WTM/PS/52/IVD/ID-09/JAN/2012

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

IN THE MATTER OF KOPRAN LIMITED

In respect of Jayantilal Khandwala & Sons Private Limited

(SEBI Registration No. INB 010998038)

Appearances

For Noticee: Mr. Rajesh Khandelwal, Advocate
Mr. Jatin Khandwala, Director

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 buying, selling and dealing in the shares of Kopran Limited (hereinafter referred as 'Kopran'), for the period from 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 persons who had traded in the scrip. Investigation *prima facie* revealed that Khandwala Group comprising of Jayantilal Khandwala & Sons Private Limited (hereinafter referred to as 'noticee'), Khandwala Securities Limited (hereinafter referred to as 'KSL') and Khandwala Finance Limited (hereinafter referred to as 'KFL') 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 orders dated November 19, 2007 and November 12, 2009. 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 March 31, 2010, in terms of the 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 three months for violating the provisions of Regulations 3, 4(a), 6(a) and (b) 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 April 07, 2010 (hereinafter referred to as 'SCN') under Regulation 28(1) and 38(2) of the SEBI (Intermediaries) Regulations, 2008 to the noticee, asking it to show cause as to why the appropriate penalty including the penalty as recommended by the Enquiry Officer should not be imposed. The noticee

was advised to reply to the SCN, together with the documents that it may choose to rely upon in support of its reply 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 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 April 30, 2010, sought an extension for filing reply to the SCN. Later on, vide letter dated May 13, 2010, the noticee 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 June 22, 2010, requested for an adjournment. The request was acceded to and the matter was adjourned to July 16, 2010. Again, the noticee vide its letter dated July 08, 2010 requested to change the date of hearing. The request was acceded to and the date of hearing was rescheduled for July 21, 2010. On the scheduled date, Mr. Jatin Khandwala, Director and Mr. Rajesh Khandelwal, Advocate appeared for the noticee and made oral submissions. The submissions of the noticee, in brief, are as under:

- It is not concerned with entities grouped as 'Khandwala Group' and cannot be alleged to have created huge volumes in the scrip.
- It was not the 'major broker on the exchange' merely by having turnover exceeding 31% of the total trading volume.
- It had not executed cross deals.
- Price differences between various clients for the same shares may be attributed to differential brokerage charged to clients depending on the volume of business, history of client and other parameters.
- Sharp rise in price of the scrip of Kopran cannot be attributed to 'strong buy' recommendation given by Khandwala Finance Limited on February 23, 2000 because the recommendation was given during the sharp rise period and the price of the scrip had already shifted from ₹152.50 to ₹178.90 on February 22, 2000.

- It had not carried out any proprietary trades and only executed the trades on behalf of its clients without any ulterior motives.

6. I have carefully considered the Enquiry Report, the SCN issued to the noticee and its reply dated May 13, 2010. The Enquiry Officer has found the noticee guilty of violation of provisions of Regulation 3, 4(a), 6(a) and (b) of PFUTP Regulations and Clauses A(1), (3), (4), (5) and B(6) of the Code of Conduct prescribed for brokers under Schedule II read with Regulation 7 of the Brokers Regulations. The noticee in its submissions has argued that they are separate independent entities having distinct activities and cannot be grouped as 'Khandwala Group'. Before proceeding further, I note that the noticee, KSL and KFL are part of the same group, for the following reasons:

- the shareholding pattern of the KSL as on March, 2011, as taken from the BSE website shows the noticee holding 14.52% of the equity of the KSL.
- the shareholding pattern of the KSL as on March, 2003, as taken from the BSE website shows the noticee holding 17.30% of the equity of the noticee.

These details show that the JKS and KSL were having close business relations. 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?

7. 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, the noticee and KFL appeared as the major trading members in the scrip on BSE and NSE 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. I note that during the period of investigation, the 'Khandwala group' had indulged in 45 cross deals. Out of the said 45 cross deals, noticee executed 19 cross deals at BSE in the capacity as a broker. These cross deals accounted for 99.30% of volume on February 22, 2000. The noticee on BSE had major share of 73.33% of the gross purchase and 76.61% of the gross sales during the period from February 22, 2000 to February 29, 2000. The trading of the noticee accounted for 31.35% of the total turnover at BSE during the period of investigation. From the available details it is seen that out of 10,37,600 shares traded by the noticee, 10,00,000 shares were traded only on February 22, 2000 i.e. a day prior to the 'strong buy' recommendation given by Equity Research Division of KFL.

c. I note that KFL 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.

d. The noticee in its submissions has argued that the trades were not cross deals. I have seen the trading pattern of the noticee, which shows that it was present on both legs of the transaction i.e. buy as well as sell side. This clearly shows that the trades were in the nature of cross deals, as can be seen from the table below were entered for the same quantity, price and almost at the same time:

Trade				Buy					Sell				
Date	Time	Qty.	Price	Member	Client	Qty.	Price	Time	Member	Client	Qty.	Price	Time
22/02/2000	09:58:13	1500	178	533	B852	1500	178	09:56:52	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	1000	178	327	SA	1000	178	09:56:56	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	1000	178	465	7581	1000	175	09:55:26	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	8500	174	688	3193	8500	174	09:55:19	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	1000	170	454	G001	1000	170	09:55:29	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	2000	158	319	G013	2000	158	09:55:32	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	17800	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	17800	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	17800	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	17800	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	17800	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	17800	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	17800	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	17800	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	17800	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	17800	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41
22/02/2000	09:58:13	82200	152.50	329	K00004	1000000	152.50	09:57:36	329	K	1000000	152.50	09:57:41

From the above data it is clear that the deals had happened with its own client.

e. From the table above, it is observed that on February 22, 2000, the noticee had entered only one buy and sell order for a quantity of 10 lakh shares with matching price and a time difference of just 5 seconds. This trade of the noticee resulted in 19 cross deals and the details of the same needs to be seen before reaching to any conclusion. The details shows that a buy order of

10,00,000 shares of Kopran was entered by the noticee at 09:57:36 on February 22, 2000 at a price of ₹152.50 with client code 'K'. At 09:57:41, the noticee entered a sell order for 10,00,000 shares of Kopran at a price of ₹152.50 with client code 'K00004'. The order was entered by the noticee in the system in such a way that the same would execute in lots of 17,800 shares and 82,200 shares. I note from the Enquiry Report that during 09:57:08 to 09:57:50 the prevailing price range in the scrip of Kopran was ₹177 to ₹178.

The sell order of the noticee got executed initially with other brokers for 17,800 shares whereby the price of the scrip of Kopran came down from ₹178 to ₹152.50. The remaining sell quantity for 9,82,200 shares got executed through 19 cross deals at 09:58:13 with the buy order of the noticee itself. After the execution of the trade of noticee, the price of the scrip of Kopran again had gone up to ₹178.90 as also pointed out by the Enquiry Officer.

f. Based on the above, it can be inferred that the noticee was trying to benefit the clients on the buy side of the trade by entering order at the lower prices than the prevailing market prices. The noticee had allocated the shares so purchased among its clients as detailed below:

Buyer	No. of shares	Price	Date
Reliance Capital	1,00,000	152.88	22/02/2000
Mackertick Consultancy Ser. P. Ltd.	3,50,000	154.02	22/02/2000
DSQ Holding	3,00,000	154.02	22/02/2000
Khandwala Finances Ltd.	**32,200**	**152.67**	**22/02/2000**
Nirjay Securities Pvt. Ltd.	**25,000**	**152.67**	**22/02/2000**
Jayantilal Khandwala & Sons	**45,000**	**152.67**	**22/02/2000**
Khandwala Securities Ltd.	**1,00,000**	**152.67**	**22/02/2000**

From the above table, I note that four of the clients of the noticee who were allocated with the shares so purchased were belonging to 'Khandwala group'. This shows that the noticee had acted in a manner detrimental to the interest of its selling clients and had intentionally entered the price lower than the prevailing market price that also immediately prior to the research report i.e. February 23, 2000.

g. The argument of the noticee that sharp rise in the price of the scrip of Kopran cannot be attributed to 'strong buy' recommendation given by KFL cannot be accepted as it is difficult to distinguish between the cause and effect of increase in prices of the scrip. However, coupled with other actions, the preponderance of probability suggests that the recommendations given by KFL were a part of a wider game plan.

h. The argument of the noticee that it had not carried out any proprietary trades and the trades were executed on behalf of its client is devoid of any merits as the trades were executed for the group entities. Further, there is no difference between proprietary trades and the client trades.

8. Considering the above discussion, it can be concluded that the noticee in the capacity of broker had acted in a group of its associate entities in purchasing the shares of Kopran at prices lower than the prevailing market price, at the relevant point of time. I observe that all this could not have happened without the active connivance of the noticee.

9. I note that the pattern of trading by the noticee 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 the noticee has failed to fulfill the obligations attached to a registered intermediary.

10. The above discussed role of the noticee 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 the noticee guilty of violating the provisions of Regulations 3, 4(a), 6(a) and 6(b) of PFUTP Regulations and Clauses A(1),

(3), (4), (5) and B(6) of the Code of Conduct for Stock Brokers as stipulated in Schedule II under Regulations 7 of 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. 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 the stock broker, Jayantilal Khandwala & Sons Private Limited, registered with SEBI as stock broker, bearing SEBI Registration no. INB 010998038 [PAN: AAACJ 9403D] 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: 13 JANUARY, 2012
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA