WTM/RKA/EFD/DRA-II/45/2015

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under section 12(3) of the SEBI Act read with regulation 28(2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 in the matter of M/s Shree Rama Multi Tech Ltd.

In respect of M/s Khandwala Securities Ltd. (SEBI Registration number: INB230600030)

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1. SEBI had conducted investigation in respect of the trading in the shares of M/s Shree Rama Multi-Tech Ltd., (SRMTL) for the period June 2000 to September 2000 (investigation period). During the investigation period, Khandwala Finance Limited (Khandwala Finance) a member of the National Stock Exchange Limited (NSE) and SEBI registered stock broker, was one of the active trading members dealing in the scrip of SRMTL. It had common clients with another stock broker namely; Jayantilal Khandwala & Sons Pvt. Ltd. (Jayantilal Khandwala), a trading member of the Bombay Stock Exchange Limited (BSE) and most of its clients were associated with the management of SRMTL. Further, Mr. Paresh Khandwala was a common director in both, Khandwala Finance and Jayantilal Khandwala and thus the two stock brokers were observed to be connected to each other.

2. Khandwala Finance mainly traded in the scrip of SRMTL on behalf of its clients namely, East West Polyart Ltd., Satellite Management, Ideal Petro Products Ltd. and Ms. Asha Patel. These entities were trading as common clients with Jayantilal Khandwala at BSE.

3. Khandwala Finance's purchases for its clients in the scrip were very high. In some of the settlements, Khandwala Finance even contributed more than 50% of the total purchases at NSE. In settlement no. 36, Khandwala Finance contribution towards total purchases in the scrip was 82%. Khandwala Finance had also contributed substantial volumes in trading of the scrip on NSE through its sales for its clients. The volume contributed by Khandwala Finance towards sales in settlement no. 38 was to the tune of 76 %.

4. During June 20, 2000 to September 18, 2000, Khandwala Finance executed frequent cross deals (204 trades). During this period, the total traded volume in the scrip at the NSE was 44,51,448 shares out of which the cross deals of the Khandwala Finance contributed for around 17 % (i.e.7,58,018 shares). Khandwala Finance was more interested in creating volumes by prompting its clients to deal in the scrip. Most of these deals had resulted into delivery of shares through exchange mechanism.

5. Subsequently, Khandwala Finance got merged with Khandwala Securities Limited (Khandwala Securities) and its membership of NSE was transferred to Khandwala Securities.

6. In view of the above, SEBI initiated proceedings under section 12(3) of the SEBI Act read with regulation 5(1) of SEBI (Procedure for Holding Enquiry and Imposing Penalty) Regulations, 2002 (hereinafter referred to as 'the Enquiry Proceedings Regulations') (*since repealed*) and appointed an Enquiry Officer to enquire into the alleged violation by Khandwala Securities. After completing the enquiry, the Enquiry Officer in his Report dated August 25, 2006 found that-

   i. During the investigation period, Khandwala Finance was a dominant and active trading broker at NSE in the scrip of SRMTL. It had contributed more than 50% of the purchases at NSE. Khandwala Finance had executed 204 cross deals of around 7,58,018 shares out of total volume of 44,51,448 shares of the company traded on NSE, which constitute 17% of the volume of the scrip at NSE between its clients from June 20, 2000 to September 18, 2000. Khandwala Finance had common clients with Jayantilal Khandwala in respect of transactions in question. Khandwala Securities did not deny the allegation that the said clients executed cross deals with it.

   ii. Khandwala Finance used to put buy/sell orders for huge quantities at a price quite lower/higher than ruling price. The intention behind putting these orders was to create an artificial depth in the market. Since, these orders were fed at a price quite far away from the ruling price; the chances of execution were next to zero. However, the artificial depth leaves an impression that there are enough buyers/sellers in the market. Enquiry Officer has found that out of 24 instances of such transactions, 23 were on behalf of the clients and 1 for Khandwala Finance itself. Considering the large quantities of sells/purchases ranging from 25000 to 75000 shares in each of these 24 orders, the price differential between order price and the ruling price and the fact that these orders did not get executed, Enquiry Officer found that these orders were placed with an intention to create artificial market in the scrip. These synchronized/structured deals were in gross abuse of the trading system and they hampered efficient price discovery.

   iii. Khandwala Finance used to put buy orders, with manipulative intentions, at a price higher than that of the ruling price/ last traded price. In settlement number 31 on July 26, 2000, when the scrip was last traded ₹ 72.50 at 13:53:25 and there were sellers for 12419 shares at a price ranging from ₹72.35 to ₹75.45 at 13:54:48, Khandwala Finance had put a buy order for 15000 shares for ₹75.50 at 13:54:48. Similarly, order no. 200007050226285 for 10,000 shares swept the order up to ₹66.75 within 1 second from the last traded price of ₹61.90/- i.e. rise of about 7.8%. The Enquiry Officer noted more

such instances in the annexure to the show cause notice issued by him to Khandwala Securities. The Enquiry Officer further noted that these trades influenced the price of the scrip at the NSE.

iv. Khandwala Finance had executed trades on behalf of 4 clients before the date of signing of the client-member agreements, the Enquiry Officer found that as a registered stock broker, Khandwala Finance was required to ensure that the client member agreement was executed before any order was accepted from the clients.

v. Khandwala Finance had access to the information about the huge buy orders which were to be placed then by the UTI in the scrip of SRMTL. M/s. Practical Finance had entered buy orders for 2 Lac shares each on behalf of UTI on 15.9.2000 and 18.9.2000. During the entire investigation period, these 2 orders were the only orders for such huge quantity. These orders got matched with sell orders placed by the Khandwala Finance for 2,00,005 and 2,00,000 shares respectively, and got executed within 1-3 seconds of placing the orders.

vi. Khandwala Securities had claimed that it was not aware about the purchaser / name of the buyer. According to it the said two transactions were sheer co-incidence and were not structured/ synchronized. The Enquiry Officer noted that on 15.09.2000, M/s Practical Finance entered a buy order for 2,00,000 shares at 12:58:16. Just before this order, Khandwala Finance entered a sell order for 2,00,005 shares and the order got executed at 12:58:16 within just one second, since both the entities put their orders at ₹ 82.50/-. On 18.09.2000, M/s Practical Finance entered a buy order for 20,0,000 shares at 15:22:13. Khandwala Finance entered the sell order for 2,00,000 shares at 15:22:16. The limit order price for both the orders was ₹ 77/- and the order got executed within just 3 seconds. During the investigation, it was revealed that the Khandwala Finance had not entered the code of the clients while entering the transaction on 15.09.2000 for 2,00,005 shares but apportioned the quantity of one order into the accounts of different clients at the end of the day. Khandwala Finance had admitted before the Enquiry Officer that, *"In the instant case, there was a buyer for 200000 shares of SRMTL at a higher price than the price expected by two of our its clients…."*. Thus, the Enquiry Officer found that Khandwala Finance was aware of the impending buy order for 2 lakh shares on 15.09.2000. Enquiry Officer found that had this information available through the trading screen, the punching of sell order would have followed the punching of the buy order. Enquiry Officer however noted that on 15.09.2000, Khandwala Finance had entered the sell order first and buying broker had placed the buy order afterwards i.e. 1 second after at 12:58:16. Therefore, Enquiry Officer concluded that Khandwala Finance was aware of the impending buy order. Considering the perfect matching of time, price and quantity.

vii. Further, on 15.09.2000 at 12:58:16, Khandwala Finance had sold 100506 shares in regular market at ₹82.50/- on behalf of M/s East West Polyart and after a gap of 3 minutes Khandwala Securities bought 1,00,506 shares at ₹85.10/- in rolling segment. From the nature of this transaction, it was alleged that Khandwala Finance was indulging in financing transactions through structured deals i.e. the financing trades were given the colour of securities transactions. Khandwala Securities had not denied this allegation. Enquiry Officer has found that Khandwala Finance had indulged in financing transactions through structured deals.

viii. Khandwala Finance had exposed itself to considerable risk by allowing the client to take huge exposure in the scrip. One of its clients viz, Ms. Asha Patel had a huge debit balance of ₹4.48 crore towards the purchase of shares of SRMTL alone. The investigation had revealed that account of Ms. Asha Patel was showing ₹2.68 crores for the year ended 31.03.2000. In response to this allegation, Khandwala Securities had submitted before the Enquiry Officer that the credit- worthiness of clients was never questionable. The Enquiry Officer has not accepted this explanation and found that the Khandwala Finance had exposed itself to a considerable risk by allowing its client to take huge exposure.

ix. The investigation had also revealed that an amount of ₹1 crore was transferred from the account of Shree Developers Pvt. Ltd. (an entity related to the management of SRMTL) to Khandwala Finance towards the market operations of SRMTL. In response to this allegation Khandwala Securities has submitted that it had taken a short-term interest bearing inter-corporate deposit from Shree Developers Pvt. Ltd. in the normal course of its business to enable it to tide over its temporary liquidity constraints and the said deposit was duly repaid by it on October 3, 2000. Enquiry Officer noted that the cheque to Khandwala Finance was dated August 25, 2000 and the said inter-corporate deposit was returned after over a month on October 3, 2000. Since, no document has been furnished in support this claim , the Enquiry Officer has rejected the same and found that this amount had been transferred to the Khandwala Finance towards the market operations of SRMTL.

x. Khandwala Finance had given the premises owned by it at 152, Mittal Court, A Wing, 15th Floor, Nariman Point, Mumbai on lease basis to SRMTL. From this the Enquiry Officer has found relationship between the Khandwala Securities and SRMTL beyond the securities market transaction.

7. In his Report the Enquiry Officer found that all the charges alleged in the show cause notice issued by him stood established and thereby the provisions of regulation 4 (a),(b),(c),(d) and (e) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities

Market) Regulations, 1995 (PFUTP Regulations, 1995)(*since repealed*) and clause A of the Code of Conduct for Stock Brokers specified in Schedule II read with regulation 7 of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as 'the Stock Brokers Regulations') have been violated. Based on these findings the Enquiry Officer has recommended that that the certificate of registration granted to Khandwala Securities *(as it has taken over the obligations of Khandwala Finance)* may be suspended for a period of two years.

8. After considering the Report, a show cause notice dated August 30, 2006 (SCN) was issued to Khandwala Securities (the noticee) under regulation 13(2) of the Enquiry Proceedings Regulations calling upon it to show cause as to why the appropriate penalty including penalty as recommended by the Enquiry Officer should not be imposed on the noticee.

9. The noticee vide its letter dated October 17, 2006 replying to the SCN, made *inter alia* the following submissions:-

   i. The thrust, of the allegations in the SCN is against Khandawala Finances (in its capacity as Stock Broker registered with SEBI). At the relevant time when the alleged violations had taken place, Khandwala Securities was not a stock broker registered with SEBI, and it was transacting in capacity of clients through stock brokers . Therefore, for the alleged violations, if any committed by Khandwala Finances, it cannot be held liable. The alleged violations cannot be transfered to the successor, as it remains the liability of the person who committed the offence. It is submitted that the liability is personal to the offender. In this regard put forth judgment of Hon'ble High Court Bombay, in the case of *SEBI vs. SKDC consultants Ltd.*, [2004].

   ii. No negative inference can be drawn against Khandwala Finance merely because, it contributed large volumes, which was outcome of trading carried out in normal course of business while trading on its own behalf and on behalf of its clients. During the relevant period, it was dealing in various other scrips on behalf of its clients, including the clients referred to in the Report, and on its own account. It is not the case that the said clients were dealing only in the scrip of SRMTL.

   iii. With regard to cross deals, no data showing the cross deals executed have been provided. In the instant case no where it has been shown as to what were the cross deals, on whose behalf they were carried out and how these deals were done with the manipulative intent. Noticee reiterated that, at the relevant time, the alleged transactions were carried out as normal business transactions as per the instructions of its clients. No evidence has been brought on record to support the charge that the noticee was interested in creating artificial volume by promoting clients to deal in the scrip same.

   iv. The clients were holding large quantities of the scrip even at the end of the investigation

period, which is an indicator that the shares were held by them "over an extended period of time". East West Polyart had held over 680000 shares, Ms. Asha Patel had held over two lakh shares, Satellite Management had held over 70,000 shares and other clients as well, including the noticee had held large positions in the scrip. Therefore, the allegation of Enquiry Officer that there is no document to support noticee's claim of investment in the scrip by its clients over an extended period of time is not tenable.

v. In any event, simply because the client had instructed noticee to place the orders at a particular price, which was higher than the market at the relevant time, it cannot be alleged to have "intention to rig the price". At the most, such placing of orders can reflect the intention of the client, but it can never be suggested that the broker had the "intention to rig the price".

vi. It is the fact that the sell orders were available up to a price of ₹75.45 for the quantity of 12,419 shares and noticee as per the instructions of the client given a price of ₹75.50 as the buy price for a quantity of 15000 shares, thus the noticee had given an order at the increased price of mere 5 paise. Moreover, this higher price was given for a quantity which was not available in the market, which shows that the buyer wanted to buy shares even if someone was ready to sell at slightly higher price. It may however be pointed out that the price in the market is prioritize by the seller, which implies that even if buyer places an order at a higher price he will get shares only at the price expected by a seller and not at a higher price which buyer gives and therefore the higher price quoted by buyer would have no effect until there is seller available at that price. Under this background, noticee cannot be held to have increased price of the scrip by virtue of trading done by noticee on behalf of the clients in the ordinary course of business.

vii. The noticee had obtained the member client agreement, albeit with slight delay. The reason for the same was that the agreements were sent to the client and were not received, when the trading was started by them through us. It may be pointed out that, before executing the transactions, noticee had sent the member client agreements to all the referred clients. However, there was little delay in getting back the executed agreements from the clients. Some of the clients gave the same after follow up. Since the clients had misplaced the agreements, duplicate agreements were sent and noticee had got the same executed from them. The delay in obtaining member client agreements technical lapse and may be viewed leniently.

viii. There were not any synchronized/structured deals on a large scale/volume as alleged. The noticee submitted that the said allegation has been leveled upon it for entering into two transactions on behalf of its client, which got matched with two buy orders of UTI placed through M/s. Practical Finance.

ix. Synchronization is not possible without the involvement of counter party broker or counter party clients. It is not the case of Enquiry Officer that the Practical Finance or UTI were involved in synchronized trading as alleged or they were acting in concert with noticee. Therefore, the allegation cannot survive and is untenable.

x. Asha patel was its important and old client and she used to trade in large quantity of various scrips and maintained credit balance with it. From 1.04.2000 to 29.08.2000 she had maintained with noticee an average credit balance of ₹ 50 lakhs. Noticee submitted that whenever she had debit balance, it may be noted that other members of her family were also its clients since 1976-1977 and there was no history of non-payment or delayed payments. Therefore, it is incorrect to say that noticee had exposed itself to considerable risk by allowing client to take huge exposure.

xi. It is incorrect to state that Shree Developers extended a loan of One Crore towards market operation of SRMTL. The same is in the realm of conjecture. Noticee denied the said allegation. Noticee submitted that the said one crore rupees was given to it by Shree Developers Ltd. as a short loan to tide over temporary liquidity constraint and the said deposit was duly repaid.

xii. It is true that premises 152, Mittal Court, A Wing, 15th Floor, Nariman Point, has been let out to Shree Rama Multi Tech Ltd. on lease, since 1st October 1998. Noticee submitted that except it had let its premises to Shree Rama Multi Tech and had no other dealing with the said company. The said lessor lessee relationship cannot be extended to conclude and attribute motives to noticee's in terms of acting on behalf of management of SRMTL to carry out market operations in the scrip.

xiii. Enquiry officer has himself observed that the orders did not get executed and how it has alleged that the said transactions were synchronized/structured, noticee fail to understand how the transactions which could not be executed be structured/synchronized. The said allegations are made without any supporting evidence.

xiv. The Enquiry Officer has cited the decision of Hon'ble Securities Appellate Tribunal in the matter of Nirmal Bang in support of his allegation of Synchronized Trading but has completely ignored the meaning of synchronized trading, which can be well inferred from the same decision of Nirmal Bang. For synchronization of trading the buy order, quantity, price and time should be over a period of time should match the sell order and this matching of transactions should be over a period of time in the series of transactions. However, in the instant case, there is no date on record to show that there was a matching of trades over a period of time.

xv. As an intermediary it has complied with code of conduct and others bye laws promptly.

10. During the pendency of the proceedings the noticee had applied for consent vide their application dated January 24, 2012, which was rejected by SEBI on November 20, 2013.

11. An opportunity of personal hearing was granted to the noticee on January 23, 2014, when the matter was partly heard. The matter was again heard on February 18, 2014, when Mr. Vinay Chauhan, Advocate. Ld. Advocate appeared before me and made submissions. Liberty was given to Ld. Advocate file written submissions in the matter. Vide letter dated March 03, 2014, entity filed its additional written submissions. Another opportunity of personal hearing was granted to the noticee on February 03, 2015, which it did not avail.

12. I have carefully considered the Report, the SCN issued pursuant thereto, oral and written submissions of the noticee and other relevant materials available on record and shared with the noticee. Before dealing with charges, it is necessary to refer to the relevant regulations the contravention of which has been alleged in the SCN. The said regulations are reproduced hereunder:-

PFUTP REGULATIONS, 1995

*"**Prohibition against market manipulation.***

4. No person shall -

(a) effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of securities and thereby inducing the sale or purchase of securities by any person;

(b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market;

(c) indulge in any act which results in reflection of prices of securities based on transactions that are not genuine trade transactions;

(d) enter into purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress or cause fluctuations in the market price of securities ….."

CODE OF CONDUCT UNDER THE STOCK BROKERS REGULATIONS

"A. General

(1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

(2) Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business.

(3) Manipulation: A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(4) Malpractices: A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors' interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.
(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

13. It is an admitted fact that Khandwala Finance got merged with Khandwala Securities with effect from April 01, 2000 and its membership of NSE was transferred to Khandwala Securities. I note that the issue of transfer of liability of Khandwala Finance to Khandwala Securities, consequent to merger and amalgamation of former with later in the year 2002 has already been settled by Hon'ble Securities Appellate Tribunal (SAT) in its judgment and order dated September 07, 2012 in the appeal No. 19 of 2012 filed by Khandwala Securities against SEBI order dated January 13, 2012. It is noted that in that case, on consideration of the terms of amalgamation and an undertaking given by Khandwala Securities to SEBI on March 8, 2002, Hon'ble SAT found that the duties and obligations of Khandwala Finance that it *"cannot be obliterated by virtue of the clauses in the amalgamation document"* and further held that Khandwala Securities-

> *"cannot be heard to shift its stand now in the face of the clear stand taken in the aforesaid undertaking. So the conduct of the appellant (Khandwala Securities) establishes in clear terms that as early as 2002 the appellant had agreed to respond to all prospective action in respect of KFL (Khandwala Finance) without any jurisdictional dispute. The decision of the High Court of Bombay in the case of S.K.D.C. Securities Limited may not be of any assistance to the appellant in this case in the light of the undertaking referred to hereinabove. So we conclude that the first objection raised by the appellant is not tenable. "*

14. In view of the above, I find that consequent to merger of Khandwala Finance with Khandwala Securities, the liabilities of Khandwala Finance, that are subject matter of these proceedings got transferred to Khandwala Securities and now it cannot escape from the same taking shelter of subsequent amalgamation. I, therefore, reject the contentions of the Khandwala Securities in this regard.

15. Coming to the merits of the case, I note that it is admitted fact that Shri Paresh Khandwala was a common director of the Khandwala Finance and Jayantilal Khandwala. It is undisputed fact that both the stock brokers had common clients who were putting simultaneous buy orders in the scrip through Khandwala Finance at NSE and through Jayantilal Khandwala at BSE during the investigation period. Further, both the stock brokers had followed similar trading pattern at BSE and NSE for the common clients. I, therefore, note that both the stock-brokers are connected to each other.

16. It is also admitted fact that Khandwala Finance had given its premises at 152, Mittal Court, A

Wing, 15th Floor, Nariman Point, Mumbai on lease to SRMTL. I, therefore agree with findings of the Enquiry Officer regarding connection/ relation between Khandwala Securities and SRMTL. However, materials available on record do not show relation /connection between the clients of Khandwala Finance and management of SRMTL, in any manner.

17. I note that the Enquiry Officer has taken into account dealings of Khandwala Finance in the scrip, during the relevant period, on behalf of its following major clients:

Main Client Name/Address	**Purchases**	**Sales**	**Gross**	**Net**
East West Polyart Ltd., Nivruti Nivas, Opp. Kalgi Florist, Old Sahara Mandir Road, Ellisbridge, Ahmedabad	7,97, 784	1,08,006	9,05,790	6,89,778
Asha Patel	6,41,720	4,28,094	10,69,814	2,13,626
Satellite Management, Ram Nivas-1, Khanpur, Ahmedabad-	73,739	0	73,739	73,739
Nippon Investments	0	2,81,418	2,81,418	2,81,418
Anant Trading Co. Bajaj Bhavan, 2nd Floor,226, Nariman Point, Mumbai-21	71,456	71,456	1,42,912	0
Kushagra Trading Co.	71,456	71,456	1,42,912	0
Ideal Petro Products	26,305	0	26,305	26,305
Vasant J mehta	30,000	10,000	40,000	20,000
Khandwala Securities Ltd.	1,04,196	60,553	1,64,749	43,643
Khandwala Finance Ltd.	75,900	92,651	1,68,551	-16,751
Total (Major Clients)	18,92,556	11,23,634	30,16,190	7,68,922
Grand Total	21,87,755	13,31,095	31,18,850	8,56,660

18. The settlement wise position of Khandwala Finance at NSE has been noted in the Report as follows:

Settl No.	**Qty Traded at Exchange**	**Entity Purchase**	**Entity purchase in % terms with total volume at exchange**	**Entity sales**	**Entity sales in % terms with total volume at exchange**	**Cross Deals of entity**
2000025	383488	81600	21%	33600	9%	32300
2000026	441431	179562	41%	150312	34%	143012
2000027	113964	20500	18%	0	0%	0
2000028	267783	143139	53%	9000	3%	6000

Settl No.	Qty Traded at Exchange	Entity Purchase	Entity purchase in % terms with total volume at exchange	Entity sales	Entity sales in % terms with total volume at exchange	Cross Deals of entity
2000029	383573	193665	50%	33329	9%	20431
2000030	170169	39250	23%	750	4%	4319
2000031	301307	1850994	61%	43845	15%	36975
2000032	5011193	317765	63%		31%	152877
2000033	120416	18378	15%	154447	0%	0
2000034	66690	24245	36%	800	1%	500
2000035	562395	26805	48%	0	0%	0
2000036	333951	274550	82%	100867	30%	88321
2000037	714942	390651	55%	215873	30%	143906
2000038	715842	221130	31%	546487	76%	129377
2000039	73239	24566	34%	2000	3%	0

19. From the above table it is noted that in settlement no. 36, Khandwala Finance's contribution towards purchases was 82%. It has also contributed substantial volumes towards sales at the exchange as it is 76% sales in settlement no. 38. It is also noted from the Report that in most of the settlements, the Khandwala Finances had more than 50% of the purchases at NSE. Thus, during the investigation period, Khandwala Finance was dominant and active trading member in the scrip at NSE and its contribution in the total trade volume in the scrip during the investigation period was significant and substantial.

20. I note that one of the basis of the charge of fraudulent and manipulative trading against the noticee is, certain cross deals in the scrip at NSE, during the investigation period, between clients of Khandwala Finance. The Enquiry Officer has observed that the cross deals of clients of Khandwala Finance contributed to the volume by around 7,58,018 shares [i.e. 17% of total volume (44,51,448 shares) in the scrip at the NSE]. It is admitted position that alleged transactions had resulted in delivery of shares purchased by the respective clients.

21. I note that the noticee has not contested its trades including the cross deals as elaborated in the SCN issued by the Enquiry Officer and SCN issued after submission of the Report. The noticee has for the first time contended that the relevant data regarding cross deals were not provided to it. I note that though the SCN/Report does not give a specific details about the alleged cross deals i.e. details of clients, time, price, quantity of the trade and other details such as trade number, buy/sell order number, etc. it has been alleged that Khandwala Finance had executed many cross deals and was more interested in creating volumes by prompting its clients to deal in the scrip. The noticee has not disputed the allegation of cross

deals and has raised technical objections of non receipt of data. The noticee has for the first time contended that the relevant data was not provided to it. I note from the material available on record that, in fact, the noticee in its reply dated March 08, 2004 had admitted to have executed the alleged cross deals for its clients and had submitted that :- "*Regarding various cross deals having been executed, we submit if the intent for every new purchase was price manipulation, it would have made sense for the purchaser to keep buying the shares. Alternatively based on our advice these purchasers kept booking the profit at every level, which is in line with a well-known investment policy that every prudent investor pursue*". In order to substantiate its submissions, the noticee had relied upon its reports assigning a 'BUY'. Considering this the Enquiry Officer observed that the noticee had neither furnished any document to support its claim of its "book profit/sell advise" to its clients nor has furnished any data to support its claim of investment in this scrip by its clients over an extended period of time, accordingly the Enquiry Officer did not accept the submission of the noticee in this regard. Even in the proceedings before me, the noticee had admitted to have executed the alleged cross deals and has contended that those cross deals were delivery based, legal and not manipulative.

22. I note that the Enquiry Officer has found that few common clients between Khandwala Finance and Jayantilal Khandwala namely, M/s East West Polyart Ltd., M/s Satellite Management, M/s Ideal Petro, Ms. Asha Patel, etc. had executed cross deals in the scrip during the investigation period. The Enquiry Officer has further found that two entities, namely Shree Developers Pvt. Ltd. and Shree Rama Polysynth Ltd., that are stated to be clients of Khandwala Finance and associated with SRMTL, had not traded in the scrip during investigation period. As found hereinabove, none of the clients of noticee were related/connected with SRMTL. However, the fact remains to consider as to whether the transition of Khandwala Finance as described in the SCN/Report and are undisputed by the noticee, had potential to manipulate the price and volume of the scrip as alleged in the Report.

23. From the facts and circumstances of the case as brought out in the Report, it is noted that both the stock brokers had common clients who were putting simultaneous orders in the scrip through Jayantilal Khandwala at BSE and through Khandwala Finance (the noticee) at NSE during the period June 2000 to September 2000. Further, both the stock brokers had followed similar trading pattern at BSE and NSE for the common clients for buying the shares and offloading the same to UTI. Khandwala Finance had admittedly advised its clients to indulge in such deals. These facts, taken together and circumstances in which the same pattern of transactions for common clients took place, suggest concerted action of both the stock brokers while dealing in the scrip on behalf their common clients. Pattern of such trades indicates reasonable preponderance of probability that those cross-deals were executed for creating volumes by prompting the clients to deal in the scrip.

24. With regard to the allegation of creation of artificial depth in the market is concerned, the Enquiry Officer after perusal of 24 instances mentioned in SCN issued by him, found that on 23 occasions the noticee has placed order on the behalf of its clients and at one instance the noticee had placed order on its own behalf. Considering the large quantities of sells/purchases ranging from 25,000 to 75,000 shares in each of these 24 orders, considering the price difference between order price and the ruling price and that these order did not get execute, the Enquiry Officer found that these orders were placed with an intention to create artificial depth in the scrip at NSE. The noticee has not given any plausible reason for placing such orders. I, therefore, do not find any reason to differ with the finding of the Enquiry Officer in this respect.

25. It has also been alleged that most of the transactions executed by Khandwala Finance had influenced the price of the scrip substantially. The Enquiry officer has found that though, at the relevant time, the scrip was available at a lesser price, Khandwala Finance used to put buy orders for its clients at a higher price than the price offered by sellers. The examples of such transactions were provided to the noticee along with SCN issued by the Enquiry Officer. Following are some of the examples of these transactions as described in the Report:-

    a. In settlement no. 26 on June 27, 2000, the scrip was traded for ₹61.90/- at 10:42:20. The order of the entity which was executed at 10:42:21(order no. 200007050226285 for the quantity of 10000 shares) swept the orders up to ₹66.75 within one second. From this it is clear that the execution of this order by noticee influenced the price by ₹4.85. In percentage terms this works out around 7.8% increase.

    b. In settlement No. 31 on July 26, 2000 when the scrip was traded at ₹72.50/- at 13:53:25 and there were sellers for 12,419 shares of SRMTL at a price ranging from ₹72.50 to ₹75.45/-at 13:54:48, Khandwala Finance had put buy order of 15000 shares at a price of ₹75.50/- vide its order no. 200007260687326 at 13:54:48. The execution of the said order influenced the price of the scrip at the exchange to tune of ₹3.15/-. In percentage terms this works out around 4.1% increase.

26. I note that many such instances as above have been mentioned at Annexure 4 of the show cause notice issued by the Enquiry Officers. On examination of such trades, the Enquiry officer has found that such trades had substantially increased the price of the scrip. The noticee has not been able to give explanation for such trades except for the above instances. I find that the data given in Annexure 4 are sufficient to explain as to why such buy orders were placed repeatedly at higher price than the prevailing market price. Admittedly, Khandwala Finance was placing such buy orders in order to buy more number of shares than available in the system. Thus, the number of shares involved in each buy order of Khandwala Finance and those available in the market were well within its knowledge. Considering repeated pattern of such order placement repeatedly during the period under reference, I do not agree with the explanation given by the noticee with

respect to the allegation in this regard.

27. It has been alleged that Khandwala Finance had access to information about the impending huge buy orders in the scrip to be placed by UTI during the relevant period. It has been mentioned in the Report that M/s. Practical Finance Services entered buy orders, on behalf of UTI, for 2,00,000 shares of SRMTL on September 15, 2000 and another 2,00,000 shares of SRMTL on September 18, 2000. The said buy orders got matched with sell orders placed by Khandwala Finance for 2,00,005 and 2,00,000 shares, respectively of SRMTL and got executed within 1-3 seconds of placing the orders. The details of the orders are as under:

    a. On September 15, 2000, M/s. Practical Finance Services placed buy order for 2,00,000 shares at 12:58:16. Just before this order, Khandwala Finance had placed a sell order for 2,00,005 shares at 12:58:16. The orders got executed at 12:58:16 immediately, since both entities put their orders at a price of ₹ 82.50/per share.

    b. On September 18, 2000, Practical Finance entered a buy order for 2,00,000 shares at 15:22:13. Khandwala Finance had placed the sell order for 2,00,000 shares at 15:22:16. The limit order price for both the order was ₹ 77/- and order got executed within just 3 seconds.

28. In the above regard it is noted that during the investigations in the context of the above transactions the noticee had admitted that - "*In the instant case, there was a buyer for 200000 shares of SRMTL at a higher price than the price expected by two of our its clients….*". Thus, I do not have any reason to differ with the findings of Enquiry Officer and find that Khandwala Finance had prior knowledge about the buy orders of UTI. I further note that there was perfect matching of huge buy orders of UTI and identical sell orders of Khandwala Finance in the above transactions without affecting the ruling price of the scrip. Such matching of time, price and quantity, as in the instant case, cannot be just a coincidence and can occur only if there was some pre-existing arrangement or understanding between participants in placing such orders. I further note that the above mentioned sell orders of the noticee matched with the buy orders of only one counter party stock broker who was trading on behalf of the UTI. Placing of the sell orders with same counter parties for same quantity of shares at the same price within nil or too negligible time difference repeatedly, in my view, are clear indication that those trades of the noticee were synchronised / structured. I, therefore, am not inclined to agree with contentions of the noticee.

29. Another allegation against the noticee is that the Khandwala Finance had traded on behalf of following clients without obtaining the member-client agreements :

Sr. No.	Name of the client	Date of execution of	Date of first transaction in SRMTL
1	East West Polyart	29.08.2000	17.07.2000
2	Satellite Management	28.08.2000	27.06.2000
3	Anant Trading Co.	08.06.2000	02.08.2000
4	Kushagra Trading Co	08.06.2000	02.08.2000

30. The noticee has admitted the aforesaid delay in obtaining the member-client agreements and has claimed that the delay had occurred due to late receipt of the executed member-client agreements from the respective client. The clients had misplaced the member-client agreements. Therefore, duplicate agreements were executed later on. The noticee has requested to take lenient view in this regard. I note that with regard to two clients mentioned at serial no. 1 and 2 above table, Khandwala Finance had obtained the member-client agreement after undertaking transactions on their behalf. In respect of other two clients, though the transaction in the scrip of SRMTL took place after the execution of client-member agreement, Khandwala Finance had dealt in other scrips before signing the member-client agreement on June 08, 2000. It is obligation of the stock broker to undertake transaction on behalf of clients only after executing member-client agreement. It is also relevant to mention here that East West Polyart Ltd. and Satellite Management were the common clients of Khandwala Finance and Jayantilal Khandwala and had executed transactions in question in the scrip of SRMTL during the investigation period through these stock brokers as found in the Report. In these facts and circumstances it can reasonably be inferred that trading in the scrip on behalf of the common clients without executing the client-member agreement, cannot be just a technical lapse. Apart from this, the noticee has not disputed the allegation that Khandwala Finance did not enter the client code before entering the transaction and the shares were apportioned at the end of the day into the accounts of the different clients. Further, the Enquiry Officer has found that on 15.09.2000 at 12:58:16, Khandwala Finance had sold 1,00,506 shares in regular market at the rate of ₹82.50/ per share on behalf of East west Polyart and after a gap of 3 minutes it bought 1,00,506 shares at the rate of ₹ 82.50/ per share in rolling settlement. This transaction was in nature of financing transactions through structured deals i.e., financing trades were given colour of normal securities transactions. The noticee has not given any plausible explanation to this allegation. In view of these observations, I have no reason to differ with findings of Enquiry Officer in these respect.

31. As regards the allegation that Khandwala Finance had exposed itself to considerable risk by allowing its certain clients to take huge exposure, vide its reply dated March 03, 2014, the noticee has furnished ledger statements of all the three clients viz; Mrs. Asha Patel, Anant Trading and Kushagra Trading. I note that the noticee has attempted to show that the clients have a history of credit worthiness; however the same is no excuse for allowing such debit balance. For instance, a debit balance of ₹4.48 crores (towards SRMTL alone) for Mrs. Asha Patel when her total capital account was showing ₹ 2.68 crores for the year ended March 31, 2000 and the first payment on her behalf (from third party) was received by Khandwala Finance on September 19, 2000 only supports the findings of the Enquiry Officer. I, therefore, agree with the findings of the Enquiry Officer.

32. With regard to the allegation that an amount of ₹1crore was transferred from the account of Shree Developers related to the management of SRMTL, to Khandwala Finance towards market operations of SRMTL, I note that admittedly, Khandwala Finance had received the said amount vide a cheque dated August 25, 2000 and the noticee has claimed that the same was a short term loan and it was duly repaid by it on October 03, 2000 with an interest @ of 15%. However, the noticee has not furnished/produced any documentary proof in this regard. In view of these facts and circumstances, I have no reason to differ with findings of the Enquiry Officer.

33. In the facts and circumstances of this case, there is a need to look into the matter holistically. In this case, it has been found that :
    i. The noticee was connected with SRMTL and during the investigation period, SRMTL had given ₹1crore to the noticee, which the noticee returned after more than a month.
    ii. The clients of the noticee with the involvement of the noticee had repeatedly executed cross deal in the scrip of SRMTL.
    iii. The noticee placed orders in the exchange system at price far away from the ruling price, knowing well that these orders will not be executed, with an intention to create artificial depth in the market.
    iv. The clients of the noticee with the involvement of the noticee, by repeatedly putting buy orders at substantially high price than the prevailing market price, swept the prevailing pending sell orders in short durations and artificially raised the price of the scrip.
    v. While trading in the scrip, the noticee had traded *inter alia* through clients with whom it had not executed client-member agreement.
    vi. While trading in the scrip, Khandwala Finance had exposed itself to considerable risk by allowing its certain clients to take huge exposure without having sufficient credit balance in their account.

vii. Subsequently, the clients of the noticee with its involvement off loaded huge amount of shares to UTI at such artificially raised price without influencing the price on account of selling huge quantity of shares, in synchronized manner with a premeditated understanding.

viii. The noticee and its connected entity Jayantilal Khandwala acting in concert adopted similar trading pattern at NSE and BSE, respectively for the common clients for buying the shares and offloading the same to UTI.

34. In the present case, conduct of the noticee, pattern of transactions undertaken by it in concerted manner and overall facts and circumstances as noted above, taken together are sufficient to infer that the noticee was privy and party to the device/artifice adopted in the transactions. The noticee effected transactions with intention of artificially raising price of the scrip that had potential to induce the sale or purchase of the scrip by others. The noticee also indulged in synochronised trades that are non-genuine transactions in the facts and circumstances of this case. I, therefore, find that the noticee has violated regulation 3, 4(a) and (c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 read with regulation 13(2) SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 and Clause A(1), (2), (3), (4) and (5) of the Code of Conduct specified in Schedule II read with regulation 7 of the Stock Brokers Regulations.

35. Being a registered stock broker, Khandwala Finance was expected to observe high standards and fairness in its dealings and not to indulge in fraudulent and manipulative activities. The acts and omissions of Khandwala finance as found in this case do not reflect high standard of integrity and fairness expected from it. In this case , consequent to the amalgamation as aforesaid, the noticee has undertaken the liabilities and obligations of Khandwal Finance. I, however, note that transaction of Khandwala Fiannce relate to the year 2000 and considerable time has elapsed since the trades in question were executed. Khandwala Fiance got merged with the noticee in the year 2004. There no finding of the Enquiry Officer that the alleged transactions were on behalf of management/ promoters of SRTML or that any promoter or promoter related entity was client of Khandwala Finance which dealt in the scrip during the investigation period. There is no material on record to quantify loss to the investors or gain to Khandwala Finance or the noticee. Further, the noticee itself has not indulged in the alleged activities but has derived the liability of Khandwala Finance consequent to aforesaid amalgamation. Considering the facts and circumstances of this case and taking into account these mitigating factors , the interest of the securities market, I am of the view that suspension of certificate of registration of the noticee i.e. M/s Khandwala Securities Ltd., for a period of one month will be commensurate with the violations as found above in present matter.

36. I, therefore, in exercise of powers conferred upon me under section 19 read with section 12(3) of the Securities and Exchange Board of India Act, 1992, read with regulation 28(2) of the SEBI (Intermediaries) Regulations, 2008, hereby suspend the certificate of registration of the noticee i.e., M/s Khandwala Securities Limited as stock broker at NSE (SEBI Registration No. INB230600030), for a period of one month.

37. A copy of this Order shall be served upon NSE of which M/s Khandwala Securities Limited is a member, for necessary action.

38. This Order shall come into force immediately on the expiry of 21 days from the date of this Order.

Sd/-

Date: May 13th , 2015
Place: Mumbai

RAJEEV KUMAR AGARWAL
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA