

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 11, 11B AND 11D OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH SECTION 12A OF THE SECURITIES CONTRACTS (REGULATION) ACT, 1956 IN RESPECT OF SHRI BALAJI INVESTMENTS.

1. It was brought to the notice of SEBI on May 30, 2014 that the office of Shri Balaji Investments (hereinafter referred to as “Balaji”), an Authorized Person of the stock broker Angel Broking Private Ltd. (hereinafter referred to as “Angel”) a member of National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE) was raided by the Police for its alleged illegal trading activities. In the course of the raid, Police seized, *inter alia*, the following documents from the office of Balaji located at Gokul Arcade, Near Axis Bank, Balaji Plot, Khamgaon, Buldhana, Maharashtra – 444303:
 - (a) Handwritten records (kachha records) of various scrips bought/sold;
 - (b) Contract Register from February 02, 2014 to May 27, 2014 indicating certain clients having entered into certain derivative contracts on given days;
 - (c) Cashbook indicating receipt and payment of various amounts (in cash);
 - (d) Party wise, Sauda wise standing upto May 28, 2014 indicating outstanding position in certain derivative contracts on given day.
2. Khamgaon Police forwarded copies of these documents to SEBI and sought its help in analysing the details mentioned therein. Preliminary examination of the details/documents provided by the Police to SEBI, *inter alia*, revealed that:
 - (a) Balaji executed transactions on behalf of various clients (details of which were mentioned in codes/abbreviations, for e.g., SB, S.A., NM, H.R., AP, S.C.AKL, Nagpur, etc.) in the scrips such as Tata Power, BHEL, DLF, PNB, R Power, HCL Tech, HDFC, etc. and also in the derivative contracts such as Auropharma 24May14, BankNifty 24May14, BHEL 24May14, CenturyTex 24May14, DrReddy 24May14, etc.
 - (b) Cashbook indicated receipt and payment of various amounts in cash by Balaji from different clients, details of which were mentioned in codes/abbreviations.
3. SEBI also advised NSE, BSE and Angel to examine the allegations against Balaji and send report in this regard. NSE, BSE and Angel submitted their reports which revealed, *inter alia*,

the following:

- (a) Balaji is registered with BSE in the equity segment and with NSE in the equity as well as F&O segment as an Authorised Person in terms of the SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009. The registration details of Balaji are as under:

Segment	Registration Number	Registration Date	Terminal Id/CTCL ID	Date of activation
BSE Cash	AP0106120108572	24/06/2011	4443030001006001	05/01/2012
NSE Cash	AP039775361	22/07/2011	444303001106	05/01/2012
NSE F & O	AP039775361	22/07/2011	444303001116	05/01/2012

- (b) Mr. Manaklall Panpaliya is the proprietor of Balaji.
- (c) Mr. Sanjay Rathie is the dealer-cum-contact person of Balaji.
- (d) The transactions of Balaji as detailed in the documents recovered by the Police have not taken place on the platform of the stock exchanges or through the trading terminals allotted to it.
- (e) A software programme titled ‘Sauda’ was maintained by Balaji on its computer.
- (f) Balaji deleted data from its computers before the visit of Angel to its office.
4. Angel claimed to be unaware of these illegal activities of Balaji till information was received from SEBI in this regard. Angel also informed that the trading terminals of Balaji have been disabled with effect from June 20, 2014 and the process has been initiated for termination of relationship with it.
5. For the purpose of preliminary inquiry in the matter, SEBI advised Angel, the proprietor of Balaji Mr. Manaklall Panpaliya and its dealer Mr. Sanjay Rathie to appear before it on July 07, 2014. Mr. Manaklall Panpaliya did not appear citing medical reasons while Mr. Sanjay Rathie appeared on the said date. In his submissions, Mr. Sanjay Rathie has, *inter alia*, stated that:
- (a) He is the approved dealer-cum-contact person for Balaji.
- (b) He is cousin and business partner of Mr. Manaklall Panpaliya.
- (c) As per their mutual understanding Mr. Manaklall Panpaliya looks after their oil mill business while he looks after the securities broking business.
- (d) He looks after the day-to-day activities of Balaji.
- (e) Mr. Manaklall Panpaliya comes to the office of Balaji infrequently.
- (f) The documents forwarded by the Police to SEBI are indeed recovered from the office/computers of Balaji.
- (g) He was carrying out trading outside the exchange system for the last few months and all

the settlements for such transactions were being done in cash.

(h) Mr. Manaklal Panpaliya and Angel were not aware about these trading activities.

6. Considering the facts brought out in the reports submitted by NSE, BSE and Angel, and the statement/admission of the dealer-cum-contact person Mr. Sanjay Rath, I, *prima facie*, find that Balaji (proprietor - Mr. Manaklal Panpaliya) and Mr. Sanjay Rath engaged in transactions outside the trading system of the stock exchanges in the scrips of Tata Power, BHEL, DLF, PNB, R Power, HCL Tech, HDFC, etc. and also in the derivative contracts such as Auropharma 24May14, BankNifty 24May14, BHEL 24May14, CenturyTex 24May14, DrReddy 24May14, etc. and thereby indulged in illegal trading and settlement, and contravened the provisions of section 13, 16, 18A and 19 of the Securities Contracts (Regulation) Act, 1956 (the SCRA). The provisions of these sections are as under:

“Contracts in notified areas illegal in certain circumstances.

13. If the Central Government is satisfied, having regard to the nature or the volume of transactions in securities in any State or States or area that it is necessary so to do, it may, by notification in the Official Gazette, declare this section to apply to such State or States or area, and thereupon every contract in such State or States or area which is entered into after the date of the notification otherwise than between the members of a recognised stock exchange or recognised stock exchanges in such State or States or area or through or with such member shall be illegal:

Provided that any contract entered into between members of two or more recognised stock exchanges in such State or States or area, shall -

- (i) be subject to such terms and conditions as may be stipulated by the respective stock exchanges with prior approval of Securities and Exchange Board of India;*
- (ii) require prior permission from the respective stock exchanges if so stipulated by the stock exchanges with prior approval of Securities and Exchange Board of India.*

Power to prohibit contracts in certain cases.

16. (1) If the Central Government is of opinion that it is necessary to prevent undesirable speculation in specified securities in any State or area, it may, by notification in the Official Gazette, declare that no person in the State or area specified in the notification shall, save with the permission of the Central Government, enter into any contract for the sale or purchase of any security specified in the notification except to the extent and in the manner, if any, specified therein.

(2) All contracts in contravention of the provisions of sub-section (1) entered into after the date of notification issued thereunder shall be illegal.

Contracts in derivative.

18A. *Notwithstanding anything contained in any other law for the time being in force, contracts in derivative shall be legal and valid if such contracts are -*

(a) traded on a recognised stock exchange;

(b) settled on the clearing house of the recognised stock exchange,

in accordance with the rules and bye-laws of such stock exchange.

Stock exchanges other than recognised stock exchanges prohibited.

19. *(1) No person shall, except with the permission of the Central Government, organise or assist in organising or be a member of any stock exchange (other than a recognised stock exchange) for the purpose of assisting in, entering into or performing any contracts in securities.*

(2) This section shall come into force in any State or area on such date as the Central Government may, by notification in the Official Gazette, appoint."

7. It is highly unlikely that Mr. Manaklal Panpaliya being the proprietor of Balaji was unaware of such illegal activities like illegal trades in equity and F&O segment outside the platform of the stock exchanges or the trading terminals allotted to it or the settlement of such trades. Being an authorized market participant, Mr. Manaklal Panpaliya must be familiar with the nuances of the securities market and compliant with the laws governing it and as such should have ensured that these illegal trading activities are not carried out by Balaji.
8. I am of the view that the aforesaid acts, commissions and omissions of Balaji (Proprietor – Mr. Manaklal Panpaliya) and Mr. Sanjay Rathi are detrimental to the safety and integrity of the securities market and interests of investors. As the authorized market participant, it is expected from Balaji that it maintains high standards of integrity, promptitude and fairness and act with due skill, care and diligence in the conduct of all its business, and abide by all the provisions of the Act and the rules, regulations framed by the Central Government, SEBI and the stock exchanges from time to time as may be applicable to them.
9. I note that the trading terminals allotted to Balaji by Angel have been disabled by it and the process of termination of relationship with Balaji has been initiated. I also note inspection of Angel with respect to affairs of Balaji is underway. Further, Khamgaon Police is investigating illegal trading activities by Balaji for the possible violation of the SCRA and the Indian Penal Code, 1860. Since the conduct of Balaji, its proprietor Mr. Manaklal Panpaliya and its dealer Mr. Sanjay Rathi is not in the interest of investors in the securities market, necessary action has to be taken against them immediately, else it may lead to loss of investor's trust in the securities market. I, *prima facie*, find that by trading in the equity and derivative contracts outside the trading platform of the stock exchanges or the trading terminals allotted to it and

settling such trades Balaji investments has carried out illegal trading activities for which its proprietor Mr. Manaklal Panpaliya and dealer Mr. Sanjay Rathi are responsible. I am convinced that this is a case where effective and expeditious action is required to be taken not only to alert general investing public from dealing with Balaji and to prevent any further harm to investors but also to send a stern message to prevent any person from indulging in acts as observed in this case.

10. In view of the aforesaid findings and pending outcome of Police investigations, I, in exercise of powers conferred upon me by virtue of section 19 read with sections 11(1), 11(4), 11B and 11D of the Securities and Exchange Board of India Act, 1992 and section 12A of the Securities Contracts (Regulation) Act, 1956 by way of this *ex-parte* order restrain Shri Balaji Investments, its Proprietor Mr. Manaklal Panpaliya (PAN: ABRPP4666K), and Mr. Sanjay Rathi (PAN: AGNPR1823K) from buying, selling or dealing in the securities market in any manner whatsoever or accessing the securities market, directly or indirectly until further orders.
11. The above direction is without prejudice to the right of SEBI to take any other action that may be initiated against Shri Balaji Investments, Mr. Manaklal Panpaliya, and Mr. Sanjay Rathi in accordance with law.
12. The entities/persons against whom this Order is being passed may file their objections, if any, within twenty one (21) days from the date of this Order and, if they so desire, may avail themselves of an opportunity of personal hearing before the Securities and Exchange Board of India at its Head Office at SEBI Bhavan, Plot C4-A, G Block, Bandra Kurla Complex, Bandra (East), Mumbai - 400051 on a date and time to be fixed on a specific request in writing, to be received in this behalf from the entities/persons.
13. A copy of this Order shall be forwarded to all the Stock Exchanges and the Depositories to ensure that the directions given above are strictly complied with.

DATE : AUGUST 27th, 2014

PLACE : MUMBAI

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