

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA, MUMBAI
CORAM: RAJEEV KUMAR AGARWAL, WHOLE TIME MEMBER**

ORDER

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

In respect of Kolar Sharex Pvt. Ltd., Member, BSE {SEBI Registration No. (INB011105138) (ICSE-INB241105130)}

In the matter of Soundcraft Industries Limited.

1. Upon receiving complaints regarding irregularities by Soundcraft Industries Ltd. ('SIL') and its promoters, Securities and Exchange Board of India ('SEBI') conducted investigation into the buying, selling or dealing in the scrip of SIL, for the period December 03, 2003 to August 17, 2004 to ascertain the possible violation of the provisions of the Securities and Exchange Board of India Act, 1992 ('SEBI Act') and various Rules and Regulations framed thereunder. During the period of investigation, the scrip of SIL was listed on Bombay Stock Exchange Limited ('BSE') and National Stock Exchange of India Limited ('NSE').
2. The investigation revealed that on December 5, 2003, SIL made an announcement of bonus shares to its shareholders. The same was approved by its shareholders on December 31, 2003 in its Annual General Meeting. SIL fixed February 24, 2004 as the record date, allotted the bonus shares on March 15, 2004 and approached the exchange for listing of those bonus shares on March 31, 2004. SIL, however, failed to submit the required documents like confirmation of dispatch of physical share certificates relating to bonus issue, profile of directors, etc. within 6 months of declaration of the bonus issue and submitted the said details to BSE on June 11, 2004. As the stipulated six months period had expired, BSE vide its letter dated July 2, 2004 advised SIL to obtain relaxation from SEBI for the delay. SIL made no submissions thereafter either to SEBI or to BSE. Further, the letters sent to SIL could not be delivered as it was closed. BSE, therefore, suspended trading in the shares of SIL with effect from September 13, 2004. Similarly, NSE also suspended the trading in shares of SIL with effect from September 01, 2004 as SIL did not to comply with the formalities for getting its shares listed on NSE. The investigation, therefore, concluded that SIL had made false announcement regarding issue of its bonus shares to mislead the investors.
3. The investigation further revealed Kolar Sharex Pvt. Ltd. ('the noticee') was a member of BSE and Mr. Rajkumar C. Basantani was its promoter. Mr. Rajkumar C. Basantani had also been Chairman of SIL which made fraudulent announcements and was allegedly

instrumental in the entire fraud orchestrated by SIL. The investigation also found that the entities related to SIL allegedly took advantage of the price favourable announcements made by SIL by offloading the shares of SIL in the market and made a getaway. The noticee was instrumental in aiding SIL and Mr. Rajkumar C. Basantani in the execution of the fraud by acting as a conduit through which SIL and its related entities offloaded shares of SIL into the market.

4. Based on the findings of investigation, SEBI initiated proceedings against the noticee in terms of SEBI (Intermediaries) Regulations, 2008 ('Intermediaries Regulations') to enquire into the alleged violation of the provisions of regulations 3(a), 3(b), 3(c) and 3(d), 4(1) and (2)(e), (j), (l) and (o) of the SEBI (Prohibitions of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 ('PFUTP Regulations') read with clauses A(1), (2), (3) and (4) of Code of Conduct as laid down in Schedule II under regulation 7 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 ('Broker Regulations'). The Designated Authority ('DA') appointed in the said proceedings submitted his Report dated February 23, 2010, finding it guilty of violating the aforesaid provisions and recommended that the certificate of registration of the noticee be suspended for a period of three months.
5. Subsequently, a show cause notice dated September 12, 2011 ('SCN') under Regulation 28 of Intermediaries Regulations, was issued by SEBI to the noticee, asking it to show cause as to why action as recommended by the DA or as deemed fit by SEBI should not be taken against it. The noticee was advised to reply to the SCN, 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 that SEBI shall be free to take such action as it deems fit. A copy of the DA's Report was also forwarded to the noticee along with the SCN. The SCN was delivered but no reply was received. SEBI, therefore, vide letter dated February 27, 2012 reminded the noticee to reply to the SCN. This letter was also delivered to the noticee but no reply was received from the noticee. A personal hearing was granted to the noticee on June 19, 2012. The noticee, however, did not attend the hearing despite receiving the hearing letter. A second opportunity of personal hearing was granted to the noticee on July 18, 2012 but the noticee chose not to attend the same. I find that the principles of natural justice have been duly adhered to and it appears that the noticee has nothing to say in the present proceedings. In view of this, I am compelled to proceed with the matter *ex-parte*, on the basis of material available on record.
6. I note that Mr. Rajkumar C. Basantani was the promoter of the noticee and he was also promoter of SIL and was its Chairman as per its Annual Report for the year 2002-2003. SIL failed to prove to BSE and NSE the dispatch of shares certificates regarding the bonus shares that was announced by SIL on December 05, 2003. Later, when the confirmation about the dispatch of shares was sought from SIL, it was found closed. It is also confirmed

by the Serious Fraud Investigation Office (SFIO) reports as mentioned in the investigation report of SEBI that physical share certificates relating to bonus shares were not dispatched. Had there been any intention to come out with the bonus shares, they would have complied with due procedure. Thus, it can be safely inferred that the bonus shares were never allotted/dispatched to shareholders .

7. I further note that after Board Meeting of SIL on December 5, 2003 when the decision to issue bonus shares became public, the price of its shares opened at ₹11.40, increased to a high of ₹19 and thereafter decreased to ₹11.40 on December 31, 2003 i.e. date of Annual General Meeting of SIL. Thereafter, the price declined to ₹4.10 as on February 20, 2004. I find that the fraudulent announcement issued by SIL was made with the intention to generate trading interest in the scrip of SIL and escalate the price of its scrip in order to facilitate subsequent off-loading of shares by connected/related entities. It is also noted that during the month of August 2004, the price of the scrip has fallen from a high of ₹2/- to ₹0.40 towards the end of August 2004. Subsequently, from September 2004, trading of these shares was suspended by BSE and NSE due to non-compliance of listing requirements of stock exchanges. Thus, the investors who had bought shares of SIL were cheated, at a time when the company was on the verge of closure, the fact which was known to Mr. Rajkumar C. Basantani and the noticee and not to common investors.
8. I also note that before December 5, 2003 (date of announcement of bonus issue) the shares of SIL were last traded on NSE on September 9, 2003 and before that they were not traded on NSE since January 31, 2002. There was no trading activity in the scrip of SIL from February 1, 2001 to December 3, 2003 at NSE except on one day i.e. on September 9, 2003. After the false announcement of bonus shares by SIL, the trading activity in its scrip increased. This indicates that the trading activity in the scrip of SIL resumed when it informed that it was coming out with announcement of bonus shares. During the investigation period, the noticee had sold 30,000 shares of SIL on behalf of a related entity i.e. Structure Housing Finance Ltd. on BSE in market. Besides, the entities related to SIL or Mr. Rajkumar C. Basantani had offloaded 1,02,82,822 lacs shares of SIL through Rajkumar C. Basantani on NSE in market. The details of sale quantity by these entities and their relations are as under:

Sr. no.	Name of the selling entity/client	Net sale quantity	Relation
1.	Jaitra Estate Developers Ltd.	1640085	Its old registered office address is the same as that of the registered office address of Mr. Rajkumar C. Basantani. Further, Exclusive Impex Ltd. who is a promoter of SIL had transferred 645000 shares of SIL

			to Jaitra Estate in off market.
2.	Manorama Trading Pvt. Ltd.	998352	As per its demat account form, Mr. Rajkumar C. Basantani is authorized signatory.
3.	Million Investrade Ltd.	1444439	Correspondence address same as SIL
4.	Jasrani Equifin Pvt. Ltd	1076316	Mr. Rajkumar C. Basantani is its introducer as per its KYC form. Further, its contact address is same as that of Kolar Sharex Pvt. Ltd.
5.	Jugnu Securities Pvt. Ltd	1093436	Address is same as that of Mr. Rajkumar C. Basantani and he is the introducer in its KYC form.
6.	Structure Housing and Finance Pvt. Ltd.	993745	Correspondence address same as SIL and directors of Structure Housing are employees of Mr. Rajkumar C. Basantani.
7.	Patwa Agrimpex Pvt. Ltd.	828000	Mr. Rajkumar C. Basantani is its introducer as per its KYC form.
8.	Panna Agrofin Pvt. Ltd.	689941	The director of Million Investrade Ltd. is also director of Panna Agrofin Pvt. Ltd.
9.	Aravali Housing and Finance Pvt. Ltd	619983	Mr. Rajkumar C. Basantani is its introducer as per its KYC form. Further, one of its directors is also director of Kalbadevi Finance Ltd.
10.	Adsul Trading Pvt. Ltd.	425000	KYC mentions the name of Mr. Rajkumar C. Basantani as name of introducer and address is same as that of SIL.
11.	Kalbadevi Finance Ltd.	473525	Mr. Rajkumar C. Basantani is its introducer as per its KYC form. Further, its contact address is same as that of Kolar Sharex Pvt. Ltd.

9. The following entities had transferred the shares in off- market as detailed below. Some of these entities are related and had also sold the shares of SIL through Rajkumar C. Basantani on NSE and through the noticee on BSE in market as given above.

Name of the entity	Shares received from(credit)	No of shares	Date of transfer	Shares transferred to (debit)	No of Shares	Date of transfer
Manorama Trading Pvt.. Ltd.				Jaitra Estate Developer	275000	8/10/2004

				s Pvt. .Ltd.		
Structure Housing and Finance Pvt. .Ltd.				Mastermind Mercantile Pvt. .Ltd. Jaitra Estate Developers Pvt. .Ltd.	150000 100000	3/12/2004 22/1/2004
Master Mind Mercantile Co- Op Ltd. (correspondence address same as that of SIL)	Structure Housing fin Pvt. .Ltd.	15000	3/12/2004	Aravalli Housing and Finance Pvt. Ltd., Million Investrade Ltd.	100000 135000	2/12/2004 26/12/2004
Sh. Kiran Bansal – Manoj	Kantilal Chaganlal Securities Ltd.3 clients	2550 30000	15/01/2004	Kiran Bansal	89167	16/02/2004 13/04/2004 11/9/2004
M/s. Shree Satyanand Investments (shyam Sunder Juunjhunwala)	N.A.	66907	Spread out	69713 37675	Nariman Finvest Rmakishore Jhunjunwala	Spread out
M/s. Subhlaxmi (Ramkishore Jhunjunwala)	Shayam Sunder Jhunjunwala	37675	24/08/2004			
Suvik Finvest & Cons Pvt. Ltd.	Pragya Commodity Brokers Pvt. .Ltd	11455 1	11/12/2003			
Exclusive	Bank of	64500	26/12/2003	Jaitra	645000	2/1/2004

Impex Pvt. Ltd.	Maharashtra	0		Estate Developers Pvt. Ltd.		
Jasrani Equifin Pvt. Ltd.	Morearm Investment	600000	24/12/2003			
Panna Agrofin Pvt. Ltd.				47400	Sun Chan Securities Ltd	
Jaitra Estate Developers Ltd.	Structure Housing Fin Pvt. Ltd., Exclusive Impex Pvt. Ltd. and Manorama Trading Ltd.	100000 64500 0 27500 0	5/12/2003 2/1/2004 8/1/2004			

10. The provisions of relevant regulations are quoted below:

PFUTP Regulations:

3. Prohibition of certain dealings in securities

No person shall directly or indirectly-

- (a) buy, sell or otherwise deal in securities in a fraudulent manner;*
- (b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made thereunder;*
- (c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;*
- (d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made thereunder.*

4. Prohibition of manipulative, fraudulent and unfair trade practices

- (1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.*
- (2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely :-*

- (a)
- (b)
- (c)
- (d)
- (e) *any act or omission amounting to manipulation of the price of a security;*
- (f)
- (g)
- (h)
- (i)
- (j) *an intermediary providing his clients with such information relating to a security as cannot be verified by the clients before their dealing in such security;*
- (k)
- (l) *an intermediary reporting trading transactions to his clients entered into on their behalf in an inflated manner in order to increase his commission and brokerage;*
- (m)
- (n)
- (o) *encouraging the clients by an intermediary to deal in securities solely with the object of enhancing his brokerage or commission;*

11. I note that the noticee was instrumental in aiding and abetting SIL and Mr. Rajkumar C. Basantani in making false and misleading announcements which were inherently fraudulent, deceptive and manipulative and intended to induce investors to invest in the scrip of a loss-making company. Such device was orchestrated by Mr. Rajkumar C. Basantani who is promoter/director of the noticee to ensure that entities related to Mr. Rajkumar C. Basantani/SIL could take advantage of the gullibility of the defrauded investors and offloaded their shares in the market. The noticee has, therefore, violated regulations 3 (a), (b), (c) and (d) of the PFUTP Regulations. Further, as observed in the preceding paragraphs, the noticee aided and abetted Mr. Rajkumar C. Basantani/SIL in artificially increasing the price of the scrip for the purposes of accruing wrongful gain by facilitating offload of shares in the scrip of SIL by entities related to Mr. Rajkumar C. Basantani and his company SIL. The noticee, being an intermediary, by engaging in manipulation meant to cause an increase in the price of the scrip for wrongful gain violated regulations 4(1) and (2)(e), (j), (l) and (o) the PFUTP Regulations. In view of the above, I agree with the findings of the Designated Authority.

12. I note that the noticee has also been alleged to have violated regulation 7, clauses A(1), (2), (3) and (4) of code of conduct for brokers specified under Schedule II of SEBI (Stock brokers and Sub-brokers) Regulation, 1992 that deal with the maintenance of integrity, promptitude and fairness, exercise of due skill, care and diligence in the conduct of all business as a stock broker. The noticee by indulging in manipulative, fraudulent and

deceptive schemes with a view to distort market equilibrium has abysmally failed in his duty of maintaining integrity and fairness in the conduct of business and as such has violated the above mentioned provisions of the SEBI (stock-Brokers and Sub-brokers) Regulations, 1992.

13. I note though there is no material on record to quantify loss to the investors or gain to the noticee, the noticee had indulged in fraudulent and unfair dealings and had not taken due care and diligence in observance and compliance of the statutory requirement in conduct of its business as a stock broker. The prohibited activities and types of irregularities as found in this case definitely have potential to breach the market integrity and disturb the fair, equitable and efficient functioning of securities market. Such transactions are, therefore, not in the interest of orderly development of securities market. I am, therefore, satisfied that it is necessary to secure the proper management of the stock broker. In my view, in the interest of the securities market, suspension of certificate of registration of the noticee i.e., Kolar Sharex Pvt. Ltd., for three months as recommended by the Designated Authority will be commensurate with the violations as found above.
14. I, therefore, in the exercise of power conferred upon me by virtue of 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 the noticee i.e. Kolar Sharex Pvt. Ltd. as stock broker at BSE {(SEBI Registration No. INB011105138) (ICSE-INB241105130)}, for a period of three months.
15. A copy of this order shall be served upon BSE and ICSE of which Kolar Sharex Pvt. Ltd. is a member, for necessary action.
16. This order shall come into force on expiry of twenty one days from the date of this order.

DATE: AUGUST 29, 2012
PLACE: MUMBAI

RAJEEV KUMAR AGARWAL
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA