BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO: Order/SBM/VS/2022-23/16857-16859)

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:

1. **Mr. Manish Chaturvedi** (PAN No.: AGSPC0944K), having address at**:** 1903-A, Shanti Kamal, Opp Voltas House, Dr. B.A. Road, Chinchpokli (E), Mumbai -400012
2. **Ms. Laxmi Chaturvedi** (PAN No.: AACPC3302M), having address at**:** 1903-A, Shanti Kamal, Opp Voltas House, Dr. B.A. Road, Chinchpokli (E), Mumbai -400012
3. **Mr. Manohar Chaturvedi** (PAN No.: AACPC3301J), having address at**:** 1903-A, Shanti Kamal, Opp Voltas House, Dr. B.A. Road, Chinchpokli (E), Mumbai -400012

In the matter of
Front–Running by Manish Chaturvedi & Others

FACTS OF THE CASE

1. Securities and Exchange Board of India ('**SEBI**') had received two reports dated October 11, 2010 and January 31, 2011, respectively, from the National Stock Exchange ('**NSE**'), *inter alia*, mentioning alleged front-running trading activity by certain persons/entities in respect of the trades in the scrips of various listed companies placed by about 10 companies/entities (hereinafter referred to as '**the Sterling Group**') during the period January 1, 2010 to December 15, 2010. Thereafter, SEBI received three more Reports dated May 31, 2010, October 29, 2010 and March 14, 2011 from NSE, on the suspected front-running trading activity by Ms. Laxmi Chaturvedi and Mr. Bhavesh Gadhavi (who were allegedly connected to each other), of the trades of the Sterling Group during the period May 31, 2010 to March 14, 2011. Upon analysis of the aforementioned Reports received from NSE, an investigation in the matter was conducted by SEBI for the period from March 1, 2009 to March 31, 2011 (hereinafter referred to as **'Investigation Period'**). The investigation conducted by SEBI focused on the front-running of the trades of the 'Sterling Group' by several persons/entities. As the same set of persons/entities were also observed to be trading in considerable volumes on the Bombay Stock Exchange ('**BSE'**), the trades of these entities on BSE were also examined by SEBI. The investigation conducted by SEBI revealed that several persons/entities were involved in the front

running of the trades of the 'Sterling Group'. The persons/entities relevant to the case have been broadly segregated into the following three sub-groups: -

a. 9 entities, Ms. Laxmi Chaturvedi ('**Laxmi**'), Viraj Mercantile Pvt. Ltd. ('**Viraj**'), Josh Trading Pvt. Ltd. ('**Josh**'), Pinky Auto Finance Ltd. ('**Pinky**'), E-Ally Consulting India Pvt. Ltd. ('**E-Ally**'), Shree Jaisal Electronics & Industries Ltd. ('**Jaisal**'), Mr. Bhavesh Gadhavi ('**Bhavesh**'), Mr. Anandilal Chnada ('**Anandilal**') and Anandilal Chanda HUF ('**Anandilal HUF**'), which were, *prima facie*, observed to be front running the trades of the Sterling Group/ its clients during the period under investigation,

b. 8 entities, including Mr. Manish Chaturvedi ('**Manish**'), Mr. Manoharlal Chaturvedi ('**Manohar**'), Mr, Abhinandan Ranka ('**Abhinandan**'), Mr. Sandeep Maloo ('**Sandeep**'), Ms. Neeta Maloo ('**Neeta**'), Ms. Madhu Chanda ('**Madhu**'), Anandilal and Mr. Praveen Kumar Jain ('**Praveen**'), had allegedly aided/ abetted in the front running activities of entities at para 1(a) above,

c. 10 companies /entities of the Sterling Group whose trades were front-run viz. Abhi Ambi Financial Services Limited, Sterling Futures & Holidays Limited, Ratha Infrastructure Pvt Limited, Baghmar Finlease Pvt Limited, Shanmugha Home Makers Pvt Limited, Siva Trade Consultancy Pvt Limited, Saravana Enterprises, Shanmuga Real Estate & Promoters Pvt Limited, V.S Net Limited and Siva Projects Engineering & Enterprises Limited (Sterling group of companies whose trades were front-run).

2. Pursuant to the investigations by SEBI and in view of the above observations/findings brought out during the course of investigations, SEBI initiated adjudication proceedings against various persons/entities who were involved in the front running of the trades of the Sterling group, including Manish, Laxmi, Manohar, (hereinafter referred to by their individual names and/or also collectively referred to as '**Noticees**') under the provisions of sections 15HB and 15HA of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act**') for their alleged violation of the provisions of sections 11C(2) and 11C(3) of the SEBI Act and sections 12A(a), (b) and (c) of the SEBI Act read with regulations 3(a), (b), (c), (d) and 4 (1) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as '**PFUTP Regulations'**).

APPOINTMENT OF ADJUDICATING OFFICER

3. Ms. Rachna Anand, was initially appointed as the Adjudicating Officer ('**AO'**) in the matter vide communique dated July 17, 2017 to conduct the adjudication proceedings in the manner specified

under Rule 4 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as '**Adjudication Rules'**) and to impose such penalty on the Noticees, as deemed fit, in terms of Rule 5 of the Adjudication Rules and in terms of Sections 15HB and 15HA of the SEBI Act. Pursuant to transfer of Ms. Rachna Anand, the undersigned was appointed as the Adjudicating Officer ('**AO**') in the matter vide order dated May 10, 2018. It is noted from the related files that the then AOs had referred the matter to the concerned Department of SEBI seeking certain clarifications /modifications w.r.t the communique and appointment order of the AO. The concerned department of SEBI vide order dated October 03, 2018 had modified the communication order w.r.t the appointment of the AO. Thereafter, pursuant to the transfer of the undersigned to another department of SEBI, Dr. Anitha Anoop was appointed as the Adjudicating Officer in the matter vide order dated March 18, 2019. Subsequently, the undersigned was again appointed as the AO in the matter pursuant to the transfer of Dr. Anitha Anoop, vide *communique* dated November 3, 2020.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notices ref. SEBI/EAD-1/AA/ASR/471/2019, SEBI/EAD-1/AA/ASR/472/2019 and SEBI/EAD-1/AA/ASR/473/2019 dated December 23, 2019 (hereinafter referred to as '**SCNs'**) were issued to the Noticees under the provisions of rule 4(1) of the Adjudication Rules to show-cause as to why an inquiry should not be initiated against the Noticees and penalty be not imposed on them under the provisions of sections 15HB and 15HA of the SEBI Act for their respective alleged violation of the provisions of sections 11C(2) and 11C(3) of the SEBI Act and sections 12A(a), (b) and (c) of the SEBI Act read with regulations 3(a), (b), (c), (d) and 4 (1) of the PFUTP Regulations. The details in respect of the violation committed/ non-compliance by the Noticees in the aforesaid matter and as observed from the SCN are as under:
   a. *Mr. Manish Manoharlal Chaturvedi (Manish): Manish submitted to SEBI that he was involved in research and suggesting scrips for investment/ trading to Sterling Group's management. Manish was generally observed to be placing orders with the brokers on behalf of the Sterling Group after seeking approval from his seniors. As per the submissions of the Sterling Group, Manish was employed with the group from November 03, 2008 to November 08, 2011.*
   b. *Mr. Praveen Kumar Jain (Praveen): Praveen had financial transactions with all 7 frontrunners (i.e., other than Anandilal Chanda, his HUF and Sharekhan) and has facilitated banking transactions for the frontrunners through several entities which claimed to be involved in the business of diamond trading, investment etc. He stays in the same building as Manish did during the investigation period.*

c. *<u>Mr. Manoharlal Bhaiyalal Chaturvedi (Maniharlal):</u> Manoharlal is father of Manish and he was authorized to deal in the trading account of his wife Laxmi Chaturvedi.*

d. *<u>Mrs. Laxmi Manoharlal Chaturvedi (Laxmi):</u> Laxmi is Manish's mother and front-running was observed in her account apart from receiving money from Praveen.*

e. *<u>Mr. Bhavesh Gadhavi (Bhavesh):</u> Front-running was observed in his account besides multiple banking transactions with Praveen's companies/ other companies in diamond trade. Bhavesh submitted that his account was misused without his knowledge.*

f. *<u>Mr. Sandeep Maloo (Sandep):</u> Sandeep is a Chartered Accountant by profession and was authorised to place orders in the accounts of E Ally Consulting India Pvt. Ltd. (E-Ally) and Pinky Auto Finance Ltd. (Pinky).*

g. *<u>Mrs. Neeta Maloo (Neeta):</u> Neeta is Sandeep's wife, was authorized to trade in Shree Jaisal Electronics & Industries Ltd. (Jaisal) account.*

h. *<u>Mr. Abhinandan Ranka (Abhinandan):</u> Abhinandan was a director and authorized to place orders in the account of Josh and Viraj. He is also a cousin of Praveen.*

i. *Pinky, E-Ally, Jaisal Electronics, Viraj Mercantile, Josh Trading: Front running was observed in these accounts apart from multiple banking transactions with companies related to Praveen.*

j. *<u>Mrs. Madhu Chanda (Madhu)</u>: Madhu was a dealer of Sharekhan Limited (hereinafter referred to as 'Sharekhan') and submitted that she was heading the branch at second floor at the Lower Parel and was also handling all the accounts of 7 of the front-runners such as Laxmi, Viraj, Josh, PAFL, E Ally, Jaisal and Bhavesh Gadhavi at Sharekhan.*

k. *<u>Mr. Anandilal Chanda (Anandilal):</u> Anandilal (Madhu Chanda's husband) was observed to be front running in his own account, his HUF's account and also in the proprietary account of Sharekhan.*

l. *<u>Vishal Vijay Shah (Vishal):</u> A proprietary firm (registered member of BSE), provided false ledger statements/ documents/ bills for transactions on BSE in the account of Laxmi and Viraj without registering them as clients and without execution of actual trades on BSE.*

m. *It is alleged that three of the Noticees indulged in front running consecutively i.e., Bhavesh indulged in front running during the period July 16, 2009 to April30, 2010, followed by PAFL during the period May 07, 2010 to July 30, 2010 (except on one day i.e. May 17, 2010) and then by E Ally from August 03, 2010 to February 17, 2011.*

n. *It is alleged that the 7 entities including Laxmi and Bhavesh had, prima facie, front-run Sterling Group and Noticees namely Anandilal and Anandilal Chanda HUF, had front-run clients of Sharekhan during the period March 2009 -March 2011. Further, these entities traded heavily on those scrip days which were common with the Sterling Group vis-à-vis trading in small volumes on the other scrip days. Summary of the client wise total trading activity of each of the front runner during the investigation period is provided at Page 1 of Annexure 7 and a consolidated summary of the same is tabulated below:*

Sr. No.	*Particulars*	*Value*
1	*Total number of scrip days traded by the frontrunners*	*4,001*
2	*Number of scrip days of 1 above - common with Sterling group*	*833*
3	*Total profit on scrip days common with Sterling group*	*₹8,72,00,568*
4	*Total profits on other scrip days (i.e., not common with Sterling group)*	*₹38,82,609*
5	*% of Number of Shares day traded on common scrip days to number of shares day traded during the investigation period*	*84.68%*
6	*% of Matching with the Sterling group compared to total number of share day traded by the frontrunners on common scrip days*	*85.95%*
7	*% of no. of trades matching with Sterling Group with same order price to total no. of trades matched* *(including +/- ₹0.05 in case of Anandilal Chanda/ his HUF)*	*85.24%*
8	*% of average number of shares per trade with Sterling group to average number of shares per trade with others*	*2,424.14%*
9	*% of average value per trade with Sterling group to average value trade with others*	*2,941.26%*
10	*% of average turnover on scrip days common with Sterling Group to average turnover on other scrip days*	*3,465.75%*
11	*% of average Profit on scrip days common with Sterling Group to average profits on other scrip days*	*8,541.53%*

o. *Therefore, based on the above observations including the voice recording, pattern observed, phone calls between Manish and Madhu, matching of trades with the Sterling Group and the significant difference between the average value/ quantity of trades of the frontrunners that matched with the Sterling Group vis-à-vis the others and the amount of unfair gains earned by them, it is alleged that the trades of the Sterling Group were front-run in seven different accounts including Laxmi and Bhavesh.*

p. *It is further alleged that these trades of the front-runners were executed based on the trades of the Sterling Group and only with an intention to square-off by matching with the Sterling Group. Considering the activity of the nine frontrunners (Laxmi, Viraj, Josh, PAFL, E Ally, Jaisal, Bhavesh, Anandilal and Anandilal HUF) on the common scrip days, about 86% of number of shares day traded by the front-runners matched with the Sterling group, which appears to be on the basis of the prior information of trades of the Sterling Group available with Manish. Due to the trading by front runners, based on prior information of trades of Sterling Group, the investing public/investors have, prima facie, either incurred loss or have been deprived of the profits. It is alleged that Sandeep was associated with E Ally and his wife Neeta was associated with Jaisal during the referred investigation period.*

q. *The aforesaid alleged violations, if established, make the Noticees, liable for monetary penalty under sections 15HA of the SEBI Act.*

r. *Further, Manish and Vishal non-complied with the summon issued to them by Investigating Authority, in view of the above if established, make Manish and Vishal liable for monetary penalty under sections 15A(a) of the SEBI Act.*

5. The said SCNs and the relevant annexures were sent to the Noticees at address: **1903 A, Shanti Kamal, Opposite Voltas House. Dr. B.A Road, Mumbai-400012,** by India Post SPAD, but the same was returned undelivered. Thereafter, vide a letter dated March 16, 2020, the said SCN and relevant annexures were served on the Noticees at another alternative address: **Flat No. 602, Pawan Wing, Satya Nagar, Borivali West, Mumbai-400092**. Subsequently, vide email dated March 18, 2020 scanned copy of SCN and the relevant annexures were also sent to the Noticees through email at manoharchaturvedi786@gmail.com. Vide the said SCN, the Noticees were advised to submit their reply within 15 days from the date of the receipt of the aforesaid SCN. However, Noticees vide their common email dated March 25, 2020 requested additional time of four weeks to file their reply to the SCN in the matter and further requested to provide the physical copy of SCN along with its annexures. In this regard, Noticees were advised to provide their residential address, in view of the above, Noticees vide their email dated April 21, 2020 mentioned their residential address as: **1903 A, Shanti Kamal, Opposite Voltas House. Dr. B.A Road Mumbai-400012.** SEBI vide email dated April 29, 2020 informed the Noticees that the earlier SCN and the relevant annexures were sent at the same address (as provided by the Noticees) and it had returned undelivered, subsequently, the scanned copies of the SCN and relevant annexures were also sent to the Noticees through email on March 18, 2020. Further, the Noticees were informed that the physical copy of SCNs could not be served due to nationwide lockdown amidst Covid-19 pandemic. In light of the above, the Noticees were advised to refer to the soft copies of SCN & the relevant annexures sent to the Noticees vide SEBI's email dated March 18, 2020 and file their reply to SCN by May 20, 2020. The Noticees vide their common email dated May 19, 2020 submitted that they are stuck since long in Mathura, U.P, wherein due to pandemic situation of Covid-19, lockdown has been declared. The Noticees also submitted that all their reference records are at Mumbai and due to restriction of their travel from Mathura to Mumbai, they will not be in position to respond by May 20, 2020. The Noticees requested additional time to file reply and also requested for physical copies of SCN. Thereafter, SEBI vide letter dated February 09, 2021, in addition to providing the physical copy of the SCN and relevant annexures to the Noticees also informed the Noticees about the change of the AO, in the matter and scheduling of personal hearing on March 08, 2021. However, it was observed that the said letter returned undelivered from the address which was provided by the Noticees. Thereafter, vide letter dated March 10, 2021 and email dated March 16, 2021, Noticees were again advised to file reply to

the SCN by March 31, 2021. The Noticees vide email dated March 31, 2021 again requested to provide the physical copies of the SCN and relevant annexures. The Noticees have submitted that for the last more than one year they have been stuck in Mathura, because of Covid-19 situation and due to ill health faced by them, they have avoided travelling to Mumbai and also provided the Doctor's certificate in this regard. Thereafter, SEBI once again, vide letter dated March 21, 2022 provided the copy of the SCN along with relevant annexures to the Noticees. Vide the said letter dated March 21, 2022, the Noticees were advised to submit their reply to the SCN in the matter by April 15, 2022, and further, in the interest of natural justice they were provided with an opportunity of personal hearing on April 22, 2022.

6. The Noticees vide email dated April 18, 2022 submitted their common reply to the SCN, details of which in brief are as follows:
    a. *Manish was employed by the Sterling Group for the duration of 03.11.2008 to 06.07.2011 in various roles, and one of his job roles was researching and suggesting scrips for investments by the Sterling Group. It is pertinent to note herein that during his employment with the Sterling Group, Manish shifted from one entity to another entity having different job profiles, which were part of the Group, and was receiving salaries from various companies of the Group.*
    b. *Manish rarely used to place orders for the Sterling Group through its brokers, JM Financial Services Limited (hereinafter referred to as "JMFL") and HSBC Invest Direct Securities (India) Limited (hereinafter referred to as "HSBC").*
    c. *Laxmi and Manohar, who are the mother and father of Manish, respectively. Manohar was authorised to trade in the trading account of Laxmi, since Laxmi rarely ever traded in her account herself.*
    d. *The present adjudication proceedings before the Hon'ble Adjudicating Officer are not maintainable since they suffer from an inordinate and inexplicable delay of almost nine (9) years, which is prejudicial to the Noticees' interests herein. It is submitted that even though SEBI had concluded the investigation for the present adjudication proceedings on 31.03.2011, the SCN was only issued to the Noticees herein on 23.12.2019, i.e., after 3,188 days from the date of the completion of investigation.*
    e. *It is submitted that the present adjudication proceedings are, therefore, vitiated due to the aforesaid unwarranted delay of almost nine (9) years in the issuance of the said SCN, since it is violative of the rights guaranteed under Article 21 of the Constitution of India which guarantees the right to speedy investigation and a fair trial. They also relied upon following judgments of Hon'ble Securities Appellate Tribunal in this regard:*
        i. *Ashok Shivlal Rupani v. Security Exchange Board of India, 2019 SCC Online SAT 169,*
        ii. *Ashlesh Gunvantbhai Shah v. SEBI, 2020 SCC OnLine SAT 30;*
        iii. *HB Stockholdings Limited v. SEBI in Appeal No. 114 of 2012;*

   iv. *Subhkam Securities Private Limited v. SEBI in Appeal No. 73 of 2012*

f. *The evidence collated by SEBI for the purpose of the present adjudication proceedings is based on mere hypotheses, surmises, suppositions and conjectures; and that no cogent evidence has been brought on record to showcase that the Laxmi is guilty of front-running the trades of the Sterling Group and Manish and Manohar are guilty of aiding/abetting the said front-running activities.*

g. *Manish was merely a junior level employee of the Sterling Group, who was involved in the research of scrips for the Sterling Group to invest in. Manish would then suggest the scrips to the unofficial Chairman of the Group, Mr. C. Sivasankaran (his father was the chairman of the group, later his son Mr Sarvanan became CEO of the same group).*

h. *Manish and Laxmi (son and mother) had jointly purchased a property bearing no. 1903 A, Shanti Kamal, Opp Voltas House, Dr. B. A. Road, Chinchpokli (East), Mumbai-400012 vide agreement to sell dated 02.06.2009; and Noticee No.s 2 and 3 had left Borivali and started residing in the said property in 2009 itself, whereas Praveen Jain had only started residing in Borivali in the year 2010. Therefore, Praveen Jain, who was residing in Borivali was not a neighbour of them during the investigation period.*

7. I note that in terms of Rule 4(3) of the Adjudication Rules and in the interest of natural justice, multiple opportunities of personal hearing were given to the Noticees on various dates through the online Webex platform, however, the Noticees kept on adjourning the hearing due to various reason i.e., pandemic situation of Covid-19, medical grounds etc. On the scheduled date of hearing, i.e. on April 22, 2022, Mr. Vidur Mohan and Mr. Akash Chatterjee, appeared as Authorized Representatives (ARs) on behalf of all the Noticees and reiterated the submissions made by them vide their reply dated April 18, 2022. During the hearing, AR requested for investigation report (‘**IR**’) in the matter and the same was provided to the Noticees/AR. Further, the AR requested to file additional submission to the SCN and they were provided time till May 06, 2022 to make the submissions. The Noticees vide their email dated May 06, 2022 reiterated their earlier submission dated April 18, 2020, made by them.

<u>CONSIDERATION OF ISSUES AND FINDINGS</u>

8. I have carefully perused the documents/material available on record and the submissions made by the Noticees (both oral and written) during the course of the proceedings. It is alleged that the Noticees have violated the provisions of sections 11C(2) and 11C(3) of the SEBI Act and sections 12A(a), (b) and (c) of the SEBI Act read with Regulations 3(a), (b), (c), (d) and 4(1) of the PFUTP Regulations.

9. Before dealing with the aforesaid charges in seriatim, the relevant legal provisions, the contraventions of which have been alleged in this case against the Noticees are mentioned as under:

<u>SEBI Act</u>

Investigation.

11C. (2) *Without prejudice to the provisions of sections 235 to 241 of the Companies Act, 1956 (1 of 1956), it shall be the duty of every manager, managing director, officer and other employee of the company and every intermediary referred to in section 12 or every person associated with the securities market to preserve and to produce to the Investigating Authority or any person authorised by it in this behalf, all the books, registers, other documents and record of, or relating to, the company or, as the case may be, of or relating to, the intermediary or such person, which are in their custody or power.*

(3) The Investigating Authority may require any intermediary or any person associated with securities market in any manner to furnish such information to, or produce such books, or registers, or other documents, or record before him or any person authorised by it in this behalf as it may consider necessary if the furnishing of such information or the production of such books, or registers, or other documents, or record is relevant or necessary for the purposes of its investigation.

Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

12A. No person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;…"

<u>PFUTP Regulations</u>

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made thereunder;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made thereunder.

4. Prohibition of manipulative, fraudulent and unfair trade practice

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

10. The Noticees have contended that there is an inordinate delay in the present proceeding which is highly prejudicial to them. Further, they have contended that SEBI had concluded the investigation in the present matter on March 31, 2011 and the SCN was issued to them on December 23, 2019. From the material available on record, I find that the investigation in the instant matter involved an analysis of 5 examination reports forwarded by National Stock Exchange Limited (NSE) concerning the trades by various entities including Laxmi and Bhavesh and subsequently, based on further examination /analysis of the major counterparties of the *Sterling Group*, the examination of the trades of certain more entities viz. Anandilal and Anadilal HUF and proprietary trading by Sharekhan were also taken up. It is also to be noted that in the context of the present matter, based on the findings of investigation SEBI had passed an interim order dated July 31, 2015 and a final order dated December 18, 2020. The investigation in the present matter was completed in respect of the 16 entities, including the Noticees, on March 16, 2015. Thereafter, SCN dated December 23, 2019 was issued to the entities including the Noticees. Pursuant to issuance of SCN, multiple efforts were made to serve the SCN upon the Noticees as elaborated in para 5 of this order. It is observed that Noticees have inordinately delayed in sending their response to the SCN and also failed to appear for the hearing before the AO till April 22, 2022 (when the Noticees finally appeared for the hearing). Therefore, in view of the above observations, the contention of the Noticees citing inordinate delay in the proceedings etc. is baseless and without any merit. It is amply evident from the above observations (at para 5) that the Noticees were only trying to prolong and dodge the proceedings by citing reasons such as delay in proceedings etc. when the SCN and the hearing notices, as above were addressed to their correct communication address, as aforesaid.

<u>Allegation with respect to violation of the provisions of Sections 11C (2) and 11C (3) of the SEBI Act by Manish</u>

11. From the SCN dated December 23, 2019, I note that the allegation against Manish is that, he was allegedly, trying to mislead the investigation by providing false information to the Investigating Authority ('**IA**') on several occasions. It is also alleged that information such as him being not involved/ informed in the decision making about financial transactions (including those in securities market) in his mother's account (Laxmi's account), not having mobile bills of the numbers used by him, being unaware of trading by Sterling Group through HSBC, not placing orders on behalf of Sterling Group etc, was false and misleading. In this regard, based on the investigations, the versions of Manish were found to be false/misleading on the basis of the below mentioned observations/findings:

Sl. No.	**Submission made by Manish through statement**	**Observations during investigation**
1	Mobile bills are unavailable.	Bills were found in the inbox of his Gmail account.
2	Unaware/no involvement in financial dealing of my mother.	The inbox of his Gmail account revealed he was receiving contract notes from stock brokers, income tax communications and correspondence with Chartered Accountants w.r.t. his mother's accounts.
3	Rarely used to place orders on behalf of *Sterling Group* and unaware if *Sterling Group* had a trading account with HSBC.	Voice recordings providing by HSBC clearly indicate that he was placing most of the orders .
4	Ended my tenure with Siva Group in February 2011.	As per submissions by *Sterling Group*, his services were terminated from November 8, 2011.
5	Role was limited to prepare a note on what orders have been placed by J. Bhaskar and Krishnakumar S. on behalf of the *Sterling Group*.	It was observed from the recordings provided by JMFL that on a majority of occasions, Manish Chaturvedi used to place orders and updates were taken by J. Bhaskar.

12. In this regard, it is pertinent to note that section 11C(2) clearly obligates any person associated with the securities market to produce/submit the records/information sought by the IA. Further, section 11C(3) empowers the IA of SEBI to require any intermediary or any person associated with the securities market in any manner to furnish such information to, or produce such books or registers or other documents or record before him or any person authorized by him in this behalf as it may consider necessary if the furnishing of such records/information/documents are necessary.

13. Clearly, from the above findings/observations of the investigation, Manish had furnished false /misleading details/information to the IA during the course of investigation. In In this context, I note that Hon'ble Securities Appellate Tribunal (hereinafter referred to as '**SAT'**), in case of Asian

Films Production and Distribution Ltd. vs SEBI (Appeal No. 203 of 2010 decided on 19th January, 2011), has held that:

> *"Non-compliance with summons is, indeed, a serious matter and cannot be viewed lightly. The respondent Board is the market regulator and has to regulate the securities market and the law provides that every person associated with the market in any manner should cooperate in the matter of carrying out investigations. In the year 2002, the provisions of the Act were amended and penalty for non-compliance with summons was enhanced considerably to make it more deterrent. Market players who do not cooperate with the regulator in the matter of investigations commit a serious wrong which can have serious repercussions in the market. We do not know what would have come to light if the company had furnished the information sought from it."*

14. I also note that Hon'ble SAT, in its order dated October 22, 2013 in the matter of Rich Capital & Financial Services Limited & Ans vs SEBI, observed that:

> *"10. We may pertinently note that the SEBI is basically constituted to promote orderly and healthy growth of securities market apart from protecting investors' interest. For discharging this onerous job, and with a view to achieve the underlined object, SEBI asa regulator is required to conduct investigation and enquiries in the affairs of various parties from time to time. For this purpose, first and the foremost thing is co-operation from the concerned officers of the companies not only to produce the relevant records as and when required by an investigating officer or enquiring authority or by any person authorised by the SEBI in this behalf but to appear in person as and when called upon. Section 11C (2) mandates every manager, managing director, officer or other employees of the company to preserve and produce such documents which are in their custody or power. Similar is the tone and texture of section 11C (3).*
>
> *11. In case of failure on the part of the concerned person to furnish such records/information, heavy monetary penalty is prescribed in section 15A (a) of the SEBI Act, 1992. In fact such an act on the part of a company or its concerned officers is not only contemptuous but also a hindrance in the way of conducting smooth investigation and enquiry by the regulator to arrive at a just and fair conclusion as per the provisions of SEBI Act, 1992. Such an increasing tendency on the past of the companies needs to be curbed at the threshold."*

15. Therefore, from the foregoing paragraphs and the observations contained therein, it is conclusively established that Manish had furnished wrong information/misleading information to SEBI to hamper and delay the investigation process which also resulted in delay in the completion of investigation and therefore, I hold that the Manish has violated the provisions of sections 11C(2) and 11C(3) of the SEBI Act.

Allegation with respect to Front Running in the trading account of Laxmi by the Noticees

16. I find that the SCN issued to the Noticees has alleged that the trades of the *Sterling Group* were front–run in 7 different trading accounts, including the account of Laxmi and unfair gains had accrued to such accounts. It is alleged that the front–running activity in the aforesaid account of Laxmi was carried out by Manish through Manohar, who were having familial connection amongst each other. It is noted that Manish is the son of Laxmi and Manohar. Further, w.r.t. the front–running activity in the remaining 6 accounts, it was carried out by Manish through Abhinandan, Sandeep and Neeta, who were connected to him through Praveen. As already stated, investigations established the fact that there were several financial transactions that had taken place between Praveen and all the above mentioned 7 front-runners (including Laxmi) during the investigation period. Investigations further brought out that Praveen had facilitated the banking transactions for the front-runners with the help of several entities, which claimed to be in the business of diamond trading, investment etc. It was established during the course of investigation that Praveen resided in the same building as Manish did during the relevant investigation period. As a result of the above observations, the Noticees were alleged to have violated the provisions of Sections 12A(a), (b) and (c) of the SEBI Act and Regulations 3(a), (b), (c), (d) read with Regulations 4(1) of the PFUTP Regulations.

17. For determining the violations alleged in the SCN, it is important to firstly ascertain whether the front-runners and other entities who have abetted/aided in front-running were known/connected to Praveen/Manish. In this context, I note that the Investigation Report/SCN has detailed out the connections of the Noticees with Praveen/Manish based on the analysis of the KYC documents, financial transactions, depositions made by the respective entities during the course of investigations etc. I note that based on the circumstantial evidence and audio recordings, Manish was in possession of the information pertaining to the impending orders of the Sterling Group. From the investigations, it is noted that Manish was employed with the Sterling group from November 2008 to November 2011 and he was the person who was placing the orders on behalf of the Sterling group accounts. From the investigation report, it is noted that Manish also placed the orders in the account of Laxmi (his mother) and his father i.e. Manohar was authorised to do trading in the account of Laxmi. I find that the trading account of Laxmi was maintained with Sharekhan (whose dealer was Madhu). I note that the Noticees have admitted to the fact that Manohar was authorised by Laxmi (Manish's mother) to deal in securities on her behalf. As per the statement of Praveen, which was recorded during the course of investigation, Manish and Madhu (the dealer of Sharekhan) who was heading the branch of Sharekhan at second floor at the Lower Parel handled the accounts of the entities i.e. front runners

viz. Laxmi, Viraj, Josh, PAFL, E Ally, Jaisal and Bhavesh (the details of front runners mentioned in para 1 (a) of this order) the accounts of which were maintained with Sharekhan.

18. It was observed during the course of investigation that Praveen resided in the same building as Manish did during the relevant period of the transactions of the Sterling group. Further, during investigations, it emerged that Praveen's Company had financial transactions/dealings with Laxmi and Manohar. It was also established during the investigations that Praveen had financial transactions with the front-runners, including Laxmi and had facilitated their banking transactions through several entities, which claimed to be in the business of diamond trading, investments etc. Therefore, from the overall assessment of the above observations, it is evident that the Noticees were connected to Praveen, who resided in the same building as the Noticees did during the relevant time. In his deposition made during investigation, it was mentioned by Praveen that both Manish and Madhu (dealer of Sharekhan) took call on the trading account to be used for the purpose of front-running the trades of the Sterling group. Thus, from the above, the connections of the front-runners and the entities/persons who have aided and abetted the front-runners (including the Noticees) with Praveen is amply established.

19. It is noted that the trades of the Sterling Group were made through their stock brokers i.e. JM Financial Services Limited ('**JMFL**') and HSBC Invest Direct Securities (India) Limited ('**HSBC**'). On the other hand, the trading in the account of Laxmi was placed through Sharekhan and Arihant Capital Markets. On the basis of the analysis of the call records, e–mails and voice recordings obtained by SEBI during the course of investigation along with the study of the trading pattern in the above accounts in respect of orders placed for the Sterling Group [through JMFL and HSBC], the following modus operandi was observed:
    a. Manish used to suggest scrips and the trade price to the management and seek approval for placing the orders with the brokers on behalf of the Sterling Group.
    b. As an employee of the Sterling Group, Manish was in possession of the information such as trade type (buy/ sell), scrip, order time (including date), price and quantity of the client of the Sterling Group.
    c. Before placing orders in the accounts of the Sterling Group, Manish, on the basis of the information available with him, used to place several orders through various accounts that were used for the purpose of front–running the trades of the Sterling group. The orders were placed in smaller quantities by calling up the dealers of the brokers.

d. The same is evident from the fact that after execution of trades for a certain quantity, the dealer used to call up Manish and inform him about the execution status (or) Manish used to call up the dealer to check the status of order execution in the accounts of front –runners, including Laxmi.

e. Upon the start of the call between the dealer and Manish after the execution of certain quantity, a rush for executing more trades was observed in most cases. This is based on the fact that the orders were being placed at a better price and for higher quantities from the start of the call.

f. During the continuation of the call and immediately thereafter, the position was exactly/ almost exactly squared up. In the meantime, Manish used to place orders in the accounts of the Sterling Group companies, viz. Abhi Ambi, Sterling Futures, Ratha Infrastructure, Baghmar Finlease, Shanmuga Home Makers, Siva Trade Consultancy, Saravana, Shanmuga, V.S. Net Limited and Siva Projects. In most of the cases, the order price in the account of front-runners, including Laxmi was far away from the market but was same as the price offered by the Sterling Group and therefore, most of the orders in the account of front-runners, including Laxmi got executed upon the entry of the orders by the Sterling Group. Further, the orders placed by Manish for Sterling Group, which were being front-run, were generally in the nature of 'immediate' or 'cancel orders' i.e. the unexecuted order quantity was deleted after matching with the orders in the accounts of front-runners, including Laxmi.

20. It is noted that Manish had traded in the accounts of front-runners, including Laxmi on those scrip days which were common with the *Sterling Group vis–a–vis* trading in small volumes on the other scrip days. From the material made available on record, it is also noted that given that there were a large number of common scrip days, matching of majority of trades with the Sterling Group on a consistent basis took place with the trades put in Laxmi's account. Accordingly, the analysis for one scrip day for front–runner account belonging to Laxmi was analysed and observations are made as under:

a. Trades of Laxmi and E-Ally ahead of Abhi Ambi (a *Sterling Group* entity) in Idea Cellular (NSE) on November 18, 2010:

i. On November 18, 2010, Laxmi had day traded a total of 5,54,407 shares (out of which 5,54,229 shares matched with the Sterling Group) and made a profit of ₹ 2,59,135. E Ally day traded 3,03,000 shares matching 100% with Sterling Group and earning a profit of ₹ 89,247. Both Laxmi and E ally were observed to be short-selling and later squaring off their position on the aforesaid scrip day. The same is analyzed in five tranches for Laxmi and 1 tranche for E Ally which is summarized below:

<table>
<tr><th>Client</th><th>Short sell trade time (Hrs)</th><th>Buy trade time (Hrs)</th><th>Sell Quantity</th><th>Buy Quantity</th><th>Profit</th><th>% matched with Sterling Group</th></tr>
<tr><td>Laxmi</td><td>09:15:13-09:24:31</td><td>09:24:37-09:24:48</td><td>1,08,719</td><td>1,05,178</td><td rowspan="2">91,152</td><td rowspan="2">99.91%</td></tr>
<tr><td>Laxmi</td><td>09:27:59-09:36:26</td><td>09:38:31-09:38:42</td><td>81,575</td><td>85,116</td></tr>
<tr><td>Laxmi</td><td>12:36:55-12:58:50</td><td>13:02:15-13:02:32</td><td>2,48,037</td><td>2,50,000</td><td>1,06,818</td><td>100.00%</td></tr>
<tr><td>E Ally</td><td>12:59:04-13:01:45</td><td>13:02:15-13:02:32</td><td>3,03,000</td><td>3,03,000</td><td>89,247</td><td>100.00%</td></tr>
<tr><td>Laxmi</td><td>13:12:32-13:19:39</td><td>13:19:44-13:19:46</td><td>30,338</td><td>30,345</td><td>9,453</td><td>100.00%</td></tr>
<tr><td>Laxmi</td><td>13:40:45-13:46:26</td><td>13:46:43-13:46:50</td><td>83,768</td><td>83,768</td><td>51,122</td><td>100.00%</td></tr>
<tr><td></td><td colspan="2">Total</td><td>8,55,437</td><td>8,57,407</td><td>3,47,792</td><td>99.98%</td></tr>
<tr><td colspan="7">*Excluding the small quantity trades executed beyond the timing of tranche for achieving exact square-off.</td></tr>
</table>

ii. Of the recordings made available by JMFL, recording for order placed in Abhi Ambi's account at 13:02:15 Hrs and 13:02:32 Hrs is available and a call was also observed by JMFL to Manish (from the available mobile bills of Manish) during the relevant time. The relevant order and trade details of the tranche highlighted above are tabulated below:

<table>
<tr><th></th><th colspan="4">Laxmi and E-Ally</th><th colspan="4">Abhi Ambi</th></tr>
<tr><td>Tranche III</td><td>Total Sell Qty</td><td>Avg. Sell Price (₹)</td><td colspan="2">Turnover (₹)</td><td colspan="4" rowspan="5">Abbreviations Used
B.O.T – Buy Order Time
S.O.T – Sell Order Time
B.O.P – Buy Order Price
S.O.P – Sell Order Price
B.T.T – Buy Trade Time
S.T.T – Sell Trade Time
B.T.P – Buy Trade Price
S.T.P – Sell Trade Price</td></tr>
<tr><td></td><td>5,51,037</td><td>69.96</td><td colspan="2">3,85,48,240</td></tr>
<tr><td></td><td>S.O.T</td><td>S.O.P (₹)</td><td>S.T.T</td><td>S.T.P (₹)</td></tr>
<tr><td>From</td><td>12:36:47</td><td>69.65</td><td>12:36:55</td><td>69.65</td></tr>
<tr><td>To</td><td>13:01:45</td><td>70.20</td><td>13:01:45</td><td>70.20</td></tr>
<tr><td></td><td>Total Buy Qty</td><td>Avg. Buy Price (₹)</td><td colspan="2">Turnover (₹)</td><td>Total Sell Qty</td><td>Avg. Sell Price (₹)</td><td colspan="2">Turnover (₹)</td></tr>
<tr><td></td><td>5,53,000</td><td>69.60</td><td colspan="2">3,84,88,800</td><td>7,64,919</td><td>69.63</td><td colspan="2">5,32,57,509</td></tr>
<tr><td></td><td>B.O.T</td><td>B.O.P (₹)</td><td>B.T.T</td><td>B.T.P (₹)</td><td>S.O.T</td><td>S.O.P (₹)</td><td>S.T.T</td><td>S.T.P (₹)</td></tr>
<tr><td>From</td><td>13:01:55</td><td>69.60</td><td>13:02:15</td><td>69.60</td><td>13:02:15</td><td>69.60</td><td>13:02:15</td><td>70.10</td></tr>
<tr><td>To</td><td>13:02:08</td><td>69.60</td><td>13:02:32</td><td>69.60</td><td>13:02:32</td><td>69.60</td><td>13:02:45</td><td>69.60</td></tr>
</table>

iii. It is observed that at 12:33:08, Manish (9967051632) had called Madhu. The duration of the aforementioned call was 33 minutes and the call was ended at 13:03:08. During the duration of the above mentioned call between Manish and Madhu, a total of 66 sell orders were placed in Laxmi's account from 12:36:47–12:58:50 resulting in 2,48,037 shares being sold in Laxmi's account.

iv. In the intervening period, Manish (9967051632) had called JMFL (044-42255603) at 12:56:58 while the call placed to Madhu was online. The duration of the aforementioned call was 3:53 minutes. Manish had enquired with JMFL dealer about number of shares of Idea available in Abhi Ambi account and thereafter, had put the call on hold.

v. During the duration of the above mentioned calls between (a) Manish and Madhu and (b) Manish and JMFL, a total of 27 sell orders were placed in E–Ally's account from 12:59:04-13:01:45 resulting in 3,03,000 shares being sold in E–Ally's account.

vi. At 13:01:09, JMFL had called Manish (9790967968) while the call by Manish (9967051632) to Madhu was online. The duration of the aforementioned call was 2:13 minutes. During the duration of the aforementioned call between Manish and JMFL, Manish was heard to be talking in the background asking the other person to sell 50,000 and a sell order was observed in E–Ally's account for the same quantity.

vii. About 20 seconds prior to the order placed in Abhi Ambi's account at ₹69.60, Manish was heard to have mentioned "*69.60*" in the background which is the time when the buy orders were placed in the account of Laxmi for 2,50,000 shares at 13:01:55 and in close proximity to the time when buy orders were placed in the account of E–Ally for 3,00,000 and 3,000 shares at 13:01:57 and 13:02:08, respectively.

viii. Thereafter, two sell orders of Abhi Ambi were placed at 13:02:15 and 13:02:32 and 72.30% of the quantity sold was matched with the buy orders of Laxmi and E–Ally (100% of shares bought by front–runners i.e. buy quantity of 5,53,000 shares).

ix. From the aforementioned summary of trading in the accounts of Laxmi and E–Ally, it is clear that the trading activity of Manish was based on information of impending orders of the *Sterling Group.* Further, as per details of calls made by Manish to Madhu near the order timings in the account of Laxmi and E–Ally and the voice heard in the background in the recording provided by JMFL corroborated with the trade data in the account of E–Ally, it is clear that Manish was front–running the *Sterling Group* in the instant case through the accounts of Laxmi and E–Ally on the basis of information in his possession.

b. The trades of Laxmi ahead of Abhi Ambi (a *Sterling Group* entity) in Idea Cellular (NSE) on November 19, 2010 was examined and details are as under:

   i. On November 19, 2010, Laxmi had day traded a total of 15,98,972 shares (out of which 15,86,464 shares matched with the Sterling Group) and made a profit of ₹ 11,91,427 in the scrip of Idea. Laxmi was observed to be short-selling and later squaring off her position on the aforesaid scrip day in five tranches and the same is summarized below:

Short sell trade time (Hrs)	Buy trade time (Hrs)	Sell Quantity	Buy Quantity	Profit	% matched with Sterling Group
09:16:10-09:38:24	09:38:56-09:39:18	5,52,478	5,52,000	5,41,198	99.89
10:08:06-10:25:35	**10:26:01-10:26:06**	**92,336**	**92,336**	**60,537**	**100.00**
10:39:56-11:32:35	11:33:06-11:33:18	4,47,478	3,79,876	1,99,882	99.20
11:35:24-11:53:16	11:52:11-11:52:22	54,398	1,20,000		
12:10:45-12:16:47	12:17:14-12:17:26	4,52,282	4,52,000	3,89,153	98.86
Total		15,98,972	15,96,212	11,90,770	99.39
Small quantity trades executed beyond the tranche timing for achieving square-off have been excluded.					

ii. It is observed on the basis of the documents made available by JMFL that recording for order placed in Abhi Ambi's account at 10:26:01 Hrs is available and for which a corresponding call was also observed by Manish to JMFL (from the available mobile bills of Manish) during the relevant time. The relevant order and trade details of the tranche highlighted above are tabulated below:

	Laxmi				Abhi Ambi			
Tranche II	Total Sell Qty	Avg. Sell Price (₹)	Turnover (₹)		Abbreviations Used B.O.T – Buy Order Time S.O.T – Sell Order Time B.O.P – Buy Order Price S.O.P – Sell Order Price B.T.T – Buy Trade Time S.T.T – Sell Trade Time B.T.P – Buy Trade Price S.T.P – Sell Trade Price			
	92,336	70.76	65,33,291					
	S.O.T	S.O.P (₹)	S.T.T	S.T.P (₹)				
From	10:07:49	70.00	10:08:06	70.15				
To	10:25:35	71.05	10:25:35	71.05				
	Total Buy Qty	Avg. Buy Price (₹)	Turnover (₹)		Total Sell Qty	Avg. Sell Price (₹)	Turnover (₹)	
	92,336	70.10	64,72,754		1,10,925	70.10	77,75,920	
	B.O.T	B.O.P (₹)	B.T.T	B.T.P (₹)	S.O.T	S.O.P (₹)	S.T.T	S.T.P (₹)
From	10:25:52	70.10	10:26:01	70.10	10:26:01	70.10	10:26:01	70.10
To	10:26:06	70.10	10:26:06	70.10	10:26:01	70.10	10:26:07	70.15

iii. It is observed that, at 10:07:22, Manish (9967051632) had called Madhu. The duration of the aforementioned call was 33 minutes and the call was ended at 10:25:35. During the duration of the above mentioned call between Manish and Madhu, sell orders were placed in Laxmi's account with Sharekhan from 10:07:50-10:25:35 resulting in 92,336 shares being sold in Laxmi's account.

iv. Thereafter, Manish (9967051632) had called JMFL (044-42255603) at 10:25:31 for trades of Abhi Ambi. The duration of the aforementioned call was 4:11 minutes. Manish had placed a sell order with JMFL for 1,50,000 shares at 10:26:01.

v. In the intervening period, at 10:26:36, Manish (9967051632) had once again called Madhu and had ended the call at 10:26:36. As stated earlier, placement of sell orders in Laxmi's account was stopped and buy orders were placed from 10:25:52 to 10:26:06 for 92,336 shares.

vi. Out of the sell order for 1,50,000 shares placed with JMFL, a total of 1,10,925 shares were sold in Abhi Ambi's account (of which 92,336 shares i.e. 83.24% matched with trades of Laxmi, which in turn was 100% of shares bought by Laxmi in this tranche). Thereafter, the balance unexecuted order quantity of 39,075 shares in Abhi Ambi's account was cancelled.

vii. Upon a consideration of the preceding paragraphs, it is observed that Manish had placed orders with JMFL on behalf of Abhi Ambi and therefore he was aware of all six parameters of impending transaction required for front–running i.e. name of the scrip (Idea), trade type (sell), quantity (1,50,000) shares, rate (₹70.10), time as (10:26:01 Hrs) and the exchange (NSE). Therefore, it is clear that Manish was in possession of the impending sale of shares by the Sterling Group and had front–run the Sterling Group through the accounts of Laxmi on the basis of information in his possession.

viii. A summary of Laxmi's trades in the scrip of IDEA Cellular (NSE) on November 19, 2010, is tabulated below:

Laxmi's trades in IDEA Cellular			
No. of shares day traded	**Matched with the Sterling group**	**Profit in (₹)**	**% of market volume (buyer and seller)**
15,98,972 (2310 sell and 64 buy trades)	15,86,464 (99.22%) (52 buy trades of Laxmi)	**₹ 11,91,427**	14.23%

21. Therefore, from the above trading pattern of the Laxmi, it is evident that the Noticees were front-running the trades of the Sterling group. As already stated, the trading accounts of Laxmi was allowed to be operated by Manohar, which enabled Manish to undertake the front-running activity and in the process, Laxmi and Manohar have clearly aided and abetted Manish in such illegal trading activity. From the material made available on record, I find that Laxmi had traded in 489 scrip days (out of a total of 2241 days) which were common with the Sterling group. I also find that about 86.93% of the trades of Laxmi got matched with the trades of the Sterling group in terms of same order price to total trades matched. The KYC documents of Laxmi showed that the number (mobile 9967051632) was submitted by her to the stock broker which was the number registered in the name of Manohar. I find from the above trading pattern of Laxmi that by indulging into front-running, the Noticees have disturbed the market equilibrium and normal price discovery mechanism of the stock exchanges, besides creating false or misleading appearance of the trading in the securities market. It is also noted from the SCN that all the front-runners, including Laxmi has traded through various brokers.

22. I also note that Manish operated the same scheme to indulge in the illegal front running in the remaining 6 accounts (accounts of Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh), which can be noted from details regarding phone calls made between Manish and Madhu, matching of trades of the above entities with the trades of *Sterling Group* and the significant difference between the average value/ quantity of trades of the front–runners that matched with the *Sterling Group* vis-à-vis the others. From the above, it is clearly evident that the trades of the *Sterling Group* were front-run in 7 different accounts viz., i.e. of Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh. It is noted from the SCN that it is alleged that the front–running activity by Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh was a result of facilitation by Manish, Manohar, Abhinandan, Sandeep, Neeta and Praveen. In this context, I note that although the trading in the accounts of Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh (accounts used for front running) were carried out at the instructions of Manish, the other facilitators (i.e., Manohar, Abhinandan, Sandeep Praveen and Neeta) had nonetheless facilitated the front–running activity admittedly by lending their accounts to Manish either through their direct relationship with him i.e. Laxmi or through their relationship with Praveen who in turn passed on those accounts to Manish i.e. Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh. Due to the trading based on prior information of trades of *Sterling Group*, the front–runners have profited substantially at the cost of other investors who suffered loss / also deprived the investors from profits.

23. As noted from the preceding paragraphs, it is observed that Manish was employed with the *Sterling Group* from November 3, 2008 to November 8, 2011 and was not only involved in researching/suggesting scrips for investments by that *Group* but also used to place orders for and on behalf of the *Sterling Group* through JMFL and HSBC, etc. Manish had utilized the information pertaining to the impending trades of the *Sterling Group* to his benefit by devising a fraudulent scheme with the aid of his friend, Praveen, who admittedly arranged for trading accounts of Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh, to be used by Manish. Besides trading in the accounts so arranged by Praveen, Manish also utilised the account of his mother, Laxmi, to place orders to front–run the impending orders of the *Sterling Group.* I note that, during the investigation, Praveen had submitted that Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh had allowed their trading accounts to be used as per the advice by Manish in lieu of commission, lesser brokerages, etc. from the profits accruing through the front–running activity of Manish. Clearly, in the above manner the impending orders of the Sterling group were front run at the cost of genuine investors.

24. In order to further appreciate the concept of front running, I note that the issue of front running had come for consideration before the Hon'ble Supreme Court of India and I seek reliance on the judgment of Hon'ble Supreme Court, passed in the matter of ***SEBI Vs. Shri Kanaiyalal Baldevbhai Patel and Ors. (MANU/SC/0096/2018)*****,** relevant extract of which is reproduced hereunder:

    "…As per the Major Law Lexicon by P Ramanatha Aiyar (4th Edition 2010), 'front running' is defined as under:

    Front running -Buying or selling securities ahead of a large order so as to benefit from the subsequent price move.

    This denotes persons dealing in the market, knowing that a large transaction will take place in the near future and that parties are likely to move in their favour.

    The illegal private trading by a broker or market-maker who has prior knowledge of a forthcoming large movement in prices. (Investment)

    The Black's Law Dictionary (Ninth Edition) defines the term 'front running' as under:

    Front running, n. Securities. A broker's or analyst's use of nonpublic information to acquire securities or enter into options or futures contracts for his or her own benefit, knowing that when the information becomes public, the price of the securities will change in a predictable manner. This practice is illegal. Front-running can occur in many ways. For example, a broker or analyst who works for a brokerage firm may buy shares in a company that the firm is about to recommend as a strong buy or in which the firm is planning to buy a large block of shares…

    ...It comprises of at least three forms of conduct. They are: (1) trading by third parties who are tipped on an impending block trade ("tippee" trading); (2) transactions in which the owner or purchaser of the block trade himself engages in the offsetting futures or options transaction as a means of "hedging" against price fluctuations caused by the block transaction ("self-front-running"); and (3) transactions where a intermediary with knowledge of an impending customer block order trades ahead of that order…"

25. Hon'ble Supreme Court, while dealing further with the scope of the prohibitions contained in the PFUTP Regulations, has held in the matter of *SEBI Vs Kanhaiyalal Baldevbhai Patel (CIVIL APPEAL NO. 2595 OF 2013)* decided on September 20, 2017 that – *"… it can be inferred that as a matter of principle, while interpreting this regulation, the court must weigh against an interpretation which will protect unjust claims over just, fraud over legality and expediency over principle. Once this rule is clearly established, individual cases should not pose any problem."*

26. The prohibitions contained in the charging provisions in this case contemplate the deployment of a fraudulent or unfair or manipulative '*device*', '*scheme*', '*artifice*' or '*contrivance*' with a design or purpose or

plan or motive to '*defraud*', to '*deceive*', to '*manipulate*', to '*induce*', etc. *'in connection with dealing in securities'* and apply even in cases where the acts or omissions or concealments committed, whether in a deceitful manner or not, by any person while dealing in securities to induce any person to deal in securities would amount to *fraudulent* act. Clearly, in the instant case, the fact that Noticees had knowingly allowed their trading accounts to be operated by a third party and which induced Manish to indulge in the manipulative trades of front running indicates deceitful intent on the part of the Noticees. In this context, Hon'ble Supreme Court of India in the above referred *Kanhaiyalal Baldevbhai Patel* case has also held that – *"The emphasis in the definition in Regulation 2(c) of the 2003 Regulations is not, therefore, of whether the act, expression, omission or concealment has been committed in a deceitful manner but whether such act, expression, omission or concealment has/had the effect of inducing another person to deal in securities."* Hon'ble Supreme Court has further held that the definition of "*fraud*" expands beyond what can normally be understood to be a '*fraudulent'* act. The emphasis is on act of inducement. It further held that for scrutinizing the cases under the PFUTP Regulations, mere inference, rather than proof, that the person induced would not have acted in the manner that he did but for the inducement is sufficient. No element of dishonesty or bad faith in the making of the inducement would be required.

27. Therefore, in view of the above observations, I conclude that Noticees have violated the provisions of sections 12A(a), (b) and (c) of the SEBI Act read with regulations 3(a), (b), (c), (d) and 4 (1) of the PFUTP Regulations.

28. Considering the aforesaid facts and circumstances, I am of the opinion that this case deserves imposition of penalty upon the Noticees under the provisions of sections 15HA and 15HB of the SEBI Act. The provisions of section 15HA and 15HB of the SEBI Act (as it existed at the relevant time) is mentioned as under:

    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.*

    Penalty for contravention where no separate penalty has been provided.

    15HB. *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

29. Further, in the facts and circumstances of the case, the quantum of penalty has to be adjudged taking into account the overall conduct of the Noticees, as found in this case and the principle of proportionality. The failure, as found in this case, had clearly defeated the purposes of the SEBI Act and the PFUTP Regulations i.e. investor protection and ensuring regulation of the market. For the purpose of adjudging the quantum of penalty, it is relevant to mention that under section 15I of the SEBI Act, imposition of penalty is linked to the subjective satisfaction of the Adjudicating Officer. The words in the section that "*he may impose such penalty*" are of considerable significance, especially in view of the guidelines provided by the legislature in section 15J of the SEBI Act. Further, while adjudging the quantum of penalty, the adjudicating officer has discretion and such discretion should be exercised having due regard to the factors specified in section 15J of the SEBI Act, which reads as under:-

> ***Factors to be taken into account by the adjudicating officer***
> *15J. While adjudging quantum of penalty under section 15-I, the adjudicating officer shall have due regard to the following factors, namely: -*
> *(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;*
> *(c) the repetitive nature of the default."*
>
> ***Explanation.*** *—For the removal of doubts, it is clarified that the power of an adjudicating officer to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section;*

30. Having regard to the factors listed in section 15J and the guidelines issued by Hon'ble Supreme Court of India in *SEBI Vs Bhavesh Pabari Civil Appeal No(S).11311 of 2013* vide judgment dated February 28, 2019, I am of the view that front running is a fraud against the securities market as a whole and not only against the specific person, whose trades have been front run. The person, who does front running, makes profit not only at the expense of the person being front-run but also at the expense of other investors in the market who incidentally suffer loss because of the transactions of the front runner. As already mentioned in the preceding paragraphs, the trading accounts of the Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh were used for the purpose of front running the trades of the Sterling group. The said seven trading accounts were provided to Manish either through their direct

relationship with him i.e. Laxmi or through their relationship with Praveen. Several transactions had taken place in the trading accounts of the seven front-runners during the relevant investigation period as a result of the front running of the trades of the Sterling group, which was ably orchestrated by Manish. This indicates repetitive nature of the default on the part of the Noticees. In this context, I note from the findings of the investigation report that the profit earned by the Noticees by way of front-running was ₹8,19,00,966/-, details of which are as under:

Sl. No.	Name of Front-Runner	Profit earned by the Front-runners through the brokers (₹)			Total profit (₹)
		Sharekhan Ltd	IndiaNivesh Securities Private Ltd.	Arihant Capital Markets Ltd.	
1	Bhavesh	₹1,16,08,630	-	-	₹1,16,08,630
2	E-Ally	₹70,46,745	₹51,45,952	-	₹1,21,92,697
3	Jaisal	₹7,92,503	-	-	₹7,92,503
4	Josh	₹10,32,864,	₹51,96,907	-	₹62,29,771
5	Laxmi	₹3,58,15,344	-	₹27,86,385	₹3,86,01,729
6	Pinky	₹56,45,890	-	-	₹56,45,890
7	Viraj	₹43,13,895	₹25,15,851	-	₹68,29,746

31. I note from above table that the seven front-runners have made a collective profit of ₹8,19,00,966/. The profit earned in Laxmi's account alone was ₹3.86 crore. It is important to note that Manish, as a result of orchestrating the front running in the other six accounts (apart from Laxmi) had enriched substantially and made a collective profit of ₹8.19 crore. In this connection, I note from Praveen's submission made during the investigation that the profits earned in the trading accounts of the seven front-runners, as mentioned above, were given to him, who in turn had admittedly transferred such profits to Manish. In this context, I note that WTM-SEBI, vide Final Order dated December 18, 2020 passed under sections 11(1), 11(4) and 11 B of the SEBI Act had directed that the disgorgement of the unlawful gains as a result of the trades that have taken place in the trading accounts of Laxmi, Viraj, Josh, PAFL, E Ally, Jaisal and Bhavesh, would lie against Manish, as the said seven trading accounts were used by Manish to front-run the trades of the Sterling group. In the said Final Order, WTM- SEBI has also debarred the Noticees from accessing the securities market and buying, selling or otherwise dealing in the securities market, either directly or indirectly, for a period of 7 years (for Manish) and for a period of 5 years (for Laxmi and Manohar) from the date of the said Final Order. I have considered the above factors while deciding the quantum of penalty to be imposed upon the Noticees in respect of their default. At the same time, I cannot lose sight of the fact that Laxmi and

Manohar have clearly aided and abetted Manish in carrying out the unlawful activities of front-running in their trading accounts, which is detrimental to the investors and to the securities market at large. Further, by indulging in such trades/illegal front running activity, the Noticees along with other persons/entities had defrauded the investors in the securities market and in the process, enriched themselves substantially.

ORDER

32. Therefore, after taking into consideration the nature and gravity of the violation committed by the Noticees, the facts and circumstances of the case, the material available on record, the submissions made by the Noticees and also the factors mentioned in the preceding paragraphs, I, in exercise of the powers conferred upon me under section 15I of the SEBI Act read with rule 5 of the Adjudication Rules, hereby impose monetary penalty for their violation of the provisions of law, details of which are mentioned as under. I am of the view that the said penalty is commensurate with the default committed by the Noticees.

Sl. No.	Name of Noticee	Nature of violation	Penalty provision	Amount of Penalty (₹)
1	Mr. Manish Chaturvedi	Section 11C(2) and 11C(3) of the SEBI Act	Section 15 HB of the SEBI Act	₹2,00,000/- (Rupees Two Lakh only)
2	Mr. Manish Chaturvedi, Ms. Laxmi Chaturvedi and Mr. Manohar Chaturvedi	Section 12A(a), (b) and (c) of SEBI Act, 1992 r/w Regulation 3(a), (b). (c), (d), 4 (1) of the PFUTP Regulations	Section 15HA of the SEBI Act	₹30,00,000/- (Rupees Thirty Lakh only) to be paid jointly and severally

33. The Noticees shall remit / pay the said amount of penalty within 45 (forty five) days of the receipt of this order either by way of Demand Draft (DD) in favour of "SEBI -Penalties Remittable to Government of India", payable at Mumbai and the said DD should be forwarded to the Division Chief, Enforcement Department -I (EFD), Division of Regulatory Action -I [EFD1-DRA-1] SEBI

Bhavan, Plot No.C4-A,' G' Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai –400 051 and also send an email to tad@sebi.gov.in with the following detail

1	Case Name	
2	Name of the Payee	
3	Date of Payment	
4	Amount Paid	
5	Transaction No.	
6	Bank Details in which payment is made	
7	Payment is made for (like penalties/disgorgement / recovery/ settlement amount and legal charges along with order details)	

34. Payment can also be made online by following the below path at SEBI website www.sebi.gov.in ENFORCEMENT → Orders → Orders of AO → Click on PAY NOW or at https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html.

35. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia,* by attachment and sale of movable and immovable properties.

36. In terms of rule 6 of the Adjudication Rules, copies of this order are sent to the Noticees viz, Mr. Manish Chaturvedi, Ms. Laxmi Chaturvedi and Mr. Manohar Chaturvedi and also to Securities and Exchange Board of India.

Date: May 31, 2022
Place: Mumbai

SURESH B MENON
ADJUDICATING OFFICER