WTM/PS/18/IVD/ID-10/MAY/2012

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: PRASHANT SARAN, WHOLE TIME MEMBER

IN THE MATTER OF ADANI EXPORTS LIMITED

In respect of E. STOCKS INC.

(SEBI Registration no.: INS 231356929)

Date of hearing: **April 18, 2011**

Appearances

For Noticees: Mr. Akhlaque Ahmed Khan, Partner

For SEBI: Mr. Krishnanand Raghavan, Deputy General Manager
Ms. Anitha Anoop, Deputy Legal Adviser
Mr. Bhagwandas Samariya, Assistant General Manager
Ms. Vasudha Goenka, Assistant Legal Adviser

ORDER

Under Regulation 28(2) 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 dealings in the shares of Adani Exports Ltd. (hereinafter referred to as 'Adani') for the period from November 27, 2003 to December 23, 2003. The scrip of Adani, during the period of investigation was listed on the Bombay Stock Exchange (hereinafter referred to as 'BSE') and the National Stock Exchange (hereinafter referred to as 'NSE').

2. During the period of investigation, the price of the scrip on BSE increased from ₹209.55 as on November 27, 2003 to ₹443.10 as on December 23, 2003 after touching a high of ₹478 as on December 19, 2003 within a span of just 19 trading days. The total volume traded in the scrip of Adani during the period of investigation at BSE was 11,32,400 shares and out of this 3,42,780 shares, i.e., 30.27% was in the nature of synchronized/ reversal of trades involving certain clients/ brokers. At NSE, the total volume traded during the

period of investigation was 38,91,856 shares and out of this 2,96,943 shares, i.e., 7.63% was in the nature of structured trades.

3. SEBI analyzed the trading details along with the data of the volumes contributed by the persons who had traded in the scrip. Investigation *inter alia* revealed that E. Stocks Inc. (hereinafter referred to as the 'noticee'), a sub-broker (SEBI Registration no. INS 231356929) to Mangal Keshav Securities Limited, broker, BSE and NSE, had traded in the scrip of Adani for its client namely Mr. Dilip Champalal Jain (hereinafter referred to as 'Dilip') on BSE and NSE and executed 394 structured/ reversal trades on behalf of its client. The investigation *prima facie* found that the noticee had aided and abetted its clients in executing fictitious synchronized reversal of trades, which in turn had created the artificial volumes and contributed to the price rise in the scrip of Adani.

4. Based on the findings of investigation, SEBI initiated enquiry proceedings against the noticee 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 14, 2005 read with subsequent order dated November 19, 2007 and November 12, 2009. The Enquiry Officer enquired into the alleged violation of the provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003 (hereinafter referred to as 'PFUTP Regulations'), Clauses A(1),(2) and D(1),(4) and (5) the Code of Conduct for the sub-brokers under Schedule II of Regulation 15(1)(b) of the Broker Regulations. The Enquiry Officer/ Designated Authority (hereinafter referred to as the 'Enquiry Officer') submitted his Report dated June 15, 2009, in terms of Regulation 38(2) of the SEBI (Intermediaries) Regulations, 2008, whereby the noticee was held guilty of violating the provisions of Regulation 4(1),(2),(a),(b),(e),(g) and (n) of the PFUTP Regulations and Clauses A(1),(2) and D(1),(4) and (5) of the Code of Conduct for Sub-brokers under Schedule

II of the Regulation 15(1)(b) of the Broker Regulations. However, he recommended no punitive action against the noticee as adjudication penalty was already imposed upon it for the same set of violations.

5. Subsequently, a show cause notice dated September 17, 2010, (hereinafter referred to as SCN') under Regulation 28(1) of the SEBI (Intermediaries) Regulations, 2008, was issued to the noticee, intimating it that SEBI is not in agreement with the penalty as recommended by the Enquiry Officer since the same is not commensurate with the alleged violation committed by it. The noticee was asked to show cause as to why a higher penalty should not be imposed upon it. 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 date of receipt thereof. It was also informed that in case of failure to reply, it would be presumed that it had no explanation to offer and SEBI shall be free or 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.

6. The noticee vide its letter dated October 06, 2010, expressed its willingness for filing an application for the settlement of proceedings through a consent order. Thereafter, the noticee replied to the SCN vide its letter dated October 13, 2010, relying on its earlier replies during the Enquiry proceedings. The noticee also filed additional reply vide another letter dated October 18, 2010. On the date fixed for the personal hearing, Mr. Akhlaque Ahmed Khan, Partner of the noticee appeared and made submissions.

7. I have carefully considered the Enquiry Report, the SCN issued to the noticee, replies received, and the material available on record. The submissions of the noticee in brief are:

- The trades were entered for the client namely Dilip based in the normal course of business.
- No nexus with its client and other brokers.

- While executing the orders of any constituent, no market intermediary will be able to find out as to what is the percentage of the trades entered into by the constituent in terms of the total volume of business entered into on a specific day.
- The trades executed on behalf of its constituent at the prevailing market price.
- It had not indulged in any manipulation, fraudulent or deceptive transactions as alleged.
- All transactions executed on behalf of the client were genuine.
- Dilip's trading account is inactive since December 24, 2003 and he is not traceable since that period.

8. Having noticed the submissions, the issue that arises for my consideration is: Whether the noticee had aided and abetted its client and created artificial volumes/ prices in the scrip of Adani?

9. Whether the noticee had aided and abetted its client and created artificial volumes/ prices in the scrip of Adani?

a. I have seen the trading details of the noticee for its client in the scrip of Adani I note that the scrip of Adani was being traded both at BSE and NSE during the period of investigation. As per the available records, the noticee had traded at both BSE and NSE for its client namely Dilip. The table below provides the details of the trading in the scrip of Adani at BSE and NSE.

Table A

	Broker	Sub-broker	Client
BSE	ASE Capital Markets Ltd.	Rajendra J. Shah	V&S Intermediaries
	ASE Capital Markets Ltd.	Ess Ess Intermediaries Ltd.	Samir P. Shah
	ASE Capital Marlets Ltd.	Rajesh N. Jhaveri	Falguni Shah
	Mangal Keshav Securities	**E. Stocks Inc.**	**Dilip C. Jain**
	Vijay Bhagwandas Shah		Own/ director's account
	Sanchay Fincom Ltd.		Tejas Ghelani
	Naman Securities Ltd.		Ess Ess Intermediaries Ltd.
NSE	Grishma Securities Pvt. Ltd.		Rajesh N. Jhaveri
	Mangal Keshav Securities	**E. Stocks Inc.**	**Dilip C. Jain**
	ASE Capital Markets Ltd.		Manoj T. Shah
	Sanchay Finvest Ltd.		Tejas Ghelani
	M.G. Capital		Bela H. Kayastha
	Inventure Growth		Mangeram S. Sharma

b. I note that during the period of investigation, a total quantity of 11,32,400 shares was traded in the scrip of Adani at BSE. It is observed that the noticee had traded for its two clients in the scrip of Adani. Out of these, the client of the noticee namely Dilip (as can be seen in Table A above) had traded for a total quantity of 1,80,238 shares and the other client namely Mr. Nilesh Shah had traded for 150 shares in four trading days. A summary of the trades of the noticee at BSE for its client Dilip during the period of November 27, 2003 to December 23, 2003 are as under:

Table B

S. No	Buy		Sell		Trade Qty.
	Client	Sub-broker/ Broker	Client	Sub-broker/ Broker	
1.	**Dilip C. Jain**	**Noticee/ Mangal Keshav**	Own A/c	Vijay Bhagwandas	**23,340**
2.	Own A/c	Vijay Bhagwandas	**Dilip C. Jain**	**Noticee/ Mangal Keshav**	**25,200**
3.	**Dilip C. Jain**	**Noticee/ Mangal Keshav**	Tejas Ghelani	Sanchay Fincom	**16,050**
4.	Tejas Ghelani	Sanchay Fincom	**Dilip C. Jain**	**Noticee/ Mangal Keshav**	**14,300**
	Total				**78,890**

From the above table, I note that 78,890 shares were traded amongst the noticee, Sanchay Fincom and Vijay Bhagwandas i.e., 6.97% of the total market volume during the period of investigation. A date-wise summary of trading by the noticee has been reproduced below for ready reference:

Table C

Date of trade	Buy Client	No. of trades	Qty.	Sell Client	Day qty. traded	% to day qty. traded	Total no. of trades on the day	% of artificial trades for the day
9.12.03	Dilip Jain	16	3,500	Tejas Ghelani				
	Tejas Ghelani	20	3,500	Dilip Jain				
9.12.03		**36**	**7,000**		**49,654**	**14.10**	**800**	**4.50**
10.12.03	Dilip Jain	5	1,750	Tejas Ghelani				
	Tejas Ghelani	5	1,750	Dilip Jain				
10.12.03		**10**	**3,500**		**44,104**	**7.94**	**595**	**1.68**
	Dilip Jain	16	3,500	Own A/c				
	Own A/c	22	3,500	Dilip Jain				
10.12.03		**38**	**7,000**		**44,104**	**15.87**	**595**	**6.39**
11.12.03	Dilip Jain	10	2,500	Tejas Ghelani				
	Tejas Ghelani	3	750	Dilip Jain				
11.12.03		**13**	**3,250**		**37,153**	**8.75**	**396**	**3.28**
	Dilip Jain	11	750	Own A/c				
	Own A/c	13	2,500	Dilip Jain				
11.12.03		**24**	**3,250**		**37,153**	**8.75**	**396**	**6.06**
12.12.03	Tejas Ghelani	18	3,300	Dilip Jain				
12.12.03		**18**	**3,300**		**43,242**	**7.63**	**402**	**4.48**
	Dilip Jain	16	3,300	Own A/c				
12.12.03		**16**	**3,300**		**43,242**	**7.63**	**402**	**3.98**
15.12.03	Dilip Jain	19	3,900	Own A/c				
	Own A/c	19	3,900	Dilip Jain				
15.12.03		**38**	**7,800**		**46,939**	**16.62**	**629**	**6.04**
16.12.03	Dilip Jain	15	3,300	Tejas Ghelani				

16.12.03		**15**	**3,300**		**51,592**	**6.40**	**994**	**1.51**
	Own A/c	16	3,300	Dilip Jain				
16.12.03		**16**	**3,300**		**51,592**	**6.40**	**994**	**1.61**
17.12.03	Dilip Jain	23	7,000	Own A/c				
	Own A/c	24	7,000	Dilip Jain				
17.12.03		**47**	**14,000**		**86,727**	**16.14**	**2,004**	**2.35**
18.12.03	Dilip Jain	11	5,000	Tejas Ghelani				
	Tejas Ghelani	10	5,000	Dilip Jain				
18.12.03		**21**	**10,000**		**1,44,868**	**6.90**	**3,165**	**0.66**
19.12.03	Dilip Jain	14	4,890	Own A/c				
	Own A/c	28	5,000	Dilip Jain				
19.12.03		**42**	**9,890**		**1,61,814**	**6.11**	**4,572**	**0.92**
Grand Total		**334**	**78,890**		**8,42,184**	**9.37**	**15,944**	**2.09**

From the above, I note that there was exact reversal of similar quantity of shares of Adani continuously on several occasions. These trades of the noticee were squared off on the very same day. I note that the trades of the noticee matched with the counterparty with startling proximity in the time, price and quantity. The trades were so well planned that the same number of shares went back to the original seller at the end of the day on most of the occasions. This indicates synchronization in the placing of the orders. Further, it is seen that out of the total quantity of 11,32,400 shares traded in the scrip of Adani at BSE, 3,42,780 shares i.e., 30.27% were synchronized/ reversal in nature. I also note the following facts from the Enquiry Report:

- Out of 349 trades, the noticee and Sanchay Fincom had executed 128 structured/ reversal trades on 5 trading days during the period from December 9, 2003 to December 18, 2003, which generated a total volume of 30,350 shares accounting for 5.67% of the total market volume during the same period.
- The noticee and Vijay Bhagwandas had executed 221 structured/ reversal trades for 48,540 shares.
- The synchronized/ reversal trades of the noticee had accounted for more than 14% of the daily volume on 4 days and between 6 to 8.7% on other trading days till December 19, 2003 at BSE.
- For most of the trades, the buy and sell orders were placed within a time difference of 0 to 3 seconds of each other. The reversal of trades took place within half an hour or one hour after execution of first set of trades.

c. A similar trading pattern of the noticee was also noted at NSE. A summary of the trades by the noticee at NSE are as under:

Table D

S. No	Buy		Sell		Trade	Synchronized Qty.	No. of days
	Broker	Client	Broker	Client			
1.	Noticee/ Mangal Keshav	Dilip C. Jain	Sanchay Finvest	Tejas Ghelani	23	54,654	9
2.	Noticee/ Mangal Keshav	Dilip C. Jain	Inventure Growth	Mangiram	22	22,399	10
Total						77,053	

Having seen the table D above, I note that the trades of the noticee had matched with Mr. Tejas Ghelani and Mr. Mangiram S. Sharma at NSE. In total 77,053 shares were traded by the noticee in 45 structured/ reversal of trades. This constitutes 1.98% of total market volume in the shares of Adani.

It is seen that out these 45 structured/ reversal trades, 23 were with the counterparty Sanchay Finvest, who was trading on behalf of its client, Tejas Ghelani for 54,654 shares. Out of the 9 total trading days, on which the noticee had traded, the structured/ reversal of trades contributed to more than 10% of the quantity traded on each of these two (2) days, the contribution was more than 5% of the quantity traded on each of other five (5) days. I note from the Enquiry Report that these trades had accounted for 1.40% of the gross quantity traded during the period of investigation. The remaining 22 trades were with Mangeram S. Sharma for a quantity of 22,399 shares. I note that the contribution to these trades to the average quantity traded on a day ranged from 2.98% to 8.44%. Further, these trades accounted for 0.58% of the gross quantity traded during the period of investigation.

I note from the Enquiry Report that out of the said 45 structured/ reversal trade, more than 90% of the orders were placed with time difference of less than 3 seconds.

d. The continuous matching of trades without much time difference shows that the trades entered by the noticee were structured and also in the nature of reversal. Such transactions are clearly not genuine and seen to have been

entered for creating misleading appearance of trading and price in the scrip. Such pattern also creates an impression of active trading in the scrip.

e. I note the finding of the Enquiry Officer regarding no direct link between the noticee, its client and counterparty broker. However, I observe that the noticee had indulged in the trading pattern as discussed above with a certain regularity, which also projected volumes in the scrip and price rise in a way that was not market determined. I note that the noticee in total has executed 394 structured/ reversal trades on behalf of its client involving 1,55,943 shares. I observe from the Enquiry Report that these trades had contributed more than 10% of the quantity traded on each of the two (2) days on NSE and the same was more than 14% of the daily volume on 4 days on BSE. The client of the noticee namely Dilip while trading through the noticee had traded for 1,80,238 shares out of which 1,55,943 was synchronized/ reversed i.e. 86.52%.

Considering the same, in my opinion the pattern of trading of Dilip should have alerted the noticee. However, as per the available records, the noticee turned a blind eye towards such pattern of trading and allowed Dilip to reverse his transactions. The submission of the noticee that while executing the orders of any constituent, no market intermediary will be able to find out as to what is the percentage of the trades entered into by the constituent in terms of the total volume of business entered into on a specific day finds no merit as the client of the noticee had not just traded for a day or day which the noticee may term as stray transaction rather, his transaction was spread over a period of time during the period of investigation. In the present facts, the pattern was continued by the client over a period. This brings out the fact that the noticee had aided and abetted the client and participated in the sinister game plan of the client.

I note that if a client is trading continuously in an illiquid scrip, then such behavior of the client should be a matter of worry for the broker. In my view, had the noticee taken necessary precautions, it could have prevented the

client from succeeding in his game plan. Therefore, the noticee has failed to prevent its client from carrying out his nefarious design and had thus aided and abetted in creating the artificial volumes in the subject scrip.

f. 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 Adani. The noticee by carrying out synchronized reversal transactions created artificial liquidity in the scrip of Adani 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(1), 4(2)(a),(b),(e),(g) and (n) of the PFUTP Regulation stands established as against it.

10. From the above discussion and considering the nature of the trades, I note that the noticee indulged in the pattern of trades which were not genuine, rather manipulative as discussed above. 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 maintain absolute compliance of the rules/ regulations and the directives issued by SEBI. In view of the foregoing, I find the noticee, guilty of violating the provisions of Clause A(1),(2), D(1),(4) and (5) of the Code of Conduct prescribed for sub-broker in Schedule II under Regulation 15 of the Broker Regulations.

11. As regards the submission of the noticee regarding delay in the proceedings, I note that neither any time line is fixed for such cases nor can the delay justify exoneration.

12. I note that the manipulative activities of the noticee were detected at both the exchanges i.e. NSE and BSE. Having found that the noticee is guilty of violation of provisions of Regulation 4(1), 4(2)(a),(b),(e),(g) and (n) of the PFUTP Regulation and Clause A(1),(2), D(1),(4) and (5) of the Code of Conduct prescribed for sub-broker in Schedule II under Regulation 15 of the

Broker Regulations, the certificates of registration of the noticee need to be suspended at both the exchanges i.e. NSE and BSE, as ordered herein below:

13. 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 the SEBI (Intermediaries) Regulations, 2008.

14. Therefore, taking into consideration the facts and circumstances of the case, I in exercise of the powers conferred upon me under 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 E. Stocks Inc. (SEBI Registration numbers INS 231356929 and INS 011311029) (PAN: AAAFE 9913C) for a period of two months.

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

DATE : MAY 3, 2012
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA