ADJUDICATION ORDER NO. EAD-8/JS/NS/99/2018

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

In respect of:

Ms. Rashmi Kothari
PAN: AQNPK8748E

In the matter of Rajlaxmi Industries Limited

1. BACKGROUND

1.1 SEBI examined the trading in the matter of Rajlaxmi Industries Ltd. ("RJlL"/ "Company"/"Scrip") during the period from January 15, 2014 to July 1, 2014, (**relevant period**) where the price of the scrip opened on January 15, 2014 at Rs. 20.25/- and reached a high of Rs. 193.20/- on July 1, 2014 and closed at that price.

1.2 Ms. Rashmi Kothari contributed 58.42% to market positive LTP through her 26 LTP positive trades. It has been observed that in each of her 26 LTP positive trades she had placed buy order first at prices higher than last traded price before any sell orders were placed.

2. APPOINTMENT OF ADJUDICATING OFFICER

2.1 Based on the violations observed during SEBI investigation into the trading activities of certain entities in the scrip of Rajlaxmi Industries Ltd., Whole Time Member, SEBI, in exercise of the powers conferred upon him under Section 19 of the SEBI Act, 1992 read with Section 15-I of the SEBI Act, 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (Adjudication Rule), appointed an Adjudicating Officer vide Order dated May 17, 2017, to enquire into and adjudge the alleged violations committed by Ms Rashmi Kothari as detailed below :

2.2 Regulation 3(a), (b), (c), (d) and Regulation 4(1), 4 (2) (a),(e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003.

3. SHOW CAUSE NOTICE, REPLY AND HEARING

3.1 Show Cause Notice (hereinafter referred to as "SCN") dated July 29, 2017 Ref.: SEBI/HO/EAD-8/JS/NS/OW/P/0000017782/1/2017 was issued to Ms Rashmi Kothari (hereinafter referred to as "noticee"/ "RK") to show cause as to why an enquiry should not be held against her in terms of Rule 4 of the Adjudication Rules read with Section 15-I of the SEBI Act, 1992 and as to why a penalty should not be imposed under Section 15 HA of the SEBI Act, 1992 for the aforementioned alleged violations.

3.2 Noticee, vide letter dated August 14, 2107 made her preliminary submissions and requested for inspection of the documents relied on and sought personal hearing in the matter. Vide letter dated September 19, 2017, an opportunity for inspection of

documents was provided to the noticee. Noticee was requested to complete the inspection of documents within 15 days and file her reply, if any within seven days from the date of inspection.

3.3 Accordingly, inspection of documents was conducted by the noticee on October 10, 2017. Since no reply was received from the noticee by October 16, 2017 (seven days from the date of inspection of documents) vide letter dated October 25, 2017, RK was requested to submit her reply to the SCN within seven days from the receipt of the letter. Subsequently, vide letter dated November 11, 2017, Noticee replied to the SCN and *inter-alia* submitted as under:

a. Denied having violated the alleged violations and provided the reasons for undertaking trading / making investment in the scrip of RJIL .

3.4 An opportunity of personal hearing was granted to the Noticee on January 11, 2018. The authorized representatives (ARs) of the noticee appeared on behalf of the noticee during the hearing and reiterated their written submissions. Pursuant to the submissions made by AR during the hearing, the noticee was required to submit following information by January 18, 2018. Thereafter, vide its letter dated January 13, 2018, noticee had submitted additional submissions:

a. Scrips traded during the period covered in the SCN
b. To demonstrate the strategy as enumerated in this scrip - deployed in how many other scrips along with the profit.
c. Profit made by trading in the scrip ot RJIL.
d. To explain para (iii) in the reply dated November 11, 2017, as to the HNIs and strategic investors in the said scrip

4. ISSUES FOR CONSIDERATION

4.1 After perusal of the material available on record, the following issues are for consideration viz.

A. Whether the noticee has violated Regulation 3(a), (b),(c), (d) and Regulation 4(1), 4 (2)(a),(e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003;
B. Whether the Noticee is liable for monetary penalty under Section 15HA of the SEBI Act, 1992?
C. If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in Section 15J of the SEBI Act, 1992?

5. FINDINGS

Issue A: Whether the noticee has violated Whether the noticee has violated Regulation 3(a), (b),(c), (d) and Regulation 4(1), 4 (2)(a),(e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003*?*

5.1 Before proceeding further, the text of the relevant provisions is quoted here- Regulation 3(a), (b),(c), (d) and Regulation 4(1), 4 (2)(a),(e) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003:

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

5.2 It is observed that there was no trading in the scrip of RJIL for more than two years before the relevant period. Further, the fundamentals of the Company also did not support price rise and there were no corporate announcements during this period, which could have supported the price rise, still noticee had repeatedly placed buy orders at higher than last traded price during opening of session.

5.3 It was observed that during the relevant period, the price of the scrip opened on January 15, 2014 at Rs. 20.25/- and reached a high of Rs. 193.20/- on July 1, 2014 and closed at that price.

5.4 Noticee had placed 110 buy orders, of which all orders (except one order) were placed at higher than last traded price.

5.5 Fifty eight (58) of her buy orders were placed at higher than the last traded price at 9:00:00 am. These resulted into 26 positive LTP trades which created positive LTP of Rs.101.60 (58.42%) during the said period.

5.6 Noticee had contributed 58.42% to market positive LTP through her 26 LTP positive trades. In each of her 26 LTP positive trades she had placed buy order first at prices higher than last traded price before any sell orders were placed.

5.7 It is alleged that noticee had been placing buy orders above LTP, before sell orders were placed. Further, it is alleged that noticee had failed to provide any reasonable explanation for placing such orders above LTP on 109 instances for a Company whose fundamentals did not support such price.

5.8 Noticee has contended in her reply dated June 15, 2014 to BSE that she had placed buy orders in the scrip, however shares were not available for long time. Vide her letters dated August 14, 2017, November 11, 2017 and January 13, 2017, while denying the allegations as per the aforementioned SCN, she had submitted the following:

a) She was a bonafide investor.

b) All transactions were executed through the normal screen based trading system of stock exchange. The matching of order in securities market was system driven process and automated.

c) Shares in the scrip were purchased online by her.

d) No relationship or connection with RJIL, its promoters / directors and any of the allegedly connected entities.

e) She was not connected to any suspected entities who had off market connections, common directors.

f) She did not have any relation or connection with the preferential allottees who had allegedly sold their shares of RJIL in the market.

g) Her trading was based on basis of news and rumours in print media, electronic media, grapevines etc. and was intended to be an investment based strategy i.e. taking delivery and hold it for a reasonable period of time. Further pursuant to her trading in the scrip during the period 02.04.2014 to 13.08.2014, she made a profit of around Rs. 3,22,706/-. During the said period she had traded (both buy as well as sell basis) in 29 other scrips.

h) She decided to trade in the scrip of RJIL, as she noticed that the Company was undergoing management change. She referred to the Management discussion and Analysis Report on internal page 10 of Annual report 2013 *"…. The new promoters are led by Mr Rahul Jagnani, a young & ambitious entrepreneur having rich business experience.The new promoters are upbeat over the Company from its dismal state of affairs to a significant entity in the textiles sector. As a first step towards the objective, the promoters have caused infusion of fresh funds into the Company with a preferential issue of equity shares to the tune of Rs. 30 crores……..."*

i) From the above, noticee had assessed that the Company was in expansion mode since it had come out with fresh issue of shares during March 2013 amounting to Rs. 30 crores. She had known through grapevines and from other investors that the Company would do well since large number of well-informed HNIs and knowledgeable strategic investors had put their money in the Company and believed that it had strong future prospects.

j) From the financials of the Company filed in subsequent quarters, she also assessed that the Company had started showing minor improvement after posting loss for the year ending March 31, 2013 and was turning profitable. The financials posted by the Company on BSE are as given below:

			(Amount in Rs. Million)
Period Ended	**Year ended 31.03.2013**	**Quarter ended 30.06.2013**	**Quarter ended 30.09.2013**
Net Sales/ Operating Income	0.00	60.71	60.05
Other Income	0.00	1.64	2.53
Profit Before tax	-0.88	1.11	2.46
Operating Profit Margin		1.84	4.10
Net Profit Margin		1.76	3.31

k) RJIL was one of news based scrip and it was common practice among investors to invest in such news based scrips even though the fundamentals were weak. Since there was risk in dealing in the said scrip and there not many investors, she had thought of taking 'first mover advantage' by undertaking calculated risk with a view to earn minor profit by making small investment.

l) After deciding to deal in the scrip of RJIL, she had strategized to initially purchase 3500-5000 shares and thereafter to liquidate the same in short term to get a minor profit. Hence, she had put a buy order of around 5000 shares in the market. However, she received only 50 shares on 12.02.2014. As per the said transaction she felt that the many people were not ready to part away with their shares since they might be seeing value in the Company. Therefore, she continued to put an order of 5000 and 1000 continuously at the beginning of the day as she was able to get small quantity of shares in comparison to the buy order placed by her.

m) She had carried out delivery-based transactions in the market and met all her obligation of funds and securities with her broker and exchanges.

n) In this respect, it is observed that the investigations were instituted in the scrip for manipulation of alleged LTCG beneficiary. Investigations dealt with three groups of investors who had traded in the scrip in four patches over the period from January 15, 2014 to August 26, 2015. It is on records that the present noticee has not been shown to be part of any of the three groups examined in any of the four patches. Further, the trading of the noticee has been commented on only in patch one during the period from January 15, 2014 to July 01, 2014, without her associations with any of the group entities active in that patch.

o) It is a matter of fact, as recorded in the investigation report and reiterated by the submissions of the noticee that she was neither connected to the Company or the other identified groups nor the same has been so alleged.

p) Further, it is also a matter of record that she was not one of the preferential allottees in the present case. She was an investor in the secondary market and her trades, only for the limited period were under scrutiny.

q) Further, out of approx. 140 trading days in respect of the said scrip, during which she has traded, she has executed first trades only on 26 days.

r) Noticee has provided reasoning for selecting the scrip and undertaking investment in the same. Noticee was an ordinary investor and had traded in 29 other scrips, other than the scrip of RJIL during the relevant period. Both the contentions are tenable.

s) She had invested in the scrip of RJIL on the basis of news in print media, electronic media, grapevines etc. and has justified her investment considering the Company was undergoing a management change and as a first step towards the objective of turning the Company into a significant entity in the textiles sector, the promoters had decided to infuse fresh funds into the Company with a preferential issue of equity shares to the tune of Rs. 30 crores. Company, after posting loss for the year ending March 31, 2013, was turning profitable.

t) It is also on records that shares so bought during the five months period was disposed of in July–August 2014 after a period of two months. While she has booked profit of around Rs 3,22,706/-

u) It is clear that she has done delivery based trades and there is no accusation levelled against her that she has unduly benefitted. Investigations have not brought out any modus operandi / nexus with other entity or that she was alleged to have played a role along with other entities during the period.

v) Given the above, the charges against the notice, as alleged in the SCN are not sustainable.

Issue B Whether the Noticee is liable for monetary penalty under Section 15HA of the SEBI Act, 1992?

Issue C If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in Section 15J of the SEBI Act, 1992?

5.9 As mentioned above, as the charges against the noticee are not sustainable, these issues do not require any consideration.

6. ORDER

6.1 In view of the aforementioned, in exercise of the powers conferred under section 15 I of the SEBI Act and Rule 5 of the Adjudication Rules, the instant adjudication proceedings against the Noticee - Ms. Rashmi Kothari initiated under SCN dated July 29, 2017 is disposed of accordingly.

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

Date: January 31, 2018 **Jeevan Sonparote**
Place: Mumbai **Adjudicating Officer**