WTM/PS/79/IVD/ID-10/MARCH/2011

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: PRASHANT SARAN, WHOLE TIME MEMBER

IN THE MATTER OF G. G. AUTOMOTIVE GEARS LIMITED

In respect of G. R. Pandya Share Broking Limited

(SEBI Registration No. INB 010997538)

ORDER

Under Regulation 28(2) read with Regulation 29 of Securities and Exchange Board of India (Intermediaries) Regulations, 2008

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted investigation into the dealings in the scrip of G.G. Automotive Gears Limited (hereinafter referred to as 'GGAGL') for the period of August 01, 2002 to October 16, 2002 (hereinafter referred to as the 'investigation period').

2. The trading details of the persons and the entities who had traded in the scrip were collected and analyzed along with the data of the volumes contributed. During the period of investigation, the price of the scrip increased from ₹23 as on August 01, 2002 to ₹115.30 as on October 16, 2002. A sharp volatility in the 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 as on September 18, 2002 to 19,962 shares as on October 16, 2002. The total volume traded during the investigation period was 22,75,804 shares.

3. The investigation *prima facie* revealed that circular trading by two groups of brokers and clients contributed to the unusual spurt in the traded volumes of the scrip. Out of these two groups, the group consisting of six brokers namely G.R. Pandya Share Broking Limited (hereinafter referred to as 'noticee'), Adolph Pinto, Inventure Growth and Securities Limited (hereinafter referred to as 'Inventure'), NCJ Share and Stock Brokers Limited (hereinafter referred to as 'NCJ'), Ramaben Samani Finance Private Limited

(hereinafter referred to as 'Ramaben') and Shiv Kumar H. Bissa presently known as Shreehari Hira Stock Broking Private Limited (hereinafter referred to as 'Shreehari') and their clients were found trading amongst themselves intra-day for 24 days in circular manner during the period of investigation in the scrip. The total volume generated by way of such circular trades was 3,30,105 shares i.e. about 15% of the total quantity traded during the period under investigation. The investigation revealed that through collusion, the brokers and their clients have indulged in circular and synchronized trading and transacted in the shares of GGAGL in such a manner which led to the creation of artificial volumes in the market leading to significant price movement in the scrip.

4. Based on the findings of the investigation, SEBI initiated enquiry proceedings as against the noticee in terms of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as 'Enquiry Regulations'), by appointing an Enquiry Officer under Regulation 5(1) of Enquiry Regulations vide order dated January 09, 2006, read with subsequent order dated November 19, 2007. SEBI appointed an Enquiry Officer, to enquire into the alleged violation of the provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practice Relating to Securities Markets) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations') and the Code of Conduct specified under Schedule II of the SEBI (Stock Brokers and Sub-Broker) Regulations, 1992 (hereinafter referred to as 'Broker Regulations'). As the Enquiry Regulations were repealed with effect from the notification of the SEBI (Intermediaries) Regulations, 2008, the Enquiry Officer/ Designated Authority (hereinafter referred to as the 'Enquiry Officer') submitted his Report dated February 05, 2009, in terms of Regulation 27 of the SEBI (Intermediaries) Regulations, 2008, recommending thereby a penalty of suspension for a period of one month to the noticee for violating the provisions of Regulation 4(a), (b), (c) and (d) of PFUTP Regulations and Clauses A (1), (2), (3), (4) and (5) of the Code of Conduct prescribed for Stock Brokers in Schedule II under Regulation 7 of Broker Regulations.

5. Subsequently, a show cause notice dated March 16, 2009 (hereinafter referred as SCN') under Regulation 13(2) of the Enquiry Regulations read with Regulation 28(1) and Regulation 38(2) of the SEBI (Intermediaries) Regulations, 2008, was issued by SEBI to the noticee, asking it to show cause as to why an appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed. The noticee was advised to reply to the SCN, within twenty one days from the date of receipt thereof. It was also informed that in case of failure, it would be presumed that it had no explanation to offer and that SEBI shall be free to take such action in the manner as it deemed fit. A copy of the Enquiry Report was also forwarded to the noticee along with the SCN.

6. The SCN was duly delivered to the noticee, although, no reply was received from it. Before proceeding further in the matter, an opportunity of personal hearing was granted to the noticee on May 14, 2010. On the date fixed for hearing the noticee failed to appear for the personal hearing without any intimation. In the mean time, it came to light that a few details of the trade log relevant to the case had not been provided to the noticee. In compliance with the principles of natural justice, these details were also forwarded to the noticee vide letter dated May 19, 2010 and another opportunity of personal hearing was granted to the noticee on June 14, 2010. This time again, the noticee failed to appear for the personal hearing. Pursuant to this, a last opportunity for personal hearing was granted to the noticee on September 14, 2010, which was postponed to September 17, 2010. However, the noticee remained absent despite due intimation thereof. Further, no communication was received from the noticee. I note that sufficient opportunities have been given to the noticee to explain its case. In view of this, I am compelled to proceed with the matter *ex-parte*, on the basis of the material available on record, having complied with the principles of natural justice.

7. I have carefully considered the Enquiry Report, the SCN issued to the noticee and the material available on record. After having examined the said details, the issue that arises for my consideration is: Whether the noticee in collusion

with other brokers created artificial liquidity/ false market in the scrip of GGAGL?

8. Whether the noticee in collusion with other brokers created artificial liquidity/ false market in the scrip of GGAGL?

a. I note that the noticee had traded in his proprietary trading account (client code numbers T001 and T006) in the scrip of GGAGL. It is observed from the Enquiry Report that the noticee along with other brokers namely Adolf Pinto, NCJ, Inventure, Ramaben and Shreehari traded among themselves, contributing thereby a volume of about 15% of the total quantity traded during the investigation period in the scrip of GGAGL (details as shown in Table A). As already noted above, this group of brokers had traded in the scrip of GGAGL on 24 days during the investigation period.

Table – A

S.No.	Broker Name and Code	Client Name and code	Shares bought	Shares sold
1	Adolf Pinto (Clg. No. 13)	Kenneth A. Pinto (J1)	66,450	71,200
2	NCJ (Clg. No. 519)	Proprietary Account (YT02)	52,450	54,650
3	Inventure (Clg. No. 275)	Mangiram Sharma (6482)	61,050	71,905
4	**G R Pandya Share Broking Limited (Clg. No. 222)**	**Office trading account (T001, T006)**	**47,300**	**46,700**
5	Ramaben (Clg. No. 101)	A.R. Shukla (4133)	70,955	51,950
6	Shreehari (Clg. No. 267)	Subhash Chaturvedi (4959)	31,900	33,700
		Total	**3,30,105**	**3,30,105**

b. I note that as per the table-A above, the volume contributed by the group of six brokers named above is 3,30,105 shares. However, it is seen from the trade log (provided to the noticee vide letter dated May 19, 2010) that the total quantity of shares traded among the group of six brokers is 3,81,005. Thus, there is a discrepancy in calculating the total volume contributed by the group consisting of noticee and others named above. In order to proceed further, I take the lowest figure as given in the Enquiry Report i.e. of 3,30,105 shares. However, I note that this also constitutes a substantial portion of the total trading volume during the relevant period.

c. From the table A above, I note that total number of shares on the buy and sell side of the group as a whole has remained the same i.e. 3,30,105 shares. Out of this, the noticee had purchased 47,300 shares and sold 46,700 shares while trading through its proprietary trading account. It is seen that the Enquiry Report has brought out the analysis of order/ trade log in the scrip of GGAGL which reveals the transaction of the noticee as under:

Table – B

Trades of noticee	Trading period		Counterparty		No. of shares	% to trades synchronized
	From	To	Member	Client		
Buy side	26-Aug-02	19-Sep-02	Adolf	Kenneth A. Pinto	23,400	49.47
	18-Sep-02	25-Sep-02	Shreehari	Subhash	11,400	24.10
	13-Sep-02	30-Sep-02	NCJ	Prop. Account	12,500	26.43
	Total				**47,300**	**100.00**
Sell side	26-Aug-02	30-Sep-02	Inventure	Mangiram Sharma	14,750	31.58
	26-Aug-02	--	Ramanben	A.R. Shukla	550	1.18
	6-Sep-02	27-Sep-02	Adolf	Kenneth A Pinto	12,500	26.77
	26-Aug-02	25-Sep-02	NCJ	Prop. Account	18,900	40.47
	Total				**46,700**	**100.00**

From a perusal of the table B above, I note that 100% of the purchases of the noticee were with the brokers namely Adolf Pinto, NCJ and Shreehari and about 99% of the sales of the noticee with the brokers namely Adolf Pinto, NCJ and Inventure. The total purchase and the sale by the noticee in the shares of GGAGL were made only from five brokers as detailed in the table above.

d. I have seen the pattern of circular trading that was being followed by the noticee and other brokers in the group, while trading in the scrip of GGAGL. The instances thereof as also brought out in the Enquiry Report are being reproduced below:

Table – C

Date	Seller	Buyer/ seller	Buyer/ seller	Buyer/ seller	Buyer/ seller	Buyer/ seller	Buyer	Qty.
26-Aug-02	Inventure	Ramaben	Adolf	**Noticee**	NCJ		Inventure	1,000
27-Aug-02	Inventure	Ramaben	Adolf	**Noticee**	NCJ		Inventure	1,700
28-Aug-02	Inventure	Ramaben	Adolf	Shreehari	**Noticee**	NCJ	Inventure	1,700
30-Aug-02	Inventure	Ramaben	Adolf	**Noticee**	Shreehari	NCJ	Inventure	1,050
2-Sep-02	Inventure	Ramaben	Adolf	**Noticee**			NCJ	1,000

4-Sep-02	Inventure	Ramaben	Adolf	**Noticee**			NCJ	2,500
5-Sep-02	Inventure	Ramaben	Adolf	**Noticee**	Shreehari	NCJ	Inventure	2,500
6-Sep-02	Inventure	Ramaben				**Noticee**	Adolf	2,500
9-Sep-02	Inventure	Ramaben	Adolf	**Noticee**			NCJ	2,455
11-Sep-02	Inventure	Ramaben	Adolf	**Noticee**	Shreehari	NCJ	Inventure	2,500
12-Sep-02	Inventure	Ramaben	Adolf	**Noticee**	Shreehari	NCJ	Inventure	2,500
19-Sep-02	Inventure	Ramaben	Adolf	**Noticee**	Shreehari	NCJ	Inventure	2,800
23-Sep-02	Inventure	Ramaben				**Noticee**	Adolf	4,000
24-Sep-02	Inventure	Ramaben	Adolf	Shreehari	**Noticee**	NCJ	Inventure	3,000
25-Sep-02	Inventure	Ramaben	Adolf	Shreehari	**Noticee**	NCJ	Inventure	3,000

From the above details, I note that all the six brokers had followed the common pattern of circular trading. It is seen that on any given day, if one broker starts selling a particular quantity of shares, the second broker buys it, who in turn sells it to the third broker and the last broker finally sold it back to the first broker and completes the circle. As on August 28, 2002, it is seen that Inventure sold 1,700 shares to Ramaben, who further sold the same quantity to Adolf, who sold it to Shreehari, then to noticee and then the shares were sold to NCJ, who finally sold it back to Inventure.

e. From Table C, I note that the shares were being rotated in a circular manner among the group of brokers on a daily basis. It is seen that the trades were so well organized as the same number of shares went back to the original seller at the end of the day on most of the days. It is observed that similar pattern of circular trading was observed on 24 trading days and on all the 24 trading days, the circular trading was begun by Inventure. Out of these 24 days, all the six brokers named above had participated in the circular trading on 8 days. I note that the noticee had indulged in circular trading on 15 days out of the 24 trading days.

f. Having seen all this, I am of the considered view that matching of quantities entered by the entities was not accidental and shows concerted efforts to get the orders matched with each other. The total contribution of the noticee and the other brokers in the group to the circular trades is as under:

Table – D

Name of broker	Adolf Pinto	NCJ	Inventure	G.R. Pandya	Ramaben	Shreehari
No. of Trades	805	981	675	821	530	718

g. I note from the trade log provided to the noticee vide letter dated May 19, 2010 that the orders of most of the trades entered by the noticee were entered with startling proximity in the timings of entering of orders at the almost same price and quantity resulting into matching of orders. A few instances of the same have been reproduced below:

	Buy				Sell							
Date	**Order No.**	**Member Code**	**Client Code**	**Time**	**Order No.**	**Member Code**	**Client Code**	**Time**	**Qty.**	**Price**	**Time**	**Time diff.**
11-Sep-02	22200100010046043	D0222	T006	12:48:44	1300100010004687	D0013	J1	12:48:45	250	61.45	12:48:45	0:00:01
11-Sep-02	22200100010046043	D0222	T006	12:48:44	1300100010004687	D0013	J1	12:48:45	250	61.45	12:48:45	0:00:01
11-Sep-02	22200100010046043	D0222	T006	12:48:44	1300100010004687	D0013	J1	12:48:45	250	61.45	12:48:45	0:00:01
11-Sep-02	22200100010046043	D0222	T006	12:48:44	1300100010004687	D0013	J1	12:48:45	250	61.45	12:48:45	0:00:01
11-Sep-02	22200100010046043	D0222	T006	12:48:44	1300100010004687	D0013	J1	12:48:45	250	61.45	12:48:45	0:00:01
11-Sep-02	22200100010046043	D0222	T006	12:48:44	1300100010004687	D0013	J1	12:48:45	250	61.45	12:48:45	0:00:01
11-Sep-02	22200100010046043	D0222	T006	12:48:44	1300100010004687	D0013	J1	12:48:45	250	61.45	12:48:45	0:00:01
11-Sep-02	22200100010046043	D0222	T006	12:48:44	1300100010004687	D0013	J1	12:48:45	250	61.45	12:48:45	0:00:01
11-Sep-02	22200100010046043	D0222	T006	12:48:44	1300100010004687	D0013	J1	12:48:45	250	61.45	12:48:45	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	135	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	135	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	135	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	95	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	40	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	135	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	135	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	135	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	55	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	80	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	135	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046185	D0222	T006	12:35:27	1300100010004697	D0013	J1	12:35:26	135	64.8	12:35:27	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	115	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	115	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	115	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	115	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	40	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	75	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	115	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	115	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	115	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	80	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	35	64.9	12:35:51	0:00:01
12-Sep-02	22200100010046186	D0222	T006	12:35:50	1300100010004698	D0013	J1	12:35:49	115	64.9	12:35:51	0:00:01

The above details clearly indicates synchronization in the placing of the orders, as these appear to have been punched with preconceived motive and prior arrangement that the orders would be picked up by a particular client of the group on the opposite side. The total purchase of 47,300 shares and the sale of 46,700 shares of GGAGL by the noticee, was synchronized with the same set of entities. I note that large number of trades got matched regularly. These trades were carried out for many days and the timing of the orders so placed also matched at most instances within 0-60 seconds. The occurrence

of such structured and synchronized deals in a circular manner persistently cannot be a co-incidence because the shares were rotated intra-day within a closed group of clients and there was no change in the beneficial ownership of the shares. The execution of circular trading in a synchronized manner repeatedly for several days by the noticee and the group reveals that they were having nexus with each other and were acting in tandem as a group.

h. I observe from the Enquiry Report that the circular trading in the scrip by the group was started on August 26, 2002 with a quantity of 1,000 shares. Gradually, the quantity increased to 4,000 shares as on September 23, 2002. I note that along with such circular trading the price of the scrip increased from ₹46.90 per share as on August 26, 2002 to ₹100.20 per share as on September 30, 2002. I also note the following facts:

- A total of 4,530 trades were executed among the group of brokers and a volume of 3,30,105 shares was created accounting for 15% of the total trading volume.
- Time difference between buy orders and sell orders ranged from 0-60 seconds at most instances.
- The total intra-day volume contributed by the group ranged from 7.13% to 22.68%.

i. All these facts points to the active connivance of the noticee with its counterparty brokers. I note that even though the 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. I observe that the trading pattern followed by the noticee and the group is clearly in the nature of circular trades since they were the main entities who traded amongst themselves by executing synchronized trades with the intention that the orders of a particular entity get matched with the other. 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. I note that it is absolutely most unlikely that persons unknown to each other could trade continuously by placing orders in a circular manner and contribute significantly to the total volumes in the market.

j. The above discussed role of the noticee shows that it played a vital role in the game plan of the manipulation of the trading in the scrip of GGAGL. The noticee by carrying out synchronized transactions and circular trading, created artificial liquidity in the scrip of GGAGL and rigged the price upwards. Thus, from the aforesaid acts of the noticee, I am of the view that the charge of the violation of the provisions of Regulation 4(a),(b),(c) and (d) of the PFUTP Regulation stands established as against it.

9. From the above discussion and considering the nature of the trades, I note that noticee indulged in the pattern of trades which were not genuine, but manipulative as discussed above through its proprietary trading account.

Thus, I find that the noticee has failed to perform its statutory duties, which are expected from a prudent stock broker who has a duty not only towards its client but also towards maintaining the integrity of the securities market. A registered intermediary is expected to have high level of compliance of the rules/ regulations and the directives issued by SEBI.

10. In view of the discussion above, I find the noticee, guilty of the violation of said provisions of the PFUTP Regulation and the Code of Conduct prescribed for stock brokers as contained in Regulation 7 of the Broker Regulations.

11. I note that pursuant to the notification of the SEBI (Intermediaries) Regulations, 2008, the Enquiry Regulations have been repealed and in terms of Regulation 38(2) of the SEBI (Intermediaries) Regulations, 2008, notwithstanding such repeal, any enquiry commenced under the Enquiry Regulations, shall be deemed to have been commenced under the corresponding provisions of SEBI (Intermediaries) Regulations, 2008.

12. I, therefore, in the exercise of power conferred upon me by Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28(2) Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby suspend the certificate of registration of the stock broker, G.R. Pandya Share Broking Limited (SEBI Registration no. INB 010997538) for a period of one month.

13. This order shall come into force on expiry of twenty one days from the date of this order.

DATE : 15/03/2011
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA