

BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. - SRP/JP/AO: 165/2011]

UNDER SECTION 15 I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992
READ WITH RULE 5 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE
FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES,
1995

In respect of

Mr. Ashish Ganatra

PAN –AAOPG2914P

In the matter of M/s. Gemstone Investments Limited

BACKGROUND IN BRIEF

1. The Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') conducted investigations into the affairs, trading and dealings in the shares of Gemstone Investments Limited (hereinafter referred to as '**Company/GIL**') for the period from August 28, 2006 to August 21, 2008 on the basis of a report received from the Bombay Stock Exchange Ltd. (hereinafter referred to as '**BSE**') regarding substantial reduction in the shareholding of the promoters of the Company and unusual spurt in price and traded volume of the scrip.
2. During investigations, it was, inter alia, observed by SEBI that i) Premchand K. Shah was the Chairman & Managing Director of the Company and ii) Sharman P Shah, iii) Nihal P. Shah, iv) Sharman Appliances Private Limited, v) Mradula V Shah and vi) Sushila P Shah were the promoters and persons belonging to promoter group of GIL. vii) Vijaykumar N Shah, viii) Shreya V Shah, ix) Bindi V Shah and x) Vanechand N Vora were persons related to promoters/directors of the Company. (For the sake of brevity hereinafter these entities are collectively referred to as "**promoter group entities.**") It was also observed that Mr. Narendra Prabodh Ganatra was familiar to the promoters/directors of the Company since the year 2005. Subsequently, he was appointed as one of the directors of the Company on August 1, 2007 and was looking after the day to day affairs of the Company.
3. It was also observed during investigations that a group of entities namely, (i) Ashish Ganatra (hereinafter referred to as "**the Noticee**"), (ii) Bhavesh Pabari, (iii) Hemenat Sheth (iv) Kishore Chauhan, (v) Bharat Thakker, (vi) Narendra Ganatra, (vii) Manish Joshi, (viii) Rajesh

Bhanushali, (ix) Ankit Sanchaniya, (x) Prem Parikh, (xi) Mala Sheth, (xii) Bhupesh Rathod, (xiii) Janak Vyas, (xiv) Devendra Vadhaiya, (xv) Jayesh Kuwadia, (xvi) Nimesh Ganatra and (xvii) Vinayak Bhanage, who were allegedly connected/related to each other, have traded in the scrip of GIL on BSE under different client codes and have also engaged in off market deals in the shares of GIL. Amongst these entities, Mr. Narendra P. Ganatra was the director of GIL. For the sake of brevity these entities are hereinafter collectively referred to as “**Narendra Ganatra Group.**”

4. Based on the findings of the investigation it has been alleged that the said Narendra Ganatra Group entities, including the Noticee, had manipulated the scrip of GIL. They indulged in synchronized/circular/reversal trades etc. and thereby artificially increased the price and volumes of the shares traded in violation of the provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as ‘**PFUTP Regulations**’).

APPOINTMENT OF ADJUDICATING OFFICER

5. The undersigned has been appointed as Adjudicating Officer under section 15 I of the SEBI Act read with rule 4 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as ‘**Rules**’) vide order dated March 31, 2010 to inquire into and adjudge under sections 15HA of the SEBI Act, the alleged violation of the regulations 4(1) and 4 (2) (a), (b), (e) & (g) of the PFUTP Regulations by the Noticee.

SHOW CAUSE NOTICE, HEARING AND REPLY

6. Show Cause Notice dated May 31, 2010 (hereinafter referred to as ‘**SCN**’) was issued to the Noticee under rule 4(1) of the Rules. The Noticee was asked to show cause as to why an inquiry be not held and penalty be not imposed on him under sections 15HA of the SEBI Act for the alleged violation of the provisions of the regulations 4(1) and 4 (2) (a), (b), (e) & (g) of the PFUTP Regulations.
7. The Noticee replied to the SCN vide his letter dated June 14, 2010. Based on the available information, reply of the Noticee and the material on record, it was decided to conduct an inquiry in the matter and for the purpose an opportunity of hearing on August 03, 2010 was granted to the Noticee vide notice dated July 09, 2010. The Noticee confirmed vide letter dated July 20, 2010 that the hearing on August 02, 2010 (wrongly mentioned by the Noticee as August 02, 2010 instead as August 03, 2010) shall be attended on his behalf by Shri Rajeev Kumar, Advocate. However, despite giving written confirmation neither the Noticee nor his representative appeared for the hearing. The Noticee did not even care to inform the undersigned or stated any reason for the said non-appearance. Subsequently, a written reply

in respect of the aforesaid SCN was filed by the representative of the Noticee vide his letter dated August 03, 2010. Thereafter, in the interest of natural justice another opportunity of hearing was granted to the Noticee on August 26, 2010 and intimation to this effect was sent to him vide notice dated August 04, 2010. The hearing on August 26, 2010 was attended by his authorized representative, Mr. Rajeev Kumar – Advocate and the oral submissions made by him were recorded.

8. The written submissions made by the Noticee vide letters dated June 14, 2010 and August 03, 2010 and the oral submissions made during the hearing on August 26, 2010, are briefly mentioned below:

- *The Noticee denied his relation/connection with the entities as mentioned in the SCN.*
- *Bhavesh Pabari (a "Narendra Ganatra group" entity) had been his client during the period 1994 - 1996 in primary market issues and Bhavesh Pabari became liable to pay him more than rupees three lakh. He had been promising to pay the amount, but it was only in the year 2007 when the Noticee put pressure on him, he (Bhavesh Pabari) agreed to pay an amount of ₹ 12.50 lakh as full and final settlement of his dues, although by that time his dues had exceeded ₹ 20 lakh on application of interest @ 24% per annum.*
- *Bhavesh Pabari agreed to pay the said amount by giving him (the Noticee) GIL shares worth ₹ 12.50 lakh. The Noticee received 45,000 shares of GIL from Bhavesh Pabari, which he sold through his stock broker – M/s. Gogia International Securities Ltd. for a consideration of about ₹12.59 lakh. (The Noticee has provided copy of his transaction ledger with the stock broker that shows the details of the GIL shares sold by him).*
- *As Bhavesh Pabari did not have money to repay the dues, the Noticee had no other choice but to accept the shares.*
- *The Noticee denied his role in alleged fraudulent activities as indicated in the SCN and that he is not aware of the fraudulent dealings allegedly done by the Narendra Ganatra Group entities.*

CONSIDERATION OF ISSUES AND FINDINGS

9. I have carefully examined the allegations against the Noticee, the submissions made by him and the material/evidence on record. The issues that arise for consideration before me in the present case are as under :

- a. Whether the Noticee is connected/related/linked in any manner with the Narendra Ganatra Group entities as mentioned in the SCN?
 - b. Whether the Noticee had violated the provisions of the PFUTP Regulations by indulging in synchronized/reversal/circular trade etc. which caused the artificial increase of price and volumes of the GIL scrip?
 - c. Does the contravention/violation of the aforesaid regulations, if any, committed by the Noticee attract monetary penalty under section 15HA of the SEBI Act?
 - d. If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in section 15 J of the SEBI Act?
10. Before moving forward it would be pertinent to refer to the relevant provisions of the PFUTP Regulations, alleged to have been violated by the Noticee. The provisions of these regulations are reproduced hereunder:

A. PFUTP Regulations

4. Prohibition of manipulative, fraudulent and unfair trade practice

(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) indulging in an act which creates false or misleading appearance of trading in the securities market;

(b) dealing in a security not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress or cause fluctuations in the price of such security for wrongful gain or avoidance of loss;

(e) any act or omission amounting to manipulation of the price of a security;

(g) entering into a transaction in securities without intention of performing it or without intention of change of ownership of such security;

11. I have carefully examined the alleged charges, reply of the Noticee and the same is dealt on merit issue wise as under.

Issue (1): Whether the Noticee is connected or related in any manner with Narendra Ganatra Group Entities.

12. It has been alleged in the SCN that the Noticee is connected/related to Narendra Ganatra Group entities and in collusion with them; he executed the alleged manipulative trades and thereby, artificially increased the price and volumes of the scrip. On these allegations, the

Noticee, vide his above said replies contended that he is not related/connected with the aforesaid Narendra Ganatra Group entities in any manner and also denied about his collusion with Promoter Group entities while dealing in the shares of the Company.

13. In respect to the issue of connection/relation of the Noticee with the above said Narendra Ganatra Group entities, it is evident from the available records i.e. Annexure II attached with the SCN, and also from the submissions of the Noticee that Bhavesh Pabari (one of the Narendra Ganatra Group entities) was known to him since 1994. The Noticee had received 45,000 shares of GIL from Bhavesh Pabari in the year 2007 (i.e. during the period covered under the investigations). Therefore, the fact that Bhavesh Pabari (one of the Narendra Ganatra Group entities) was known to the Noticee since 1994 and also that during the investigation period the Noticee had received GIL shares from him is not disputed. It is also evident from the details provided to the Noticee in Annexure VIII to the SCN that towards his sale transactions the counter party clients were mainly Bhavesh Pabari and other entities of the Narendra Ganatra Group namely, Prem Parikh and Kishore Chauhan. The point to be noted here is that Bhavesh Pabari - who as per the Noticee's submissions, was unable to repay his dues and in lieu thereof, given GIL shares to him (the Noticee) in off market - had purchased the same shares back alongwith the said Narendra Ganatra Group entities, when the Noticee sold them in the market.

14. It is pertinent to mention here that in regard to violations of the PFUTP Regulations, the core of the allegations against the Noticee is that he is related/ connected with the Narendra Ganatra Group entities and executed the alleged manipulative trades in collusion with the other entities of that Group. It would also be appropriate to mention here that in respect of the dealings and transactions of the Noticee, relation/ connection does not mean that the Noticee should be related to Narendra Ganatra Group entities by way of any familial relation or any other close relation; rather the relation/connection may be of any other kind i.e. professional/business relation etc. I am of the opinion that depending on the facts and circumstances of the case the persons who are related to each other by virtue of some professional/business relations or otherwise are also related/connected entities if they are acting in collusion within themselves to enter into such transactions. Now, here a question arises as to whether the Noticee along with the above said Group entities was having any collusion while entering into such transactions. In this context, it is stated that the relation of any kind does not *ipso facto* makes a person liable of manipulation of trades, however, it can be seen/observed from the transactions showing the involvement of a person with others in majority of trades, which are purported to be executed in such fashion between them in pursuance of such collusion. It means that such collusion can be seen/observed only from the attending circumstances of the trades which gives presumption that the trades would not have been matched/synchronized/circular/

reversal etc. in an automated mechanism of the stock exchange, unless the same are so planted or designed with the intention to result in same fashion as desired by entities.

15. As I have stated earlier that the relation of any kind does not *ipso facto* makes a person liable of manipulation of trades and the same should be seen from the transactions showing the involvement of a person with others in majority of trades, which are purported to be executed in such fashion between them in pursuance of such collusion. Therefore, taking into consideration the material/evidences available on record indicating that Bhavesh Pabari was known to the Noticee since 1994 and the fact that his further transactions in the scrip were mainly with selected entities of the Narendra Ganatra Group only, suggest and lead to the assumption that the Noticee and the above said entities of the Narendra Ganatra Group are related/connected in some manner. However, in this regard, I am also of the opinion that since no other evidence is available in regard to direct nexus of the Noticee with other entities of the Group, it would be appropriate to infer the collusion among them, if any, from the attending circumstances of the case and the same can be observed hereunder along with the second issue.

Issue (2): Whether the Noticee had indulged in synchronized, reversal and circular trades etc. causing artificial increase in price and volumes of the scrip.

16. It has been alleged, inter alia, in the SCN at Para Nos. 5 to 18 that the said Narendra Ganatra Group entities including the Noticee, acted in collusion and were indulged in synchronized/circular/reversal trades etc. and thereby artificially increased the volumes/price of the scrip and also facilitated the promoters and promoter group entities of the Company, who were earlier unable to sell their shares, to offload their almost entire stake at such artificially risen prices. The Noticee vide his above said reply, has disputed the allegations and made several contentions as mentioned in Para 8 above.
17. I have carefully perused and examined the records/evidences available with me in respect of the alleged indulgence of the Noticee along with the other Narendra Ganatra Group entities in synchronized/circular/reversal trades etc. and observed as under. I have noted from the investigation report and the material/information on record that the promoter group entities were together holding 25,27,630 shares i.e. 83.92 % of the total share capital of the Company on August 28, 2006, and they reduced their shareholdings to 1.22% by the quarter ended on September 30, 2008. It is observed from the trade/order logs that the sale transactions of the promoter group entities in the market had matched mainly with the entities of the Narendra Ganatra Group. It is also observed that the scrip was illiquid as after November 2005, the trading in the scrip on BSE commenced only on August 28, 2006.

18. I have also observed from the available records, including Annexure-IV to the SCN, that the price of the scrip rose from ₹ 2.94 on August 28, 2006 to ₹ 45.45 on November 12, 2007 and thereafter, it came down to ₹ 14.85 on April 15, 2008 and further increased to ₹ 51.80 on August 21, 2008. The scrip was traded for 446 days during the investigation period with the total traded quantity of 2,55,37,175 shares and an average daily volume of 57,258 shares. It is also seen from the Investigation Report that the period covered under the investigation has been analyzed in two phases i.e. August 28, 2006 to March 16, 2007 and March 20, 2007 to August 21, 2008.
19. It is observed from the details provided to the Noticee in Annexure VI to VI E of the SCN that during **first phase** i.e. August 28, 2006 to March 16, 2007, the price of the scrip rose from ₹ 2.94 on August 28, 2006 to ₹ 24.15 on February 15, 2007 then it came down to ₹ 19.70 on March 16, 2007. During this phase the scrip was traded on 98 days for 25,92,500 shares with an average daily volume of 26,454 shares. There were 4,592 buy orders for 3,73,85,295 shares and 1,976 sale orders for 56,94,403 shares which resulted into 1,864 trades for 25,92,500 shares. I have also noted from the trade/order log details mentioned at above said Annexures that during this period allegedly the Narendra Ganatra Group entities had dealt in the scrip through different stock brokers and purchased 12,90,000 shares and sold 2,38,400 shares accounting to 49.75% of the total traded volume of the scrip. On analyzing the counter party to the sales of the promoter group entities (connection/relation of the promoter group entities was provided to the Noticee in Annexure V to the SCN) it is observed that out of 13,03,800 shares sold by the above said promoter group entities, the 9,45,500 shares (72.51% of 13,03,800) were bought by the entities of Narendra Ganatra Group as counterparty. It is also observed from the order/trade logs that there were no major market participants in the scrip during this period besides promoter group entities and clients forming part of the Narendra Ganatra Group.
20. During August 28, 2006 to August 30, 2006, the scrip was traded for 20,100 shares. Allegedly, these trades were executed between a few of the Narendra Ganatra Group entities and one of the promoter group entity namely, Sushila Shah. Thereafter, the scrip was not traded from August 31, 2006 to September 24, 2006. During this period there were 93 buy orders (out of which 57 buy orders were placed by entities belonging to Narendra Ganatra Group) placed by 12 stock brokers on behalf of 21 clients for 10,12,200 shares (for 9,74,000 shares orders were placed by Narendra Ganatra Group entities). These buy orders remained unexecuted due to non-availability of sale orders in the system. During September 26, 2006 to December 12, 2006 the scrip was traded for 2,14,000 shares and the price increased from ₹ 3.55 to ₹12.48, wherein, for majority of incremental trades the entities belonging to Narendra Ganatra Group were on the buy side. The promoter group entities started selling in the market mainly after December 13, 2006 when the price of the scrip had gone up to ₹ 12.48. During this

period the major selling clients were the promoter group entities, namely, Mradula Shah, Sharman Appliances Pvt. Ltd., Nihal Shah, Sushila Shah, Vijaykumar Shah, Bindi Shah and Shreya Shah and their trades accounted for 49.91% of the total traded volume.

21. Taking into consideration the details of trade/order logs as provided to the Noticee in Annexure VI to VI E of the SCN, it is observed that there were 473 trades which influenced/ increased the price of the scrip when compared to last traded price during the investigation period and out of such 473 trades, the entities of the Narendra Ganatra Group were on the buy side in 155 trades for 2, 54,800 shares. Further, in respect of 180 trades for 41,600 shares the Narendra Ganatra Group entities were on the sale side and towards 25 trades for 7,800 shares the entities of the Narendra Ganatra Group dealt among themselves. It is also observed that during August 29, 2006 to December 8, 2006, out of 31 first trades, the 10 first trades were among these Narendra Ganatra Group entities for 17,100 shares, where, in every first trade the price was increased by 4% or more and the price rise was observed from ₹ 4.09 on September 29, 2006 to ₹12.87 on December 5, 2006. I have also noted that out of 31 first trades, for 29 first trades the entities of Narendra Ganatra Group were either on the buy side or sale side where the price increased by 4% or more (circuit filter in the scrip was 5% during the period) and the price rise was observed from ₹ 3.08 on August 29, 2006 to ₹ 13.50 on December 8, 2006.
22. I have carefully examined the role of the Noticee in price/volumes manipulation of the scrip during the first phase of investigation. I have observed from the details made available to the Noticee in the Annexures VI to VIE of the SCN that during this phase of investigation, although, the Narendra Ganatra Group has played an important role in influencing the price and volumes of the scrip, the role of the Noticee in his individual capacity is not distinct. The Noticee had not purchased/sold shares of the Company during this phase of the Investigation period. Therefore, based on the available facts of the case and the material on record, it cannot be inferred that during the said first phase of investigation, the Noticee was involved in such manipulative trades or that he assisted the promoter group entities in offloading their stake.
23. It is observed from the trade/order log details that during **second phase** of the Investigation i.e. March 20, 2007 to August 21, 2008, the price of the scrip rose from ₹ 18.80 on March 20, 2007 to ₹ 45.45 on November 12, 2007 then it came down to ₹ 27.95 on March 05, 2008 and rose to ₹ 51.80 on August 21, 2008. The scrip was traded for 348 days during this phase with an average daily volume of 65,933 shares. The promoter group entities sold 11, 60,380 shares during this phase and the Narendra Ganatra Group entities bought 8, 96,619 shares as counterparties.
24. It is also observed from the information provided to the Noticee in Annexure VII & VIII of the SCN that the entities of Narendra Ganatra Group together purchased 1,55,51,037 shares

which is 67.77% of the total buy volume and sold 1,63,81,784 shares, which is 71.39% of the total sale volume during this phase. Allegedly, the entities of Narendra Ganatra Group entered into 4,398 circular/reversal trades (26.29% of total trades) among themselves. For these transactions, the buy and sale orders matched within the group. It is evident from the details provided to the Noticee in Annexure VIII to the SCN, that during April 24, 2007 to August 21, 2008 the Group entities accounted for a total cumulative last traded price (LTP) variation of ₹ 30/- in the scrip. They allegedly raised the price of the scrip from ₹ 21.80 to ₹ 51.80 by executing large number of buy orders at the price higher than the last traded price during this phase.

25. Here, it would be essential to examine the role of the Noticee in respect of artificial price rise of the scrip during the entire period of investigations. I have observed from the details provided to the Noticee in Annexure VIII of the SCN that during the relevant period the Noticee had only sold the shares and did not buy any share, which means that the Noticee had not placed any buy order over and above the last traded price (LTP). In absence of any other material information and evidence, I am of the opinion that the Noticee cannot be held liable for placing buy orders over and above the LTP and thereby, for artificially raising the price of the scrip during the second phase of investigation.
26. It is also observed from the details provided to the Noticee in Annexure VII to the SCN that out of the 4,398 trades entered into among the entities of Narendra Ganatra Group, 664 trades for 26,19,923 shares were allegedly synchronized trades. Such trades were matched mainly within the Narendra Ganatra Group entities with a time difference of not more than one minute and with zero price difference. Here, it is necessary to examine the role of the Noticee in his individual capacity in respect of alleged synchronized trades during the entire period of investigations. I have examined the details of such alleged synchronized trades, which were provided to the Noticee in Annexure VII to the SCN and observed that the name of the Noticee is not appearing in the said Annexure in respect of such synchronized transactions. Therefore, I am of the view that based on the available information it cannot be inferred that the Noticee has indulged in synchronized trades to artificially increase the volumes of the shares traded.
27. As far as the alleged circular/reversal trades entered into by the entities of Narendra Ganatra Group is concerned, cumulative details of such transactions are given in the table below:

Name of the clients	Name of the brokers	No of Days Traded / No of Days indulged in Circular Trading on buy side	Circular/reversal buy Qty	% to market buy	No of Days Traded / No of Days indulged in Circular Trading on sale side	Circular / reversal sell Qty	Circular trading % to market sell	%of circular trading by client to gross market
Ashish Ganatra	Gogia International Securities Ltd.	0/0	0	0.00%	4/4	44300	98.44%	0.10%
Ankit Sanchaniya	JHP Securities Pvt. Ltd. India Infoline Ltd. Anand Rathi Securities Ltd. S P Jain Securities Pvt. Ltd. Atlanta Share shoppee Ltd.	66/51	1443145	87.98%	60/41	1258965	81.03%	5.89%
Bharat Thakkar	Angel Broking Ltd. Arcadia Shares and Securities Pvt. Ltd.	37/25	137936	75.40%	33/24	89391	70.54%	0.50%
Bhavesh Pabari	Ami shares and Stock Brokers Pvt. Ltd. Anand Rathi Securities Ltd. Arcadia Share & Stock Pvt. Ltd. India Infoline Ltd. JHP Securities Pvt. Ltd. Religare Securities Ltd. S P Jain Securities Pvt. Ltd. Kotak Securities Ltd. Sunidhi Securities and Finance Pvt. Ltd.	223/168	2709751	74.72%	221/149	3055901	66.18%	12.56%
Bhupesh Rathod	S P Jain Securities Pvt. Ltd.	5/3	64250	74.70%	21/18	602182	82.91%	1.45%
Devendra Vaidhaiya	Asit C. Mehta	21/19	159560	94.90%	14/12	59407	79.76%	0.48%
Hemant Sheth	Anand Rahti Securitis Ltd. India Infoline Ltd. JHP Securities Pvt. Ltd. S P Jain Securities Pvt. Ltd. Sunidhi Securities and Financial Pvt. Ltd. Ami Stock Brokers Pvt. Ltd.	130/80	1648671	55.41%	107/79	1662224	70.52%	7.21%
Janak Vyas	Arcadia Shares and Stock Brokers Pvt. Ltd.	3/2	200	0.79%	8/8	4600	18.25%	0.01%
Jayesh Kuwadia	Standard Chartered STCI Ltd.	0/0	0	0.00%	6/3	8765	43.83%	0.02%
Kishor Chauhan	Arcadia Share & Stock Pvt. Ltd. India Infoline Ltd. JHP Securities Pvt. Ltd. Religare Securities Ltd. S P Jain Securities Pvt. Ltd.	99/99	2090526	83.17%	86/64	1378560	67.10%	7.56%
Mala Sheth	JHP Securities Pvt. Ltd. Religare Securities Ltd India Infoline Ltd.	94/53	478081	64.97%	42/33	493865	86.39%	2.12%

Manish Joshi	Ami Shares and Stock Brokers Pvt. Ltd.	3/2	480	40.16%	14/12	77130	94.78%	0.17%
Nimesh Ganatra	Sharekhan Ltd.	0/0	0	0.00%	11/10	31365	52.71%	0.13%
Prem Parikh	Anand Rathi Securities Ltd. Angel Broking Ltd. India Infoline Ltd. JHP Securities Pvt. Ltd. Kotak Securities Ltd. S P Jain Securities Pvt. Ltd.	135/105	2712299	77.69%	123/90	2735834	69.98%	11.87%
Rajesh Bhanushali	Ami Shares and Stock Brokers Pvt. Ltd.	4/2	105100	98.77%	12/10	47510	33.03%	0.33%
Total circular/ reversal trading by group			11549999			11549999		50.33%

28. I have noted from the above details that during the period a total of 1,15,49,999 shares were bought and exactly the same number of shares were sold among the Narendra Ganatra Group entities and I am of the view that the same cannot be just a matter of coincidence, particularly when, there were other buyers and sellers also present in the market. Further, details were provided to the Noticee in the Annexure IX to the SCN, which indicate that the Noticee and some of the entities belonging to the Narendra Ganatra Group had entered into circular/reversal trading among themselves wherein, on a number of instances one leg of transaction was through off market trades. The Noticee has not disputed or denied the said transactions in the GIL scrip. The allegation of circular/reversal transactions was levelled against the group consisting of several entities irrespective of their contribution in such buying and selling of shares as their joint efforts resulted into the alleged violations. Here, it would be necessary to examine the role of the Noticee in the alleged circular/reversal trading. I have examined the available information and observed that that the Noticee had admittedly received 45,000 shares from Bhavesh Pabari on 11/07/2007 in an off market transaction and thereafter sold 44,300 shares in the market. The Noticee sold 7,500 shares to Prem Parikh on the same date i.e. 11/07/2007; 6,800 shares to Bhavesh Pabari on 12/07/2007; again 5,000 shares to Bhavesh Pabari and 10,000 shares to Kishore Chauhan on 17/07/007; thereafter, 13,000 shares to Kishore Chauhan on 27/07/2007 and finally, 2,000 shares again to Bhavesh Pabari on 27/07/2007. It is evident from the said details that the Noticee sold almost the same number of shares that he received from Bhavesh Pabari in off market back to Bhavesh Pabari and the two other entities belonging to the Narendra Ganatra Group. Here, I cannot ignore the fact that immediately after receiving the shares from Bhavesh Pabari, the very next day the Noticee sold 6,800 shares back to him and further out of the abovementioned four trading days, when the Noticee had sold the shares, on as many as three days the counter party to his sale transaction was Bhavesh Pabari and further that on all the above said instances of his sale transactions the counterparty buyers were the entities belonging to the Narendra Ganatra Group.

29. The above said transactions of the Noticee with some of the Narendra Ganatra Group entities indicate that the same were not done in a fair and transparent manner rather it were designed to match with a selected group of entities only. Further, I am of the opinion that a significant number of trades between the same set of persons/entities in otherwise illiquid scrip, cannot be by virtue of coincidence, but the same were intended to result in a manner to manipulate the market and to get benefit out of it by defeating the fair market mechanism. The Noticee contended that Bhavesh Pabari became liable to pay to him more than three lakh rupees during the period 1994 -1996 and since Bhavesh Pabari was not having the money to pay, therefore, in the year 2007 the Noticee had received 45,000 shares of GIL from him in off market transactions. This contention of the Noticee do not seem to be reliable as he has not produced any evidence to indicate that Bhavesh Pabari owed the said amount and for that purpose he transferred those shares to the Noticee in off market and further on the count that Bhavesh Pabari, who as per the Noticee, was not having money to repay the dues for the last 13-years, all of a sudden gets money and from the very next day of transferring the shares to the Noticee, started purchasing the shares back from the market and more particularly the same GIL shares which were being sold by the Noticee.

30. For better understanding of the said manipulative trades I would summarize my observations as under :

- a) The Noticee received 45, 000 shares from Bhavesh Pabari on 11/07/2007, which he stated was on account of certain dues pertaining to the period 1994-96 (i.e. 11 - 13 years prior to the said transfer of shares) which Bhavesh Pabari could not pay to him as he (Bhavesh Pabari) did not have money. It is interesting to note that the Noticee pressurized Bhavesh Pabari to repay the dues almost after 13 years and towards the same received 45,000 shares of GIL from him in the year 2007.
- b) However, the very next day of receiving the said shares, when the Noticee sold some of the shares, it were purchased back by Bhavesh Pabari contradicting the claim of the Noticee that he (Bhavesh Pabari) did not have money and therefore he settled the dues by giving him (the Noticee) GIL shares.
- c) Out of the 4 trading days when the Noticee sold the shares received from Bhavesh Pabari, on three days one of the counter parties buying the shares was Bhavesh Pabari. For the remaining sale trades of the Noticee (i.e. where Bhavesh Pabari was not the counterparty) it were other entities of the Narendra Gnatra Group only, who purchased the shares.

I cannot accept it by any logic that when the Noticee has sold the shares on limited four trading days, how on those days on almost all the occasions the counterparty to his sale transaction i.e. the buyer, is either the same person from whom he has received the shares in off market or a person belonging to the Narendra Gantra Group, particularly when there were other buyers and sellers also present in the market.

31. I am, therefore, of firm opinion that such transactions were circular in nature and were purposely executed with a manipulative intent, as a part of the larger game plan and with an inherent motive to artificially demonstrate to the public that huge transactions are being done in the scrip and to allure the innocent investors to trade in the scrip.

32. I have noted that in total a huge number of 1,15,49,999 shares were bought and also the same number of shares were sold among the Group entities. These sale and purchase of shares have taken place among the same set of related/connected entities by executing large number of buy and sale transactions over a long period of time. Buying and selling of exactly the same number of shares within the same set of related/connected entities leaves no doubt in reaching to the conclusion that the said transactions are in the nature of circular /reversal trades. The fact cannot be ignored that for all the said buy/sale transactions of the Noticee, the counter parties have always been one or other entity belonging to the group, which means that the shares have been rotated and remained within the group. Therefore, considering the entire transactions of the group as a whole I have no hesitation in concluding that the individual trades of the Noticee are circular /reversed in nature. Here, I would also like to mention that these transactions have been executed by the Narendra Ganatra Group entities in a very latent and detection avoiding manner. Trades were executed by the Group entities through different stock brokers using different client codes, and continuously over a long period. Therefore, it may not be possible in this order to show the entire gamut or cycle of such trades (i.e. A>B>C>D>.....>A) involving a total of 1, 15, 49,999 shares purchased and sold within the Group entities (consolidated details in this regard have been provided in the table at Para 26 above).

33. Therefore, based on the abovementioned facts and circumstances of the case as observed in Para No. 27 to 32 above and the material on record, I am of the view that the Noticee has violated the provisions of Regulations 4(1), 4(2) (a), (b) and (e) of the PFUTP Regulations and is liable for imposition of penalty under section 15HA of the SEBI Act, which states as under:

15HA. Penalty for fraudulent and unfair trade practices.

If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty of twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

34. While determining the quantum of penalty under section 15HA of the SEBI Act, it is important to consider the factors stipulated in section 15J of the SEBI Act, which reads as under:-

15J - Factors to be taken into account by the adjudicating officer

While adjudging quantum of penalty under section 15-I, the adjudicating officer shall have due regard to the following factors, namely:-

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
- (b) the amount of loss caused to an investor or group of investors as a result of the default;*
- (c) the repetitive nature of the default.*

35. Regarding penalty under section 15HA of the SEBI Act for indulging in fraudulent and unfair trade practices, it is noted from the above that the Noticee has acted in collusion with other Group entities, who were instrumental in manipulating the price and volumes of the scrip. The investigations have not revealed the profits made by the Noticee or by the Narendra Ganatra Group by indulging into such manipulative and unfair trades. It is also not possible from the information/details available with me to arrive at the figures for the profit made by these entities or the loss suffered by the investors. However, a large number of fraudulent trades were executed and also a large number of entities were involved in such trades. I have noted that during the first phase of investigation, the role of the Noticee is not there and there is nothing on record to show that the Noticee has indulged in this practice repetitively. However, keeping in view that the Noticee along with other group entities had indulged in manipulative trades as detailed in Para No. 27 to 32 above, the same needs to be taken in to consideration for imposition of monetary penalty upon the Noticee.

36. Therefore, based on the facts and circumstances of the case, I am of the opinion that a penalty of ₹ 1 lakh on the Noticee under section 15 HA of the SEBI Act for the violation/contravention of the aforesaid provisions of the PFUTP Regulations shall be commensurate with the violations committed.

ORDER

37. In exercise of the powers conferred upon me under Section 15 I of the Act and rule 5 of the Rules, I impose a penalty of ₹ 1,00,000 only (₹ One lakh only) on the Noticee under the

provisions of section 15 HA of the SEBI Act. The Noticee shall pay the said amount of penalty by way of demand draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, within 45 days of receipt of this order. The said demand draft should be forwarded to the Deputy General Manager, IVD – ID 8, Securities and Exchange Board of India, SEBI Bhavan, Plot No.C4-A, "G" Block, Bandra Kurla Complex, Bandra (East), Mumbai–400 051.

38. In terms of Rule 6 of the Adjudication Rules, copies of this order are sent to the Noticee and also to SEBI.

Date: January 14, 2011

Place: Mumbai

**Satya Ranjan Prasad
ADJUDICATING OFFICER**