

**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. P.B. Chandrashekhhar

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 was 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 scrip. Out of these two groups, the group consisting of four brokers namely DPS Shares and Securities Pvt. Ltd., Unique Stockbro Pvt. Ltd., Networth Broking Ltd. and Action Financial Services (I) Ltd. and their clients were found trading intra-day for 40 days in circular manner during the relevant period in

the scrip. The total volume generated by way of such circular trades was 4,28,749 shares i.e. about 19% of the total quantity traded during the period under investigation. Its contribution was between 13 and 34% of day-wise volume. The price of the scrip increased from Rs.23.60 to Rs.98.25 during the period of circular trading i.e. August 1, 2002 to September 30, 2002. *Inter alia* it was found that Mr. P.B. Chandrashekhar (hereinafter referred to as 'noticee') while trading through broker Action Financial Services Ltd. (hereinafter referred to as 'AFSL'), had created artificial volumes in the scrip of GGAGL, by trading in circular manner.

4. Based on the findings of investigation, SEBI *inter alia* issued a show cause notice dated June 12, 2006 (hereinafter referred to as 'SCN') 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 was observed to be a 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 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 in any manner whatsoever for a particular period should not be initiated against him.
5. The SCN issued to noticee returned undelivered. Thereafter, attempts were made to serve the SCN through the broker of noticee i.e. AFSL. However, the broker also was unable to deliver the SCN. Pursuant to this, an opportunity of personal hearing was granted to noticee on July 14, 2008. The hearing notice also returned undelivered. Another opportunity of personal hearing was

granted to the noticee on September 02, 2009. This time again the hearing notice returned undelivered.

6. I note that SEBI had issued a press notification as a mode of substituted service on the noticee, 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, having complied with the principles of natural justice.
7. I have carefully considered the SCN and material available on record. I note that SCN has described the transactions entered by the noticee clearly, along with supporting evidence (i.e. trade details, instances of circular trades etc.).
8. 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 while trading in the scrip of GGAGL?

My findings on this issue are as under:

9. **Whether the noticee indulged in circular trading and was responsible for creating artificial volumes while trading in the scrip of GGAGL?**
 - a. The SCN has alleged a pattern of circular trading among four brokers namely DPS Shares and Securities Pvt. Ltd., Unique Stockbro Pvt. Ltd., Networth Broking Ltd. and Action Financial Services (I) Ltd. who were trading in the scrip of GGAGL for their clients. I note 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 noticee had traded in the scrip of GGAGL on 40 days. The trade quantities of the noticee in the scrip during the period of investigation were as under (Table - A):

Table- A

S.No.	Broker Name and Code	Client Name	Bought	Sold
1.	Action Financial Services (India) Ltd.	P.B. Chandrashekhar	1,20,479	1,11,030
2.	DPS Shares and Securities Pvt. Ltd.	Anju Gandhi Atul Gandhi Harshad Soham Sec. S S012	3,500 28,000 8,125 40,000 2,500 18,230	5,000 30,850 8,125 48,999 2,500 18,250
3.	Unique Stockbrokers Pvt. Ltd.	Hitesh Shah Trusha Goda	66,775 29,890	67,825 37,750
4.	Networth Broking Ltd.	I. U. Goda	1,11,250	98,420
Total			4,28,749	4,28,749

- b.** I observe that the total volume generated by noticee and the other clients constituting the group had together created a volume of 4,28,749 shares i.e. about 19% of the total trading volume of 22,75,804 shares during the relevant period. I note that the total number of shares on buy and sell side of the group is exactly matching i.e. 4,28,749 shares. I observe from table A above, that the noticee had the highest contribution in the said group trades. Noticee in association with the other entities active in the scrip had created an artificial volume of 2,31,509 shares by way of trading in circular manner i.e. by purchasing 1,20,479 shares and selling 1,11,030 shares.
- c.** I note that the group consisting of noticee 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
Action Financial Services (I) Ltd.	1,863
DPS Shares and Securities Pvt. Ltd.	1,864
Networth Broking Ltd.	2,053
Unique Stockbro Pvt. Ltd.	1,710

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

Table – C

Buying Member	Buy Client Name	Selling Member	Sell Client Name	Quantity Traded
August 01, 2002 (between 13:21:55 to 14:36:30)				
Unique Stock.	Hitesh Shah	Networth Broking	I. U. Goda	1,250
Networth Broking	I.U. Goda	Action Financial	P.B. Chandrashekhhar	1,250
Action Financial	P.B. Chandrashekhhar	DPS Shares	Harshad	1,250
DPS Shares	Harshad	Unique Stock.	Hitesh Shah	1,250
August 28, 2002 (between 10:27:59 to 10:44:32)				
Networth Broking	I.U. Goda	Unique Stock.	Hitesh Shah	2,500
Unique Stock.	Hitesh Shah	Action Financial	P.B. Chandrashekhhar	2,500
Action Financial	P.B. Chandrashekhhar	DPS Shares	Soham Sec.	2,500
DPS Shares	Soham Sec.	Networth Broking	I.U. Goda	2,500
September 13, 2002 (between 13:14:46 to 14:02:38)				
DPS Shares	Soham Sec.	Unique Stock.	Hitesh Shah	3,750
Unique Stock.	Hitesh Shah	Action Financial	P.B. Chandrashekhhar	3,750
Action Financial	P.B. Chandrashekhhar	Networth Broking	I.U. Goda	3,750
Networth Broking	I.U. Goda	DPS Shares	Soham Sec.	3,750
September 25, 2002 (between 11:18:16 to 14:51:23)				
Networth Broking	I.U. Goda	Action Financial	P.B. Chandrashekhhar	6,250
Action Financial	P.B. Chandrashekhhar	DPS Shares	Atul Gandhi	6,250
DPS Shares	Atul Gandhi	Unique Stock.	Trusha Goda	4,250
Unique Stock.	Trusha Goda	Networth Broking	I. U. Goda	4,250

I note from the above instances of circular trades that there was an exact matching of quantities entered by the noticee. 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 noticee while acting in a group, had indulged in circular trades regularly as may be clear from the details given hereunder:

- i. A total of 7,490 trades were executed among the group of clients and a volume of 4,28,749 shares was created accounting for 19% of the total trading volume.
 - ii. The time difference between buy orders and sell orders ranged from 0-60 seconds at most instances.
 - iii. The net delivery of noticee was nil.
 - iv. The total intra-day volume contributed by the group of clients ranged from 13% to 34%.
- f. Aforesaid 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 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 in to 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 noticee 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 noticee 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 0-60 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 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.

- 10.** From the facts given in para above, I find that the trading pattern indulged into by the noticee 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 noticee 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 noticee and the group reveal 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 primarily be attributed to the trades done by the noticee. Thus, from the aforesaid acts of noticee, 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.
- 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 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. P.B. Chandrashekhhar 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. 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.
13. 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 11 above.
14. 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