

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER UNDER SECTION 11B OF SEBI ACT, 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 AGAINST SAMIR ZAVERI.

CO/81/IES/07/2003

1. Investigations were conducted by SEBI into the alleged price manipulations and irregularities in the public issue of M/s Hitech Jewellery Industries Ltd. (hereinafter referred to as HJIL), during the period from December 1996 to April 1997 in the National Stock Exchange, (NSE).
 - 1.1 The company, HJIL had come out with a public issue of 23,33,700 equity shares of Rs.10 each for cash at par aggregating to Rs. 233.37 lacs. The issue had opened for subscription on 12th April 1994 and closed on 23rd April 1994. From the records the issue was shown to have been subscribed to the extent of 95.36% (22,25,580 equity shares). On application only Rs.1.25 was to be paid by the applicants as per the terms of the prospectus. Thus the total application money received was shown to be Rs.27,81,975.
2. Investigations revealed that the shares of Hitech Jewellery had commenced trading at NSE on October 18, 1995 at Rs.174 with thin and sporadic volumes. The average daily volume of the scrip till first week of May' 96 was only 270 shares. The scrip, which was essentially illiquid had witnessed a surge in volumes during December 1996 – April 1997 especially in four settlements viz. Sett. Nos. 1996036, 1996041, 1996044 and 1996045 at NSE. Large delivery based trades during this period deviant from the general trend of deliveries was found to be associated with this scrip. It was observed that the trades were thin and volumes were poor on BSE during this period. The scrip which was quoting at Rs.150 during Sett. No. 1996044 moved to Rs.282 during Sett. No. 1997010 and had touched a high of Rs.304 during Sett. No. 1997009. It was seen that Junior Nifty (based on Mid-Cap Stocks) had showed an increase of 15.80% whereas HJIL price had showed an increase of 69% during the same period. It was also seen that approximately 70% of trades were concentrated with select brokers. On the basis of these, it appeared that the trading in HJIL at NSE were irregular and manipulative. Investigations were undertaken into this and it was found that a set of entities had created artificial market in the scrip of HJIL and artificially increased its price.
1. Pursuant to the detailed investigation conducted by SEBI, a show cause notice was issued vide letter dated September 23, 2002 to Shri Samir Zaveri. In the aforesaid show cause notice Shri Samir Zaveri was alleged with violation of the provisions of Regulation 4 (a) (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. He was also asked to show cause as to why suitable directions including prohibiting him from dealing in securities for a suitable period, in the interest of investors and capital market, should not be issued under Section 11 B of SEBI Act, 1992 read with Regulations 11 & 12 of Securities and Exchange Board of India (Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995.
 - 3.0 A reply was received from Samir Zaveri on October 17, 2002 denying all allegations against him in the show cause notice. Further, he also stated that the transactions done by him in the shares of HJIL was only for earning the commission and that he had no knowledge about the price movement of the scrip or the intention of other parties.
 - 3.1 He also denied having any involvement in circular trading or creation of artificial volume. According to him, unless it is established that he has received any benefit other than brokerage or finance charges, the allegations against him would be incorrect. He also mentioned that he did not have any knowledge of how Gazi Securities or Vinayak Investment had put the settlement system of the exchange at risk. Hence, he submitted that no directions should be issued against him and that all the charges against him be dropped.
4. An opportunity of hearing was granted to Shri Samir Zaveri on 30th April, 2003. No one represented Shri Samir Zaveri.

5. I have carefully examined the findings of investigation and I find that Shri Samir Zaveri had dealt in the scrip of HJIL through his proprietorship concern Samy Enterprise on his own account. Samir Zaveri is found to have introduced Farokh Pavri and Empire Group to Lotus Investment and Gazi Securities, members – NSE and all the day to day orders in respect of their trading in HJIL were seen to have been placed by him only with the broker, Lotus Investment.

5.1 All the transactions of Samir Zaveri in HJIL scrip were found to have been routed through three NSE members namely Gazi Securities Ltd., Cyrus Vazifdar and Lotus Investment. Following table gives the net purchases and sales made by Samy Enterprises during Sett. No.1996036 to Sett. No. 1997011.

Broker Name	Net Transaction
Gazi Securities	+21,300
Cyrus Vazifdar	-31,800
Lotus Investment	-71,200
Total	-81,700

5.2 During the investigation, Samir Zaveri was asked about the source of delivery made at the exchange to the extent of 1,03,000 shares he had sold through Cyrus Vazifdar and Lotus Investment. His explanation was that he had spot purchased all the shares from Vinayak Investments and Gazi Securities. Shri Zaveri had also stated that he was approached by Mr. Ashwin Shah of Vinayak Investment with the scheme of earning better profit on the investment in stock market. Again, Shri Zaveri was found to have introduced Shri Manish Radhanpura of Vinayak Investment to Shri Munir Gazi of Gazi Securities (Member – NSE) who was also interested in such kind of investment opportunity.

3. It is seen that the terms of their deal were such that the shares would first be sold to the brokers of Samir Zaveri and after deducting the necessary charges, the payment would be made to Vinayak Investment. The interest for this transaction was found fixed at 2.5 – 3% per month. Against this payment, Vinayak Investment was to deliver the shares to Samir Zaveri and the shares so delivered would be billed as spot purchase by Samir Zaveri from Vinayak Investment. Also, Shri Samir Zaveri was found to have sent approximately 34,600 shares of HJIL to the company for transfer to his name, which was duly transferred. The details of shares of HJIL purchased and sold by Shri Samir Zaveri is given here under :

Purchase Transactions:

Spot Seller	N o . O f Shares	Payment Made to
Vinayak Investment	1,01,000	Vinayak Investment
Gazi Securities	37,100	Gazi Securities
TOTAL	1,38,100	

Sale Transactions:

Spot Buyer	N o . O f Shares
R. D. Shah Associates	16,500
Farokh Pavri	2,000
TOTAL	18,500

4. It is seen from the above table, that Samir Zaveri had purchased 1,38,100 shares of HJIL and had spot sold 18,500 shares. Also, he was found to have purchased 21,300 shares from the market and had sold 1,03,000 shares through various NSE brokers through the exchange system. Therefore, the total purchase and sale by Shri Samir Zaveri was 1,59,400 shares and 1,21,500 shares.
5. Investigations had also brought out that certain payments were made by the broker of Mr. Zaveri to Vinayak Investments and Gazi Securities. When asked about the direct payment by Lotus Investment to these entities, Shri Zaveri had stated that he had instructed his broker (Lotus Investment) to make payment to Vinayak Investment and Gazi Securities as they were in urgent need of fund. He was found to have instructed Cyrus Vazifdar to make the payment prior to pay-out day after discounting the sale by charging interest for early payment. Mr. Samir Zaveri is stated to have introduced Mr. Pavri and Empire Group to his broker- Lotus Investment as Mr. Farokh Pavri had asked for some good broker who could make the payment in time. Mr. Samir Zaveri was found to have admitted that he had introduced Mr. Pavri and Empire Group to Gazi and that he only used to place the order with Lotus Investment and Gazi in respect to transactions of Pavri group and Empire Group. During investigation he was found to have stated that after his road accident, he had asked Mr. Pavri and Empire Group to directly deal with Mr. Gazi and Lotus Investment.
6. Investigations had brought out that modus operandi followed by the operator was that financier Shri Samir Zaveri would first sell the shares of HJIL in the market and then once the sale is executed at the exchange, these shares would be purchased on spot basis from the borrowers to meet delivery obligations at the exchange. The funds were given by the financier to the borrower as purchase consideration for shares bought on spot basis. The financier was found to have received the money from the exchange on pay out. The seller, i.e., borrower of the fund had brought in the money at

the time of pay in. It was observed that the purchase price (spot price) was less than the price at which the shares had been sold in the exchange. The difference in sale price and purchase price was found to be on account of the interest on the funds lent in the form of purchase consideration for spot purchases, which had varied with the number of days for which finance was used during the interregnum between day of sale and day of pay out.

7. I find that financing transactions were given colour of purchase and sale of shares and were put through the trading system of the exchange. It was seen that financiers had first sold the shares of HJIL in the market (through the exchange system) and borrower of the funds had purchased these shares by synchronizing the trade. Once the sale was completed at the exchange, the same set of persons who had purchased these shares earlier in the exchange through synchronized deal was found to have sold these shares to the financiers on spot basis. Each trade at the exchange was guaranteed and in the event of buyer/its broker fails to meet their pay-in commitment, exchange make good to seller through Settlement Guarantee Fund. The financier was having security of shares received by him from spot purchases till it got the payment from the exchange on pay out. The payment was ensured from the exchange on account of trade guarantee.
8. The price of the scrip of HJIL was found to have been artificially raised to Rs.304/by resorting to putting buy orders at successively higher rates, -. M/s Gazi Securities, Vinayak Investment, etc. were the persons who were found to have sold the shares to Shri Samir Zaveri. Shri Samir Zaveri was found to have aided, assisted and abetted Shri Munir Gazi and Vinayak Investment in the price manipulations of HJIL through creation of artificial market and circular, fictitious & non genuine trades. It was also noticed that Mr. Gazi had later failed to pay for his purchases and then put the settlement system of the exchange to risk. Each trade at the exchange is guaranteed and in the event of buyer/its broker failing to meet their pay-in commitment, exchange

would make good the seller through Settlement Guarantee Fund. These entities were found to have misused exchange mechanism also. I find that Mr. Gazi of Gazi Securities and Vinayak Investments in connivance with these financiers were found to have put the settlement system of the exchange to risk. Shri Samir Zaveri was therefore found to have violated provisions of Regulation 4 (a) (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. Mr. Samir Zaveri is also found to have indulged in circular, fictitious and non-genuine trades thereby aiding in the manipulation of the price of the scrip of HJIL.

9. Therefore, in exercise of powers conferred upon me under Section 4(3) read with Section 11 B of SEBI Act as also Regulations 11 and 12 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities

Market) Regulations, 1995, I hereby direct Mr. Samir Zaveri not to access the capital markets or deal in securities for a period of two years . This order shall come into force with immediate effect.

G N Bajpai

Chairman

Securities and Exchange Board of India

Place : Mumbai

Date : 16th July, 2003.