two parties with prior intent can match their trades with each other by placing orders simultaneously at the same price. In the present case, the circular trading on so many days clearly 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.

- 13.** From the facts given in para above, I find that the trading pattern indulged into by the noticees and the group was in the nature of circular trades since they 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 noticees had resulted in creation of artificial volume in the scrip. The pattern of trading indicates 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 the noticees and the group reveal that they were having 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 primarily be attributed to the trades done by the noticees. Thus, from the aforesaid acts of noticees, I am of the view that the charge of violation of provisions of Regulation 4(a), (b), (c) and (d) of PFUTP Regulation (as applicable at the time) read with Regulation 4(1), 4(2) (a), (b), (e) and (g) of SEBI (Prohibition of Fraudulent and Unfair Trade Practice relating to Securities Market) Regulations, 2003 are established.
- 14.** 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 noticees, Mr. Subhash Chaturvedi (PAN: AAAPC 6030G), Mr. Kenneth A. Pinto (PAN: AHUPP 6300K), Mr. Abhayaraj Shukla and Mr. Mangiram Sharma (PAN: AAQPS 0917G) 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.

15. The stock exchanges are hereby directed to permit the respective members to square off their existing open positions, if any, at the earliest in Futures and Options segment.
16. This order shall be served on all recognized stock exchanges and depositories to ensure that the noticees are not allowed to undertake transactions as prohibited in para 14 above.
16. This order shall come into force with immediate effect.

DATE : 19/JULY/2010
PLACE : MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA