BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. AP/AO/16/2009-10]

In the matter of Investigations in
COROMANDAL FERTILIZERS LTD.
In respect of SHRI K. VENKATRAMAN

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01. Securities and Exchange Board of India (hereinafter referred to as "SEBI") conducted an investigation into the trading in the scrip of M/s Coromandal Fertilizer Ltd. (hereinafter referred to as "CFL"). The said investigation was ordered to ascertain whether any provisions of the securities and Exchange Board of India Act, 1992 (hereinafter referred to as "the Act") and various Rules and Regulations made there under were violated. Pursuant to the aforesaid investigation, SEBI appointed the undersigned, as Adjudicating Officer vide SEBI order dated April 07, 2006 to enquire into and adjudge under Section 15HA of the Act, for the alleged violations of Regulations 4(1), 4(2), (a),(b),(g) and (n) of SEBI Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as the "regulations"), by Shri K. Venkatraman (hereinafter referred to as "the noticee"). The said order was communicated vide proceedings of the Whole Time Member SEBI, dated May 08, 2006.

02. Pursuant to inquiry a Show Cause Notice (hereinafter referred to "SCN") dated May 30, 2006 under Rule 4(1) of SEBI (Procedure For Holding Inquiry And Imposing Penalties By Adjudicating Officer) Rules, 1995 (hereinafter referred as the "Rules") were issued to the noticee communicating the allegations levelled against him and calling upon his reply as to why an inquiry in terms of the said Rules should not be conducted against him, with relying upon documents. The SCN issued to the noticee by Registered post with

Acknowledgement Due, returned undelivered with postal departments remarks "Unclaimed".

03. Under the aforesaid circumstances, the undersigned thought it fit to hold an inquiry in the matter. Accordingly, a notice of inquiry dated July 13, 2006 was issued to the noticee, fixing July 28, 2006 as the date for inquiry along with a copy of SCN with annexure dated May 30, 2006 further informing him that yet he has not filed any reply to the SCN, and if he desires to file the same, can do so within 7 days of receipt of the notice of inquiry.

04. The hearing notice sent by Registered Post with A.D returned undelivered with postal remark "unclaimed". However, the hearing notice sent by courier served on the noticee.

05. Having carefully perused the material available on record I now, proceed to record my finding as follows, but before that, it is important to at least briefly understand the background of the case and the role played by the noticee and also the relevant provisions of the Act/regulation in this regard:

(i) SEBI Act, 1992

Section 15HA:

Penalty for fraudulent and unfair trade practices.

15HA. If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty of twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

(ii) SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (hereinafter referred as theregulations)

Regulation. 4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:-

(a) indulging in an act which creates false or misleading appearance of trading in the securities market;

(b) dealing in a security not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress or cause fluctuations in the price of such security for wrongful gain or avoidance of loss;

(c) …..

(d) ….

(e) ….

(f) ….

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

(h) ….

(i) …..

(j) …..

(k) …..

(l) ….

(m) …..

(n) circular transactions in respect of a security entered into between intermediaries in order to increase commission to provide a false appearance of trading in such security or to inflate, depress or cause fluctuations in the price of such security;

06. National Stock Exchange (hereinafter referred to as "NSE") initiated investigation in the case of trading in CFL on the basis of internal alerts generated for rise in price and volume, volatility and member concentration. The closing price of the scrip has risen from Rs. 81.45 on October 15, 2003 to Rs. 150.25 on December 15, 2003, an increase of 84.46% during the period of investigation. The Bombay Stock Exchange (hereinafter referred to as "BSE") was also asked to conduct an investigation for the above mentioned period and submit its report. BSE submitted its report to SEBI on March 04, 2005.

07. Upon receipt of observations of NSE and BSE, the preliminary investigation in the scrip was carried out by SEBI for the trading period October 15, 2003 to December 15, 2003. The trade and order log for the period was analyzed to uncover any instance of manipulative trades. The price volume data for the period was analyzed in conjunction with the corporate news and developments reported during the period. Explanations were sought from the brokers and client including the noticee,

08. The investigation conducted by SEBI revealed that during the period of October 15, 2003 to December 15, 2003 the scrip was traded on all 45 days available for trading , at NSE. The quantity traded in the period was about 985360 shares with highest volume of 77952 shares and lowest volume of 1110 shares and average volume of 21897 shares. The details of the trading is as under:

NSE

Date		Price fluctuations					Price Variation (%)		Volume, day wise		
From	**To**	**High**	**Low**	**Avg.**	**Open**	**Close**	**High/Low**	**Open/Close**	**High**	**Low**	**Avg.**
15/10/2003	15/12/2003	158	79.7	108.06	88	150.25	98.24	70.77	77952	1110	21897

09. On BSE the scrip was traded on all 45 days during the period of investigation. The quantity traded in the period was about 680607 shares with highest. An analysis of the price movement of the scrip during the subsequent period shows that the price remained above the Rs. 100 level. The closing price of the scrip which was Rs. 150.50 at the end of the investigation period on December 2003 remained at the same levels in January 2004. It then decreased to a low of Rs. 108 in March 2004 after which it again showed a continuous rising trend to reach Rs. 156 in December 2004. At the time of completion of investigation the price of the scrip was Rs. 80 after the sub division of shares from Rs. 10 to 3 which is equivalent to Rs. 400 (on the face value of Rs. 10). The details of the trading are as under:

BSE

Date		**Price fluctuations**					**Price Variation (%)**		**Volume, day wise**		
From	**To**	**High**	**Low**	**Avg.**	**Open**	**Close**	**High/Low**	**Open/Close**	**High**	**Low**	**Avg.**
15/10/2003	15/12/2003	158.75	80	108.17	82.95	150..5	98.43	81.4	67676	150	15124

10. The noticee was the client of sub-broker M/s Dove Securities Pvt. Ltd. (Broker ISE Capital Market Services Ltd.). The sub-broker was dealing on behalf of its clients, and had constituted 15.41% of the gross traded quantity for the market during the period October 15, 2003 to December 15, 2003. The day wise range of the gross quantity traded by it to the gross traded quantity for the market was in the range of 11% to 40%.

The sub broker Dove Securities Pvt. Ltd. was trading for its clients Gopal Kumar Agarwal, Bhagwandas Agarwal, Shankar Agarwal and for the noticee. Each of these three clients Gopal Kumar Agarwal, Shankar Agarwal and the noticee traded in 5 out of 44 days accounting for 5.01%, 3.45% and 2.44% respectively, of the market gross quantity during the period of investigation which was in the range of 9% to 40 % in those days, whereas Bhagwandas Agarwal traded on 4 days accounting for 3.55% of the market gross quantity in the range of 21% to 32 % to the daily volume. These clients were buying and selling equal quantity during the day and had nil position at the end of the day.

The summary of the trading of the major clients of the sub broker during the investigation period is as follows:

Sr. No.	Client Name	Buy Qty.	Sell Qty.	Client Gross Qty.	Client Net Qty.	% to period gross
1.	Gopal Kumar Agrawal (HUF)	49350	49350	98700	0	5.01
2.	Bhagwandas Agarwal (HUF)	35000	35000	70000	0	3.55
3.	Shankar Agarwal	34000	34000	68000	0	3.45
4.	K. Venkartaman (the Noticee)	24000	24000	48000	0	2.44

11. I found that there were circular /reversal/ syncronized of deals between the trading members Keynote Capitals Ltd. and ISE Securities & Services Ltd. dealing for Dove Securities Pvt. Ltd. In all the above deals the trading member Keynote Capitals is trading on behalf of Polar Securities and Finance Pvt. Ltd. (client) whereas, Dove Securities Pvt. Ltd. traded on behalf of Bhagwandas Agarwal, Gopal Kumar Agarwal, Shankar Agarwal and for the noticee. The total no. of circular deals/reversal observed between these two set of clients were 264584 shares. It is seen that the shares were reversed on the same day which implies that the person who purchased the shares initially on a given day sold back the shares to the same counterparty on the very same day. Such reversals were carried out on 18 days and constituted 120 trades with 76 buy orders and 67 sell orders. Out of these 82 deals were synchronized, where the time difference between buy and sell orders was below one minute. The percentage of the quantity traded in these circular deals/ reversals to the total volume traded in the market during the period of investigation is 26.85%.

12. These reversals have contributed 31% to 80% to the daily volume and on 12 out of the 18 days, it has contributed more than 50%. Further the reversals executed by Polar Securities with these clients/broker as a percentage of its gross trading volume is 54.21%. The details of their counterparties and their reversal/circular trades of their total trading are as follows: Noticee (66.67%), Bhagwandas Aggarwal (100%) Gopal Kumar Aggarwal (99.7%) and Shankar Aggarwal (98.7%). The summary of the day wise trading between the members Keynote Capitals Ltd. and Dove Securities Pvt. Ltd. through its broker ISE Securities and Services Ltd. showing the quantity of reversal and their percentage to the market volume is given below:

Trade Date	**Purchased by Keynote Capital From Dove Securities**	**Purchased by Dove Securities from Keynote Capital**	**Volume of both clients (trade + reversal)**	**Market Volume**	**% to total market volume**
	Clent: Polar Securities	**Clent: The noticee**			
03.11.2003	**2,000**	**2,000**	**4,000**	**6401**	**62.49**
05.11.2003	**4,000**	**4,000**	**8,000**	**12,550**	**63.75**
06.11.2003	**10,000**	**10,000**	**20,000**	**63,934**	**31.28**
	Client: Polar Securities	**Client: Bhagwandas Aggarwal (HUF)**			
12.11.2003	**10,000**	**10,000**	**20,000**	**45,988**	**43.49**
14.11.2003	**5,000**	**5,000**	**10,000**	**15,630**	**63.98**
17.11.2003	**10,000**	**10,000**	**20,000**	**38,160**	**52.41**
19.11.2003	**10,000**	**10,000**	**20,000**	**38,760**	**51.60**
	Client : Polar Securities	**Client: Gopal Kumar Aggarwal (HUF)**			
21.11.2003	**4,150**	**4,350**	**8,500**	**26,040**	**32.64**
24.11.2003	**10,000**	**7,000**	**17,000**	**38,160**	**44.55**
25.11.2003	**5,000**	**5,000**	**10,.000**	**22,511**	**44.42**
27.11.2003	**10,000**	**10,000**	**20,000**	**29,871**	**66.95**
28.11.2003	**9,960**	**9,950**	**19,910**	**26, 097**	**76.29**
01.12. 2003	**10,000**	**10,000**	**20,000**	**24,828**	**80.55**
	Client Polar Securities	**Client: Shankar Agarwa**			
02.12.2003	**8,000**	**8,000**	**16,000**	**23,482**	**68.14**
03.12.2003	**9,950**	**9,774**	**19,724**	**26,778**	**73.66**
04.12.2003	**5,500**	**6,000**	**11,500**	**25,106**	**45.81**
08.12.2003	**5,000**	**5,000**	**10,000**	**13,810**	**72.41**
09.12.2003	**4,950**	**5,000**	**9,950**	**28,969**	**34.35**
Total	**1,33,550**	**1,31,074**	**2,64,584**	**5,07,075**	**52.18**

13. As, is evident from the above that each of the above four clients dealing through Dove Securities had traded on 4 to 6 days each during the investigation period and they have reversed their trades on the very same day on almost all the days they have traded.

14. Further, it is observed from the findings of investigation that three of these clients have been introduced to the sub broker by a common friend Mr. Manoj

Agarwal indicating that they are connected to each other. Also, their trading pattern shows that each of these clients have traded in different periods: with one client trading for 5 days then another trading for next 6 days and so on. This supports the observation that they have traded in concert and put in sustained effort in executing reversal of trades from November 03, 2003 to December 09, 2003.

15. I notice that during the period when alleged circular/reversal/ syncronization of trades have taken place, the price of the scrip increased from Rs. 94 on November 3, to Rs. 101 on November 6th and again from Rs. 111 on November 14th to Rs. 129.95 on December 10th, 2003.

16. From the trade & order log analysis, I found that the noticee entered into synchronized trades with another client which got matched in less than a time difference of one second (as can be seen in Annexure 3 to SCN) have led to creation of artificial volumes. A reversal of trade pre supposes premeditation on the part of the counterparties as it is not possible to reverse the trade (i.e. squaring – off with the same counterparty with no change in the ownership of shares) on a regular basis without prior intent or without knowledge /active participation of the brokers and clients. The trading system of the exchange was misused by the brokers and their clients including the noticee to manipulate the price of the scrip artificially.

17. It may be stated that the synchronized trades/ cross deals/ circular trades are the instruments/ tools employed by some unscrupulous elements in the securities market to manipulate the market and deceive the general/ genuine investors in the market place. The pattern of trading, behaviour of the entities, apparent irregularities and the available trading data, etc., prove manipulation which always depends on inferences drawn on factual details. When all of these are considered together, they can emerge as ingredients to prove the manipulative scheme designed and executed by such manipulators with intent to tamper with free market forces.

18. One of the general defence by the entities under similar circumstances is that due to screen based system of trading, it is not possible to know as to which the counter party is. The examination of the pattern of trading fairly reveals that no unknown persons can trade continuously for many days through synchronized orders in a number of trades contributing significantly to total volume in the market. Before deciding on the issue the reliance may be placed on the observations of Hon'ble Securities Appellate Tribunal (hereinafter referred to as 'SAT') in the matter of *Ketan Parekh* Vs. *SEBI*, that 'synchronization' or a 'negotiated deal' *ipso facto* is not illegal and that a synchronized transaction will, however, be illegal or violative of the Regulations if it is executed with a view to manipulate the market or if it results in circular trading or is dubious in nature and is executed with a view to avoid regulatory detection or does not involve change of beneficial ownership or is executed to create false volumes resulting in upsetting the market equilibrium. The Tribunal further observed that whether a transaction has been executed with the intention to manipulate the market or defeat its mechanism will depend upon the intention of the parties which could be inferred from the attending circumstances because direct evidence in such cases may not be available. The Tribunal observed that the intention of the parties can be noted from various factors which may be the nature of the transaction executed, the frequency with which such transactions are undertaken, the value of the transactions, whether they involve circular trading and whether there is real change of beneficial ownership, the conditions then prevailing in the market etc.

In the instant matter from the trading pattern used by the brokers/sub-brokers and their clients, it can fairly be concluded that the same was done to manipulate the price of the scrip and to create artificial volume in the scrip. The aforesaid act on the part of noticee is therefore is in violation of Regulation 4 (1), 4 (2) (a), (b) and (g) of PFUTP Regulation.

19. The violation thus being established, the undersigned considered the following factors as provided in the section 15J of SEBI Act to determine the quantum of penalty that can be imposed under Section 15A (a) of SEBI Act, 1992 viz. (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default; (b) the amount of loss caused to an investor or group of investors as a result of the default and; (c) the repetitive nature of the default. It has been established from the above facts that the noticee had played a pivotal role in generating artificial volumes in market. From the material available on record it is not possible to arrive at a figure of loss caused to the general investors and the gains made by the noticee. Considering the continuous efforts by the noticee to create artificial volumes through synchronization, it can be said that the nature of default is repetitive.

20. Due to the manipulation that took place in the scrip of CFL genuine investors must have been attracted and induced to trade in the shares of CFL. The liquidity/ volumes in particular scrip raise the issue of ‘demand’ in the securities market. The greater the liquidity, the higher is the investors’ attraction towards investing in that scrip. Hence, any innocent investor could have been carried away by the unusual fluctuations in the volumes and induced into investing in the said scrip. Besides, this kind of activity, seriously affects the normal price discovery mechanism of the securities market. From this it is clear that the noticee was fraudulently trying to generate interest of general public in the scrip of CFL.

21. The aforesaid default should be viewed seriously as it affects and interfere with the fair and smooth functioning of the market. The artificial volumes such as noticed in the present case, coupled with price movements/fluctuations, give an impression of trading which in fact is not real and the general investors at large get induced to deal in securities. In order to protect the interest of investors in the securities market, this type of activity should be curved and dealt firmly.

22. The Hon'ble SAT in its earlier ruling in the order dated May 04, 2001 in the appeal No. 36 of 2000 in the matter of Yogi Sungwon (India) Ltd. vs SEBI**,** also ruled that the AO has to satisfy himself about the severity of the violation before imposing penalty. The relevant portion of this order is as follows:

> "As already stated above, in terms of section 15I whether penalty should be imposed for failure to perform the statutory obligation is a matter of discretion left to the Adjudicating Officer and that discretion has to be exercised judicially and on a consideration of all the relevant facts and circumstances. Further in case it is felt that penalty is warranted the quantum has to be decided taking into consideration the factors stated in section 15J. It is not that the penalty is attracted perse the violation. The Adjudicating Officer has to satisfy that the violation deserved punishment."

23. Taking a clue from the guidelines laid down by SAT, I am fully satisfied that this case deserves penalty. Therefore, in the circumstances and given the serious nature of the violation involved in the matter, I find it appropriate to impose a deterrent penalty as prescribed under Section 15HA of the Act on the noticee.

24. Therefore, in exercise of the powers conferred under section 15-I (2) of the SEBI Act, 1992, read with Rule 5 of SEBI Adjudication Rules, I hereby impose a penalty of Rs. 5 Lacs (Rs. 5,000,00/-) on Shri Shri K. Venkatraman (the noticee) under section 15HA of SEBI Act, 1992 for violation of the provisions of regulation 4(1), 4(2)(a), (b) and (g) of the Regulations, 2003.

25. The noticee shall pay the said amount of penalty by way of demand draft in favour of "SEBI- Penalties Remittable to Government of India", payable at Mumbai within 45 days of receipt of this order. The said demand draft should be forwarded to Shri G Ramar, DGM (Incharge of IVD-4), Securities and Exchange Board of India, SEBI Bhavan, Plot No. C4-A, "G" Block, Bandra Kurla Complex, Bandra (East), Mumbai–400 051.

26. This order of adjudication is made and passed on 9th day of June, 2009 at New Delhi.

(AMIT PRADHAN)

ADJUDICATING OFFICER