

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

**IN THE MATTER OF DATABASE FINANCE LIMITED
In respect of G R Pandya Share Broking Ltd.**

Date of hearing: 17.08.2010 and 21.12.2010

Appearances:

For Noticees: None

For SEBI: Ms. Anita Kenkare, General Manager
Mr. Amol Ramchandra Hogade, Assistant General Manager and
Ms. Vasudha Goenka, Assistant Legal Adviser

ORDER

**UNDER REGULATION 28(2) OF THE SECURITIES AND EXCHANGE
BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008**

1. The Securities and Exchange Board of India (hereinafter referred to as 'SEBI') had initiated an enquiry vide Order dated October 9, 2006 under Regulation 5(1) of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (since rescinded, hereinafter referred to as the 'Enquiry Regulations') against G R Pandya Share Broking Ltd. (hereinafter referred to as 'the stock broker'/'the noticee'), a trading member of the Bombay Stock Exchange (hereinafter referred to as the 'BSE') and a stock broker registered with SEBI. The said enquiry was directed on the basis of the findings of an investigation conducted by SEBI into the dealings, *inter alia*, of the stock broker in the shares of Database Finance Ltd. (hereinafter referred to as 'Database' or 'the company' or 'DFL') during the period from April 1, 2002 to June 30, 2002 (hereinafter referred to as the 'period of investigation'/'investigation period'). The Enquiry Officer, on completion of the enquiry found that the stock broker had contravened Regulation 4(1), 4(2)(a), (b), (e), (g) & (n) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003 (hereinafter referred to as the 'PFUTP Regulations, 2003') and clauses A(1),(2),(3),(4) and (5) of Code of Conduct as specified in schedule II under Regulation 7 of the

SEBI (Stock Broker and Sub Broker) Regulations, 1992 (hereinafter referred to as the 'Broker Regulations') and vide Report dated January 29, 2010 recommended that the certificate of registration of the stock broker be suspended for a period of four months. The stock broker was found to have been involved in circular transactions, without intending change of ownership of the shares of DFL, thereby creating artificial volume and false appearance of trading in the scrip of DFL. Thereafter, SEBI vide notice dated February 02, 2010 (hereinafter referred to as the 'SCN') called upon the stock broker to show cause as to why the appropriate penalty including penalty as recommended by the Enquiry Officer/ Designated Authority (hereinafter referred to as the 'Enquiry Officer') should not be imposed on it. The noticee did not respond to the SCN notice despite several reminders. The opportunities of personal hearing, granted on August 17, 2010 and December 21, 2010 before me, were also not availed of by the noticee. In the absence of any submission/reply from the noticees, I am of the considered view that we may proceed with the matter *ex parte*, having complied with the principles of natural justice.

2. I have carefully considered the Enquiry Report and other material available on record. I note that the price of shares of Database went up from Rs.42.35 to Rs.82.90 (par value Re.1) during the period of investigation. Though the company had a total paid up capital of 5.33 crores, for the year that ended in July 2001 the net profit of the company was a negligible amount of Rs.3.6 lac, and for the year that ended in July 2002 the profit was Rs.3.7 lac. In the subsequent two quarters that ended on October 31, 2002 and January 31, 2003, the company had incurred losses to the tune of Rs.5.8 lac and Rs. 0.2 lac respectively. In the year that ended in July 2003, the net profit of the company was only Rs.0.9 lac. Thus, the company had shown a profit of hardly a few lac of rupees over the years, whereas the share price of the company was quoted 83 times the face value, which was unjustifiable.
3. I further note that the Enquiry Officer had observed that a group of entities, including a client Manu Sonate trading through the noticee, indulged in circular trading i.e. buying and selling among themselves, and contributed to significant rise in the volume and price of the scrip. During the investigation period, the group aggregately purchased 5,58,579 shares and sold 4,03,955 shares constituting 44.15% on gross purchase basis and 31.93%

on gross sale basis on the exchange. Also, 70.79% of the purchases and 97.89% of the sales of the group entities were confined to themselves. The details pertaining to the trades within the group of entities during the investigation period are given in the chart below:-

	Broker	Client	Total Buy Quantity	Total Sell Quantity	Buy among these clients	Sell among these clients	Buy % of Trade with group clients	Sell % of Trade with group clients
1	Vijay Bhagwandas Shah	Ridhi K Shah	32638	31570	29806	31570	91.32%	100.00%
2	Unique Stock Bro	Hitesh Shah	80287	49651	44837	47650	55.85%	95.97%
3	Networth Stock	Indumati Goda	75567	44379	45951	41420	60.81%	93.33%
4	G. R Pandya	Manu Sonate	53850	42980	46330	42980	86.04%	100.00%
5	Bhavesh R Mehta	Nimish U Goda	49620	28720	35102	26663	70.74%	92.84%
6	Narendra Tanna	Baban Sonate	52432	38282	44482	38282	84.84%	100.00%
7	Deepak Bhogilal Shah	Rajubhai U Goda	6780	10900	3700	9800	54.57%	89.91%
8	M. P. Vora Shares	Chandrakant K Shah	5950	8188	4950	8188	83.19%	100.00%
9	Action Financial	P B Chandrasekhar	82520	62570	61975	62170	75.10%	99.36%
10	Rajchandra Capital Services	Suniti K Shah	39650	24350	25090	24350	63.28%	100.00%
11	Mangal Keshav	Samir N Shah	2600	1755	2600	1755	100.00%	100.00%
12	Sushil Finance	Ajay Goda	1225	1500	1155	1500	94.29%	100.00%
13	Bharati Thakkar	S Thirunavukarasu	75460	59110	49460	59110	65.54%	100.00%
	Total		558579	403955	395438	395438	70.79%	97.89%

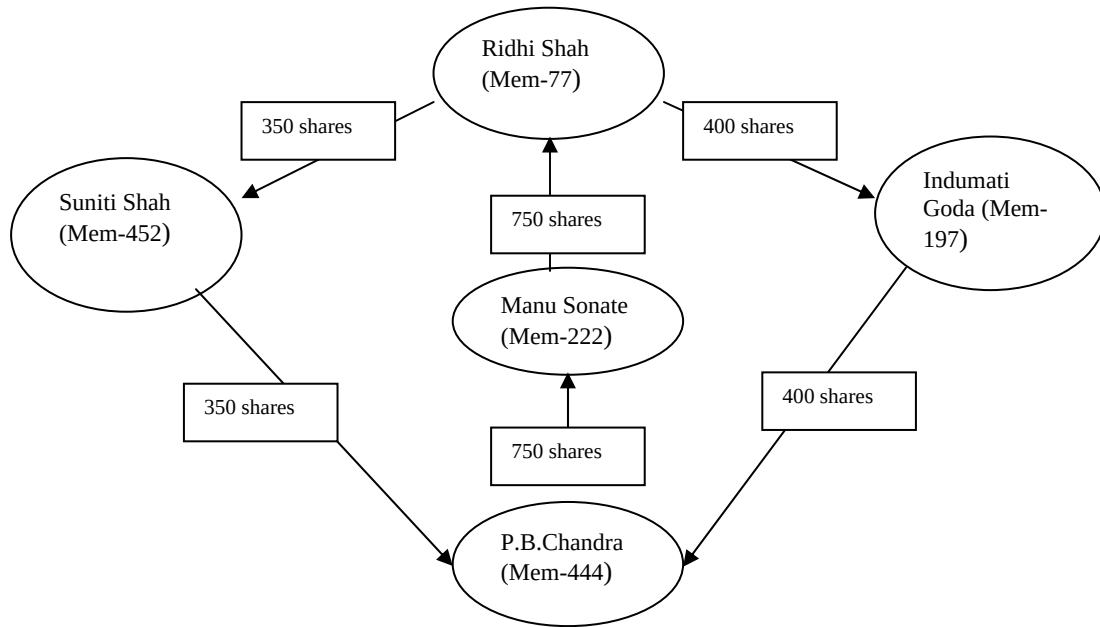
4. The purchases and the sales of the group constituted 99% of the total traded volumes during the month of April 2002. In April 2002, the price of the scrip increased from Rs.42.35 to Rs.63.75. Thereafter, in the month of May 2002 their purchases constituted 42% and sales constituted 36% of the market volume and the price increased from Rs. 62.65 to Rs.71.85. Thus, an increased volume by the group of entities is seen during the above period of significant price rise in the scrip.
5. I note that the noticee was the broker for Manu Sonate, one among the group entities, and traded during the period of investigation. The noticee had purchased 53,850 shares and sold 42,980 shares of DFL on behalf of Manu Sonate during the period of investigation. As mentioned above, the trading pattern amongst the group entities during the period of investigation was circular in nature. Thus, the noticee was also found to be a part of such circular transactions that led to price manipulation in the scrip of DFL. The instances of the trades in circular pattern wherein the noticee had also traded are given below:

May 6, 2002

Total no. of shares traded during the day were 13,040 shares, out of which 13,000 shares were traded among the group clients.

Instance 1:

Date	Time	Buy Member	Buy Client Code	Sell Member	Sell Client	Total	Time difference between buy and sell order
5/6/2002	10:08:13	Network Stock Broking	Indumati Goda	Vijay Bhagwandas Shah	Ridhi Shah	400	0:01:14
5/6/2002	10:10:53	Rajchandra	Suniti Shah	Vijay Bhagwandas Shah	Ridhi Shah	350	0:03:35
5/6/2002	10:40:02	G R Pandya	Manu Sonate	Action Financial	P B Chandrasekhar	750	0:00:12
5/6/2002	10:53:21	Vijay Bhagwandas Shah	Ridhi Shah	G R Pandya	Manu Sonate	750	0:00:06
5/6/2002	11:06:46	Action Financial	P B Chandrasekhar	Network Stock Broking	Indumati Goda	400	0:01:20
5/6/2002	11:08:34	Action Financial	P B Chandrasekhar	Rajchandra	Suniti Shah	350	0:00:19

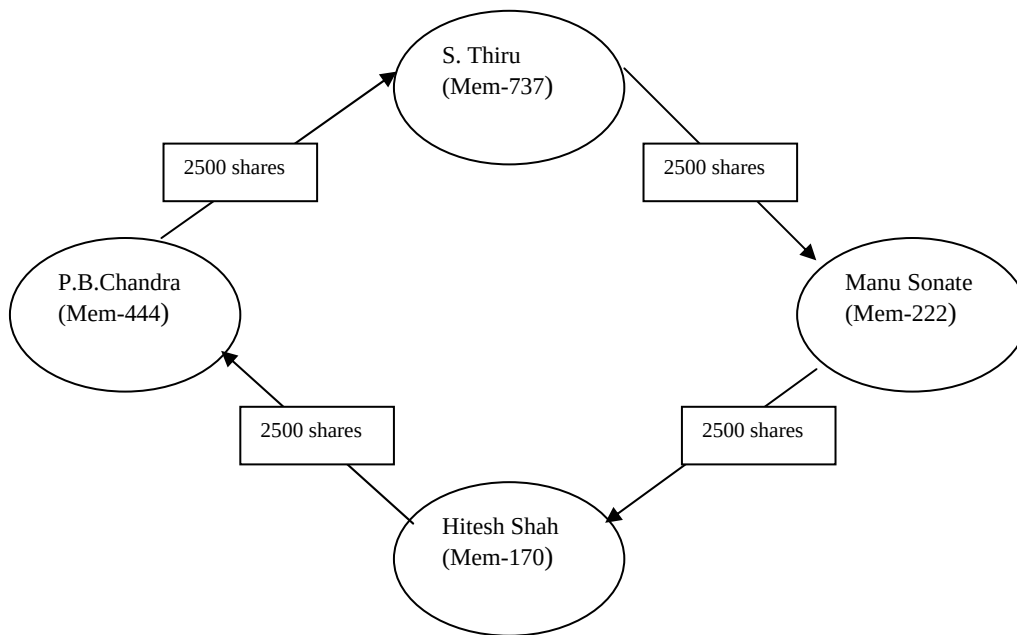


The above table and chart clearly depict that Manu Sonate, trading through the noticee, sold 750 shares to Ridhi Shah. Ridhi Shah has sold a total 750 shares, with 350 shares to Suniti Shah and 400 shares to Indumati Goda. Suniti Shah and Indumati Goda in turn have transferred 350 and 400 shares respectively to PB Chandra, amounting to a total of 750 shares. Manu Sonate, trading through the noticee, has purchased 750 shares from

PB Chandra. In this manner, the shares were passed amongst the group entities in a circular manner.

Instance 2:

Date	Time	Buy Member	Buy Client Code	Sell Member	Sell Client	Total	Time difference
5/6/2002	13:37:43	G R Pandya	Manu Sonate	Bharati Thakkar	S Thirunavukarasu	2500	0:00:42
5/6/2002	13:56:42	Action Financial	P B Chandrasekhar	Unique Stock	Hitesh Shah	2500	0:00:46
5/6/2002	14:14:47	Bharati Thakkar	S Thirunavukarasu	Action Financial	P B Chandrasekhar	2500	0:00:44
5/6/2002	14:22:08	Unique Stock	Hitesh Shah	G R Pandya	Manu Sonate	2500	0:00:20



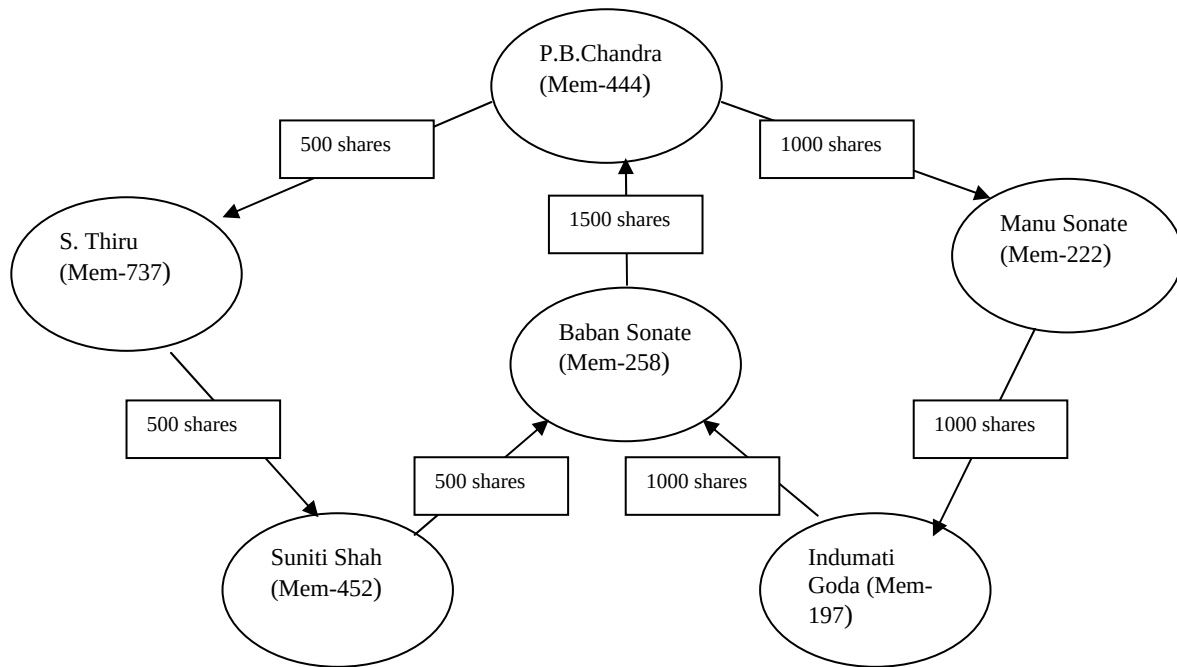
From the above, it is clear that Manu Sonate trading through the noticee has sold 2500 shares to Hitesh Shah. Hitesh Shah has sold 2500 shares to PB Chandra, who sold 2500 shares to S. Thiru. S. Thiru has sold 2500 shares to Manu Sonate, who was trading through the noticee. The shares were thus circulated amongst the group with no intention of transferring the beneficial ownership.

May 15, 2002

Total no. of shares traded during the day were 36,025 shares, out of which 12,000 shares were traded among the group clients as under:

Instance 3:

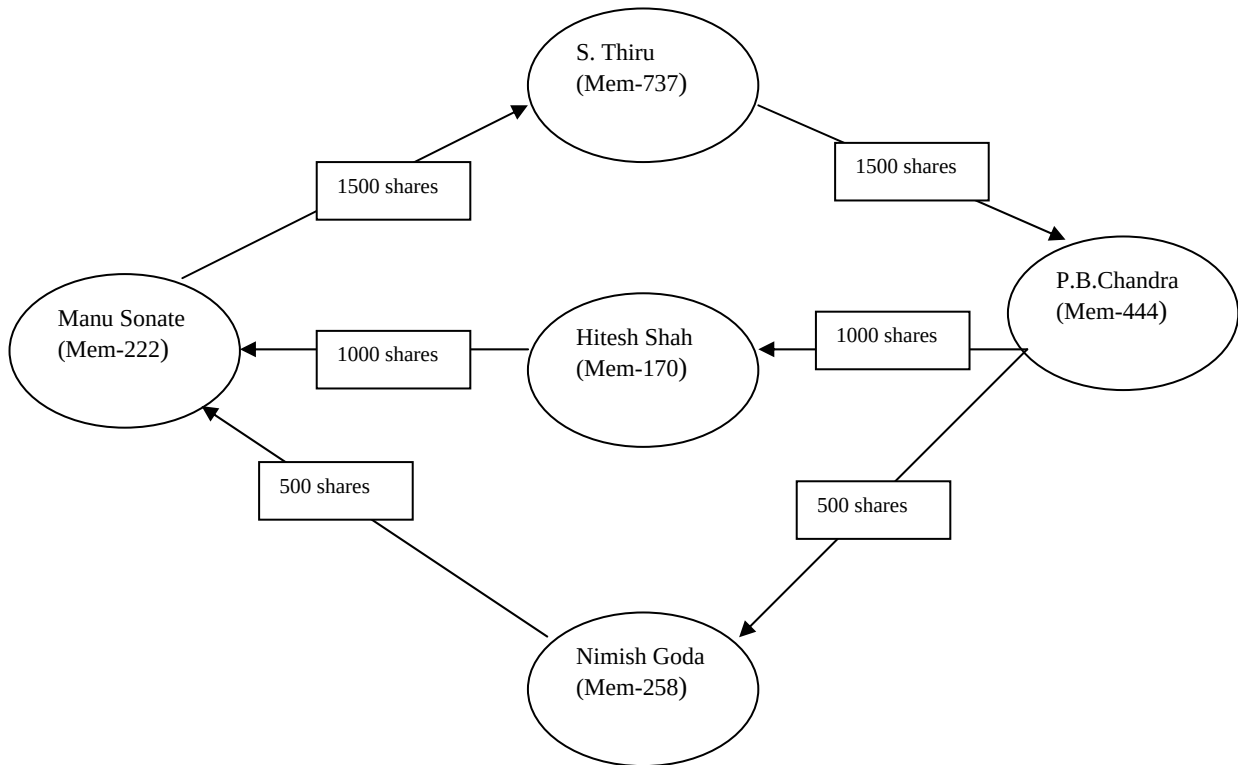
Date	Time	Buy Member	Buy Client Code	Sell Member	Sell Client	Total	Time difference
5/15/2002	10:12:39	Rajchandra	Suniti Shah	Bharati Thakkar	S Thirunavukarasu	500	0:02:02
5/15/2002	10:19:01	Network Stock Broking	Indumati Goda	G R Pandya	Manu Sonate	1000	0:00:02
5/15/2002	11:02:55	Action Financial	P B Chandrasekhar	SKSE Securities	Baban Sonate	1500	0:00:07
5/15/2002	11:19:03	SKSE Securities	Baban Sonate	Network Stock Broking	Indumati Goda	1000	0:00:07
5/15/2002	11:33:45	SKSE Securities	Baban Sonate	Rajchandra	Suniti Shah	500	0:01:09
5/15/2002	11:48:29	G R Pandya	Manu Sonate	Action Financial	P B Chandrasekhar	1000	0:00:26
5/15/2002	11:51:15	Bharati Thakkar	S Thirunavukarasu	Action Financial	P B Chandrasekhar	500	0:03:12



The above chart and table show another instance of circular trading amongst the group entities. 1000 shares were sold by PB Chandra to Manu Sonate, who was trading through the noticee, and by Manu Sonate to Indumati Goda. Indumati Goda has sold the same number of shares to Baban Sonate. Further, 500 shares were sold by PB Chandra to S. Thiru and by S. Thiru to Sunita Shah. Sunita Shah has sold the 500 shares to Baban Sonate. Baban Sonate, thus received a total of 1500 shares. I note that PB Chandra had purchased 1500 shares from Baban Sonate, thus completing the circle of trades.

Instance 4:

Date	Time	Buy Member	Buy Client Code	Sell Member	Sell Client	Total	Time difference
5/15/2002	12:17:45	Action Financial	P B Chandrasekhar	Bharati Thakkar	S Thirunavukarasu	1500	0:00:22
5/15/2002	13:09:03	G R Pandya	Manu Sonate	Unique Stock	Hitesh Shah	1000	0:00:23
5/15/2002	13:09:03	G R Pandya	Manu Sonate	SKSE Securities	Nimesh Goda	500	0:03:02
5/15/2002	13:34:31	SKSE Securities	Nimesh Goda	Action Financial	P B Chandrasekhar	500	0:01:15
5/15/2002	13:34:40	Unique Stock	Hitesh Shah	Action Financial	P B Chandrasekhar	1000	0:01:24
5/15/2002	13:43:16	Bharati Thakkar	S Thirunavukarasu	G R Pandya	Manu Sonate	1500	0:00:05



The above flow chart indicates that S Thiru has sold 1500 shares to PB Chandra. PB Chandra has sold 1000 shares to Hitesh Shah and 500 shares to Nimish Goda. Hitesh Shah and Nimish Goda have sold 1000 shares and 500 shares respectively to Manu Sonate, who was trading through the noticee. Manu Sonate has completed the circular trade by selling 1500 shares to S. Thiru.

6. On examination of the data relating to the trades of the group entities during the period of investigation, it is seen that the buy and sell order quantities and rates were almost similar and time difference between the buy and sell orders was negligible. The time difference between 396 buy orders and 396 sell orders was less than or equal to 1 minute. These orders accounted for 3,704 trades, a volume of 1,94,105 shares and amounted to approximately 49.05% of the volume of trades among the group clients. Hence, most orders placed by the group entities were structured/ synchronized.
7. I further note that, during the investigation period, the noticee had placed 82 buy and 98 sell orders on behalf of Manu Sonate. Out of these orders, 73 buy and 67 sell orders resulted in trades among the group entities only. Further, the counter-party in 840 out of 898 buy trades and all the 750 sell trades of the noticee was one among the group entities.
8. I observe that the above pattern of trading suggests that the orders were punched in with a preconceived motive that the orders shall be picked up by a particular client on the opposite side, and indicates that there was a prior arrangement within the group to execute such transactions. Such type of transactions, especially when they occur repeatedly, cannot be mere coincidence. The trades do not appear to be genuine. Therefore, it can be said that the aforesaid group of clients, in connivance with the brokers, including the noticee herein, created artificial volume in the scrip thereby influencing the price of the scrip.
9. During the investigation proceedings, the noticee did not reply to the investigating authority. While making a submission before the Enquiry Officer, the noticee only stated that it had not carried out any trading in the scrip of DFL in its proprietary account, that there were no restrictions in trading in the scrip of DFL and it had traded only for its client. I agree with the opinion of the Enquiry Officer that the above submissions of the noticee are not sufficient to absolve from its responsibility as a broker.
10. The Hon'ble Securities Appellate Tribunal (SAT) in the Appeal No. 190 of 2010, *Ajmera Associates Vs. SEBI* (decided on December 13, 2010) also observed that “ *If the broker knew at the time of executing the trade what the client was upto, then obviously he is a party to the*

mischief. Since the trading system maintains complete anonymity, brokers always plead that they were ignorant about the counter party or his broker. In such a situation one has to look to the trading pattern and if the trades match too often or if the matching of the trades is noticed day after day and trade after trade, one can infer that the matching was done not by the system, but by manipulating the same.”

11. I also agree with the view of the enquiry officer that in the securities market, it is not quite possible for a single entity to inflate or deflate the scrip price as well as the trading volume in any scrip. Therefore, the role of the entire group has to be taken into consideration in a holistic manner to arrive at any conclusion. In the instant matter, the trading volume was created by certain entities, including the noticee herein, by way of trading among themselves. In view of the above, I find that the noticee has violated the provisions of Regulation 4(1), 4(2)(a), (b), (e), (g) & (n) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003.
12. The stock broker by indulging in non-genuine transactions in the shares of the company during the investigation period, failed to maintain high standards of integrity and fairness in the conduct of its business. As already noted, the stock broker involved itself in manipulation and malpractices and failed to act in compliance with the SEBI Act, 1992 and the Rules and Regulations framed thereunder. Thus, I agree with the finding of the Enquiry Officer that the noticee has contravened Clause A(1), (2), (3) and (4) of the Code of Conduct for stock brokers in the Stock Brokers Regulations. Further, by not abiding with the statutory provisions in this regard, the stock broker has also contravened Clause A (5) of the Code of Conduct for stock brokers in the Stock Brokers Regulations.
13. However, considering the volume generated, the number of circular/ synchronized trades of the noticee and the violation found to have been committed by the noticee, I observe that the penalty of suspension of the certificate of registration of the noticee for a period of four months as recommended by the Enquiry Officer, would be a little too harsh. In the interest of justice and equity, I dispose of the present Enquiry proceedings as ordered herein below.

14. I note that pursuant to the notification of the Intermediaries Regulations, the Enquiry Regulations have been repealed and in terms of Regulation 38(2) of the Intermediaries Regulations, notwithstanding such repeal, any enquiry commenced under the Enquiry Regulations, shall be deemed to have been commenced under the corresponding provisions of Intermediaries Regulations.
15. In view of the foregoing, I, in exercise of powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulations 28(2) and 38(2) of the 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 (Registration No. INB010997538), member, Bombay Stock Exchange, for a period of one month.
16. This Order shall come into force immediately on expiry of twenty one days from the date of this Order.

Place: Mumbai
Date: April 07, 2011

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA