

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

**IN THE MATTER OF PRIYANS SAREE INDUSTRIES LIMITED
In respect of Neptune Securities Private Limited**

SEBI Registration No. INB 020916635

Date of hearing: July 12, 2011.

Appearances:

**For Noticees: Mr. Jignesh Shah, Director
Mr. Nitin Parikh, Practicing Company Secretary**

**For SEBI: Mr. A. Vijayan, Assistant General Manager
Mr. Pradeep Kumar, Assistant Legal Adviser**

ORDER

Under Regulation 28 of the 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 shares of Priyans Saree Industries Limited (hereinafter referred to as 'PSIL') for the period of March 01, 2002 to July 24, 2003. The scrip of PSIL, during the period of investigation was listed at Ahmedabad Stock Exchange (hereinafter referred to as 'ASE') and Madhya Pradesh Stock Exchange (hereinafter referred to as 'MPSE'), but traded only at ASE.
- 2.** The trading details in the scrip of PSIL were collected and analyzed along with the data of volumes contributed by different persons. The price of the scrip increased from ₹112 as on March 27, 2002 to ₹350 as on July 18, 2002. Thereafter, there was a stock split in the scrip of PSIL from ₹10 to ₹2. The price of the scrip again started increasing and touched a high of ₹107.75 as on September 06, 2002. The price of the scrip then started falling and as on July 24, 2003, the price of the scrip came to ₹3. On July 24, 2003, the scrip was suspended for trading at ASE owing to abnormal trading. Considering the different trading patterns, the investigation period in the scrip of PSIL was split into two sub-periods:

- **Period I:** March 01, 2002 to September 30, 2002
 - **Period II:** October 16, 2002 to July 24, 2003
3. During Period I, a total of nine brokers had traded in PSIL and a total volume of 44,600 shares was generated. The investigation *inter alia* revealed that Neptune Securities Private Limited (hereinafter referred to as the 'noticee'), a registered stock-broker at ASE, bearing SEBI Registration No. INB 020916635 had traded in the scrip of PSIL in large quantities on behalf of its clients and executed structured trades.
 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 September 05, 2006 read with subsequent order dated December 10, 2008. The Enquiry Officer enquired into the alleged violation of the provisions of the Code of Conduct prescribed for the brokers under Schedule II read with Regulation 7 of the SEBI (Stock Broker 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 August 31, 2010 under the SEBI (Intermediaries) Regulations, 2008 recommending a penalty of warning to the noticee.
 5. Subsequently, a Show Cause Notice (hereinafter referred to as 'SCN') dated September 23, 2010 under Regulation 28(1) of the SEBI (Intermediaries) Regulations, 2008 was issued to the noticee, asking it to show cause as to why the action as recommended by the Enquiry Officer or as considered appropriate, 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 from the receipt thereof. It was also informed that if they failed to do so, 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 noticee replied to the SCN vide its letter dated October 18, 2010. Before proceeding further, an opportunity of personal hearing was granted to the noticee on July 12, 2011. On the date fixed, Mr. Jignesh Shah, Director of the noticee and Mr. Nitin H. Parikh, a Practicing Company Secretary appeared on behalf of the noticee and made oral submissions.
7. I have carefully considered the Enquiry Report, the SCN issued to the noticee, the submission of the noticee and the material available on record. The noticee has submitted that the Enquiry Officer has not made a finding of violation of Clauses A(1), (3) and (4) of the Code of Conduct against the noticee. This argument of the noticee appears to be incorrect. I have seen the Enquiry Report wherein the Enquiry Officer at paragraph 24 has given the finding that the noticee has failed to adhere to Clauses A(1), (3) and (4) of the Code of Conduct.
8. I note that during Period I of the investigation, the noticee was one of the top three brokers who had traded in the scrip of PSIL. The details of the trading volume of the top three brokers in the scrip of PSIL, is as under:

Broker	Client	Buy	Sale	Gross	Net	% to total volume
Ratnakar Finstock Pvt. Limited	V.K. Jain	8,450	15,400	23,850	-6,950	26.74
	K.K. Fintrade Ltd.	13,950	0	13,950	13,950	15.64
	Jignesh Kantilal Shah	0	7,000	7,000	-7,000	7.85
	Soni Nita Dilip	150	150	300	0	0.34
	Dipak Patangiya	25	25	50	0	0.06
Neptune Securities Pvt. Limited	Abhishek Khare	8,425	8,425	16,850	0	18.89
	Dilipbhai Soni-HUF	150	150	300	0	0.34
Aagam Securities Pvt. Limited	Jignesh Kantilal Shah	0	7,800	7,800	-7,800	8.74
	Himgiri Dynamics	5,500	0	5,500	5,500	6.17
	K.K. Fintrade Ltd.	2,300	0	2,300	2,300	2.58
Total		38,950	38,950	77,900	0	87.33

9. From the above table, I have seen that the noticee had traded for two of its clients namely Mr. Abhishek Khare and Mr. Dilipbhai Soni and contributed to the gross trading of 17,150 shares in the scrip of PSIL. The trading pattern of the noticee as brought out in the Enquiry Report is detailed below:

Date	Sell		Buy		Qty.
	Broker	Client	Broker	Client	
27/03/2002	Ratnakar	Neeta Soni	Neptune	Dilipbhai Soni	150
	Neptune	Dilipbhai Soni	Ratnakar	Neeta Soni	150
08/05/2002	Neptune	Abhishek Khare	Ratnakar	V.K. Jain	800
	Ratnakar	V.K. Jain	Neptune	Abhishek Khare	800
28/05/2002	Ratnakar	V.K. Jain	Neptune	Abhishek Khare	2,850
	Neptune	Abhishek Khare	Ratnakar	V.K. Jain	2,850
29/05/2002	Neptune	Abhishek Khare	Ratnakar	V.K. Jain	1,450
	Ratnakar	V.K. Jain	Neptune	Abhishek Khare	1,450
03/06/2002	Neptune	Abhishek Khare	Ratnakar	V.K. Jain	1,500
	Ratnakar	V.K. Jain	Neptune	Abhishek Khare	1,500
04/06/2002	Neptune	Abhishek Khare	Ratnakar	V.K. Jain	800
	Ratnakar	V.K. Jain	Neptune	Abhishek Khare	800
06/06/2002	Neptune	Abhishek Khare	Ratnakar	V.K. Jain	400
	Ratnakar	V.K. Jain	Neptune	Abhishek Khare	400
11/06/2002	Neptune	Abhishek Khare	Ratnakar	V.K. Jain	600
	Ratnakar	V.K. Jain	Neptune	Abhishek Khare	600
28/06/2002	Neptune	Abhishek Khare	Ratnakar	V.K. Jain	25
	Ratnakar	V.K. Jain	Neptune	Abhishek Khare	25

10. From the above, it is seen that the trades were being executed in a reversal manner by the noticee for its client. It is seen that the reversal was being done for the same quantity of shares. Further, I note that the noticee had contributed significantly to the total volume traded and the same was coupled with continuous rise in the price of the scrip of PSIL.
11. I note the argument of the noticee before the Enquiry Officer that it had stopped trading on behalf of its client after a few days of its trading with that client, since the client had failed to meet his pay-in obligations. Further, the noticee has submitted that although its client Abhishek Khare had informed that he will take delivery of the shares, the client started squaring off its own transactions. I have considered the submissions of the noticee and note that the trades were executed by the noticee for nine days and all the trades were reversed by itself.
12. Considering the number of such trades and the volume of shares involved in the present proceedings executed by the noticee for its client, I note that the noticee ought to have noticed the trading pattern of its client and raised some suspicion. By not doing so, the noticee had facilitated the creation of false market in the scrip of PSIL by its client. The broker is expected to be cautious when trading takes place in illiquid scrip such as that of PSIL and that too

while placing orders for the clients and trading in substantial volume. The diligence on the part of the broker should ideally extend to whether high volume of trading is justified in illiquid scrip. The noticee cannot plead complete ignorance and shrug off its responsibility as a broker when its client was contributing significantly to the total traded volume in the scrip. Further, I note from the Enquiry Report that the Know Your Client (KYC) document/ individual client registration form has not captured important financial details of its clients based on which the trading limit/ exposure for the client is fixed in normal circumstances. Thus, I find that the noticee by failing in his duty as described above, has violated Clause A(4) of the code of conduct for stock brokers under Schedule II read with Regulation 7 of the Broker Regulations.

13. I note that pursuant to the notification of the SEBI (Intermediaries) Regulations, 2008, the Enquiry Regulations have been repealed 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.
14. Having regard to the above discussion, I find no reason to differ with the recommendations of the Enquiry Officer. Accordingly, 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 warn the noticee, Neptune Securities Private Limited (SEBI Registration No. INB 020916635) member, Ahmedabad Stock Exchange to be more careful and cautious in the conduct of its business and to adhere to and comply with all the statutory provisions while carrying out its activities in the securities market.

DATE : 17/JANUARY/2012
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA