

**BEFORE THE ADJUDICATING OFFICER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**  
**[ADJUDICATION ORDER NO. EAD-2/DSR/RG/08/2013]**

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

**Against**

**AKG Securities and Consultancy Limited [PAN: AAACA7549K]**

**In the matter of**

**Servalakshmi Papers Limited**

**Background:**

1. Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted an investigation into the alleged irregularities in the scrip of Servalakshmi Papers Limited (hereinafter referred to as SPL) and into the possible violation of the SEBI Act, 1992 (hereinafter referred to as the Act) and various Rules and Regulations made there under. The investigation was initiated as during 2011-12, SEBI had noticed large volatility in the market price of various scrips on the day of listing, including SPL, which had come out with an Initial Public Offer (IPO) during the period.
2. The investigation *inter alia* revealed that SPL came out with an IPO to raise ₹6,000 lacs by way of issue of equity shares of ₹10 each through 100% book building. The price band was ₹27 to ₹29 per equity share. The book running lead manager (BRLM) to the issue was Keynote Corporate Services Ltd (Kenote), Co-book running lead manager was Indian Overseas Bank (IOB) and the Registrar was Link Intime India Private Limited (LIPL). The IPO opened on April 27, 2011 and closed on April 29, 2011. Ultimately, 2,06,89,656 shares were issued at the higher end of the band i.e. ₹29.

Trading in the shares commenced on both National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) from May 12, 2011 and on that day the price of the scrip opened at ₹30.00 and ₹29, went up to a high of ₹48.75 / ₹48.70, went down to a low of ₹17.30 / ₹17.70, and closed at ₹19.00 / ₹19.05, respectively and thus, registering a fall of around 35%.

3. On the day of listing i.e. on May 12, 2011 at BSE, it was observed that three top clients, including AKG Securities and Consultancy Limited (hereinafter referred to as the Noticee) had indulged self trades which are fictitious in nature. The Noticee was found to have executed 126 self trades accounting for 1,88,497 shares constituting 0.16% of the total quantity traded on the listing day i.e. 12,18,66,404 shares and thereby, created artificial volumes in the scrip of SPL.
4. SEBI has, therefore, initiated adjudication proceedings under the Act to inquire into and adjudge the alleged violations of the provisions mentioned under Section 12A(a), (b) and (c) of the Act read with Section 27 of the Act and Regulation 3(a), (b), (c) & (d) and 4(1) & 4(2)(a), (b) & (g) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as PFUTP Regulations) against the Noticee.

**Appointment of Adjudicating Officer:**

5. I have been appointed as the Adjudicating Officer (AO) in place of previous Adjudicating Officer, vide order dated August 29, 2013 under Section 15-I of the SEBI Act read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as the 'Adjudication Rules') to inquire into and adjudge under Section 15HA of the Act the alleged violation of the abovementioned provisions of PFUTP Regulations by the Noticee.

### **Notice, Reply & Personal Hearing:**

6. Accordingly, a notice dated June 05, 2013 (hereinafter referred to as the 'SCN') was issued to the Noticee in terms of Rule 4 of the Adjudication Rules requiring it to show cause as to why an inquiry should not be held against it for the alleged violations. It was alleged in the SCN that the Noticee had dealt in the scrip of SPL as a client and executed 126 self trades on the listing day thereby, creating artificial / fictitious volumes in the scrip of SPL. The Noticee submitted its reply to the SCN vide letter dated June 24, 2013.
  
7. In the interest of natural justice and in order to conduct an inquiry as per Rule 4 (3) of the Adjudication Rules, vide notice dated September 06, 2013, an opportunity of personal hearing was granted to the Noticee on September 23, 2013. The said notice came returned undelivered. Therefore, vide notice dated October 29, 2013, the Noticee was granted another opportunity of hearing on November 15, 2013. The said notice was sent for affixture at the last known address of the Noticee. Accordingly, the said notice was affixed at the last known address and the report of affixture dated November 07, 2013 is on record. However, due to a holiday being declared by SEBI on account of 'Muharram' on November 15, 2013, vide e-mail dated November 13, 2013 the hearing was rescheduled to November 14, 2013. In reply to the said e-mail, the Noticee requested for an adjournment. The said request was acceded to and a final opportunity of personal hearing was granted to the Noticee on November 21, 2013. The Authorized Representatives appeared on the scheduled date and made oral submissions. They also requested time till November 23, 013 to make additional submissions in the matter which was granted. Vide e-mail dated November 25, 2013, the Noticee forwarded its additional submissions in the matter.

### **Consideration of Issues, Evidence and Findings:**

8. I have carefully perused the charges against the Noticee as per the SCN, oral and written submissions made by the Noticee and the materials as available on record. The issues that arise for consideration in the present case are:

**(i) Whether the Noticee has violated the provisions of Section 12A (a), (b) and (c) of the Act read with Regulation 3(a), (b), (c) & (d) and 4(1), 4(2)(a), (b) and (g) of the SEBI PFUTP Regulations?**

**(ii) Does the violation, if any, on the part of the Noticee attract any penalty under Sections 15HA of the Act?**

**(iii) If yes, what should be the quantum of penalty?**

9. At this juncture, it will be appropriate to refer to the relevant provisions which read as under:-

**Relevant provisions of the SEBI Act, 1992:**

**Section 12A.** *No person shall directly or indirectly –*

*(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognised stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made there under;*

*(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognized stock exchange;*

*(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognized stock exchange, in contravention of the provisions of this Act or the rules or the regulations made there under;*

**Relevant provisions of PFUTP Regulations:**

**3. Prohibition of certain dealings in securities**

*No person shall directly or indirectly—*

**(a)** *buy, sell or otherwise deal in securities in a fraudulent manner;*

*(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;*

*(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;*

*(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.*

#### **4. Prohibition of manipulative, fraudulent and unfair trade practices**

*(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;*

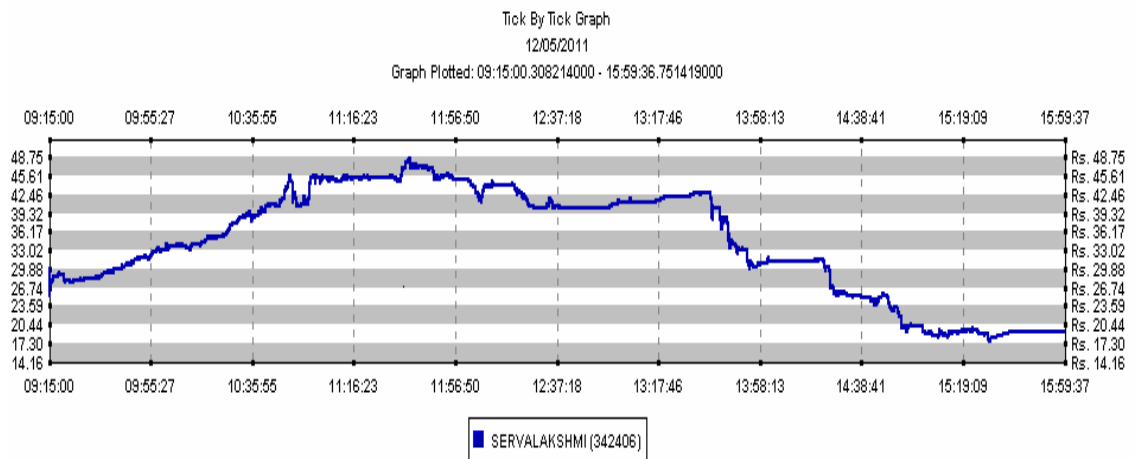
*(c).....*

*(d).....*

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

**10.** I find that SPL came out with an IPO to raise ₹6,000 lacs by way of issue of equity shares of ₹10 each through 100% book building. The price band was ₹27 to ₹29 per equity share. The book running lead manager (BRLM) to the issue was Keynote Corporate Services Ltd (Kenote), Co-book running lead

manager was Indian Overseas Bank (IOB) and the Registrar was Link Intime India Private Limited (LIPL). The IPO opened on April 27, 2011 and closed on April 29, 2011. Ultimately, 2,06,89,656 shares were issued at the higher end of the band i.e. ₹29. Trading in the shares commenced on both National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) from May 12, 2011 and on that day the price of the scrip opened at ₹30.00 and ₹29, went up to a high of ₹48.75 / ₹48.70, went down to a low of ₹17.30 / ₹17.70, and closed at ₹19.00 / ₹19.05, respectively and thus, registering a fall of around 35%. The following chart shows the intra-day price movement of the scrip on the day of listing:



11. I further find that on the listing day, at BSE, it was alleged that 19 clients carried out self trades ranging from 7,53,338 shares to 1 share totaling to 12,87,791 shares. The top three clients including the Noticee had traded maximum with themselves for a quantity of above 1,00,000 shares which constituted 89% of such trades. It is alleged in the SCN that the Noticee had executed 126 self trades accounting for 1,88,497 shares constituting 0.16% of the total quantity traded on the listing day i.e. 12,18,66,404 shares and thereby, created artificial volumes in the scrip of SPL. These trades were fictitious in nature as the Noticee acted as both buyer and seller for such trades and did not result in any change in beneficial ownership in the scrip which created false and misleading appearance of trading. The details of the Noticee's trading is as under:

Scrip Name	Name of the entity	Self trades quantity (buy/sell)	Total traded quantity by the entity	
			Buy	Sell
Servalakshmi Papers Limited	A K G Securities And Consultancy Ltd (BSE)	1,88,497	70,31,814	70,31,814

12. The Noticee in its reply dated June 24, 2013 submitted that it is engaged in jobbing / arbitrage activities in the capital as well as commodity market for a long time through a group of employed arbitragers / jobbers / technical experts. The Noticee further submitted that it is majorly dealing in all the active scrips traded through NSE and BSE. It is largely doing jobbing transactions depending upon the opportunities available in the market. On May 12, 2011, SPL got listed in the market and considering / analyzing the price movement in shares of SPL, its jobbers were just taking benefit of the advantage available in the market. The Noticee has attached a copy of its day wise turnover for the Month of May 2011 which shows that the Noticee regularly does large volumes in the market and this was not the first time that it has done large volumes on it. Further, the volumes in the market is not concentrated to some particular scrip. It does voluminous transactions in almost all active scrips. As per the practice followed, its group of jobbers / arbitragers jointly / severally give instructions to different terminal operators of Adroit Financial Services Pvt. Ltd (Broker). Sometimes position taken by one group of jobbers / arbitragers is not in the knowledge of other group of jobbers / arbitragers and they all are entering saudas in the market through different terminal operators. Therefore, there is always a possibility of self trades between different terminal. The noticee further submitted that there is not a single trade on NSE and BSE in which self trades were executed through same terminal.

13. Further, the Noticee vide its e-mail dated November 25, 2013 made the following submissions:

*(i) During 2011 alone it has traded in a total of 23 scrips on their respective listing days, including the scrip of SPL. The Noticee states that its trading volumes in these scrips on the listing day was as high as Rs. 43.86 crores.*

*(ii) Our trading in the scrip of SPL was also in the nature of jobbing transaction only and was no different from our day to day trading pattern. The scrip of SPL was listed on the floor of BSE and NSE on May 12, 2011 and the price of the scrip opened at Rs. 29 and Rs. 30 respectively and went up to a high of Rs. 48.75, low of Rs. 17.30 and closed at Rs. 19.5 and Rs. 19 i.e. a fall of around 35%. The same clearly shows that the scrip of SPL had a huge volatility and therefore, provided excellent opportunity for us to execute and undertake jobbing activities. Almost all mid-size IPOs in the year 2011-12 had witnessed similar patterns of volatility.*

*(iii) For taking advantage of this volatility we had authorized a total of 8 representatives / jobbers to place orders on our behalf with our broker, Adroit Financial Services Pvt. Ltd. These 8 representatives in turn were placing orders with 45 different dealers on 45 different terminals based on their independent understanding.*

*(iv) By the end of the day they had executed a total of 47,851 trades out of which 28,066 trades were placed on BSE and the remaining 19,785 trades on NSE. The total value of all these trades executed by our jobbers was ₹ 47,23,49,765 at BSE and ₹1,45,35,000 at NSE. The same had resulted in a turnover of 11.11% of the total trading at BSE and 0.28% of the total trading at NSE.*

*(v) The only ground of alleging us of acting in a fraudulent and manipulative manner to artificially inflate the volumes is the execution of a meager 126 self trades involving a quantity of just 1,88,497 shares which only constituted 0.16% of the total day traded quantity of 12,18,66,404 shares on the floor of BSE. We fail to understand the possible impact which these self trades could have had on the entire market when the quantity for the same was quiet less and negligible.*



14. The Noticee submitted the following with respect to the alleged self trades to substantiate its claim that the same were executed devoid of any manipulative intent and merely a by product of its genuine jobbing activity:

*(i) That all the self trades have matched with each other on different terminals where the orders for the same were instructed by different jobbers and dealers. (The Noticee has submitted the details of all 126 self trades along with the terminals / user ids from which orders were placed to support its contention)*

*(ii) That inspite of having 8 different dealers and 45 different terminals, not even a single share got matched on the same terminal, clearly shows that our jobbers were always aware of their individual positions and always ensured that their trades do not match in any manner, resulting into self trades.*

*(iii) High level of expertise was ensured despite the fact that on the given day our jobbers had undertaken jobbing transactions in more than 164 scrips on BSE and 207 scrips at NSE and had generated a total turnover of ₹ 120,84,10,973.*

*(iv) That at the time of execution of the self trades we had no mechanism or software to ascertain whether our trades were getting matched in our client code. Had there been any process to inform us of such matching of trades, we would have never executed such self trades in the scrip of SPL.*

*(v) It has to be appreciated that we could not have manipulated the market with such negligible volume and could not have disturbed the market equilibrium because firstly the alleged manipulative trades were miniscule in quantity as compared to the total trading and secondly the market itself was trying to establish an equilibrium since the scrip had just listed and heavy trading was required for a proper price discovery and establishment of equilibrium. Considering the volume of the transactions in the scrip and price fluctuation in the exchanges on the day, it is clear that the said alleged self*

*trades neither lead to price fluctuation nor created a false appearance of trading or were tending to mislead the gullible investors.*

*(vi) The manner in which the said alleged self trades were executed are the most important factors to be considered in these circumstances. The said alleged self trades were bonafide normal trades which got executed in ordinary course and were not designed self trades and in no manner manipulative.*

**15.** I note from the submissions made by the Noticee that the Noticee is a company and is basically employ arbitrage / jobbing activities in the securities market and carry out these activities on a daily basis. The Noticee was one of the clients who had traded in the scrip of SPL on BSE and had traded for a quantity of 70,31,814 shares out of which 1,88,497 shares were traded in a fictitious manner i.e. were self trades. I note from the trade log & order log for May 12, 2011 that the Noticee executed a total of 126 self trades which constitutes around 0.16% of the total traded volume on BSE. Further, as submitted by the Noticee, 8 of its employees / authorized individuals were instructing around 45 traders / dealers of its broker to punch in orders in the scrip of SPL on the day of listing. It is observed that the buy orders and sell orders were being placed by different traders from different terminals. Also, the fact that the Noticee has traded in the scrip of SPL on both the exchanges i.e. BSE and NSE and that only the trades of the Noticee on BSE have been alleged to be fictitious and fraudulent clearly implies that its trading activities on NSE in the said scrip have been genuine and devoid of any sinister motive to artificially inflate the volumes in any manner. However, the extent of concentration on the day of listing is exceptional and unacceptable even in any extreme volatile situations. The Noticee should look into this aspect and remedial steps should be taken for avoiding such instances.

**16.** In view of the above, I note from the submission of the Noticee that it executes arbitrage trades so as to benefit from the price difference on the stock exchanges and due to the nature of trading there is high volume

involved and the turnover is very high. I find merit in the submissions of the Noticee that in such market situations the matching of trades from different terminals is inevitable and there may not be any meeting of minds.

**17.** Further, there is no allegation against the Noticee that it had indulged in price manipulation except that the aforementioned self trades resulted in creation of artificial volume. I am of the view that under the above circumstances, some of the trades could automatically match resulting in self trades on the automated anonymous trading mechanism. The corroborative evidence available on record is insufficient to substantiate that the trades executed by the Noticee contributed to the volumes in the scrip in as much as the contribution of the Noticee to the market volume being only 0.16% of the total volumes traded on the day of listing.

**18.** In view of the aforesaid observations and findings, I am inclined to give benefit of doubt to the Noticee and conclude that the violation of provisions of Section 12A (a), (b) and (c) of the Act read with Regulation 3(a), (b), (c), (d) and 4(1) & 4(2)(a) and (g) of the PFUTP Regulations do not stand established.

### **ORDER**

**19.** In view of the above, after considering all the facts and circumstances of the case and exercising the powers conferred upon me under section 15-I (2) of the SEBI Act, 1992, I hereby conclude that the charges leveled against the Noticee do not stand established and the matter is, accordingly, disposed of.

**20.** In terms of the Rule 6 of the Adjudication Rules, copy of this order is sent to the Noticee and also to Securities and Exchange Board of India.

**Date: November 27, 2013**

**Place: Mumbai**

**D SURA REDDY  
ADJUDICATING OFFICER**