

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: RAJEEV KUMAR AGARWAL, WHOLE TIME MEMBER**

ORDER

Under sections 11(1), 11(4) and 11B of the Securities and Exchange Board of India Act, 1992.

In respect of Grishma Securities Private Limited [PAN: AABCG1300K], its directors, Mr. Ketan C. Shah [PAN: AIWPS3413R], Mr. Chandrika H. Gandhi [PAN: AAMPG4546M], Mr. Chhabil C. Shah [PAN: AIXPS6956J], and its Chief Executive Officer, Mr. Mihir Ghelani [PAN: AACPG7986K].

In the matter of IPO of Tijaria Polypipes Limited.

Appearances

For Grishma Securities Limited, its directors and CEO :

1. Mr. Somasekhar Sundaresan, Advocate, M/s. J Sagar & Associates
2. Mr. Ravichandra S. Hegde, Senior Associate, M/s. J Sagar & Associates
3. Mr. Mihir Ghelani, CEO, Grishma Securities Private Limited
4. Mr. Ketan C. Shah, Director, Grishma Securities Private Limited

For SEBI :

1. Mr. Santosh Shukla, Joint Legal Adviser
2. Ms. Jeny John, Deputy General Manager
3. Ms. Anitha Anoop, Deputy Legal Adviser
4. Ms. Deena Sarangadharan, Assistant General Manager
5. Ms. Vasudha Goenka, Assistant Legal Adviser

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1. Tijaria Polypipes Limited (hereafter referred to as "TPL") is a company incorporated under the Companies Act, 1956. TPL came out with an Initial Public Offering ("IPO") of 1,00,00,000 equity shares of face value of ₹10/- each, issued at a premium of ₹50/- per equity share, to raise ₹60,00,00,000/- to fund its proposed expansion and diversification plans. The said issue which opened on September 27, 2011 and closed on September 29, 2011, was reportedly subscribed by 1.2 times. TPL allotted 71,64,406 shares in the retail investors' category, which constituted 71.64% of the public issue. The shares of TPL, issued in its IPO, were listed on the Bombay Stock Exchange of India Limited (BSE) and the National Stock Exchange of India Limited (NSE).

2. On noticing a steep fall in the share price of TPL on the first day of trading/listing, SEBI conducted an investigation into the same. It was *prima facie* observed that TPL had made several mis-statements relating to Inter-Corporate Deposits ("ICDs"), placement of purchase orders, etc in the offer document. Further, it was observed that six entities, namely, Mr. Jivraj Zala, Ms. Lopa Saumil Bhavanagari (Ms. Lopa), Pinac Stock Brokers Private Limited, Swift Tie Up Private Limited, Salasar Stock Broking Private Limited and Todi Securities Private Limited, had provided exit to some IPO allottees (*retail allottees and QIBs*) of their shares allotted in the IPO, on the first day of trading/listing. Since the aforesaid 6 persons/entities sold the shares so purchased from the IPO allottees at a price lesser than their purchase price, they incurred substantial losses. Such huge losses were found to be partly offset through the funds received through layered transactions from TPL. Mr. Jivraj Zala had sustained maximum losses to the tune of ₹9.95 crore (₹3,20,38,993 on BSE and ₹6,74,68,589 on NSE) and this loss was partly offset (*to the tune of ₹3.8 crore*) by funds from TPL routed through an entity, M/s. Bellissima Impex (*which had received ₹10.36 crore from TPL*). Mr. Jivraj Zala had traded through his stock broker, Grishma Securities Private Limited (hereinafter referred to as "Grishma") in the shares of TPL on the listing day. Grishma is a trading member of the Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE) and is registered as a stock broker with SEBI.
3. Mr. Jivraj Zala was observed to be a "*walk-in-client*" of Grishma and had opened his account with Grishma only on September 17, 2011 (*i.e. ten days prior to the opening of subscription of the IPO of TPL*). It is also noted that his first trades as a client of Grishma was on October 14, 2011 and he traded only in the shares of TPL. As per the details available from the Know Your Client (KYC) documentation available with Grishma, Mr. Jivraj Zala's annual income was below ₹5 lakhs per annum and his income as per his balance sheet as on March 31, 2010 was ₹13.14 lakhs per annum. Grishma had allowed the said client to take huge exposure in the shares of TPL at BSE and NSE, which was not commensurate with his income. It was also *prima facie* observed that Grishma had manipulated the client ledger of Mr. Jivraj Zala to give an impression that funds were available in his client account with the stock broker on the day of his trading, when the said client did not have the capacity to make his margin payments on the date/prior to the date of his trading or to fulfil his trade obligations.
4. Mr. Chetan Laxmikant Dave ("Mr. Chetan Dave"), one of the dealers of Grishma, was found to have placed orders for Mr. Jivraj Zala, and was himself trading in the shares of TPL. The investigation also observed that the trades where Mr. Jivraj Zala provided exit to the three QIBs on BSE were largely placed through the terminals of Mr. Mihir Ghelani (*the CEO of Grishma*). Further, it was *prima facie* observed that Grishma had used the funds and securities of other clients and funds of Mr. Mihir Ghelani to meet the margin shortfall that arose chiefly due to the

loss making trades of Mr. Jivraj Zala. The investigation also observed that part of the funds transferred into the account of Mr. Jivraj Zala for the purpose of trading in the shares of TPL also came from two other clients of Grishma, namely, Mr. Vanraj Kahor and Mr. Vimal Patel. It was also observed that Grishma had executed structured, synchronized trades and indulged in reversal of trades for its client, Mr. Jivraj Zala with Ms. Lopa on both BSE and NSE and with Swift Tie-up Private Limited on BSE.

5. In view of the preliminary findings of the investigation in the matter, SEBI, vide an ad interim *ex-parte* order dated December 28, 2011 (hereinafter referred to as the "*interim order*") had prohibited Grishma, its directors Mr. Ketan C. Shah, Mr. Chandrika H. Gandhi and Mr. Chhabil C. Shah, and its Chief Executive Officer, Mr. Mihir Ghelani (hereinafter collectively referred to as "Grishma, its directors and CEO") from buying, selling or dealing in the securities market, in any manner whatsoever, till further directions.
6. Grishma and Mr. Mihir Ghelani filed their objections to the *interim order*, vide their letters dated February 17, 2012 and February 14, 2012, respectively and had sought for an opportunity of personal hearing. In the hearing afforded on July 31, 2012, Mr. Somasekhar Sundaresan, Advocate represented Grishma, its directors and CEO and made submissions on their behalf. Written submissions dated August 21, 2012 of the aforesaid entities which reiterated their submissions, were also filed subsequently. The submissions made by them *inter alia* are as follows:
 - a. Grishma did not undertake any proprietary trades in the shares of TPL and that it is made a party because of (i) trades of its clients Mr. Jivraj Zala and Mr. Chetan Dave and (ii) the alleged links with Ms. Lopa who also traded in the shares of TPL.
 - b. Grishma collected funds from Mr. Jivraj Zala for purposes of meeting margin requirements prior to undertaking trades in the shares of TPL on his behalf on October 14, 2011. The cheques towards margins were received, deposited, realized and accounted for, in complete compliance with the norms applicable to collection and accounting of margins. Therefore, the question of having obtained funds from third parties does not arise.
 - c. The transactions referred to by SEBI as evidence of use of funds of third parties by Grishma has no nexus to the trades of Mr. Jivraj Zala.
 - d. Grishma collected seven cheques for a value of ₹3,65,55,000/- from Mr. Jivraj Zala on October 13, 2011 *i.e.*, one day prior to his trades and that the said margin money was sufficient to protect against the risk of default by Mr. Jivraj Zala. The date on which the cheques were received from Mr. Jivraj Zala was recorded in its ledger. The cheques were deposited on October 15, 2011 and duly honoured as reflected in its bank statement.

- e. The mode of collection of margin and the quantum of margin that a stock broker may collect has been left to the discretion of stock brokers vide SEBI Circular dated February 23, 2005. Its risk management policy *inter alia* envisaged collection of margins by way of cheques. Therefore, it cannot be held liable for collection of margin amounts from Mr. Jivraj Zala by way of cheques.
- f. The charge that Grishma falsified its client ledger by recording therein the date of physical receipt of the cheques and not the date on which the underlying funds were credited in the account, is baseless. The recording of date of receipt of cheques is in accordance with the mercantile system of accounting. There is no obligation in law which requires a stock broker receiving margin payments by cheque to record only the actual date of credit of funds in the client ledger as the date of receipt of margins and that such a requirement is not even envisaged by SEBI.
- g. Stock brokers are required to record the date of receipt of the cheques in the ledger either on the date of the trade *i.e.*, T or on a T+1 basis notwithstanding the fact that the cheques may get cleared only subsequently.
- h. Mr. Vimal Patel's (*a client of Grishma*) ledger maintained by Grishma in relation to the trades in the cash segment (at BSE and NSE) and Futures & Options (F & O) Segment (at NSE) as on October 14, 2011 *i.e.*, the date of trades, shows that his account had a debit balance of ₹16,50,000/- and therefore, the question of obtaining funds from him does not and cannot arise.
- i. The allegation that securities belonging to Grishma's clients were used to meet margin requirements of Mr. Jivraj Zala's trades is unfounded. The securities were not pledged by it in connection with Mr. Jivraj Zala's trades but were received for trades by its clients in cash and F&O Segments. The scrips identified in the *interim order* were provided to Grishma by its other clients to meet their margin requirements and have no connection whatsoever to the trades of Mr. Jivraj Zala.
- j. Mr. Mihir Ghelani transferred ₹2.2 crore to Grishma Intermediaries Private Limited ("Grishma Intermediaries") towards his margin dues for his trades in the commodities market. Out of the said payment, ₹77,71,832/- was paid by Grishma Intermediaries to Grishma towards repayment of a loan it had taken from Grishma and that the remaining amount of ₹1,42,28,168/- was given to Grishma as a fresh loan by Grishma Intermediaries. Therefore, no funds were received from Mr. Mihir Ghelani and therefore the allegation that Mr. Mihir Ghelani provided funds to Grishma is factually incorrect.
- k. The charge of contravening section 23D of the Securities Contracts (Regulation) Act, 1956, regulation 26(xiii) of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, SEBI Circulars dated April 17, 2008 and August 27, 2003 for failing to segregate funds and using funds belonging to third parties, is not tenable. The alleged breach may be referred for

adjudication and therefore, restraining Grishma, its directors and CEO from carrying on business and denying access to the securities market is erroneous.

- l. The association with Ms. Lopa as a dealer with Grishma ended in 2007 which is five years prior to the events which are the subject matter of the *interim order*. It had notified BSE and NSE in 2007 that Ms. Lopa was no longer authorized to act on its behalf. Therefore, the acts/omissions of Ms. Lopa cannot be attributed to Grishma and that the allegation that Mr. Jivraj Zala may have entered into structured reversal of trades with Ms. Lopa is not sufficient to hold it responsible.
 - m. Mr. Chetan Dave was Grishma's client and not associated with it in any other capacity. Merely by virtue of the client-broker relationship between them, the acts/omissions of Mr. Chetan Dave cannot be attributed to it.
 - n. According to the *interim order*, the statement of Grishma that Mr. Jivraj Zala was personally present in its office at Mumbai and was instructing the dealer to execute the trades in the shares of TPL was false, as the terminal from which the orders were placed was situated in Ahmedabad and not in Mumbai. The terminal from which the orders were being placed was earlier registered in an address in Ahmedabad and was subsequently changed to Mumbai and at the relevant time, the terminal was being operated from Mumbai. Mr. Jivraj Zala was personally present at its office in Mumbai and directed the dealers to execute trades in the shares of TPL.
 - o. Grishma, its directors and CEO have already undergone penalty and since as per the *interim order*, adjudication proceedings are being taken, the continuance of the *interim* direction is not warranted.
7. In view of the submissions, Grishma, its directors and CEO requested that the directions issued against them vide the *interim order* should not be continued and that if SEBI believes that further investigation in TPL may be necessary, the directions may be modified to direct them not to trade or associate directly or indirectly with any trading in the shares of TPL, pending completion of investigation. Vide letter dated September 12, 2012, Grishma, reiterated its request to vacate the directions issued vide the *interim order*.
8. I have considered the submissions of Grishma, its directors and its CEO, Mr. Mihir Ghelani made vide their replies, oral submissions made during the personal hearing, the written submissions dated August 21, 2012 and other material available on record. The limited issue to be considered at this stage is whether the ad-interim *ex-parte* directions issued against them vide the *interim order* needs to be confirmed, vacated or modified in any manner.

9. I note that the *interim order* alleged that Grishma had allowed its client, Mr. Jivraj Zala to trade heavily on the listing day (*i.e. on October 14, 2011*) in the shares of TPL without collection of any margin despite the fact that the said client was a "*walk-in-client*" and had annual income of less than ₹5 lakh. Grishma has submitted that it had collected seven cheques towards margin for the trades of Mr. Jivraj Zala. I have perused the copies of cheques enclosed by Grishma in its reply and note as below:

- a) There are three cheques dated October 15, 2011 for a total value of ₹1,17,55,000/-
- b) There are nine cheques dated October 17, 2011 for a total value of ₹6,07,00,000/-
- c) There are six cheques (all dated on or after October 19, 2011) for a total value of ₹4,12,10,000/-

All the aforesaid cheques of Mr. Jivraj Zala were post-dated cheques as on the date (*i.e., October 13, 2011*) they were claimed to have been handed over to Grishma. The trades of Mr. Jivraj Zala happened on October 14, 2011. Therefore, on the said trading day, no funds were available in the client account of Mr. Jivraj Zala with Grishma. Grishma has, admittedly, entered the date of the receipt of such post-dated cheques in the client ledger of Mr. Jivraj Zala and not the date of actual receipt of funds for the said client. By doing so, Grishma gave an impression that funds were readily available for Mr. Jivraj Zala on the day when he traded. The SEBI Circular dated February 23, 2005 regarding "Risk Management" cited by Grishma mandates stock brokers to collect margin money through cheques. The objective of collecting margin monies from clients is to take care of situations or mitigate eventualities where clients fail to honour their trade obligations. Further, Mr. Jivraj Zala had to make substantial pay-outs for his trades in the shares of TPL on October 14, 2011. Since the trades happened on October 14, 2011, the settlement has to be done on October 18, 2011 (T+3 settlement). However, even assuming that the post-dated cheques were realised on the dates written on such cheques, it appears that Mr. Jivraj Zala did not have sufficient funds to clear his settlement obligations in October 18, 2011. Grishma is found to have allegedly funded the said client towards the settlement obligations for his trades. In this case, Grishma had not collected any margins, as observed above, and therefore, in case of any default by Mr. Jivraj Zala in honouring his trade obligations, Grishma would not be able to mitigate the consequences of such default.

10. Mr. Jivraj Zala incurred substantial losses to the tune of ₹ 9.95 crore while trading in the scrip. It is important to mention here that the annual income of Mr. Jivraj Zala, as disclosed in his KYC documents, indicates an income of only ₹5 lakh per annum. The said client was a "*walk-in-client*" who had opened his trading account during September 2011, just prior to his trades in TPL. For such a client, Grishma has accepted post-dated cheques and allowed him huge exposure in the

securities market which is not proportionate to his income. The curious manner in which Mr. Jivraj Zala was accommodated by Grishma with respect to his trades, therefore militates against the very object of requiring stock brokers to collect margin money upfront from clients.

11. As regards the payment of ₹2.2 crore by Mr. Mihir Ghelani, I note that Mr. Mihir Ghelani had claimed that the said payment was made to Grishma Intermediaries towards his margin calls for his trades in the commodities market. In this regard, I note from the trading details of Mr. Mihir Ghelani at the Multi Commodity Exchange Limited (MCX), that during the period from October 1, 2011 to November 15, 2011, Mr. Mihir Ghelani was found to have traded only on October 17, 2011 and October 18, 2011. He did not execute any trade before that in the said period. Therefore, it is very evident that he could not have received any margin calls on October 14, 2011 as claimed by him. The same, therefore, contradicts the claim of Mr. Mihir Ghelani that he had a ledger debit and margin call and the amount was transferred for the same. Thus, the claim that the transfer of ₹2.2 crore was for the purpose of repayment of an earlier loan taken by Grishma Intermediaries and the remaining money was given as a loan to Grishma, cannot be accepted. The money was not transferred from the account of Grishma Intermediaries to the concerned commodities exchange and was instead routed to the account of Grishma. Therefore, from the above and the facts and circumstances of the case, it can be inferred that the payments of ₹2.2 crores made by Mr. Mihir Ghelani was primarily for meeting the margin requirements of Mr. Jivraj Zala for his trading in the scrip of TPL on October 14, 2011.
12. I further note that the manner in which other clients' funds/monies and the securities and funds from Grishma's CEO, Mr. Mihir Ghelani were used to overcome the margin shortfall has been dealt with in detail in the *interim order*. I also observe that if the funds and securities of other clients and Mr. Mihir Ghelani had not been used, there would have definitely been a margin shortfall due to the huge loss making trades executed by Mr. Jivraj Zala. I further observe that the loss sustained by Mr. Jivraj Zala was partly offset (*to the tune of ₹3.8 crore*) by funds from TPL routed through an entity, M/s. Bellissima Impex (*which had received ₹10.36 crore from TPL*). The manner of receipt of funds by Mr. Jivraj Zala from TPL has been discussed in the *interim order*.
13. As regards Mr. Chetan Dave, I note that Mr. Ketan C. Shah (*a director of Grishma*), in his e-mail dated October 31, 2011 had mentioned that Mr. Chetan Dave is a dealer of Grishma. However, in Grishma's reply dated August 21, 2012, it is stated that Mr. Chetan Dave is not a dealer, but just a client. From the trade log/order log of the NSE, I find that the name of Mr. Chetan Dave is mentioned as both-dealer and client. Mr. Chetan Dave, was one of the dealers of Grishma, who was placing orders on behalf of Mr. Jivraj Zala, and was himself trading in the scrip of TPL. Therefore, Grishma has tried to mislead SEBI in this regard. The investigation has also observed

that Mr. Chetan Dave had allegedly entered into structured trades with Mr. Kirti R. Kothari who in turn was found to have provided exit to certain retail allottees in the IPO of TPL.

14. I note that Grishma had allowed Mr. Jivraj Zala to trade heavily in the scrip, on the day of listing, allowing him to take huge exposures and incurring heavy losses to the tune of ₹9.95 crore, without collecting margins, despite the fact that he was a "*walk-in-client*" and his annual income was only around ₹5 lakh. The said client had allegedly provided exit to certain retail allottees and QIBs and the losses incurred by him was partly off-set through funds from TPL received through layered fund transfers. His client ledger was allegedly manipulated to indicate that he had sufficient funds to trade, whereas funds were actually received much later after the trading day. Grishma had allegedly utilized the funds/securities of other clients for making the margin payments of Mr. Jivraj Zala towards his trades. The *interim order* had mentioned that Grishma's client, Mr. Jivraj Zala had indulged in structured trades/trade reversals with Ms. Lopa. The submissions of Grishma, its directors and CEO do not give any plausible reasoning/explanation for their actions, at this stage. I also note that investigation in the matter has been completed and appropriate action as deemed appropriate, in accordance with law, would be initiated against Grishma, its directors and the CEO. In the light of above facts and circumstances, I am therefore of the considered view that no intervention is called for, at this stage, in either vacating the *interim* directions or modifying it, with respect to Grishma, its directors and CEO.
15. I, therefore, in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Sections 11(1), 11(4) and 11B thereof, hereby confirm the directions issued vide the ad interim ex-parte order dated December 28, 2011 in the matter of IPO of Tjaria Polypipes Limited, against Grishma Securities Private Limited, its directors, Mr. Ketan C. Shah, Mr. Chandrika H. Gandhi, Mr. Chhabil C. Shah and its CEO/Compliance Officer, Mr. Mihir Ghelani.
16. This order shall remain in force till further directions.

Date : November 5th, 2012
Place : Mumbai

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