

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: DR.K.M.ABRAHAM, WHOLE TIME MEMBER**

ORDER

DIRECTIONS UNDER SECTIONS 11(4) AND 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AGAINST HARBINGER TRADING COMPANY PRIVATE LIMITED AND M/S. S.RAMDAS IN RESPECT OF THEIR DEALINGS IN THE SHARES OF CEAT LIMITED

1. The Securities and Exchange Board of India (hereinafter referred to as SEBI) had issued notices dated August 31, 2004 to Harbinger Trading Company Private Limited and M/s. S. Ramdas (together referred to as the entities and individually by their respective names) in respect of their dealings in the shares of Ceat Limited (hereinafter referred to as the Company) for the period from January to March 2000 and from March to May 2001. The said notices had alleged that the entities had aided and assisted their group company for tiding over the financial commitment to the stock exchange so as not to default payment and utilized the stock exchange mechanism to fulfil the objectives of their group and in the process indulged in trades which were fictitious and done with an intention to create artificial appearance of trading in the securities market and appeared to have acted in concert with the stock brokers in violation of Regulation 4(b) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the PFUTP Regulations). The said notices required the entities to show cause as to why suitable action as specified under Sections 11(4) and 11B 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 should not be taken.

2. The entities filed their respective replies, vide letters dated September 16, 2004. Subsequently, the entities had filed applications for passing of consent orders in terms of the SEBI Circular dated April 20, 2007, in respect of the present proceedings. Pursuant to the rejection of the said applications, the entities appeared through Mr. Bhupen Dalal, Advocate, in a hearing before me on July 2, 2009 and made submissions. The learned advocate while making submissions, requested to dispose off all proceedings pending against the entities and their group concern. Thereafter, Mr. Bhupen Dalal, Advocate, vide letter dated September 22, 2010 submitted the written submission of the entities in the matter. The replies and the submissions made by the entities are dealt with in the later part of this Order.

3. I have considered the notices issued to the entities, their submissions, written as well as oral, and other material available on record. The following facts from the notices are worth noting for a proper appreciation of the case: The investigation in the matter had been initiated on the basis of an investigation conducted by the National Stock Exchange of India Limited (hereinafter referred to as NSE). NSE had observed for the period from January to March 2000 that two groups - "HB Group" and "CFL Group" were trading heavily in the shares of the Company and accounted for around 42% of the gross traded quantity in the market in Settlement No. 2000007 and 40% in Settlement No. 2000008. According to the notice, the CFL Group comprised of the entities - CFL Securities Limited, Tropical Securities and Investments Private Limited, Harbinger Trading Company Private Limited, M/s. S. Ramdas and Pursarth Trading Company Private Limited. Further, NSE had observed during the period from March to May 2001 that CFL Securities Limited had entered into several structured/matched transactions with the stock brokers, DGP Securities Limited, Rosy Blue Securities Limited, Ventura Securities Limited, Fincap Portfolio Limited and HB Securities Limited and that the total of the structured deals executed by CFL Securities Limited accounted for 14.31%

of the overall market gross for the period under scrutiny. The Bombay Stock Exchange Limited (hereinafter referred to as BSE) had observed that the trading member, Tropical Securities and Investments Private Limited had traded mainly on behalf of Harbinger Trading Company Private Limited.

4. The notice issued to M/s. S. Ramdas had mentioned that the analysis of the trade log had revealed that for the shares which were sold by Rosy Blue Securities Limited for their clients, Tropical Securities and Investments Private Limited and M/s. S. Ramdas (1,00,000 shares each of the Company) in Settlement Nos. 2001012 and 2001015, the counterparty stock broker was CFL Securities Limited buying for its clients, Pursarth Trading Company Private Limited and CFL Trading A/c. It was alleged that the clients belonging to the same group were involved in both purchasing and selling the shares of the Company. In this regard, I also note that Annexure 1 (enclosed with the notice issued to M/s. S. Ramdas) contained the details of structured/matched transactions entered into by the said entity through Rosy Blue Securities Private Limited during Settlement No. 2001015. The counterparty stock broker for the said transactions was CFL Securities Limited, admittedly a group entity. From the annexure, I also note that 1,00,000 shares of the Company were sold by M/s. S. Ramdas on April 12, 2001 (9000 shares) and April 16, 2001 (91,000 shares).

5. During the investigation period, Harbinger Trading Company Private Limited was found to have traded through the stock brokers, CFL Securities Limited (in NSE), Tropical Securities and Investments Private Limited (in BSE) and Lallubhai Ranchoddas Share Brokers Private Limited (in BSE), in the following manner: purchased 5,59,750 shares through Tropical Securities and Investments Private Limited; 1,00,000 shares through CFL Securities Limited and sold around 1,05,000 shares through Lallubhai Ranchoddas Share Brokers Private Limited. The notice had mentioned that an analysis of the trade log was

done and was observed that out of the aforesaid buy quantity of 5,59,750 shares through Tropical Securities and Investments Private Limited, the counterparty stock brokers in respect of 4,43,300 and 1,04,900 shares respectively were M/s. Pawankumar Parmeshwarlal and Lallubhai Ranchoddas Share Brokers Private Limited. It was alleged that Harbinger Trading Company Private Limited through its stock broker, Tropical Securities and Investments Private Limited entered into 51 matched/structured transactions for 4,43,300 shares with the family members of the stock broker, M/s. Pawankumar Parmeshwarlal. The said transactions were mentioned in Annexure 1 enclosed with the notice. It was also alleged that Harbinger Trading Company Private Limited had indulged in 7 matched/structured transactions for 1,04,900 shares. The details of the same were mentioned in Annexure 2 to the notice. I have perused the said annexure and note that Harbinger Trading Company Private Limited had on various days (January 6, 2000, February 3, 2000 and February 10, 2000) bought shares through Tropical Securities and Investments Private Limited, from itself (selling) through Lallubhai Ranchoddas Share Brokers Private Limited. The following table would make the same clear:

DATE	TIME	RATE	QUANTITY	BUY-STOCK BROKER	BUY-CLIENT	SELL-STOCK BROKER	SELL-CLIENT
January 6, 2000	3:11:49 pm	56.75	30000	Tropical	Harbinger	Lallubhai	Harbinger
January 6, 2000	3:12:59 pm	56.9	20000	Tropical	Harbinger	Lallubhai	Harbinger
January 6, 2000	3:13:56 pm	56.95	19900	Tropical	Harbinger	Lallubhai	Harbinger
January 6, 2000	3:24:46 pm	57.25	20000	Tropical	Harbinger	Lallubhai	Harbinger
February 3, 2000	1:02:07 pm	73.00	5000	Tropical	Harbinger	Lallubhai	Harbinger
February 3, 2000	1:03:19 pm	73.50	5000	Tropical	Harbinger	Lallubhai	Harbinger
February 10, 2000	1:00:41 pm	63.90	5000	Tropical	Harbinger	Lallubhai	Harbinger

Tropical - Tropical Securities and Investments Private Limited
Lallubhai - Lallubhai Ranchoddas Share Brokers Private Limited
Harbinger - Harbinger Trading Company Private Limited

Thus, it is noticed that Harbinger Trading Company Private Limited was the ultimate client on both the buy as well as the sell side in respect of the above

mentioned trades. There has been no transfer of beneficial ownership of shares so traded as the same entity was buying from itself. A total of 1,04,900 shares were traded in this manner, which is quite substantial. As the buyer and the seller was the same, the aforesaid trades were fictitious and therefore the said trades cannot be said to have been executed with a bonafide intention.

6. Having mentioned the trades of the entities in the preceeding paragraphs, the next step would be to find whether the same had created false or misleading appearance of trading of the shares of the Company in the securities market during the relevant period. The notices issued to the entities had mentioned the statements of the representatives of few stock brokers, through whom the entities or the CFL group had traded during the relevant period. Based on the same, the notice had observed that the CFL Group was in financial difficulty and as a means to arrange finance, CFL and its related/associated entities sold shares on “spot” or “off-market” to various entities and would receive funds immediately. The entities who had bought such shares would in turn sell them on the stock exchange so as to safeguard their interest under the settlement guarantee fund of the stock exchange. The notices have further observed *“The above cycle of sale on spot/off market basis, subsequent sale by the purchasing entities on the market by entering into matched/structural deals with the entities who had initially offered the shares on spot/off market basis, continued settlement after settlement during the period under investigation. Therefore, the trading which took place on the exchange, during the period under investigation, was mirroring the finance arrangements which had crystallised outside the exchange as spot/off market deal. Most of the transactions, which took place during this time period, were matched/structured between broking entities, who were directly/indirectly a party to the financing transactions. Therefore, these matched/structured transactions were entered into with a motive.”* The notice had alleged that the trades of the entities had assisted their group company to tide over the financial commitment to the stock exchange and that the stock

exchange mechanism was utilised to fulfil the said objective and in process indulged in trades which were fictitious which created artificial appearance of trading in the securities market. In respect of the observations and allegations in the notice, M/s. S. Ramdas had in its reply dated September 16, 2004 had submitted as follows:

“Please note that, we along with our group associates have entered into transactions in the scrip of Ceat Limited during the period under investigation for the purpose of creating temporary funding arrangements to meet with the NSE/BSE pay-in obligations of our associates CFL Securities Ltd. (member NSE) and Tropical Securities & Investments Private Limited (member BSE) from time to time. We along with the whole group was passing through severe financial hardships during these periods and we had to resort to this methodology as a part of survival in the midst of hardships, as directed by groups/associates CFL Securities & Tropical Securities. You will find that either we or our group associates had made any benefits out of doing these transactions except that we made an attempt to survive in the midst of hardships and also we have not made any investor suffer by doing these transactions.....” (Emphasis supplied)

The said entity has reiterated the same in its submissions dated September 22, 2010, where it has been stated that the impugned transactions were merely *“spot funding”* and that *“there was no motive or intention to gain”* out of the same, *“though inadvertently it has resulted in excessive volume on those particular days”*.

7. Harbinger Trading Company Private Limited had made similar submissions. According to it, it was merely trying to be of help to their group associates, CFL Securities Limited and Tropical Securities and Investments Limited and that the purpose behind the transactions in the shares of the Company was to arrange temporary funding arrangements to meet with the pay-in obligations of NSE and BSE. Thus, it is the admission of the entities that they have indulged in the transactions in the shares of the Company for the purposes of helping their group companies, Tropical Securities and investments Private Limited and CFL Securities Limited (the stock brokers) towards satisfying their pay-in obligations to the stock exchanges. Both the entities have

also admitted that their trades have inadvertently resulted in excessive volumes and that they had not “resorted to any other violations except excessive volumes in ill liquid scrips”. Further, Harbinger Trading Company Private Limited had indulged in fictitious trades where it had traded with itself, as brought out in paragraph 5 above. The trades have therefore been executed not for the genuine purpose of purchase or sale. The same were therefore non-genuine and had created false volumes in the shares of the Company during the relevant period. Though, the details of the trades were mentioned in the notices issued to the entities, they did not dispute the same and instead admitted that their transactions on particular days had inadvertently resulted in excessive volumes. Therefore, the submission that they did not have any intention to create artificial volumes would not benefit them. Their trades have, thus created false and misleading appearance of trading in the securities market in the shares of the company during the relevant period, which was in contravention of Regulation 4(b) of the PFUTP Regulations. It has also been brought out in the notices that the entities have indulged in structured deals. Therefore, in the facts and circumstances of the case and for the reasons stated above, I find that the entities have contravened Regulation 4(b) of the PFUTP Regulations while trading in the shares of the Company during the investigation period. Considering the case in totality, I am of the considered view that the entities be restrained from dealing in securities and accordingly, the present proceedings against the entities are disposed of as ordered herein below.

8. In view of the foregoing, I, in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 and Sections 11(4) and 11B thereof read with Regulations 11 and 13 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, hereby restrain Harbinger Trading Company Private Limited and

M/s. S. Ramdas (having their address at 24-A, Bhupen Chambers, Ground Floor, Dalal Street, Mumbai- 400001), from accessing the securities market and further prohibit them from buying, selling or otherwise dealing in the securities market, either directly or indirectly, for a period of two months.

9. This Order shall come into force with immediate effect.

DR. K. M. ABRAHAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

PLACE: MUMBAI
DATE: JANUARY 17, 2011