

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

IN THE MATTER OF KOPRAN LIMITED

**In respect of Khandwala Securities Limited
(earlier known as Khandwala Finance Limited)
(SEBI Registration No. INB 230600030)**

Appearances

For Noticee: Mr. Vinay Chauhan, Advocate
Mr. Paresh J. Khandwala, Managing Director
Mr. Milind Mhaski, Manager
Ms. Manisha Srivastava, Company Secretary

For SEBI: Mr. Jai Sebastian, Presenting Officer
Ms. Medha Sonparote, Deputy General Manager
Mr. Naveen Kumar, Manager
Mr. Bhagwandas, Manager
Mr. Pradeep Kumar, Legal Officer

ORDER

Under Regulation 28(2) read with Regulation 38(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008

1. Securities and Exchange Board of India (hereinafter referred as 'SEBI') conducted investigation into the dealings in the shares of Koprana Limited (hereinafter referred as 'Koprana') for the period of February 22, 2000 to February 29, 2000. During the period of investigation, the price of the scrip increased from ₹159 to ₹256.70 at the National Stock Exchange (hereinafter referred to as 'NSE') and from ₹152.50 to ₹260 on Bombay Stock Exchange Limited (hereinafter referred to as 'BSE'). However, the price rise was not in tandem with the movement of indices Nifty and Sensex or with the sector index.
2. SEBI analyzed the trading details of the scrip along with the data of the volumes contributed by the persons who had traded in the scrip. Investigation *prima facie* revealed that Khandwala Group comprising of Khandwala Securities Limited (hereinafter referred to as 'KSL'/'noticee'), Khandwala

Finance Limited (hereinafter referred to as 'KFL') and Jayantilal Khandwala & Sons Private Limited (hereinafter referred to as 'JKS') were the major traders in the scrip of Kopran during the investigation period. These entities executed various cross deals in the scrip which contributed to major increase in the price and volume within a short span of time without any fundamental or technical reason.

3. SEBI initiated enquiry proceedings as against the noticee, based on the findings of the investigation in terms of the 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 the Enquiry Regulations vide order dated December 23, 2005 read with subsequent order dated November 19, 2007. The Enquiry Officer enquired into the alleged violation of the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (hereinafter referred to as 'PFUTP Regulations') and the Code of Conduct specified under Schedule II of the SEBI (Stock brokers and Sub-brokers) Regulations, 1992 (hereinafter referred to as 'Broker Regulations'). The Enquiry Officer/ Designated Authority (hereinafter referred to as 'Enquiry Officer') submitted his report dated October 08, 2009 in terms of Regulations 27 and 38(2) of the SEBI (Intermediaries) Regulations, 2008, as the Enquiry Regulations were repealed with effect from the notification of the SEBI (Intermediaries) Regulations, 2008, recommending thereby a penalty of suspension for a period of one month for violating the provisions of Regulations 3, 4(a), 6(a), (b) and (e) of the PFUTP Regulations and Clauses A(1), (3), (4), (5) and B(6) of the Code of Conduct prescribed for the Stock Brokers under Schedule II read with Regulation 7 of Broker Regulations.
4. Subsequently, SEBI issued a Show Cause Notice dated October 15, 2009 (hereinafter referred to as 'SCN') under Regulation 28(1) of the SEBI (Intermediaries) Regulations, 2008, to the noticee, asking it to show cause as to why the action should not be taken against the noticee as recommended

by the Enquiry Officer or as deemed fit. The noticee was advised to reply to the SCN within twenty one days of the receipt thereof. SEBI informed the noticee 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 said SCN.

5. The noticee vide its letter dated December 07, 2009 replied to the SCN and sought an opportunity for personal hearing. Accordingly, an opportunity for personal hearing was granted to the noticee on July 01, 2010. The noticee vide its letter dated July 01, 2010, requested for an adjournment. The request was acceded to and the matter was adjourned to July 15, 2010. Again, the noticee vide its letter dated July 06, 2010 requested to change the date of hearing. The request of the noticee was acceded to and the date of hearing was rescheduled for July 20, 2010. On the scheduled date, Mr. Paresh J. Khandwala, Managing Director, Milind Mhaski, Manager, Mr. Vinay Chauhan, Advocate, and Ms. Manisha Srivastava, Company Secretary appeared for the noticee and made oral submissions. The noticee also sought ten days' time to file the written submissions, which was granted to it. Thereafter, the noticee vide its letter dated July 29, 2010 filed its written submissions. Vide another letter dated August 24, 2010, the noticee submitted certain additional details. The submissions of the noticee, in brief, are as under:
- The entities which are clubbed as Khandwala Group are separate, independent legal entities. The action of one of the entities cannot be attributed to it because; KFL and KSL were separate/ independent entities at the relevant time and had distinct business activities. Later-on, KFL merged into KSL and post merger they continued to retain the name of KSL. KSL cannot be held liable for the alleged violations, if any, committed by KFL. The liability is personal to the offender.
 - Over the past 12 years, till May 09, 2002, KFL and thereafter KSL had impeccable track record in terms of compliance with the applicable Rules and Regulations.

- KSL was the registered client for the purpose of trading with the brokers namely KFL, Jayantilal Khandwala & Sons Pvt. Limited, Falcon Brokerage Pvt. Limited, SVV Shares and Stock Brokers Pvt. Limited at the relevant period of time.
- No sale transactions were executed by KSL at BSE during the investigation period. All transactions executed by KSL were on the order matching mechanism of the exchange and at the prevalent market price. KFL had traded in the scrip of Kopran pursuant to the instruction of the clients in terms of price, quantity and time. It had not executed off market trades or squared off the trades, save and except the trade executed on February 29, 2000 (on NSE). Most of their transactions were delivery based transactions.
- Cross deals are not barred by law.
- Its purchase and sale of the shares of Kopran were independent of the research report brought out by the KFL's Equity Research Division. The report was for private circulation only and KFL had not circulated the report to the clients who have traded through it.
- They continued buying and selling the shares of Kopran for a long time much after the period of investigation.
- It was having more than six terminals operated by different dealers during the period of investigation and as a matter of policy these dealers inform the clients, if the dealer concerned is aware that the deal in question is a cross deal, where KSL undertakes proprietary trade. Otherwise the dealers ensure the confidentiality of the trades of the clients.
- The buy and sell orders in the alleged cross deals have been executed through two different terminals involving two different dealers, wherein buying dealer would not know about the client of the selling dealer and *vice versa*.
- It is handicapped to provide any proof of the communication by the dealers to the clients due to enormous passage of time and most of the dealers having left. Long delay on part of SEBI to issue the notice has caused grave injustice to it.
- On February 22, 2000, Kopran had made a price sensitive corporate announcement to the stock exchange regarding preferential allotment.

- The research report contained a disclaimer and the Enquiry Officer has not questioned the credibility of the contents of the report.
6. I have carefully considered the Enquiry Report, the SCN issued to the noticee, its reply and the written submissions. The noticee has argued that it is a separate independent entity having distinct activities and cannot be grouped as 'Khandwala Group'. Before proceeding further, I note that the noticee, KFL and JKS are part of the same group, for the following reasons:
- the shareholding pattern of the KSL/ noticee as on March, 2011, as taken from the BSE website shows JKS holding 14.52% and Jatin Ashok Khandwala, the director of JKS was holding 2.28% of the equity of the noticee.
 - the shareholding pattern of the KSL/ noticee as on March, 2003, as taken from the BSE website shows that JKS was holding 17.30% of its equity.

These details show that the KSL/ the noticee and JKS were having close business relations. It is seen that during the period of investigation the noticee had acted as a client of KFL and JKS. Later-on, in the year 2002 KFL has merged into KSL. I note that the present proceedings are for the acts of KFL in the capacity of broker. I note that KFL does not exist anymore as it had merged with KSL/ the noticee and the proceedings are being continued as against the noticee for the acts of KFL.

7. The noticee in its submissions has argued that the actions of KFL cannot be attributed to it as these were separate/ independent entities. This argument of the noticee is not satisfactory. For the same, I have seen the ruling of the Hon'ble High Court of Bombay as an explanatory statement under Section 393 of the Companies Act, 1956 and the scheme of amalgamation both forwarded by the noticee to BSE. The clause 14 (iv) of the said statement and clause 5.1 of the scheme states as under:

"If any suit, appeal or other legal proceedings of whatsoever nature by or against KFL is pending, the same shall not abate or be discontinued or in any way be prejudicially affected by reason of the amalgamation and by anything contained in this

Scheme, but the said suit, appeal or other legal proceedings may be continued, prosecuted and enforced by or against KSL in the same manner and to the same extent as it would or might have been continued, prosecuted and enforced by or against KSL in the same manner and to the same extent as it would or might have been continued, prosecuted and enforced by or against KFL as if this Scheme had not been made."

It is clear from the above that the proceedings as against KFL have to be continued against KSL after merger. In view of this, the argument of the noticee that the liability was personal to the offender finds no merit.

8. I note that the Enquiry Officer has found the noticee guilty of violating the provisions of Regulation 3, 4(a), 6(a), (b) and (e) of the PFUTP Regulations and Clauses A(1), (3), (4), (5) and B(6) of the Code of Conduct prescribed for the Stock Brokers under Schedule II read with Regulation 7 of Broker Regulations. Therefore, the issue for my consideration is: Whether the noticee indulged in fraudulent, manipulative and unfair trade practices, while dealing in the shares of Kopran?

9. **Whether the noticee indulged in fraudulent, manipulative and unfair trade practices, while dealing in the shares of Kopran?**

a. I note that there was trading in the scrip of Kopran on all six days and a combined market volume of 34,88,400 shares was generated, during the investigation period at both the exchanges, i.e. BSE and NSE. During the investigation period, KFL and JKS appeared as the major trading members in the scrip on NSE and BSE respectively. I note from the Enquiry Report that during the investigation period, the entities when clubbed together as 'Khandwala group', created a volume of 26,34,200 shares through 45 cross deals constituting 75.51% of the combined market volume at NSE and BSE as detailed below:

Table A

Date	Total Market (NSE + BSE)	Total KFL+JKS (NSE+BSE)	% of Total of KFL+JKS (NSE+BSE)
22/02/00	16,12,350	15,61,000	96.82

23/02/00	6,76,860	6,70,000	98.99
24/02/00	1,41,700	1,23,000	86.80
25/02/00	3,04,580	1,44,100	47.31
28/02/00	3,24,640	43,400	13.37
29/02/00	4,28,270	92,700	21.65
Total	34,88,400	26,34,200	75.51

- b. The 'Khandwala group' in total purchased 7,37,700 shares of Kopran on February 22, 2000 and February 23, 2000 by executing cross deals on NSE and BSE as detailed hereunder:

Table B

Date	Buyer	Qty.	Price	Exchange
22/02/2000	KFL	32,200	152.67	BSE
	JKS	45,000	152.67	BSE
	Nirjay Securities Pvt. Limited	25,000	152.67	BSE
	KSL	1,00,000	152.67	BSE
	KSL	2,500	207.73	BSE
	KSL	1,95,000	159	NSE
23/02/2000	KSL	3,38,000	189	NSE
Total		7,37,700		

I note from the Enquiry Report that during the period of investigation the 'Khandwala group' had indulged in 45 cross deals. Out of the said 45 cross deals, KFL executed 26 cross deals at NSE in its capacity as a broker. During February 22 - 24, 2000, KFL contributed 100% volume through cross deals on the rolling segment (hereinafter referred to as 'BE Segment') which accounted for major volume of 95.95% in the scrip of Kopran at NSE. Further, KFL continued executing cross deals at rising prices in the account period segment (hereinafter referred to as 'EQ Segment') on February 25, 2000, February 28, 2000 and February 29, 2000. During these days, its contribution was around 31.3% in EQ segment which accounted for more than 99% of the total volume on NSE.

- c. I note that KFL (which was later-on merged with KSL) during the period of investigation had given 'strong buy' recommendation for Kopran vide a report dated February 23, 2000. This report was prepared by the Equity Research Division of KFL, JKS and one Falcon Brokerage Private Limited and the same

was made available on the website of 'moneycontrol.com'. The report had given a target of ₹650 in the scrip of Kopran within a period of one year. It is seen from the share holding pattern of KSL as on March, 2001 that Falcon Brokerage Private Limited was holding 13.02% of equity of KSL and therefore KSL was associated with Falcon Brokerage Private Limited. Further, based on the relationships shared by KSL with the entities involved in the preparation of research report, I note that KSL was privy to the report in all probabilities before its release in the market. Admittedly, KSL had traded on NSE and BSE through brokers KFL and JKS respectively.

- d. I have seen the trading details of KFL as brought out in the Enquiry Report in the BE and BQ segment:

Table C

Date	EQ Segment Close	BE Segment				Total traded qty. (BE) NSE	% of KFL gross to mkt. gross (BE) NSE	Total traded qty. (EQ) NSE	% of KFL gross to mkt. gross (EQ) NSE
		Open	High	Low	Close				
22/02/00	185.90	159	185.90	159	185.90	5,61,000	100	44,300	0.00
23/02/00	200.80	200.80	200.80	189	200.80	6,70,010	100	5,100	0.00
24/02/00	216.90	201	216.90	201	210	1,18,000	100	13,200	0.00
25/02/00	233.95	231	234.25	231	234.25	80	0	2,67,700	50.13
28/02/00	237.70	235	251	225	245	690	0	1,94,900	21.24
29/02/00	222	249	256.70	235	235	1,470	0	2,63,100	27.37

Having seen the contribution of KFL to the market in the scrip of Kopran, now I see the pattern of these trades of KFL at NSE. I note that the trades were in the nature of cross deals where the orders were being entered for same quantity, price and almost at the same time. The table below brings out a few instances of such perfect trades:

Table D

Seg.	Last traded price in EQ Seg.	Trade				Buy Order					Sell Order				
		Date	Time	Qty.	Price	Qty.	Member	Client	Price	Time	Qty.	Member	Client	Price	Time
BE	182.00	22/02/00	10:09:23	100000	159.00	100000	KFL	KSL	159.00	10:09:22	100000	KFL	Morganite Trading	159.00	10:09:23
BE	200.80	23/02/00	10:12:15	99000	189.00	100000	KFL	KSL	189.00	10:12:12	100000	KFL	Sampada Chemicals	189.00	10:12:15
BE	200.80	23/02/00	10:12:30	1000	189.00	100000	KFL	KSL	189.00	10:12:12	100000	KFL	Parijat Shipping	189.00	10:12:29
BE	200.80	23/02/00	10:12:45	99000	189.00	100000	KFL	KSL	189.00	10:12:40	100000	KFL	Parijat Shipping	189.00	10:12:45
BE	200.80	23/02/00	10:12:57	1000	189.00	100000	KFL	KSL	189.00	10:12:40	100000	KFL	Parijat Shipping	189.00	10:12:57
BE	200.80	23/02/00	10:12:57	99000	189.00	100000	KFL	KSL	189.00	10:12:51	100000	KFL	Parijat Shipping	189.00	10:12:57

BE	200.80	23/02/00	10:13:12	1000	189.00	100000	KFL	KSL	189.00	10:12:51	39000	KFL	Parijat Shipping	189.00	10:13:12
BE	200.80	23/02/00	10:13:12	38000	189.00	39000	KFL	KSL	189.00	10:13:11	39000	KFL	Parijat Shipping	189.00	10:13:12
BE	216.90	24/02/00	10:08:15	8000	201.00	8000	KFL	Tarun Jain	201.00	10:08:15	8000	KFL	KSL	201.00	10:08:15
BE	216.90	24/02/00	14:12:34	108460	210.00	110000	KFL	Amit Patel and Nidhi Jain	210.00	14:12:31	110000	KFL	KSL	210.00	14:12:34

I observe that out of the total 26 cross deals executed by KFL, 8 cross deals were executed on February 22, 2000, when companies associated with Kopran were on the sell side and on the buy side clients of KFL were there namely KSL, Virendra Jain, FR Man Investments, Fidelity Investments and others. On February 23, 2000 also, KFL executed 14 cross deals of which first 9 were executed with entities associated with Kopran on sell side and KSL (7 deals), Niche Financial (2 deals) on buy side of the trade. The 5 cross deals that followed further were executed with KSL on sell side as a client and retail clients of KFL on the buy side.

- e. From the table B above and the Enquiry Report, I note that, KSL while trading through KFL as a client at NSE, purchased 1,95,000 shares of Kopran at the price of ₹159 on February 22, 2000 i.e. a day prior to the publication of the research report. On the same day, KSL also purchased 1,00,000 shares at the price of ₹152.67 on BSE. On NSE, KSL further purchased 3,38,000 shares at a price of ₹189 and sold 2,30,000 shares at a price of ₹200 on February 23, 2000. Further, KSL sold around 1,00,000 shares each on February 24, 2000 and February 25, 2000 at the price of ₹210 and ₹234.25 respectively.
- f. I note the argument that cross deals, *ipso facto* are not manipulative in nature. However, it is necessary to see the relevant facts and circumstances of the case, as also done by the Enquiry Officer. I note that 'Khandwala group' started purchasing shares of Kopran through cross deals on February 22, 2000 and February 23, 2000, i.e., immediately prior to the 'buy' recommendation by the Equity Research division of KFL to its clients. The counter parties to these trades were the entities belonging to the promoter group of Kopran who sold the shares through KFL and JKS. Later-on, when the buy recommendation was circulated, 'Khandwala group' started selling

the shares through KFL and JKS, from February 23, 2000 to February 29, 2000 again in the nature of cross deals, contrary to the recommendation.

g. I note that the purchases were made by the 'Khandwala group' in the price range of ₹152.56 and ₹207.76, whereas the sales were made in the price range of ₹200 to ₹246.93. In other words, 'Khandwala group' purchased shares of Kopran from the promoters of Kopran through cross deals at lower prices (before the 'buy' recommendation by the equity research division of KFL) and later sold them off through KFL at NSE and JKS at BSE through cross deals again at higher prices (after the 'buy' recommendation). Based on the above, it can be inferred that the noticee was trying to favour the clients who were its group entities on one side of the trade by entering order at the lower prices than the prevailing prices. Further, it is seen that the buy recommendation had set the target price as ₹650. However, the price of the scrip had started falling immediately after February 29, 2000, i.e. when the 'Khandwala group' stopped trading in the scrip of Kopran and within a week, the price of the scrip declined to ₹187.10 as on March 08, 2000. The price further came down to ₹152 as on April 03, 2000.

h. Having seen the above trading details and pattern of trading, prior to and after the release of equity research report, in the scrip of Kopran by KFL, now, I note from the Enquiry Report that KFL had not informed its clients that Khandwala group companies were selling their shares and these transactions were being carried out by executing cross deals. I have seen the letter of Ms. Nidhi Kanoi (name changed after marriage earlier known as Ms. Nidhi Jain) (a client of KFL) which was forwarded to the noticee. The letter said that Ms. Nidhi Kanoi was not aware about the selling of the shares of Kopran to her by KFL. I note that it was the duty of the broker to inform its clients that the counter party in the trades was none other than its group/ associate companies. KSL has argued that its dealers inform the clients, if they are aware that the deal in question is a cross deal. I note that in the present case the orders were entered for considerably large quantities and with a time

difference of just a few seconds which under normal circumstances could not go unnoticed as the price movement in the scrip was not in consonance with the market/ sector indices.

10. Considering the above discussion, it can be concluded that KFL in the capacity of broker, had acted as a group with KSL (its group/ associate company at the relevant point of time) to buy the shares of Kopran at lower price and then sell these at higher price through cross deals. KFL also induced its clients by giving 'buy' recommendation in the scrip of Kopran. On the other hand, the associates of KFL sold the shares to these gullible clients of KFL. I observe that all this could not have happened without the active connivance of the KFL and its associates.
11. I note that the pattern of trading by KFL was manipulative in nature and find that it has failed to perform its statutory duties, which are expected from a prudent stock broker who has duty not only towards its client but also towards maintaining the integrity of the securities market. It is the duty of the stock broker to maintain high standards of integrity, promptitude and fairness. Further, the broker should not *inter alia* indulge in manipulative transactions with a view to distort the market equilibrium to the detriment of genuine investors. Therefore, it is clear that KFL had failed to fulfill the obligations attached to a registered intermediary.
12. The above discussed role of KFL shows that they played a vital role in the game plan of the manipulation of the trading in the scrip of Kopran. In view of the above, I find KFL guilty of violating the provisions of Regulations 3, 4(a), 6(a), (b) and (e) of PFUTP Regulations and Clauses A(1), (3), (4), (5) and B(6) of Code of Conduct for Stock Brokers as stipulated in Schedule II under Regulations 7 of Broker Regulations.

- 13.** KFL had merged with KSL/ the noticee and the proceedings are being continued as against KSL for the same reliance is being placed on clause 5.1 of the scheme of amalgamation reproduced at para 7 above.
- 14.** 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.
- 15.** In view of the foregoing and after taking into consideration all the facts and circumstances of the case and also the material available on record, I, in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby suspend the certificate of registration of Khandwala Securities Limited, registered with SEBI as stock broker, bearing SEBI Registration no. INB 230600030 [PAN: AAACK 2214P] for a period of one month.
- 16.** This order shall come into force on expiry of twenty one days from the date of this order.

DATE :13 JANUARY, 2012
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA