WTM/GM/IVD/ID9/13721/2021-22

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 27(5) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008.

IN RESPECT OF –

NOTICEE	**M/s. FIRST CUSTODIAN FUND (INDIA) LIMITED** **MEMBER, NSE** **[SEBI REGN NO. INB230638130]**

In the matter of BPL Limited, Videocon International Limited and Sterlite Industries Limited

---

BACKGROUND –

1. M/s. First Custodian Fund (India) Limited ("**Noticee / First Custodian / FCFL)**") is a SEBI registered stock broker, having membership of the Bombay Stock Exchange (BSE).

2. Pursuant to investigation in the scrips of BPL Limited (BPL), Videocon International Limited (Videocon) and Sterlite Industries Limited (Sterlite), SEBI initiated enquiry proceedings against the Noticee by appointing an Enquiry Officer under the provisions of Section 4(3) of the SEBI Act, 1992 (SEBI Act) read with Regulation 28(1) of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (the Broker Regulations') and Regulation 13 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to securities market) Regulations, 1995 ('PFUTP Regulations, 1995') to enquire into the alleged violations of the provisions of the Memorandum and Articles of Association, Regulations and Bye-laws of the BSE and provisions of the SEBI Act, Broker Regulations and PFUTP Regulations, 1995 by the Noticee.

3. The Enquiry Officer issued a show cause notice dated November 12, 1998 (SCN) to the Noticee. A summary of the facts of the case pertaining to the alleged violations, as mentioned in the SCN, are as under:

(a) M/s. First Custodian, M/s. Shrikant G. Mantri (Shrikant Mantri / SGM), and Harvest Deal Securities Limited (Harvest Deal) are associate concerns and operate from the same office. Rajendra Banthia, an elected director of BSE, is a director of Harvest Deal and Shrikant G. Mantri is the proprietor of SGM. Their close relatives are directors of the First Custodian. During investigation, it was stated by some of the clients of these brokers that Rajendra Banthia mainly looks after the affairs of these broking concerns. There were several instances of transfer of large amounts between these concerns. Each of these concerns also operates as a client of the remaining concerns.

(b) The cumulative trading position of Harvest Deal and Shrikant Mantri in the scrips of BPL, Videocon & Sterlite was very large and was amongst the top 15 trading positions at the BSE during the period under review. Investigation brought out that abovementioned three brokers had linkages with the Damayanti Group. It was gathered during the investigation that Rajendra Banthia and Shrikant G. Mantri had linkages with Harshad Mehta since the days of the securities scam. An amount of Rs.11.50 crores belonging to Harshad Mehta was lying with R. R. Mohta, BSE broker and it was transferred to Shrikant G. Mantri on the directions of Harshad Mehta. The Special Court levied an interest of approximately Rs. 1.50 crores on this amount, which was paid by R. R. Mohta after receiving the same from Shrikant G. Mantri.

(c) M/s. Archana Investments (Archana), a proprietary concern of Ram Ballabh Boob, aged 70 years, is a registered sub- broker of the Noticee. It has been

gathered that Ram Ballabh Boob is partially blind and incapable of attending to business affairs. Due to his medical problems, he did not even respond to the summons issued to him. Ram Ballabh Boob was an Accountant with a business concern of Shri Rajendra Banthia and dealt in textiles for about 20 years. A perusal of the Distribution Schedule of Nedungadi Bank Ltd. revealed that Ram Ballabh Boob had even given his address as C/o. M/s. Shrikant G. Mantri. His son, Ram Kishore Boob was also a former employee of Rajendra Banthia, broker-BSE, and was made a director of Harvest Deal on its corporatisation. The stated office of Archana Investments is only a residence and local enquiries revealed that no business activities are being conducted from there. Archana Investments, therefore, appears to be a front entity of Harvest Deal. It seems that the trading by Rajendra Banthia is shown as trading for Archana Investments.

(d) Archana Investments dealt in the Scrips of BPL and Videocon on behalf of a Damayanti Group entity, namely CDP Fincap and Leasing Pvt Ltd (CDP), through Harvest Deal and the First Custodian. Shri Anil Doshi of CDP was known to Vasant Soni, a representative of Archana Investments but Client Registration Form was not obtained from CDP. The banking transactions of Archana Investments were examined for the six-month period January 1998 to June 1998 and it emerged that the only transactions exceeding Rs. 5 lacs during this period were those relating to transactions for CDP. Archana Investments had never transacted in such heavy volumes and big amounts in the past.

(e) Archana Investments purchased 10,000 shares of BPL in Settlement no. 20/98 and 31,900 shares of Videocon in Settlement No. 21/98 through the First Custodian on behalf of CDP. At the end of Settlement No. 12/98 of BSE,

Archana Investments had an outstanding purchase position of 3,000 shares, of BPL through Harvest Deal on behalf of CDP. This position was carried over to settlement no. 13/98, and then it was squared up.

(f) An amount of Rs.50 lacs was credited by Archana Investments to the account of CDP on 4.6.98. The funds were not received by Archana Investments directly but by Shrikant Mantri from JHP Securities, broker-BSE, by way of a kapli (a standard form used by a broker to inform the stock exchange of his transactions for the purpose of matching a settlement). JHP Securities stated that the payment had been made by them to Shrikant Mantri on account of and on the instructions of their client CDP and also provided a copy of an acknowledgment received from Shrikant Mantri in this respect. Shrikant Mantri did not credit this amount to the account of CDP but to the account of Archana Investments. Archana Investments in turn credited this amount to the account of CDP. By such a juxtaposition of accounting entries, Shrikant Mantri camouflaged the receipt of this amount, from CDP in its books of accounts.

(g) During investigation, it emerged that R. R. Mohta, BSE-broker had given a kapli of Rs. 40 lacs to Shrikant Mantri on 25.5.98 on the instructions and on the account of CDP. They also produced a copy of the instructions received by them from CDP. However, Shrikant Mantri, when confronted with this document and the statement of R. R. Mohta, stated that this amount of Rs.40 lacs was received by it as a loan from R. R. Mohta and not on the account of CDP. Shrikant Mantri denied having any dealings with CDP.

(h) Archana Investments credited Rs.81 lac to the account of CDP on 26.5.98. This amount was actually received by it from Sovereign Securities, broker-BSE on account of CDP. This amount was used to make a payment of Rs.80 lacs to the First Custodian.

(i) As can be seen from above, Harvest Deal, First Custodian and Shrikant Mantri built up a large purchase position in the scrips of BPL, Videocon & Sterlite. It was evident from the above that Archana Investments was being used as a front for routing the transactions of Damayanti Group and to camouflage these transactions, the deals were shown in the name of Archana Investments. Investigation revealed that the ostensible Directors of Damayanti Group entities were not financially sound and had no past experience of dealing in securities market. Anil D. Doshi and Dinesh D. Doshi who were the common Directors of Damayanti Group entities are the co-brothers of Harshad Mehta. Certain other close relatives and known associates of Harshad Mehta were also looking after the affairs of Damayanti Group. All the concerns of Damayanti Group had given their addresses for correspondence as 1208, Maker Chambers V, Nariman Point, Mumbai 21 and it was being used as an office by Damayanti Group. It was also being used by Harshad Mehta, along with his other offices at 1205-1207, Maker Chambers V, Nariman Point, Mumbai.

(j) As can be seen from the above, the three brokers received several amounts from various other brokers of the BSE on behalf of Damayanti Group though credit was being shown to Archana Investments. Despite documentary evidence and affirmed statements of some brokers to the contrary, the transfers of funds were denied by Shrikant Mantri. These transfers were out

of profits on trading, sale proceeds, etc. which Damayanti Group entities had in their account with the brokers. These amounts were transferred to other brokers also dealing for Damayanti Group for building up further positions in these scrips, payment of margins, Pay-in liabilities, etc. Harvest Deal, First Custodian and Shrikant Mantri and all other brokers dealing for Damayanti Group while acting in concert facilitated the routing of funds in this manner. This also shows that Harvest Deal, First Custodian and Shrikant Mantri were aware that these entities were also dealing in a concerted manner with several other brokers of BSE and NSE. These entities were acting as front for Harshad Mehta and it appears that Harvest Deal, First Custodian and Shrikant Mantri were also aware of this.

(k) Shrikant Mantri did a share badla of 30,000 shares of BPL, 10,000 shares of Videocon and 5,000 shares of Sterlite, which it ostensibly received from their client, M/s. Mangalam Credit Capital Services (Mangalam). Shri Suresh Chandak, proprietor of Mangalam, when asked could not furnish name of the clients from whom he had received shares. Later, he stated that he had received these shares from CDP and which he gave to Shrikant Mantri as margin money prior to commencement of business with Shrikant Mantri. No business was however done by Mangalam with Shrikant Mantri till the date of inquiries. Shrikant Mantri however sold these shares and appropriated the gain or loss arising therefrom.

(l) Harvest Deal, First Custodian and the Noticee built up large positions in the scrips of BPL, Videocon and Sterlite in their vyapar account that contributed in cornering of these shares. They increased their trading exposure substantially in BPL, Videocon and Sterlite at a time when these scrips were

nearing their highest levels. Even the Pay-in liabilities towards these trades were met largely by raising loans from third parties.

(m) As discussed above, Harvest Deal, First Custodian and Shrikant Mantri were acting in concert with other brokers of BSE and NSE who were dealing on behalf of Damayanti Group in the scrips of BPL, Videocon & Sterlite. Even though these brokers had shown the trading in these scrips in their vyapar accounts and on behalf of a sham sub-broker, there is evidence that these trades were actually executed on behalf of Damayanti Group. This is further substantiated by the fact that the outstanding positions by Shrikant Mantri of 2,29,000 shares of BPL at the end of Settlement No. 12 was sold to SSKI as a "negotiated" deal. Another 1,00,000 shares of Videocon were sold to Springfield Securities Pvt. Ltd. for Rs. 111.60 lacs at 111.60 each on 12.6.98 and 53,500 shares of Sterlite to Eldorado Guarantee Ltd. at Rs.195/- aggregating to Rs. 104.32 lacs as an "all or none" deal. Evidence during the investigation has shown that SSKI, Springfield Securities Pvt. Ltd. and Eldorado Guarantee Ltd. had similarly squared off the outstanding purchase positions of only those brokers of BSE who were dealing on behalf of Damayanti Group and had problems in discharging their obligations to the exchange. During investigation, SSKI also stated that their negotiated deal with Shrikant Mantri was a part of this process. Shrikant Mantri could not satisfactorily explain from where he received the shares delivered to SSKI. The perusal of distinctive numbers of the shares given by SSKI showed that only 49,100 shares out of the shares received by Shrikant Mantri from the Exchange were given to SSKI, and the source of the remaining shares which were given has not been explained satisfactorily.

(n) Harvest Deal, First Custodian and Shrikant Mantri did not intentionally provide correct information about their trading in these scrips even though they were dealing for Damayanti Group which are front entities of Harshad Mehta and were a part of the manipulation process for creating an artificial market.

(o) As discussed above, Damayanti Group entities were front entities of Harshad Mehta. Even though Harvest Deal, First Custodian and Shrikant Mantri were actually dealing with Damayanti Group, these trades were executed in the garb of vyapar account transactions and also routed through a sham sub broker. The trading and carry forward position of Harvest Deal and First Custodian in the scrips of BPL, Videocon & Sterlite was on account of their front entity Archana Investments which was dealing on behalf of Damayanti Group. Harvest Deal, First Custodian and Shrikant Mantri also traded in these scrips on their own account for which they did not have the financial capacity to discharge their commitments to the Exchange out of their own resources. Some of the Pay-in commitments were met by securities received from Damayanti Group in an indirect manner. Shrikant Mantri had appropriated the gains or losses arising out of securities kept with it by its client towards margin money. The cumulative trading positions of Harvest Deal, First Custodian and Shrikant Mantri on their own account and on behalf of Archana Investments together with the positions built by a set of brokers were abnormal and responsible for creation of an artificial market and price manipulation in these scrips.

(p) Thus, First Custodian, Harvest Deal and Shrikant Mantri, acting in concert with a set of brokers of BSE and NSE, cornered a substantial portion of the

traded stock in these scrips and were thus instrumental in creating an artificial market and manipulation of the prices of these scrips as described above. That the prices of these scrips were manipulated is also evident from the fact that the prices suddenly started crashing from the 1st week of June 1998 onwards, consequent upon the withdrawal of artificial support. While large positions built up by a set of brokers acting for Harshad Mehta resulted in manipulation of prices of these scrips, many others who were not a part of the group got induced to trade in these scrips, especially when there was a surge in the prices without realizing that an artificial market had been created. After the fall in the prices of these scrips, these investors suffered losses and erosion of their investments.

(q) In view of the above observations and findings, it was alleged that First Custodian, along with Harvest Deal and Shrikant Mantri, has violated the provisions of SEBI Act and the Regulations framed thereunder. By building up large positions in the abovementioned scrips with a manipulative intent to artificially raise the prices of the said scrips with a view to induce the purchase and sale of securities by others and manipulating the price of these scrips, the Noticee has violated Regulation 4(a) &(d) of the PFUTP Regulations, 1995 read with Section 11(1) and 11(2)(b) & (e) of the SEBI Act, 1992.

4. The Enquiry Officer, now renamed as Designated Authority (**DA**) under the provisions of SEBI (Intermediaries) Regulations, 2008 (Intermediaries Regulations), upon consideration of the facts before him and after granting an opportunity of hearing, found the Noticee to be in violation of the abovementioned provisions of law. Accordingly, the DA, vide his report dated March 28, 2011 submitted under Regulation

13(1) of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalties) Regulations, 2002 (Enquiry Regulations) read with Regulation 27 & 38(2) of the Intermediaries Regulations of the Intermediaries Regulations, as these provisions existed then, recommended that the certificate of registration of the Noticee be suspended for a period of two weeks.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING –

5. A Show Cause Notice dated October 14, 2011 (**post–enquiry SCN**) under Regulation 13(1) of the Enquiry Regulations read with Regulation 28(1) & 38(2) of the Intermediaries Regulations was issued by SEBI enclosing therewith a copy of the report of the DA and calling upon the Noticee to show cause as to why action as recommended by the DA or any higher penalty, as deemed fit by the Competent Authority, should not be imposed on it.

6. After consideration of the facts of the case and the reply of the Noticee to the post–enquiry SCN, the Competent Authority vide his order dated May 15, 2014 held the Noticee responsible for the abovementioned alleged violations and suspended the Noticee's certificate of registration for a period of two weeks, which was to take effect on expiry of 21 days from the date of the said order.

7. Subsequently, the Noticee preferred an appeal (No. 139) against the said order before the Hon'ble Securities Appellate Tribunal (SAT). The Hon'ble SAT vide its order dated 07.03.2016 observed that the Noticee in its Appeal Memo had specifically stated that the data considered for issuing SCN were inaccurate and misleading. The Hon'ble SAT further observed that though the Noticee in its reply had given facts and figures to demonstrate that the very basis for initiating proceedings against it was unjustified, neither the investigating authority nor the WTM had considered the said statements

made by the Noticee. In these circumstances and also for the reason that the impugned order was passed ex-parte, the Hon'ble SAT vide the said order dated 07.03.2016 quashed and set aside the abovementioned SEBI order and remanded the matter to SEBI for passing fresh order on merits and in accordance with law.

8. Subsequently, the Noticee was granted an opportunity to inspect the relevant documents on July 22, 2021. Copies of the documents inspected by the Noticee were also provided to the Noticee. Thereafter, the Noticee submitted letters dated July 26, 2021 and July 30, 2021. Subsequently, I granted a fresh opportunity of personal hearing to the Noticee on August 03, 2021 which was attended by the Noticee's authorized representatives, Shri Sunil Gangan, Advocate, and others, who made oral submissions. Thereafter, the Noticee submitted further written submissions dated August 18, 2021. The Noticee has submitted that his previous replies dated December 20, 1998 and February 08, 2012 may also be considered by SEBI.

9. A summary of submissions made by the Noticee vide its letters dated December 20, 1998; February 08, 2012; July 26, 2021; July 30, 2021 and August 18, 2021 and during the personal hearing on August 03, 2021 is as follows:

(a) The allegations that the Noticee, Harvest Deal and Shrikant Mantri are associate concerns are based on erroneous findings. The Noticee denies that Shrikant Mantri, Harvest Deal and itself are "associate concerns".

(b) As regards common address of three brokers, though First Custodian shares some facilities such as EPABX, Fax, reception, pantry, with Shrikant Mantri and Harvest Deal, each of the said entities is separate legal entity. The three entities operate from the same office due to reason of economy. The Noticee has separate excise registration and shop and establishment license number. The

Noticee was in occupation of the premises where Sushil Mantri is a tenant of the office premises. The Noticee paid rent and telephone bills separately which are evident from the rent receipts and telephone bills.

(c) The fact that close relatives of RK Banthia and Shrikant Mantri are directors in First Custodian does not make these companies an associate concern. It does not mean that the Noticee is managed by them. The Noticee is a professional concern and is independently managed by a set of professionals. Thus, issuing a common SCN to all three brokers is not justified.

(d) It cannot be assumed that the Noticee, Shrikant Mantri and Harvest Deal have acted together. The exposure given by them to their respective clients should not be considered together.

(e) It is true that Noticee had on occasions given or taken funds from Shrikant Mantri and Harvest Deal. Also funds were taken or given by cheques and duly reported in the Noticee's books of accounts and cannot be said as 'transferred'. Shrikant Mantri was a valued client of the Noticee and they dealt with each other on broker-client basis and vice versa. Harvest Deal was also registered as a client with the Noticee and had very few transactions with the Noticee and vice – versa. The Noticee strictly dealt with them on individual entity basis and all three entities operated at arm's length.

(f) Archana Investment was registered as Noticee's client. It is true that Archana Investments had purchased 10,000 shares of BPL in Settlement no. 20/98 and 31,900 shares of Videocon in Settlement no. 21/98. The Noticee had received the payments for the same directly from Archana Investments by account payee cheque from their own bank account and the Noticee delivered the shares to Archana. The Noticee was neither aware nor heard of CDP or any Damayanti Group before the receipt of SCN. It was purely a broker client transaction executed by the Noticee on NSE.

(g) As regards receipt of Rs. 80 Lakh, the Noticee received the cheque directly from Archana Investments against its pay-in obligation for the settlement no. 21/98 of NSE. This payment was not on behalf of Damayanti Group. The Noticee is not aware of the source of these funds.

(h) The Noticee has no relations with Harshad Mehta.

(i) The Noticee states that all cheques were received from / paid to the clients directly and no third party cheques were received or issued.

(j) The Noticee had lots of funds invested in various shares and any purchase / sale in the scrips of BPL, Videocon and Sterlite in its trading account were its own transactions and the Noticee stands by it. The Noticee had deposited Rs.50 Lakh with NSE in cash as margin for its trades. The Noticee's percentage to NSE on gross basis (buy+sell) is merely 0.8226% for BPL, 2.4844% for Videocon and 1.4858% for Sterlite. The same amounted to 0.5566%, 1.4358% and 0.7421% respectively of its own trades. The Maximum of the Noticee's trades were as arbitrage / jobbing, hence the gross volumes at the end of settlements will not reflect the actual position and cannot be called as large position. In BPL, the Noticee's net delivery position was nil. In Videocon, its net delivery position was 18100. In sterlite, its net delivery position was 10700. The Noticee's nil or small delivery positions in various settlements means it did not build large positions in these scrips. The figures clearly belie the assumption that the Noticee cornered large quantity of shares from the market. Its trades in the said scrips on NSE vis-à-vis others scrips were small.

(k) The Noticee denies that it acted in concert with other brokers of BSE and NSE. The dealings done in its vyapar account were not done on anyone's behalf / behest but was done on its own account.

(l) The Noticee has no dealings with Damayanti Group and it had not routed any transaction through any sub-broker or broker.

(m) The Noticee is one of the first few members of NSE and has never been punished for any violation. At no point, its exposures overreached its or it's client's financial means, as can be seen from its net worth certificate.

(n) The Noticee was not aware that its clients who traded in the said 3 scrips during the period under investigation had also traded through other stock brokers or as part of the alleged Damayanti Group.

(o) While it cannot be denied that there were financial transactions between the Noticee and other brokers and its clients during the period under investigation, these transactions were in the normal course of business and not related to the trades in the 3 scrips. It is normal practice for brokers to have loan arrangements with other brokers given the nature of the trades executed.

(p) The findings of the Enquiry Officer that the stock brokers should have known the identity of actual persons behind the said alleged Damayanti Group is erroneous. The brokers are not required to do a detailed investigation.

(q) At the time of placing orders, the Noticee was not aware that there were large carry forward positions on the BSE and that the same were increasing over settlements.

(r) The data provided by SEBI in the SCN is inaccurate and false. The movement in price in the scrip of Sterlite was mostly in line with Sensex, as opposed to what is stated in the SCN. As such, the movement in Sensex / Nifty cannot be used to compare the movement in the scrips of BPL, Videocon and Sterlite, since the market capitalization of these scrips was minuscule. The price movement of scrips is seldom in the same range as Sensex / Nifty movements. There was no abnormal movement in the scrips of Videocon, Sterlite and BPL as the price rise was due to various factors present then which justified such price rise. The comparison of the price movement in the said 3 scrips with that of peer group

companies like Philips India, MICR Electronics and Birla Ericsson is erroneous for various reasons.

(s) The data furnished in the SCN is not accurate and in fact misleading.

(t) The Noticee is not aware of the constitution of Damayanti Group or the position taken by the group (except for positions taken by the constituents of its client).

(u) The Noticee never had any linkage with the so called Damayanti Group or Harshad Mehta.

(v) Despite several requests for documents and records, SEBI has failed to provide the same to the Noticee. Further, SEBI has also denied to the Noticee the cross examination of all persons whose statements have been relied upon by SEBI.

(w) The present proceedings are in respect of trades that have taken place in April-May 1998 i.e. over 22 years ago. There is gross delay and laches in the proceedings which have resulted in grave prejudice and injustice to the Noticee. Considering the same, the proceedings against the Noticee be dropped. In this regard, the Noticee relies upon various judgments including the order of the Hon'ble SAT in *Khandwala Securities Ltd. Vs. SEBI*.

CONSIDERATION AND FINDINGS –

10. I have examined the facts of the case and the charges against the Noticee, as mentioned in the SCN, the DA's report, and the submissions made by the Noticee in its defense. Before proceeding any further, a summary of the case in a nutshell is as follows.

11. Large trade volumes coupled with fluctuation in prices were noticed at the exchanges in the scrip of BPL, Videocon and Sterlite, especially during April and May 1998. Meanwhile, the stock indices started declining from the middle of May, 1998. Despite the falling trend in stock indices, the scrips of BPL, Videocon and Sterlite continued

to rise. However, these scrips could not sustain their rise and fell sharply after 04.06.1998 and declined to new lows in the month of June 1998. The fall in these scrip prices, coupled with the fall in the stock indices, apparently led to payment problems of certain brokers, both at BSE and NSE, resulting in their inability to meet their liabilities towards pay-in. In view of the same, SEBI initiated a comprehensive investigation in the matter, which revealed that a set of clients, consisting of Damayanti Finvest Pvt. Ltd., CDP Fincap and Leasing Pvt. Ltd., KRN Finvest and Leasing Pvt. Ltd., Rijuta Finvest Pvt. Ltd., Ikshu Finvest Pvt. Ltd. and Burlington Finance Pvt. Ltd. (collectively referred to as Damayanti Group), which was acting as a front for Harshad Mehta, was involved in the volume and price manipulation in the abovementioned scrips of BPL, Videocon and Sterlite. It was found that Shri Anil D Doshi and Shri Dinesh D Doshi, who were common directors of most of the Damayanti Group entities, were close relatives of Harshad Mehta. Further, the office at 1208, Makers Chambers V, Nariman Point, Mumbai -21 being used as office by Damayanti Group was also being used by Harshad Mehta along with his office at 1205-1207, Maker Chambers V, Nariman Point, Mumbai -21. There were further evidences which clearly showed that the Damayanti Group entities were acting on behalf of Harshad Mehta, a notified person under the Special Courts Act, 1992 who was subject to several restrictions in the matter of dealing in securities. The investigation by SEBI revealed that the abovementioned Damayanti Group entities had traded through and were aided and abetted by a set of brokers. These brokers were acting in concert with other brokers of BSE and NSE who were dealing on behalf of Damayanti Group entities in the scrip of BPL, Videocon and Sterlite. It is alleged that Shrikant Mantri, First Custodian and Harvest Deal were part of the abovementioned set of brokers and that even though these brokers were actually dealing with Damayanti Group, these trades were executed in the garb of vyapar account transactions and also routed through a sham sub-broker, Archana

Investments. These brokers' trading in their own accounts were done without having the financial capacity to discharge their commitments to the exchange out of their own resources. These brokers received large sums of money from various other brokers of the BSE on behalf of Damayanti Group under a camouflage for building further positions in the said scrips, payment of margins, pay-in liabilities etc. Further, some of the pay-in commitments by these brokers were met by securities received from Damayanti Group in an indirect manner. It is in the background of these findings of investigation that that the allegations against the Noticee have to be looked into.

12. I note that the Noticee, as part of his submissions in various replies, has asked for various documentary proofs which support the findings of the investigation. He has also asked for cross examination of various persons whose statements have been referred to by the investigation. However, in matters like these, a direct evidence to conclusively establish an allegation may not be available and the cases have to be decided based on preponderance of probability, by considering all the circumstances together. Similarly, I did not find the cross examination of various persons whose statements have been referred to by the investigation in this matter as necessary as such statements have been referred to in the SCN for corroborative purposes only and not for placing entire reliance on those statements. In these circumstances, I deem it appropriate to rely on the facts and circumstances as are appearing on record holistically and be guided by the test of preponderance of probability. Furthermore, I find from records that the Noticee has been provided with the following documents during inspection on July 22, 2021:

(a) Annexure to relevant part of Investigation Report - Trading position of the Noticee, Shrikant Mantri and Harvest Deal at exchange.

(b) Bank statements of accounts held by First Custodian with Bank of India, Canara Bank and Nedungadi Bank

(c) Trade Details:

- Scrip wise sauda summary of First Custodian
- Scrip wise outward register of Shrikant Mantri for BPL, Videocon, Sterlite of brokers and clients
- Ledger account and scrip wise outward register of Shrikant Mantri for brokers and clients
- Bill report of clients, Nedungudi Bank Ledger & ledger account of clients of Shrikant Mantri
- Bill Report, covering letters to SEBI & Settlement wise scrip report of BPL, Videocon and Sterlite of Shrikant Mantri

13. I note that at the outset, the Noticee has challenged the very basis of SEBI's investigation in the matter by contending that there was no artificial or abnormal price rise in the scrip of BPL, Videocon and Sterlite. In this regard, I note that as per the findings of investigation, the price movements in the scrips of BPL, Videocon and Sterlite were not in conformity with the Sensex movements. The investigation found that during the period from April 01, 1998 to June 04, 1998, while the Sensex showed a decline of 11%, i.e. from 3969 points to 3546 points and Nifty showed a decline of 5% from 1081 points to 1027 points, the price of BPL rose by 148% (from 180/- to Rs.446), Videocon rose by 255% (from Rs.47 to 167) and Sterlite rose by 71% (from Rs.227 to Rs.388). The Noticee has disputed these figures. I note that Harvest Deal and Shrikant Mantri, in their respective replies, have contended that the actual price rise in the above scrips, as against what has been stated by SEBI in the SCN, was as follows:

Period	Closing	Sensex	BPL	Videocon	Sterlite
01.04.1998	As per SEBI	3969	180	47	227
01.04.1998	Actual on BSE	3969	188	51	299
04.06.1998	As per SEBI	3546	446	167	388
04.06.1998	Actual on BSE	3546	446	166	303
Difference	As per SEBI	-11%	+148%	+255%	+71%
Difference	Actual on BSE	-11%	+137%	+225%	+1%

14. As the Noticee was acting in association with Shrikant Mantri and Harvest Deal and the contents of the SCN issued to all the three entities were same, the contentions raised by the said two other brokers regarding quantum of price rise have been looked into. As per Shrikant Mantri and Harvest Deal, the figures in the above table clearly show discrepancy in the data mentioned in the SCN regarding price rise in the scrip of BPL, Videocon and Sterlite during the relevant period. I have considered the said submissions. I note that barring the case of Sterlite where the difference between figures quoted by SEBI and those by the two brokers is substantial, the differences in figures of price rise quoted by SEBI and the two brokers in cases of BPL and Videocon are not significant, as there was price rise of 137% and 225% respectively as per their own admission. I note that even by taking the figures provided by Shrikant Mantri and Harvest Deal as the correct ones, the price rise of 137% and 225% in the scrips of BPL and Videocon respectively within a short time of two months cannot be said to be normal, when the trend in Sensex was exactly opposite. As regards Sterlite, I note from records that the scrip had closed at Rs.299.1 on April 01, 1998 and had reached a closing high of Rs.373.25 on May 26, 1998 on the BSE, signifying a rise of around 25% within less than 2 months. Thus, there was substantial price rise even in the scrip of Sterlite which was against the trend shown by Sensex or Nifty during the said time.

15. The Noticee has contended that the price of BPL, Videocon and Sterlite was normal since a lot of factors were responsible for the same. For example, in case of BPL, the Noticee has contended that expectation of a bonus issue and buyback in April 1998 were the main reasons for the price rise. Similarly, in case of Videocon, a public offer for shares under the Takeover Regulations was responsible for the price rise. Similarly, the Noticee has contended that in case of Sterlite, news reports in April 1998 regarding an offer by Sterlite to purchase a large stake in Indal Limited and regarding DoT's decision to make a payment of Rs.100 Crores to Sterlite were responsible for the price rise. However, I note that the findings of the investigation that the said price increases were a result of concerted efforts by certain brokers of BSE and NSE who dealt on behalf of the Damayanti Group to create an artificial market and manipulate the prices of these scrips has conclusively been established and confirmed by subsequent enforcement actions taken by SEBI against various brokers during the period from July 1999 to February 2002, which include issuance of warning, suspension of certificate of registration for 1 year to 3 years as well as cancellation of certificate of registration of those brokers. Thus, reopening and deciding afresh the question of whether there was artificial price rise and volume creation in the scrip of BPL, Videocon and Sterlite at this stage is neither appropriate nor feasible. As such, the current proceedings are an off-shoot of a comprehensive investigation conducted to look into the manipulation of price and volume in the three scrips of BPL, Videocon and Sterlite during the relevant period which was caused by a concerted action of a set of brokers who acted on behalf of Damayanti Group. The matter before me has arisen in the context of the Noticee, along with Harvest Deal and Shrikant Mantri, obtaining a remand of the direction of suspension of their certificate of registration for two weeks, as directed in the SEBI order dated May 15, 2014. At this point of time, in the context of remand, the issue for

consideration is whether the suspension of certificate of registration for two weeks, as directed in the previous SEBI Order, is justified in the facts and circumstances of the case.

16. To begin with, it is important to decide whether the Noticee, Shrikant Mantri and Harvest Deal were associate concerns and were acting in close collaboration with each other, as alleged in the SCN, since the Noticee has challenged such allegation. In this regard, I note the following from the available records:

(a) Noticee has admitted that it shared some office facilities such as Fax, EPBX, Conference Room, Pantry, Reception etc. with Shrikant Mantri and Harvest Deal.
(b) Shri Rajendra Banthia is a director of Harvest Deal. The Noticee has admitted that relatives of Shri Rajendra Banthia and Shrikant Mantri are its directors. From the available records, it is seen that Shrikant Mantri has admitted that his brother Sushil Mantri is one of the directors of First Custodian. Shrikant Mantri has also admitted that he is a shareholder in First Custodian. Thus, there is a clear linkage between Harvest Deal, Shrikant Mantri and First Custodian.
(c) The Noticee, Shrikant Mantri and Harvest Deal were acting as clients of each other.
(d) All three, Harvest Deal, Shrikant Mantri and First Custodian had traded on behalf of Archana Investments, which had direct links with the Damayanti Group.
(e) There were several instances of transfer of large amounts between Harvest Deal, Shrikant Mantri and First Custodian, which have not been satisfactorily explained.

17. I note that the Noticee has contended that the above linkages are not sufficient to conclude that the abovementioned three broking firms were associate concerns and were acting in concert. However, in my opinion, the fact that Noticee and other two

concerns were sharing office infrastructures and the directors of First Custodian were the relatives of Shri Rajendra Banthia (director of Harvest Deal) and Shrikant Mantri is a strong indicator of their close connection and association Further, I note that there were regular transfers of funds between the Noticee and other two brokers, as admitted by them. Though the Noticee has claimed these as having been done in normal course of business, no convincing proof to support the basis of such transactions has been produced. I further note that though the three entities are themselves registered as stock brokers and were capable of executing proprietary trades through their own terminals, they have nevertheless acted as clients of each other. The same does not appear to be normal unless the concerned brokers were collaborating with each other.

18. Apart from the above facts showing close connection between the Noticee, Shrikant Mantri and Harvest Deal, I note that there are other evidences which point towards the three entities acting in close concert. In this regard, I note that the "Report of Joint Committee on Stock Market Scam and Matters related thereto (Thirteenth Lok Sabha) (Volume I – Report), presented to Lok Sabha on 19 December, 2002, laid on the Table of Rajya Sabha on 19 December, 2002, which *inter alia* looked into the roles of various banks in the stock market scam of 2001, has observed that in the case of Nendugadi Bank Limited, the three brokers, viz. Harvest Deal, Shrikant Mantri and First Custodian, were acting as a single group being controlled by RK Banthia. The said report on page 96-97 has observed:

"5.181 The inspection also revealed that Shri R.K. Banthia had substantial shareholding in the bank either directly or through his family members or associated firms/companies. Shri Banthia was also closely connected with the three broking firms involved in these transactions. He is the Managing Director of the Harvest Deal Securities Ltd. in which Smt. Saroj Banthia (wife) and Shri Manish Banthia (son) are also Directors. Further, in the First Custodian Fund

(India) Ltd. Shri Surender Kumar Banthia (brother) is the Chairman and his son is the Director. Shri Srikant G. Mantri, a broker on the BSE, held 10.51% of the Bank's paid up capital and also enjoyed an overdraft limit of Rs 5 crore and a bank guarantee limit of Rs. 6 crore from the Bank. Shri Sushil Mantri, Executive Director of the First Custodian Fund (India) Ltd. is a close relative of Srikant G Mantri, who is a close associate of Shri R.K. Banthia. The Company enjoyed overdraft and bank guarantee limits of Rs. 5 crore each from the bank. Moreover, all the three broking firms functioned from the same premises and had common phone and fax connections. These are clear indications that all these three firms were closely connected and directly/indirectly controlled by Shri R.K. Banthia."

19. The Report of JPC is a public document under Section 74(1)(iii) of the Evidence Act, 1872 and is admissible as evidence, as held by the Hon'ble Bombay High Court in the matter of *Standard Chartered Bank vs A.B.F.S.L. And Ors. [(2001) 4 BOMLR 520*. The connection between the said three brokers brought out above by the JPC Report cannot be ignored.

20. Considering the above facts and observations in totality, I am of the opinion that there are strong circumstantial as well as direct evidences of the Noticee, Shrikant Mantri and Harvest Deal having acted in collaboration with each other in this matter. In such circumstances, the transactions and conduct of all the three brokers have to be seen in totality and their cumulative effect as a group has to be looked into to ascertain whether these three brokers had aided and abetted the creation of artificial volumes and price rise in the scrips of BPL, Videocon and Sterlite, in connivance with Damayanti Group entities, as alleged in the SCN. In this regard, I note the following from the available records:

(a) The cumulative trading position of Harvest Deal and Shrikant Mantri in the scrips of BPL, Videocon and Sterlite was very large and was amongst the top 15 trading positions at the BSE during the investigation period.

(b) In the past, Shrikant Mantri had received Rs.11.50 Crores from R. R. Mohta, who had longstanding relationship with Harshad Mehta.

(c) Archana Investments, a proprietary concern of Shri Ram Ballabh Boob, was a registered sub-broker of Harvest Deal. Shri Boob's son, Shri Ram Kishore Boob was a former employee of Rajendra Banthia (Director of Harvest Deal) and was made a director of Harvest Deal on its incorporation. Archana Investments had dealt in the scrip of BPL and Videocon on behalf of Damayanti Group i.e. CDP, through Harvest Deal and First Custodian. It was found that Shrikant Mantri had received an amount of Rs.50 Lakh from JHP Securities on behalf of Archana Investments. It was found that the said amount had been transferred by JHP Securities on the instruction of its client, CDP, which was a Damayanti Group entity. It was noted that though Archana Investments had credited this amount to the account of CDP, Shrikant Mantri had camouflaged this receipt by crediting the same to the account of Archana Investments rather than the account of CDP. Archana Investments was being used as a front for routing the transactions of Damayanti Group. The deals of Damayanti Group were being shown in the name of Archana Investments.

(d) M/s. R.R. Mohta, a BSE broker, had given a Kapli of Rs.40 Lakh to Shrikant Mantri on 25.05.1998 on the instructions and on account of CDP, a Damayanti Group entity.

(e) Shrikant Mantri had done a share badla of 30,000 shares of BPL, 10,000 shares of Videocon and 5,000 shares of Sterlite, which it had received from its client, M/s. Mangalam Credit Capital Services. Investigation had revealed that Mangalam had received these shares from CDP, a Damayanti Group entity. Though Shrikant

Mantri had claimed to have received these shares from Mangalam as margin money, Shrikant Mantri was found to have sold these shares and appropriated the gain or loss arising therefrom.

(f) Harvest Deal, Shrikant Mantri and First Custodian had built up large position in the scrip of BPL, Videocon and Sterlite in their vyapar account that contributed in cornering of these shares. They had increased their trading exposure substantially in these shares at a time when these scrips were nearing their highest levels. Even the pay-in liabilities towards these trades were met largely by raising loans from third parties. Thus, it was found that Harvest Deal, First Custodian and Shrikant Mantri were taking large exposures in the abovementioned scrips even when they did not have adequate financial resources. Subsequently, it was found that after the prices started crashing in the abovementioned scrips in the 1st week of June 1998, Shrikant Mantri had sold the outstanding position of 2,29,000 shares of BPL at the end of Settlement no. 12 to SSKI as a "negotiated deal". Another 1,00,000 shares of Videocon were sold to Springfield Securities Pvt. Ltd. for Rs.111.60 Lakh @ Rs.111.60 each on 12.06.1998 and 53,500 shares of Sterlite were sold to Eldorado Guarantee Ltd. @ Rs.195 for Rs.104.32 Lakhs as an "all or none" deal. Investigation had revealed that SSKI, Springfield Securities Pvt. Ltd. and Eldorado Guarantee Ltd. had similarly squared off the outstanding purchase positions of only those brokers who were dealing on behalf of the Damayanti Group and had problems in discharging their obligations to the exchange. It was further found that Shrikant Mantri could not explain the source of shares given to SSKI, except for 49,100 shares.

(g) Archana Investments credited Rs.81 Lakh to the account of CDP on 26.05.1998. This amount was actually received by Archana from Sovereign Securities, a BSE broker, on account of CDP. This amount was used to make a payment of Rs.80 Lakh to First Custodian.

21. From the findings of investigation, I note that Harvest Deal had traded for Damayanti Group entity (CDP) through Archana Investments. Archana Investments was a sub-broker of Harvest Deal and Archana Investments' proprietor's son, Ram Kishor Boob (a former employee of RK Banthia) was a director of Harvest Deal. Considering the same, I note that there is a very close and strong connection between Harvest Deal and Archana Investments, apart from mere broker-sub-broker relationship. Further, the investigation has also recorded a finding that the office of Archana Investments was only a residence and local enquiries had revealed that no business activities were being carried out from there. Thus, there is a strong circumstantial evidence that Archana Investments was a front entity of Harvest Deal. I further note that Archana Investments had also traded through First Custodian (Noticee) on behalf of CDP (Damayanti Group entity) and had also paid an amount of Rs.80 Lakh to First Custodian which it had received from Sovereign Securities on account of CDP. I note that though the Noticee (First Custodian) has denied any knowledge that Archana Investments was trading on behalf of Damayanti Group entity (CDP), considering the close connection between Noticee and Harvest Deal (which in turn had close connection with Archana Investments), the said contention is hard to believe. Further, there were dealings between Shrikant Mantri and entities connected to Damayanti Group, which have been cited above. Further, the exchange of funds between Shrikant Mantri, Harvest Deal and First Custodian, which has been admitted by them and which have not been explained satisfactorily by them, clearly indicates the collusion between them.

22. I note that Regulation 4(a) and (d) of the PFUTP Regulations, 1995, as they existed then, provided the following:

"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) … … …

(c) … … …

(d) enter into a 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;"

23. I note that all the above mentioned transactions and dealings of Shrikant Mantri, Harvest Deal and the Noticee, coupled with the connection among them, as observed above, when seen in totality in the context of the larger picture of fraud exposed by the investigation, clearly indicate that Shrikant Mantri, Harvest Deal and the Noticee had acted in collusion with each other in aiding and abetting the Damayanti Group entities and had contributed to building large positions in the abovementioned scrips with a manipulative intent to artificially raise the prices of the scrips to induce the purchase and sale of securities of others, thereby violating the provisions of Regulation 4(a) and (d) of the SEBI PFUTP Regulations, 1995.

24. I note that though the Noticee's dealings in the scrip of BPL, Videocon and Sterlite were done to assist the Damayanti Group in creation of volume and price rise with fraudulent intentions, a considerable time of 23 years has elapsed since the commission of said violations. Moreover, I also find that in the previous SEBI Order in this matter, which was set aside by the Hon'ble SAT, the action taken against the Noticee for the violations was suspension of his certificate of registration for two weeks. The Noticee has prayed for dropping the instant proceedings against it also on the ground of delay in conclusion of the proceedings. In this regard, the Noticee in its submissions has cited a number of judgments including Khandwala Securities

Ltd. Vs. SEBI (*Appeal No. 19 of 2012, Decided on 07.09.2012*) decided by the Hon'ble SAT. I note that in the said order of Khandwala Securities Ltd. Vs. SEBI, the Hon'ble SAT, while upholding the violations found by SEBI, had held that suspension of certificate of registration after a period of 12 years from the commission of violation cannot be regarded as reasonable or justified. Considering the delay in the said matter as one of the mitigating factors, the Hon'ble SAT had held that a warning to the appellant to be careful in future would be reasonable and would meet the ends of justice. Considering the same, I am of the view that it would not be appropriate to accept the recommendation of the DA to suspend the certificate of registration of the Noticee for two weeks, at this point of time. In my view, relying on the abovementioned order of the Hon'ble SAT in Khandwala Securities Ltd. Vs. SEBI, issuance of appropriate warning to the Noticee to be careful in future would suffice as appropriate directions in this matter.

ORDER –

25. I, in exercise of the powers conferred upon me under Section 19 of the SEBI Act, 1992 read with Regulation 27(5) of the Intermediaries Regulations, hereby warn the Noticee to act carefully and in compliance with the applicable laws, henceforth.

26. A copy of this Order shall be served on the concerned Stock Exchanges and depositories for their information.

Place: Mumbai **G. MAHALINGAM**

Date: October 13, 2021 **WHOLE TIME MEMBER**

SECURITIES AND EXCHANGE BOARD OF INDIA