

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

**IN THE MATTER OF ETC NETWORKS LIMITED
In respect of Stellar Fiscal Services Pvt. Limited**

Date of hearing: July 30, 2010

Appearances:

**For Noticee: Mr. Nikhil Shah, Director
Mr. U.C. Shukla, Company Secretary**

**For SEBI: Mr. Kirti Kumar Jadhav, Presenting Officer
Mr. A.S. Mithwani, Deputy General Manager
Ms. Chhavi M. Kapoor, Assistant General Manager
Mr. Pradeep Kumar, Legal Officer**

ORDER

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

- 1.** Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted investigation into the buying selling and dealing into the scrip of ETC Networks Limited (hereinafter referred to as 'ETC') for the period of January 1, 2001 to April 6, 2001 *inter alia* to ascertain whether there was any violation of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as 'SEBI Act') and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations').
- 2.** During the period of investigation the price of the scrip opened at ₹121.25 as on January 01, 2001 and declined to a low of ₹22 as on April 06, 2001. The trading volume in the scrip ranged from 25 shares to 27,850 shares during the relevant period. The investigation revealed that one Stellar Fiscal Services Pvt. Ltd. (hereinafter referred to as 'noticee') an entity connected to

ETC had received funds from it. Noticee used the amount so received for making payments for its trade in the scrip of ETC.

3. On completion of investigations, SEBI issued a Show Cause Notice dated September 08, 2009 (hereinafter referred to as 'SCN') to noticee under Section 11B of the SEBI Act. The SCN alleged that noticee was having close links with ETC and had received funds from it for creating buying pressure in the scrip. Further, it was alleged that noticee entered buy orders in the scrip and executed trades at the end of the day at higher prices, thereby attempted to establish the closing price for such days. The SCN, therefore, alleged that the acts of noticee are in violation of Regulation 4(a) of PFUTP Regulations. Accordingly, SCN called upon the noticee to show cause as to why action under Section 11B of the SEBI Act, including restraining it from accessing the securities market and prohibiting from buying, selling or dealing in securities for a specific period should not be initiated against it.
4. Noticee vide its letter dated October 09, 2009, replied to the SCN. Before proceeding further an opportunity of personal hearing was granted to the noticee on July 30, 2010. On the date fixed Mr. Nikhil Shah, Director and Mr. U.C. Shukla, Company Secretary appeared for the noticee and made oral submissions. They also requested for two weeks time for filing of written submissions, which was granted to them. Noticee filed its written submission vide letter dated August 17, 2010, which has been taken on record.
5. I have carefully considered the SCN, reply of noticee, written submissions and the material available on record. The contentions of the noticee in brief, are:
 - All facts relating to change of directors and change in registered office were intimated to the Registrar of Companies (hereinafter referred to as 'RoC') by filling the required forms as required under the Companies Act, 1956.

- Special power of attorney was given to Mr. Jogish Mehta only for the purpose of representing to the RoC for matters relating to company incorporation.
 - Strategy of the company was to create value by investing in the shares of other companies.
 - Stellar had advanced an Inter Corporate Deposit to ETC as it was facing liquidity crunch.
 - Had bought the shares of ETC as a long term investment strategy and the said shares were sold about 18 months after the date of purchase at a much lower price.
 - Receipt of ₹17,00,000 and ₹13,00,000 was the repayment of loan by ETC. Payment of ₹6,00,000 was constructive payment of loan by ETC to the broker on their behalf and instructions.
 - ETC is in the business of broadcasting and Stellar is in the business of investing in shares. ETC has not funded Stellar for any activities related to the investment of shares and the shares acquired by it were from their own funds.
 - About 9 years have passed since the shares were acquired and it is difficult to recollect the exact facts and circumstances under which the orders were executed.
- 6.** Having considered the above, I note that noticee has not denied of trading in the scrip of ETC and receiving the money from ETC. Taking note of these, the issues arises for my consideration are:
- a.** Whether the noticee was giving buy support to the scrip of ETC and prevented it from further falling?
 - b.** Whether the noticee had received funds from ETC for trading in the scrip of ETC?
- 7.** Whether the noticee was giving buy support to the scrip of ETC and prevented it from further falling?

- a. From the SCN and the statement of director of noticee, I note that the noticee and ETC were having close relationship at the relevant point of time. It has been argued that the promoters of noticee namely Mr. Jogish Mehta and Mr. Rakesh H. Dharawat became the auditor and Chief Financial Officer respectively of ETC pursuant to their exit as promoter of the noticee in the year as 1999-2000.
- b. I note from the trading data in the scrip, during the relevant period, that the price of the scrip was continuously going down. However, the noticee was found actively trading in the scrip of ETC during the same period through its broker Shailesh Merchant Stock Brokers Pvt. Ltd. (hereinafter referred to as 'Shailesh') to whom it was introduced by Jogish Mehta.
- c. From the trading pattern of the noticee, it is seen that noticee was entering only buy orders in the scrip that also mostly at the end of the day, the buy orders of the noticee constituted 17.18% to 67.56% of the total market volume in the scrip. I note that most of these orders were entered at the higher price than the prevailing market price. The settlement-wise trading details of the noticee in the scrip of ETC have been tabled below:

TABLE - A

Settlement No	Buy Qty.	Settlement Volume	% to Settlement Volume	Sell Qty.	% to Settlement Volume
41	700	4,550	15.38%		
42	5,950	7,750	76.77%		
43	1,000	3,050	32.7%		
44	2,500	3,800	65.7%	50	1.31%
45	1,250	1,850	67.56%		
46	1,100	6,400	17.18%		
47	6,000	11,550	51.9%		
48	4,100	6,650	61.6%		

The table below brings out the instances of the buy orders entered by the noticee continuously at the higher price:

TABLE - B

Order No.	Member Code	Client Code	Qty .	Rate	B/S	Trade Date	Time	Counter Party Member
72900100010001582	D0729	Y4059	50	110.50	B	10/01/01	15:15:05	D0623
72900100010001582	D0729	Y4059	50	110.50	B	10/01/01	15:15:05	D0623
72900100010001583	D0729	Y4059	1,250	110.50	B	10/01/01	15:28:40	D0623

72900100010001584	D0729	Y4059	50	117.50	B	10/01/01	15:28:56	D0549
72900100010001584	D0729	Y4059	50	117.50	B	10/01/01	15:28:56	D0549
72900100010001585	D0729	Y4059	100	118.00	B	10/01/01	15:29:08	D0748
72900100010001586	D0729	Y4059	100	119.00	B	10/01/01	15:29:19	D0748
72900100010001587	D0729	Y4059	50	117.00	B	10/01/01	15:29:32	D0792
72900100010001587	D0729	Y4059	100	120.00	B	10/01/01	15:29:32	D0549
72900100010001587	D0729	Y4059	100	120.50	B	10/01/01	15:29:32	D0400
72900100010001587	D0729	Y4059	100	122.00	B	10/01/01	15:29:32	D0463
72900100010001587	D0729	Y4059	100	122.00	B	10/01/01	15:29:32	D0463
72900100010001587	D0729	Y4059	50	122.40	B	10/01/01	15:29:32	D0748
72900100010001588	D0729	Y4059	50	123.00	B	10/01/01	15:29:48	D0592
72900100010001588	D0729	Y4059	100	124.20	B	10/01/01	15:29:48	D0748
72900100010001588	D0729	Y4059	50	129.00	B	10/01/01	15:29:48	D0463
72900100010001699	D0729	Y4059	100	104.00	B	31/01/01	15:11:25	D0352
72900100010001700	D0729	Y4059	50	104.00	B	31/01/01	15:14:03	D0352
72900100010001700	D0729	Y4059	50	104.00	B	31/01/01	15:14:03	D0352
72900100010001700	D0729	Y4059	50	104.00	B	31/01/01	15:14:03	D0352
72900100010001700	D0729	Y4059	50	104.00	B	31/01/01	15:14:03	D0352
72900100010001700	D0729	Y4059	50	104.00	B	31/01/01	15:14:03	D0352
72900100010001700	D0729	Y4059	50	104.00	B	31/01/01	15:14:03	D0352
72900100010001700	D0729	Y4059	50	104.00	B	31/01/01	15:14:03	D0352
72900100010001700	D0729	Y4059	50	104.00	B	31/01/01	15:14:03	D0352
72900100010001700	D0729	Y4059	50	105.00	B	31/01/01	15:14:26	D0748
72900100010001700	D0729	Y4059	50	105.00	B	31/01/01	15:14:26	D0748
72900100010001702	D0729	Y4059	100	106.00	B	31/01/01	15:14:35	D0748
72900100010001703	D0729	Y4059	100	108.50	B	31/01/01	15:14:51	D0549
72900100010001704	D0729	Y4059	100	110.00	B	31/01/01	15:15:01	D0549

From the above, it is seen that the orders so placed by the noticee were within a few seconds for small quantities.

- d. Such continuous placing of the orders by the noticee at higher prices points to its attempts to give buying support to the falling stock prices of the scrip of ETC and preventing it from further fall.
8. Whether the noticee had received funds from ETC for trading in the scrip of ETC?
 - a. I have seen the allegation leveled against the noticee that it used to receive payments for its trade in the scrip of ETC from the account of ETC, which were being utilized by it for making payment to its broker. I note the argument of the noticee that it had advanced an inter corporate loan to ETC which was repayable 'on demand' and the alleged payments are the repayment of the

said loan by ETC. Noticee has submitted a copy of MoU entered by it with ETC for inter corporate loan to the extent of ₹1,50,00,000. I have seen the copies of books of accounts (ledger copies) submitted by the noticee and note that these are not certified by the auditor.

- b. A perusal of the said MoU shows that the noticee had to charge an interest of 12% per annum from ETC on the said loan. However, the ledger copies nowhere mentions about the interest part even though the same was to be charged with quarterly rest as per the MoU. I further note that the MoU filed by the noticee along with the written submission is neither registered nor notarized.
- c. Noticee has also submitted a letter dated January 05, 2001, wherein it had requested ETC to make an urgent payment of ₹6,00,000 to Shailesh (broker of the noticee) against its loan to ETC. I note that ETC vide its letter dated January 06, 2001, intimated noticee that it had issued a cheque no. 068464 dated January 06, 2001 for ₹6,00,000 payable to Shailesh. I have considered the submission of the noticee and note that the corresponding entry of such payment in the ledger copy to Shailesh by ETC shows the date of February 20, 2001, this creates doubt on the version of the noticee.
- d. Having seen the above noted discrepancies, I am of the considered view that the document submitted by the noticee cannot be taken at their face. As already noted above, there was selling pressure in the scrip during the period of investigation and no prudent investor would have entered the orders at the higher prices when the shares were available for a lower price. The strategy of the noticee to invest in the shares of ETC at higher prices cannot be said to be that of a prudent investor. I also note that during the relevant period the noticee had only traded in the scrip of ETC.
- e. The conduct of the noticee of entering orders mostly at higher price that also at the end of the day shows that it was making attempts to prevent the further

fall in the prices of the scrip. The argument of the noticee that the shares bought by it were for the investment purposes and sold after about 18 months of their purchase finds no merit as the discussion above shows that the noticee was receiving payments from ETC for trading in the scrip. Otherwise no prudent investor would have dumped its money in scrip which was witnessing continuous fall.

9. Such conduct of noticee is likely to induce the innocent genuine investors to trade in the scrip. Hence, I find these acts of the noticee in violation of the provisions of Regulation 4 (a) of PFUTP Regulations.
10. Therefore, taking into consideration the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Section 19 read with Section 11B of the Securities and Exchange Board of India Act, 1992, I do hereby restrain Stellar Fiscal Services Pvt. Limited (PAN: AAACS 9279A) from buying, selling or dealing in securities market whatsoever or accessing the securities market, directly or indirectly, for a period of six months from the date of this order.
11. The stock exchanges are hereby directed to permit the respective members to square off its 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 : 18/NOV/2010
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA