WTM/TCN/ 36 /IVD1/AUG/08

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: Dr. T.C.NAIR, WHOLE TIME MEMBER

IN THE MATTER OF M/s BONANZA PORTFOLIO LTD. SEBI REGN NO. INB 011110237, MEMBER OF THE BOMBAY STOCK EXCHANGE LTD. IN THE SCRIP OF SHREE YAAX PHARMA AND COSMETICS LTD.

1.1 Shree Yaax Pharma & Cosmetic Ltd. (hereinafter referred to as the company) is incorporated at Ahmedabad on March 09, 1995. The Company is primarily engaged in manufacturing / export of pharmaceuticals and cosmetic products. The Company had come out with a public issue in the year 1996. Its shares are listed on the Bombay Stock Exchange Ltd. (BSE).

1.2 SEBI conducted investigation into buying, selling or dealing in the shares of the company due to unusual rise in the prices during the period August 01, 2002 to November 22, 2002 (hereinafter referred to as investigation period). It was found that the price of the scrip had gone up from Rs. 1.00 on August 1, 2002 to Rs. 10.90 on November 22, 2002 which indicated significant increase in the price of the scrip during the short span of less than 4 months. During this period, the volume of shares traded at BSE had also risen significantly from around 500 shares to more than 3,00,000 shares. The rise in the price in the scrip was not backed by fundamentals of the company or its financial performance.

1.3 During the period under investigation a total of 46,94,040 shares were traded (purchase and sale) on BSE. The scrutiny of the trades in the scrip showed that the trades were executed mainly by five member brokers namely Equisearch Broking Pvt. Ltd., Grishma Securities Pvt. Ltd., Ess Ess Intermediaries Pvt. Ltd., Share Aids, broker of SKSE and sub broker of SKSE Securities Ltd., Bonanza Stock Brokers Pvt. Ltd. and Lagan Fincap Leasing Ltd. (Sub-broker of Bonanza Stock Broker Ltd.) created artificial volumes in the scrip which distorted market equilibrium of shares. Further, on scrutiny of the trades of these five member brokers, it was found that they had mainly traded on behalf of 7 clients / ultimate clients viz., Kajol Impex Ltd., Trans Fiscal Pvt. Ltd., Gaurang G. Patel, Samir D. Patel, Paresh Champaklal Shah, Umit Vinodbhai Patel and Sudhirbhai Shah.

1.4 M/s Bonanza Portfolio Ltd. (erstwhile Bonanza Stock Brokers Limited) (hereinafter referred to as "Bonanza Portfolio") was identified as one of the broker who along with other brokers / clients was alleged to have acted in concert in manipulation of the scrip.

2.1 Pursuant to the investigation, an Enquiry Officer was appointed by SEBI Board vide order dated July 26, 2004 in terms of provisions of Regulation 5 of the SEBI (Procedure for holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as Enquiry Regulations) to enquire into the affairs of Bonanza Portfolio in the matter of alleged manipulation in the scrip.

2.2 After completion of enquiry, the Enquiry Officer submitted his report dated April 29, 2005 recommending a minor penalty of censure.

3.0 Based upon recommendation of the Enquiry Officer, a show cause notice dated May 27, 2005 was issued to Bonanza Portfolio in terms of Regulation 13 (2) of the Enquiry Regulations, advising them to show cause as to why the penalty as recommended by the Enquiry Officer should not be imposed upon them. A copy of the Enquiry Report was also forwarded to Bonanza Portfolio with the said show cause notice.

3.1 Bonanza Portfolio vide its letter dated June 9, 2005, inter alia submitted that the transactions were carried out by the sub broker on behalf of his clients and not by Bonanza Portfolio. Further, the sub broker independently placed several orders on behalf their clients. Hence in the normal course of business there was no reason to believe that the clients of the sub brokers carried out the transactions which were in the nature of circular transactions.

3.2 An opportunity of personal hearing was granted to Bonanza Portfolio before me on March 2, 2007 wherein authorised representatives of Bonanza Portfolio appeared and made submissions. Further submissions were made by Bonanza Portfolio vide letter dated March 16, 2007 which are as under:

i. Shri Sudhirbhai Shah was trading through them through their sub broker, Lagan Fincap Leasing Ltd. since 2001 and was one amongst their client who had an excellent track record in terms of meeting their payment and delivery obligations. The client traded in several scrips including Shree Yaax Pharma.
ii. When the trading was commenced on behalf of Shri Sudhirbhai Shah on September 16, 2002, the price of the scrip was Rs.4.65 and the scrip was in the upward mode and the price had already increased from Re.1 to Rs. Rs.4.65/-. Further the scrip was already liquid and was witnessing huge volumes.
iii. Out of the investigation period of 5 months, the client traded through them only on 22 days.
iv. The trading of the client in the scrip constituted insignificant percentage of their turnover during the investigation period. Further their was nothing unusual in the trading pattern of the client to excite our suspicion.

4.1 I have carefully examined the investigation report, show cause notice, reply of Bonanza Portfolio. My findings are as under :

4.2 I note that there was rise in the price and volume of the scrip traded during the period under investigation. The performance of the company, Shree Yaax does not justify such rise in the price. The seven clients of different brokers had traded significantly in the scrip during the period under investigation.

4.3 I note that Bonanza Portfolio had dealt with its sub broker M/s. Lagan Fincap on behalf of its client Shri Sudhirbhai Shah. From the settlement wise trade details of the concerned brokers, the trades of the said 7 clients during the period under investigation had accounted for approximately 98.65% of gross purchases and 98.91% of the gross sales in the scrip.

4.4 I find that most of these clients had squared up their individual positions among themselves within the respective settlements. Though there was a gap of some minutes between orders on both the sides, it is well known that in illiquid scrips, the order on both sides can match in the desired manner without synchronisation also. This indicates that the shares have been rotated among the group in such a manner that mostly at the end of the settlement their net positions were "nil". Such deals were in the nature of circular trades and had created artificial volume in the market. I find amongst different brokers and sub brokers, Lagan Fincap, the sub broker affiliated to Bonanza Stock Brokers Pvt. Ltd. was identified to have dealt on behalf of the client, Shri Sudhirbhai Shah in the scrip.

4.5 I find that the price of the scrip increased from Re. 1/- to Rs. 10.90/- within a period of four months. From the submission of the sub broker, it is apparent that its client Shri Sudhirbhai Shah entered into the trading at Rs. 6.05/- and did trading for only 22 days out of the four months period of investigation. It cannot be said that the trading lasted for very long as in case of other clients. Further, I have observed that the client of the broker had squared up individual position and net sale and purchase positions stood zero. The said trading pattern of the client should have alerted Bonanza Portfolio and for this it should have exercised due care and diligence to check the nature of trading by the client.

4.6 I note that Bonanza Portfolio had dealt with its sub broker M/s. Lagan Fincap with the client Shri Sudhirbhai Shah. The Enquiry Officer found that there was no charge that the client Shri Sudhirbhai Shah was connected to the company or in any way related to the other clients who were dealing in the scrip. After careful perusal, I find that there is no material or evidence to suggest that Shri Sudhirbhai Shah and the broker acted in concert with the management of the company.

4.7 On careful perusal of the facts and circumstances of the case, I find that though some of the clients had acted in concert in manipulating the scrip, Bonanza Portfolio Ltd. dealt with only those client where there is no evidence to establish that the client of the sub broker was neither related/connected to the directors of the company nor to others who dealt in the scrip. In such circumstances, it is not possible to hold the broker responsible for any circular trading and thereby manipulating the price of scrip. From the chronology of events, and considering the week fundamentals of the company and illiquidity of the scrip and number of trades executed, Bonanza Portfolio should have exercised due care and diligence as mandated by the code of conduct prescribed for brokers under the SEBI (Stock Brokers and Sub-brokers)

Regulations, 1992. I am of the view that Bonanza Portfolio should be cautious in its future dealings in the securities market.

5.1 Therefore in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992 read with Regulation 13(4) of the said Regulations, 2002, I direct Bonanza Portfolio Ltd. having SEBI Regn. No. INB 011110237 to be careful in future in the conduct of its affairs as a capital market intermediary. I also direct Bonanza Portfolio Ltd. to note that any instances of violation or non compliance of the SEBI Act and Rules and Regulations in future shall be dealt with stringently.

Date: 20.8.2008
Place: Mumbai

T. C. Nair
Whole Time Member
Securities and Exchange Board of India