

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO: Order/SBM/VS/2021-22/15591)

UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995.

In respect of:

ARADHANA PLAZA PRIVATE LIMITED

(PAN NO.: AAGCA2835A)

Flat No. 1007 & 1008, 10th Floor,

DLF Tower 'B', Jasola,

New Delhi-110044

In the matter of

Dealing in illiquid stock options at BSE

FACTS OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') observed large scale reversal of trades in the Stock Options segment of the Bombay Stock Exchange (hereinafter referred to as '**BSE**') leading to the alleged creation of artificial volume in the stock options segment. In this regard, SEBI conducted an investigation into the trading activity in the illiquid Stock Options segment at BSE for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as '**Investigation Period**').
2. It was observed during the course of investigation that a total of 2,91,643 trades comprising 81.38% of all the trades executed in the Stock Options Segment by various entities at BSE during the investigation period were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract on the same day. It was also observed that the aforesaid trades resulted into alleged creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in the Stock Options segment of BSE during the investigation period. In view of the large scale reversal of trades that were observed in the illiquid Stock Options segment at BSE, it is alleged that these trades were non-genuine in nature.
3. It was observed that Aradhana Plaza Private Limited (hereinafter referred to as '**Noticee**') was one of the various entities which had indulged in the execution of the non-genuine trades in the Stock

Options Segment at BSE during the above referred investigation period. It was observed that Noticee had entered into reversal trades with its counterparties which involved squaring off transactions with significant difference in sell value and buy value of the transactions. It was therefore alleged that Noticee had executed the reversal trades, which were non-genuine in nature and have created false or misleading appearance of trading in terms of creation of artificial volume in the Stock Options segment at BSE. Therefore, it is alleged that the Noticee has violated the provisions of regulations 3(a), (b), (c), (d) and regulation 4(1), 4(2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as '**PFUTP Regulations**'). In view of the above reasons, adjudication proceedings have been initiated against the Noticee under the provisions of section 15 HA of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act**').

APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer, vide communique dated September 30, 2021 under section 19 read with section 15-I of the SEBI Act read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules**') to inquire into and adjudge under the provisions of section 15HA of the SEBI Act the aforementioned alleged violation of the provisions of law by the Noticee.

SHOW CAUSE NOTICE, HEARING AND REPLY

5. Show Cause Notice ref. EAD-1/SBM/VS/7844/1-2/2022 dated February 23, 2022 (hereinafter referred to as '**SCN**') was issued to the Noticee in terms of rule 4 of the Adjudication Rules requiring the Noticee to show cause as to why an inquiry should not be held against it and why penalty, if any, should not be imposed on the Noticee under the provisions of section 15HA of the SEBI Act
6. The SCN issued to the Noticee, inter alia, mentioned/alleged the following-
 - a. *It is further noted that said alleged non-genuine trades were not restricted to any specific contract or between any specific set of entities. It is noted that Noticee was one of the various persons/ entities which were indulged in execution of such alleged non-genuine trades in Stock Options Segment of BSE during the Investigation period. Following points deals with the dealings of Noticee during the Investigation period and allegations against its execution of non-genuine trades.*

- b. For the purpose of illustration of non-genuine trades and creation of artificial volume by the Noticee, details of trading done by the Noticee in the contract viz. "JISL15JAN75.00CEW4" on March 21, 2015 is given below:

<i>Date</i>	<i>Buyer</i>	<i>Seller</i>	<i>Buy Order Time</i>	<i>Sell Order Time</i>	<i>Trade Time</i>	<i>Trade Rate (₹)</i>	<i>Trade Quantity</i>
21/01/2015	Chancellor Commodeal Private Limited	Aradhana Plaza Private Limited	12:25:30	12:24:41	12:25:30	0.5	4000
21/01/2015	Aradhana Plaza Private Limited	Chancellor Commodeal Private Limited	14:30:58	14:30:46	14:30:58	0.05	4000

- c. It is observed from the table above that the trades entered by the Noticee in the contract of "JISL15JAN75.00CEW4" on March 21, 2015, with its counterparty viz. Chancellor Commodeal Private Limited were reversed between the Noticee and the same counterparty on the same day resulting in reversal of trades which are, *prima facie*, considered to be as non-genuine. Therefore, in the process artificial volume in the stock option contract at BSE has been generated by the Noticee through such non-genuine trades. From the table above, it is observed that the artificial volume created as no. of units reversed in non-genuine trades is 8,000 units comprising both volume of initial trade and volume of reversal trade, while not considering the volume which is not reversed. In the process, it is observed that the Noticee had made a profit of ₹1,800/-.
- d. The transactions in a said contract were reversed with the same counterparty indicates a prior meeting of mind with a view to execute the reversal trades at a pre-determined price. Since these trades were done in illiquid option contracts, there was no trading in the said contract and hence, there was no price discovery in the strictest terms. The wide variation in prices of the said contracts, within a short span of time, is a clear indication that there was pre-determination in the prices by the counterparties while executing the trades. Thus, it is observed that Noticee had indulged in reversal trades with its counterparty in the stock options segment of BSE and the same were non-genuine trades.
- e. It is further observed from the trade data of the Noticee that it has allegedly entered into non-genuine trades in 2 contracts wherein it executed a total of 5 trades all of which were, *prima facie*, non-genuine trades. In view of this, it is alleged that such fraudulent trades of the Noticee had resulted into creation of artificial volume of total 3,44,000 units.
- f. In this regard, details of all the alleged non-genuine trades of the Noticee in Stock Option Segment of BSE during relevant period are attached as **Annexure-B**. From the perusal of the trade data of the alleged non-genuine trades of the Noticee, it is observed that Noticee has allegedly executed non-genuine trades in 2 contracts. The total volume of 3,44,000 units generated by the Noticee in these 2 contracts due to its alleged non-genuine trades was artificial volume generated by the Noticee in the stock option segment of BSE. These alleged non-genuine trades, executed by Noticee in above contracts, had significant differential in buy rates and sell rates considering that the trades were reversed on same day.

- g. Further, summary of dealings of Noticee in 2 Stock Options contracts in which it had allegedly executed non genuine trades during the relevant period is enclosed as **Annexure-C**. The details of artificial volume generated by the Noticee through the alleged non-genuine trades are mentioned in the table below:

S. No.	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee in the contract to Total trades in the Contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	IDBI15JAN65.00PEW4	1.4	168000	0.05	168000	100	42.86	100	28.19
2	JISL15JAN75.00CEW4	0.05	4000	0.5	4000	100	100	100	100

- b. In view of the foregoing, it is alleged that the Noticee, by indulging in execution of reversal trades in Stock Options with same entities on the same day, which were non-genuine in nature, has created false or misleading appearance of trading in the aforementioned contracts traded in the option segment of BSE. In view of the fact that these options contracts were illiquid in nature, having very small volume in trading, the Noticee allegedly created artificial volumes in stock options which was manipulative and deceptive in nature. Therefore, in view of above, it is alleged that the Noticee has violated Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003.
7. In response, a reply dated March 08, 2022 was received from Shri Manmohan Krishan Sikhwal, (hereinafter referred to as '**Shri Manmohan**') erstwhile director of the Noticee, on behalf of the Noticee wherein, *inter alia*, the following was mentioned:-

"...the present proceeding against the company Aradbana Plaza Pvt. Ltd. May be disposed of without any adverse orders as the Noticee has merged with Madhu Vinayog Private Limited vide order dated 9th July, 2018 of the Hon'ble NCLT, New Delhi Bench III..."

8. In this regard, along with his reply, Shri Manmohan also enclosed a copy of the Order dated July 09, 2018, passed by the National Company Law Tribunal (hereinafter referred to as '**NCLT**'), New Delhi Bench, wherein it is mentioned that Noticee along with eleven other companies (**'Transferor Companies'**) have been merged with Madhu Vinayog Private Limited (**'MVPL'**/'**Transferee Company**') and it was also mentioned that the Noticee

"... shall within thirty days of the date of the receipt of this order cause a certified copy of this order to be delivered to the Registrar of Companies for registration and or such certified copy being so delivered the Transferor Company shall be dissolved..."

CONSIDERATION OF ISSUES AND FINDINGS

9. I have taken into consideration the facts and circumstances of the case and the material available on record. I have also taken into consideration the reply dated March 08, 2022 received from Shri Manmohan on behalf of the Noticee. I find that a Scheme of Amalgamation has been approved by the Hon'ble NCLT, New Delhi vide an order dated July 09, 2018, wherein it is stated that the Noticee along with eleven other companies have been amalgamated with MVPL. Therefore, pursuant to the Scheme of Amalgamation, as aforesaid, all the entities i.e., Noticee and eleven other companies were amalgamated with MVPL and therefore, they have ceased to exist as independent legal entities w.e.f. receipt of Certified copy of order dated July 09, 2018 by the concerned Transferor Companies, including Noticee. In this context, the relevant observation made in order dated July 09, 2018, of NCLT, New Delhi Bench, is reproduced below:

“... The Transferor Company shall within thirty days of the date of the receipt of this order cause a certified copy of this order to be delivered to the Registrar of Companies for registration and or such certified copy being so delivered the Transferor Company shall be dissolved and the Registrar of Companies shall place all documents relating to the Transferor Company and register with him on the file kept by him in relation to the Transferee company and the files relating to the said both companies shall be consolidated accordingly...”

10. Further, during the course of the proceeding, the status/address of the Noticee was ascertained from the Ministry of Corporate Affairs (MCA) website. It was observed that the status of the Noticee has been shown as **‘Amalgamated’**. Therefore, in view of the above observations, Noticee has ceased to exist as a legal entity w.e.f. receipt of Certified copy of order dated July 09, 2018, by Noticee and was not in existence at the time when the instant Adjudication Proceedings were initiated against the Noticee i.e., vide SCN dated February 23, 2022.
11. In this context, it is pertinent to note that the Hon'ble Supreme Court in the matter of Saraswati Industrial Syndicate Ltdvs C.I.T, Haryana, Himachal Pradesh, Delhi, 1990 (Supp) SCC 675 has held the following:-

“ The High Court was in error in holding that even after the amalgamation of two companies, the transferor company did not become non-existent instead it continued its entity in a blended form with the appellant company. The High Court's view that on amalgamation there is no complete destruction

of corporate personality of the transferor company instead there is a blending of the corporate personality of one with another corporate body and it continues as such with the other is not sustainable in law. The true effect and character of the amalgamation largely depends on the terms of the scheme of the merger. But there cannot be any doubt that when two companies amalgamate and merge into one the transferor company loses its entity as it ceases to have its business. However, their respective rights of liabilities are determined under the scheme of amalgamation but the corporate entity of the transferor company ceases to exist with effect from the date the amalgamation is made effective.”(Emphasis supplied).

12. Therefore, in view of the above observations, I am convinced that the Noticee was not in existence as on the date of initiation of the adjudication proceedings against it. In view of the same, I conclude that the instant adjudication proceedings in respect of the Noticee cannot be proceeded with and the SCN dated February 23, 2022 issued to the Noticee is accordingly disposed of.

ORDER

13. In view of the above observations/findings and in exercise of the powers conferred upon me under section 15I of the SEBI Act read with rule 5 of the Adjudication Rules, I hereby dispose of the Adjudication Proceedings initiated against the Noticee viz. Aradhana Plaza Private Limited vide SCN dated February 23, 2022.
14. In terms of the provisions of rule 6 of the Adjudication Rules, copies of this order are sent to Shri Manmohan Krishan Sikhwal (on behalf of the Noticee), Madhu Viniyog Private Limited (“Transferee Company”) and also to the Securities and Exchange Board of India.

Date: March 24, 2022
Place: Mumbai

SURESH B MENON
ADJUDICATING OFFICER