BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: PRASHANT SARAN, WHOLE TIME MEMBER

IN THE MATTER OF KOSIAN INDUSTRIES LIMITED – DEALINGS BY SHRI GAUTAM S. VAGHASIYA

ORDER

Under Section 11, 11B and 11(4) of the Securities and Exchange Board of India Act, 1992 and Regulation 11 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI") conducted investigation in the shares of Kosian Industries Limited (hereinafter referred to as "KIL/the company") for the period December 30, 2004 to March 23, 2005. The investigation revealed that during this period the price of the shares increased from Rs.4.25 to Rs.42.85 i.e. by more than 900%, in 58 trading days. The total market volume during this period was 40,45,708 shares with an average daily volume of 70,000 shares.

2. It was observed that Shri Gautam S. Vaghasiya (hereinafter referred to as "GSV") dealing through the member B R Jalan Securities Pvt. Ltd. (hereinafter referred "B R Jalan") contributed significantly both in buy and sale sides. GSV also had high counterparty concentration with the clients Shri Saurin Shah and Shri Rajesh Shah who were dealing through the broker Wellworth Share and Stock Broking Ltd (hereinafter referred as "Wellworth"). It was also found that GSV was involved in synchronized trades and reversal of trades with Shri Saurin Shah and Shri Rajesh Shah and influenced the price significantly through first trades at higher level. It was therefore alleged that GSV had violated Regulations 4(1), 4(2) (a), (b), (e) and (g) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as PFUTP Regulations 2003).

3. In view of the above, SEBI issued a notice dated November 24, 2006 to GSV asking him to show cause as to why action under Section 11, 11B and 11(4) of the SEBI Act, 1992 read with Regulation 11 of PFUTP Regulations including restraining from accessing the

capital market and prohibiting from buying, selling or dealing in the securities in any manner or whatsoever for a particular period should not be taken against him.

4. However, no reply was received from the noticee despite delivery of the SCN. Subsequently two reminder letters dated February 20, 2007 and June 29, 2007 were also sent and delivered to GSV to reply to the show cause notice but no reply was received from him.

5. Personal hearing was granted to GSV before me on September 10, 2009 and December 18, 2009. However, he neither appeared for personal hearing on the said dates nor sent any communication regarding the same.

6. I have considered the investigation report, show cause notice and other materials on record. I am of the view that enough opportunity has been given to GSV and therefore I am proceeding ex-parte in the matter.

7. I note that GSV dealing through the member B R Jalan contributed more than 25% both in buy and sale sides. The details of his transactions are given below:

Member Name (Code)	Client's Name	Gross Purchase	% of Total Volume in Market	Gross Sell	% of Total Volume in Market
B. R. Jalan Securities Ltd (DO 062)	Gautam S. Vaghasiya	10,74,038	26.54%	10,28,772	25.42%

8. I also note that GSV dealing through B R Jalan had a high counterparty concentration with Shri Saurin Shah and Shri Rajesh Shah who were dealing through the broker Wellworth. Together they have traded for 5,78,003 shares which constitutes 14% of the total market volume. Out of 58 trading days, on 11 days trading between GSV on one side and Shri Saurin Shah and Shri Rajesh Shah on the other side constitute more than 25% of market volume.

9. Further, on many instances, synchronized trades with time difference of less than 1 minute between buy and sale orders were observed. These kind of synchronized trades were observed on 45 trading days for 2,93,992 shares. Out of these synchronized trades

for 2,93,992 shares, orders for 1,15,594 shares were placed with a time difference of less than 10 seconds. There were in total 1075 such synchronized trades resulting from 218 buy orders and 200 sale orders. On 18 trading days the contribution of synchronized trades to market volume was more than 10% and on 6 trading days it was more than 20%. Even with regard to other trades where orders have matched with a time difference of more than 1 minute, I note that these are synchronized since in relatively illiquid scrips like KIL, orders can match with a time difference of more than 1 minute if there is a preconceived motive to match the order. Such kind of trading suggests that the orders were punched with a preconceived motive that the orders would be picked up by a particular client on the opposite side. So there was a prior arrangement with respect to the brokers and clients to execute such transactions.

10. Reversal of trades for 1,49,758 shares were also found between GSV on one side and Shri Saurin Shah and Shri Rajesh Shah on the other side. The volume created by these reversal of trades was 2,99,516 shares which constitutes 51.81% of the traded volume between them. Such kind of reversal of trades was observed on 24 trading days. For example: On February 01, 2005, GSV purchased 17,650 shares from Shri Saurin Shah and Shri Rajesh Shah and sold 17,200 shares to them which resulted into reversal of 17,200 shares.

11. The price of the scrip mainly increased in the first trades. Out of 58 trading days, on 42 days, the price of the scrip opened by Rs.0.50 or more than previous closing price and on many days it touched the higher circuit breaker level. From the analysis of these trades, it was observed that on 32 trading days GSV dealing through B R Jalan appeared as buyer in the first trade wherein Shri Saurin Shah and Shri Rajesh Shah dealing through Wellworth appeared as counterparty seller on 10 such days. Such type of transactions indicates an attempt to influence the price of the scrip by putting buy order at higher level which resulted in first trades. The first trade at such a high level gives a wrong impression to the market about the scrip and induces other investors to trade in the scrip who may feel that the demand for the scrip at such a high level is genuine.

12. It can thus be concluded that GSV in connivance with others executed synchronized trades and reversal of trades. The same cannot be considered as coincidence as it took place persistently on large number of days. No unknown persons can trade continuously

for so many days through synchronized orders in a large number of trades contributing significantly to total volume in the market. While the screen based trading system is faceless in nature and maintains anonymity of the counterparty broker/client, one can't lose sight of the fact that two parties with prior intent can match their trades with each other by placing orders simultaneously at the same price. And, in this case the reversal of trading on so many days clearly reveals manipulative intent.

13. Such type of transactions apart from creating artificial volume also influence the price as happened in this case by giving the impression to others that the scrip is being actively traded at prevailing prices which are genuine prices, but actually this is not the case. The stock exchange mechanism is meant for genuine trades and not for misusing it for some ulterior purposes. Such type of trading induces innocent investors to trade in the scrip who suffer losses and the manipulators exit the market after achieving their objectives.

14. Thus, from the aforesaid acts of omission and commission, it is clear that GSV has violated the provisions of Regulations 4 (1), 4 (2) (a), (b), (e) and (g) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.

15. On taking into consideration the case in its totality and the nature of the violations committed, I, in exercise of the powers conferred upon me under Section 19 and Sections 11, 11B and 11(4) of SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 hereby restrain Shri Gautam S. Vaghasiya from buying, selling or dealing in the securities market in any manner whatsoever or accessing the securities market, directly or indirectly, for a period of 6 months from the date of this order.

16. A copy of this order shall be served on all recognized stock exchanges and depositories to ensure that the noticee does not undertake transactions prohibited in Para 15 above.

17. This order shall come into force with immediate effect.

Date: March 11, 2010 **PRASHANT SARAN**
Place: Mumbai **WHOLE TIME MEMBER**
SECURITIES AND EXCHANGE BOARD OF INDIA