

SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: ANANTA BARUA, WHOLE TIME MEMBER

ORDER

Under Section 12(3) of Securities and Exchange Board of India Act, 1992 read with Regulations 27 of Securities and Exchange Board of India (Intermediaries) Regulations, 2008

In respect of:

S. No.	Name of the intermediary	Registration No.
1.	Finquest Securities Pvt. Ltd.	INZ000268435

In the matter of Garware Polyester Ltd.

1. The present matter emanates from a show cause notice dated January 21, 2021 (hereinafter referred to as “**SCN**”) issued to Finquest Securities Pvt. Ltd. (hereinafter referred to as “**Noticee**”) under Regulation 28(1) of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as “**Intermediaries Regulations, 2008**”) calling upon it to show cause as to why action as recommended by the Designated Authority or any other direction/ penalty as deemed fit should not be issued/imposed on it in terms of Regulation 28 (1) of the Intermediaries Regulations, 2008. The SCN enclosed with it the Report of the Designated Authority (hereinafter referred to as “**Enquiry Report**” or “**ER**”). The ER had made the following recommendation:

“...in terms of the provisions of regulation 27 of the Intermediaries Regulations read with section 12(3) of the SEBI Act and regulation 27 (xiv) of the Brokers Regulations, I hereby recommend suspension of the certificate of registration granted to the Noticee

i.e. Finquest Securities Limited (PAN No.: AABCB7028F) as stock broker for a period of six months.”

2. The ER observed that the Noticee has violated the provisions of Sections 12A (a), (b) and (c) of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “**SEBI Act, 1992**”) read with Regulations 3 (a), (b), (c) and (d), 4 (1), 4 (2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995 (hereinafter referred to as “**PFUTP Regulations, 2003**”) and Clause A(2) of the Code of Conduct specified under Schedule II read with Regulation 9 of the SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as “**Stock Brokers Regulations, 1992**”).
3. The ER states that Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) conducted an investigation into the alleged irregularities in the trading in the scrip of Garware Polyester Ltd. (hereinafter also referred to as “**Garware**” / “**the Company**”) for the period December 15, 2011 to October 09, 2014 (hereinafter referred to as “**Investigation Period**”) for possible violation of the provisions of the SEBI Act, 1992 and various rules and regulations framed thereunder.
4. The ER further makes the following allegations/observations:

4.1. The price movement of the scrip at BSE, before, during the four patches and after, the investigation is summarized below:

Table 1

Period	Dates		Open	High	Low	Close	Total Vol/(Avg. Vol.)
Pre Investigation Period	15/09/2011-14/12/2011	Price	158.05	164.95 (15/09/2011)	130 (02/11/2011)	136.85	497555 (8293)
		Vol	20213	59017 (16/11/2011)	637 (20/10/2011)	15728	
Patch 1 (Fall)	15/12/2011-05/04/2013	Price	135.05	137.8 (15/12/2011)	58.65 (03/04/2013)	59.6	9433483 (28673)
		Vol	16934	845218 (06/12/2012)	34 (13/11/2012)	28618	
Patch 2(Rise)	08/04/2013-08/07/2013	Price	59.45	94 (02/07/2013)	58.4 (08/04/2013)	90.4	469376 (7450)
		Vol	3872	103622 (21/06/2013)	215 (31/05/2013)	8171	
Patch 3 (Fall)		Price	90.4	95.5	55.2	56.7	518430

	09/07/2013-20/02/2014			(09/07/2013)	(20/02/2014)		(3323)
		Vol	15196	129494 (31/07/2013)	66 (29/08/2013)	746	
Patch 4(Rise)	21/02/2014-09/10/2014	Price	59.9	193.5 (23/09/2014)	56.6 (21/02/2014)	155.65	2528961 (16529)
		Vol	3965	347543 (22/09/2014)	87 (22/03/2014)	7243	
Post Investigation period	10/10/2014-08/01/2015	Price	151.15	165.7 (12/11/2014)	121.05 (17/12/2014)	131.4	391777 (6530)
		Vol	7581	44548 (13/11/2014)	1279 (10/12/2014)	5158	

4.2. It was observed that following were the top 10 buy-broker and sell-broker who had traded in the scrip of Garware during the Investigation Period at BSE:

Table 2: Broker Concentration in the scrip of Garware

Buy Broker Name	Total shares	% of TrdVol	Selling Broker Name	Total shares	% of TrdVol
Finquest Securities Pvt.Ltd.	4,759,389	36.75	Finquest Securities Pvt.Ltd.	4,796,521	37.04
Bharat J.Patel	1,709,907	13.20	JHP Securities Pvt.Ltd.	1,240,294	9.58
JHP Securities Pvt.Ltd.	1,275,770	9.85	Bharat J.Patel	832,502	6.43
Dalal&Broacha Stock Broking Pvt.Ltd.	660,533	5.10	ITI Financial Services Ltd.	603,310	4.66
ITI Financial Services Ltd.	594,296	4.59	Intime Equities Limited	597,490	4.61
Intime Equities Limited	591,315	4.57	Dalal&Broacha Stock Broking Pvt.Ltd.	570,488	4.41
Moneybee Securities Pvt.Ltd.	417,227	3.22	Moneybee Securities Pvt.Ltd.	416,127	3.21
Naysaa Securities Pvt.Ltd.	219,579	1.70	Dhanki Securities Pvt.Ltd.	338,848	2.62
India Capital Markets Pvt.Ltd.	187,194	1.45	ICICI Securities Ltd.	158,070	1.22
Angel Broking Pvt. Ltd.	103,988	0.80	ManubhaiMangaldas Securities Pvt.Ltd.	114,643	0.89
Top 10 Buy Brokers	10,519,198	81.23	Top 10 Selling Brokers	9,668,293	74.67
Remaining Brokers	2,431,052	18.77	Remaining Brokers	3,281,957	25.33
Total Traded Volume	12,950,250	100.00	Total Traded Volume	12,950,250	100.00

4.3. From the above table it was observed that Finquest Securities Pvt. Ltd. (hereinafter referred to as “**Noticee**”) had the highest contribution of 36.75% in gross buy and 37.04% in gross sell on BSE during the Investigation Period. The total buy volume by top ten trading members was 1,05,19,198 shares and total sell volume was 96,68,293 shares which accounted for 81.23% and 74.67% respectively of the total traded market volume of 1,29,50,250 shares on BSE during the investigation period.

4.4. The details of top 10 buy clients and sell clients concentration on BSE and NSE in the scrip of Garware during the Investigation Period is tabulated below:

Table 3: Client Concentration in the scrip of Graware at BSE

Buy Client Name	Total shares	% of TrdVol	Selling Client Name	Total shares	% of TrdVol
Bharat Jayantilal Patel	1,631,213	12.60	Prashant Patel	835,000	6.45
Hardik Bharat Patel	1,014,734	7.84	Bharat Jayantilal Patel	814,602	6.29

Prashant Patel	836,950	6.46	Hridaynath Consultancy Pvt Ltd	730,153	5.64
Pat Financial Consultants Pvt. Ltd	793,000	6.12	The Investment Trust Of India Ltd	590,000	4.56
The Investment Trust Of India Ltd	590,000	4.56	Orange Mauritius Investments Ltd	590,000	4.56
Orange Mauritius Investments Ltd	590,000	4.56	Pat Financial Consultants Pvt. Ltd	566,705	4.38
Minal Bharat Patel	479,205	3.70	Minal Bharat Patel	475,000	3.67
AmritlalFutermal Jain	410,000	3.17	AmritlalFutermal Jain	410,000	3.17
Pankaj Patel	402,387	3.11	Pasha Finance Pvt. Ltd.	401,196	3.10
Pasha Finance Pvt. Ltd.	401,196	3.10	Pankaj Patel	400,437	3.09
Top 10 Buy Clients	7,148,685	55.20	Top 10 Selling Clients	5,813,093	44.89
Remaining Clients	5,801,565	44.8	Remaining Clients	7,137,157	55.11
Total Traded Volume	12,950,250	100.00	Total Traded Volume	12,950,250	100.00

- 4.5. Based on Know Your Client (KYC)/Unique client code (UCC) details, MCA website (for common directors), Bank statements and Off market transfers, 16 entities were identified as ‘suspected entities’ (hereinafter referred to as “**Bharat Patel Group**”). The details of the 16 ‘suspected entities’ are as follows:

Table 4: Suspected entities of Bharat Patel Group

Sr. no.	PAN No.	Entity Name	Sr. no.	PAN No.	Entity Name
1	AAAPP6652R	Bharat Jayantilal Patel	9	AAACP3115E	Pat Financial Consultants Pvt. Ltd.
2	ANDPP9202F	Ruchit Bharat Patel	10	AAICA9489N	Acira Consultancy Pvt. Ltd.
3	AACPP5126G	Minal Bharat Patel	11	AACCG3017C	Gandiv Investment Pvt. Ltd.
4	AHIPP1407H	Hardik Bharat Patel	12	AACCH5285R	Hridaynath Consultancy Pvt. Ltd.
5	AABPP2156M	Prashant Jayantilal Patel	13	AABCP1438P	Pranav Holdings Pvt. Ltd.
6	AABPP2157L	Pankaj Jayantilal Patel	14	AABCF0017A	Fidelity Multitrade Pvt. Ltd.
7	ABAPS7558L	Vanraj Vinod Shah	15	AAFCM3690Q	Moneybee Realty Pvt. Ltd.
8	AAGPK6090A	Ajaykumar Banwarilal Kejriwal	16	AAACP8316P	Pasha Finance Pvt. Ltd.

- 4.6. It was noted that out of the 16 ‘suspected entities’ in the Bharat Patel Group, 15 ‘suspected entities’ viz., Bharat Jayantilal Patel, Ruchit Bharat Patel, Minal Bharat Patel, Hardik Bharat Patel, Prashant Jayantilal Patel, Pankaj Jayantilal Patel, Vanraj Vinod Shah, Pat Financial Consultants Pvt. Ltd., Acira Consultancy Pvt. Ltd., Gandiv Investment Pvt. Ltd., Hridaynath Consultancy Pvt. Ltd., Pranav Holdings Pvt. Ltd., Fidelity Multitrade Pvt. Ltd., Moneybee Realty Pvt. Ltd. and Pasha Finance Pvt. Ltd. have traded in the scrip during the Investigation Period. The summary of trading by the Bharat Patel Group in the scrip of Garware during the Investigation Period is tabulated as below:

Table 5: Summary of trading by Bharat Patel Group during the investigation period

Name of Entity	Gross Buy	% of Gross Buy to Mkt. Vol	Gross Sell	% of Gross Sell to Mkt. Vol	Net Qty.
Bharat Jayantilal Patel	16,31,213	12.6	8,14,602	6.29	8,16,611
Hardik Bharat Patel	10,14,734	7.84	3,42,527	2.65	6,72,207
Prashant Patel	8,36,950	6.46	8,35,000	6.45	1,950
Pat Financial Consultants Pvt. Ltd	7,93,000	6.12	5,66,705	4.38	2,26,295

Name of Entity	Gross Buy	% of Gross Buy to Mkt. Vol	Gross Sell	% of Gross Sell to Mkt. Vol	Net Qty.
Minal Bharat Patel	4,79,205	3.7	4,75,000	3.67	4,205
Pankaj Patel	4,02,387	3.11	4,00,437	3.09	1,950
Pasha Finance Pvt. Ltd.	4,01,196	3.1	4,01,196	3.1	0
Ruchit Bharat Patel	2,99,745	2.32	3,52,378	2.72	-52,633
Acira Consultancy Pvt Ltd	2,21,200	1.71	2,21,200	1.71	0
Hridaynath Consultancy Pvt Ltd	1,05,153	0.81	7,30,153	5.64	-6,25,000
Vanraj Shah	3,800	0.03	1,900	0.02	1,900
Moneybee Realty Pvt Ltd	1,900	0.02	1,900	0.02	0
Gandiv Investment Pvt. Ltd.	1,900	0.02	1,900	0.02	0
Fidelity Multitrade Pvt. Ltd.	1,900	0.02	1,900	0.02	0
Pranav Holding Pvt Ltd	300	0	2,050	0.02	-1,750
Total	61,94,583	47.83	51,48,848	39.76	10,45,735

4.7. From the above table, it was observed that Bharat Patel Group purchased 6,194,583 shares (47.83% of total market volume) and sold 5,148,848 (39.76 % of total market volume) at BSE. The Group was net buyer of 1,045,735 shares. Trading among Bharat Patel Group was for 2,588,995 shares which accounted for 19.99 % of total market volume at BSE.

4.8. It was also noted that 12 out of aforesaid 15 'suspected entities' of the Bharat Patel Group had executed synchronised trades on BSE within the group for 13,16,653 shares (10.17% of the market volume) in 79 trades over 24 trading days. Details of Bharat Patel Group's contribution is as follows:

Table 6: Details of Contribution of Bharat Patel Group to synchronised trades

Gross Buy Qty of Bharat Patel Group	Gross Sell Qty of Bharat Patel Group	Gross Total	Total traded qty among Bharat Patel Group	Sync traded qty by Bharat Patel Group	Sync Trades as % of total traded qty among Bharat Patel Group	Sync Trades as % of Total market volume
61,94,583	51,48,848	1,13,43,431	25,88,995	13,16,653	50.86	10.17

Table 7: The entity-wise details of synchronized trades by Bharat Patel Group

Buyer	Seller	Synchronised Qty.	% of Sync. Vol. to Mkt. Vol.	No. of Trades	No of days
Vanraj Shah	Bharat J Patel	1900	0.02	1	1
Ruchit Bharat Patel	Pat Financial Consultants Pvt. Ltd	15000	0.12	1	1
Pat Financial Consultants Pvt. Ltd	Bharat J Patel	120000	0.93	3	2
Pat Financial Consultants Pvt. Ltd	Moneybee Realty Pvt. Ltd	1900	0.02	1	1
Minal Bharat Patel	Pat Financial Consultants Pvt. Ltd	15000	0.12	1	1
Hridaynath Consultancy Pvt. Ltd	Gandiv Investment Pvt. Ltd.	1900	0.02	1	1
Hridaynath Consultancy Pvt. Ltd	Hardik Bharat Patel	1900	0.02	1	1
Hardik Bharat Patel	Hridaynath Consultancy Pvt. Ltd	50000	0.39	1	1
Hardik Bharat Patel	Acira Consultancy Pvt. Ltd	219100	1.69	2	2
Bharat J Patel	Pasha Finance Pvt. Ltd.	1100	0.01	1	1
Bharat J Patel	Fidelity Multitrade Pvt. Ltd.	1900	0.02	1	1
Bharat J Patel	Hridaynath Consultancy Pvt. Ltd	680153	5.25	9	7
Acira Consultancy Pvt. Ltd	Pat Financial Consultants Pvt. Ltd	31000	0.24	1	1

Acira Consultancy Pvt. Ltd	Bharat J Patel	175800	1.36	55	3
		1316653	10.17	79	24

4.9. The Noticee, as a stock broker had undertaken trades for aforementioned 15 'suspected entities' at BSE, and they were closely associated with each other by way of the aforesaid undisputed connection. Two of the 'suspected entities' namely, Hardik Bharat Patel and Minal Bharat Patel are directors of Noticee. It is also observed that Finquest Securities Pvt. Ltd. (Noticee), was the broker and counterparty broker for 7 out of 79 synchronized trades at BSE for a quantity of 3,02,900 shares (23% of the synchronized trades of the Bharat Patel Group and 2.33% of the market volume) during the investigation period. All the buy and sell synchronised trades were executed from terminal ID 3, 4, 6, 8 and 10 at Noticee. Two of the 'suspected entities' namely, Hardik Bharat Patel and Minal Bharat Patel are directors of Noticee. Thus, Noticee is connected to the 'suspected group' which has indulged in synchronised trades and in view of the same, it is alleged that the Noticee facilitated their fraudulent trades and created misleading appearance of trading in the scrip.

5. On the basis of the aforesaid ER, SCN was issued on January 21, 2021. However, no reply was received from the Noticee. The file was placed before me for obtaining a hearing date on October 26, 2021. An opportunity of hearing was granted on January 27, 2022. Meanwhile the Noticee submitted detailed reply dated December 20, 2021 stating as follows:

- i) *At the outset, the said SCN and the DA Report are liable to be struck down on account of inordinate delay in issuing the same.*
- ii) *The Noticee disputed and denied everything that has been stated in the said SCN and the DA Report and the allegations raised therein are based on false and erroneous presumptions and without any cogent evidence. It is settled law that the burden of proof is on the person making allegations and not vice – versa. No provisions of law have been violated as has been alleged in the said SCN and/or DA Report and no adverse*

recommendations shall be warranted as sought in the said SCN and DA Report. Primarily, on this ground alone, the present proceedings ought to be dropped.

- iii) At the further outset, the said SCN and the DA Report are liable to be struck down on account of inordinate delay in issuing the same.*
- iv) The Noticee has been brokers of the two Stock Exchanges (BSE/NSE) for the last 16 years. Presently, it has over 5000 registered clients, and its annual turnover is approximately Rs.10,888/- Crores in the F.Y. 2020-21 across all Segments and Exchanges. It is respectfully submitted that the allegations in the SCN and DA Report and the recommendation therein needs to be considered in the conspectus of the said demonstrable facts of the total turnover and total client base, in which case it would be obvious that the trades of the clients which are impugned in the DA Report are miniscule and obviously did not merit any special consideration or scrutiny.*
- v) Most of the impugned trades that were executed were in excess of 0.5% of the equity capital of the scrip of Garware and such trades ought to have been displayed on bulk deal window of the Stock Exchange [the individual orders on last day were less than 0.5% threshold limit]. Each of the impugned trades were expressly and separately reported to the Stock Exchange and were even disclosed on their websites.*
- vi) Such trades were executed at the market price of the scrip and full payment by the buyer and delivery thereof was made to the buyer immediately, as no grievances were raised or are available of the Stock Exchanges website. In fact, since the said shares were delivered and transferred from each seller to each buyer, each of the aforesaid 5 entities had at the relevant time become the duly registered owner and holder of the respective shares, and therefore as per sections 2(a) and 10 (3) of the Depositories Act, the beneficial ownership had in fact been duly and legally transferred. In other words, the ownership of all these shares were duly transferred to and in favour of the buyer.*
- vii) The shares were openly sold in accordance with Stock Exchange Mechanism. They were admittedly transferred, and beneficial ownership did get transferred. The 79 Impugned Trades were all on different days spanning between 15th December 2011 to 09th October, 2014 and all for different quantities and the variation in quantity was from 1,100 shares to more than 6,80,000 shares. It is therefore reiterated that the same cannot be alleged to be synchronised trades.*
- viii) The Company is a separate legal entity having its own identity distinct from its members and clients. As regards the "connections" alleged in the DA Report, it is submitted that the same are not relevant, since there is no bar to "connected" parties trading or for an intermediary to cater to their clients who may be connected. In fact, even negotiated*

trades between connected parties are expressly permitted and are very common. Therefore, per se there can be no violation ascribed to the clients or to the Noticee. In any event, the said connections of the Company with the said 5 entities were merely of a broker-client, and any other incidental connection is of no relevance. Further, the Company exercises high standards of integrity, fairness, due skill, care and diligence in execution of all trades.

- ix) It is not even alleged that the said trades resulted in any price or volume manipulation or caused any harm or loss to anyone. SEBI has not even ascribed any motive or reason for the trades. It is not even alleged that the clients were connected to or acting for the promoters/ directors of Garware or had any other motive.*
- x) SEBI admits that the investigation was extensive to understand the complexity of the connections but no prior intimation was provided to the Company in respect of such investigation and as a result the data pertaining to impugned trades is no more available, which ultimately prejudices the position of the Company viz. a viz. the investigation.*

6. On January 27, 2022 the Authorized Representative (hereinafter referred to as “AR”) of the Noticee appeared through video conference and made submissions. The Noticee has submitted written submissions vide letter dated February 11, 2022 which, apart from reiterating the submissions made in its reply, also stated that the order log trade log for the impugned trades were only provided to the Noticee on January 31, 2022 and the said trade logs contain discrepancies.

Consideration of issues and findings:

7. I have gone through the SCN, ER, reply of the Noticee and its submissions before me during the personal hearing. I note that the allegation against the Noticee is that Noticee, along with aforementioned 15 ‘suspected entities’ of Bharat Patel Group who have repetitively executed synchronized trades in the scrip of Garware on BSE within the group are responsible for creating misleading appearance of trading in scrip of Garware in the securities market and thereby violated Sections 12A (a), (b) and (c) of the SEBI Act, 1992 read with Regulations 3 (a), (b), (c) and (d), 4 (1), 4 (2) (a) of PFUTP Regulations, 2003. It is also alleged that the Noticee failed to carry out its business with

due diligence, skill, care etc. while dealing with its clients in violation of Clause A (2) of Schedule II under Regulation 9 of the Stock Brokers Regulations, 1992.

8. The relevant extracts of the provisions of law allegedly violated by the Noticee are mentioned as under:-

SEBI Act

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;

PFUTP Regulations

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 there under;
- (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 there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

- (1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.
- (2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—
 - (a) indulging in an act which creates false or misleading appearance of trading in the securities market;

Brokers Regulations, 1992

SCHEDULE II

Securities and Exchange Board of India (Stock Brokers) Regulations, 1992

CODE OF CONDUCT FOR STOCK BROKERS

[Regulation 9]

A. General.

(1) ...

(2) Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business.

9. I note that the SCN alleges that 12 out of aforesaid 15 'suspected entities' of the Bharat Patel Group had executed synchronised trades in the scrip of Garware on BSE within the group for 13,16,653 shares (10.17% of the market volume) in 79 trades over 24 trading days from December 15, 2011 to October 09, 2014. The SCN also alleges that the Noticee was the broker and counterparty broker for 7 out of 79 synchronized trades at BSE for a quantity of 3,02,900 shares (23% of the synchronized trades of the Bharat Patel Group and 2.33% of the market volume) in the scrip of Garware during the Investigation Period stretching from December 15, 2011 to October 09, 2014, i.e. a span of almost three years. The SCN also observes that these 15 clients were related to each other and the Noticee. In this regard, the order log and trade log for the impugned 7 trades reveals the following details:

Date	Buyer Name	Seller Name	Trade Quantity	Time Difference	Price Difference	Quantity Difference
14/11/2013	Hridaynath Consultancy Private Limited	Gandiv Investment Pvt. Ltd.	1900	00:00:00	0.00	0.00
07/04/2014	Hardik Bharat Patel	Acira Consultancy Private Limited	110000	00:00:01	0.00	0.00
10/04/2014	Hardik Bharat Patel	Acira Consultancy Private Limited	109100	00:00:01	0.00	0.00
17/04/2014	Hardik Bharat Patel	Hridaynath Consultancy Private Limited	50000	00:00:01	0.00	0.00
21/04/2014	Hridaynath Consultancy Private Limited	Hardik Patel	1900	00:00:02	0.00	0.00
27/05/2014	Minal Bharat Patel	Pat Financial Consultant Pvt Ltd	15000	00:00:00	0.00	0.00
27/05/2014	Ruchit Bharat Patel	Pat Financial Consultant Pvt Ltd	15000	00:00:04	0.00	0.00

10. I note that 12 clients belonging to the Bharat Patel group have executed 79 synchronized trades, out of which Noticee was the stock broker and counter party broker for 7 trades executed among 7 of the clients (which have been hereafter referred to as impugned trades) in the scrip of Garware wherein the price and quantity were matching between the buy and sell orders and time difference was almost 0, on 7 trading days out of an Investigation Period stretching over almost three years December 15, 2011 to October 09, 2014. The SCN does not allege any connection between Garware and the clients/ Noticee or any *modus operandi* through which the Noticee or clients gained any advantage due to the increased volume of trading in the scrip of Garware during the Investigation Period spanning from December 15, 2011 to October 09, 2014. The Noticee has also submitted that all the 7 clients of the Noticee have taken delivery of the shares of Garware therefore it cannot be said that these clients carried out the impugned trades without any intention of change in beneficial ownership of the securities.
11. In regard to synchronized trades, in the matter of *SPJ Stock Brokers Pvt. Ltd. vs. SEBI* (Appeal No. 52 of 2013 decided on September 04, 2013) the Hon'ble Securities Appellate Tribunal (hereinafter referred to as "**SAT**") has taken the following view:

"12. Penalty under impugned order is imposed upon appellant solely on ground that almost all trades in shares of Adani Exports Ltd. effected by appellant during investigation were found to be synchronized and those trades were with only one group. It is well established by various decisions by this Tribunal that synchronized trade is per se not illegal. Synchronized transaction would be illegal if it is executed with a view to manipulate the market, is dubious in nature and is executed with a view to avoid regulatory detection, does not involve change of beneficial ownership or is executed to create false volumes resulting in upsetting market equilibrium etc."

From the above observations by the Hon'ble SAT, I note that synchronized trades *per se* are not illegal, they are only treated to be illegal if it is executed with a view to manipulate the market, is dubious in nature and is executed with a view to avoid regulatory detection, does not involve change of beneficial ownership or is executed to create false volumes resulting in upsetting market equilibrium etc. In the present matter, firstly, there is no material on record to show that there was price manipulation of the

scrip of Garware by the 7 clients of the Noticee during the Investigation Period or that the clients of the Noticees indulged in creation of false volume and this false volume led to manipulation or that there was any connection between the Noticee and Garware to create volume in the scrip of Garware. Secondly, the Noticee submitted that the clients of the Noticee have taken delivery and there was change in beneficial ownership of the shares. Thirdly, I also note that the less frequency of the trades (7 trades in the scrip of Garware spread over almost three years) compared to the Noticee's gross trading volume for all clients (turnover of more than 10,000 crores in 20-21 and presently approximately 5000 clients) also show that it would be a reasonable explanation on the part of the Noticee that these synchronized trades could not be detected by the Noticee or the Noticee did not fail to exercise due diligence, particularly when its clients have taken delivery. Moreover, I note that vide order dated June 13, 2022 the proceedings *inter alia* with respect to the 7 clients of the Noticee with respect to the same synchronized trades alleging violation of PFUTP Regulations, 2003 has been disposed of without any adverse directions.

12. Therefore, in view of the above and in the facts and circumstances of the present case, I find that the 7 impugned trades in the scrip of Garware executed by the clients of Noticee over a period spanning three years from December 15, 2011 to October 09, 2014 cannot be attributed to the connivance or negligence of the Noticee so as to attract the violations as alleged in the SCN. Further, it is observed that the 7 clients of the Noticee had taken delivery of the shares and thus there was a change in the beneficial ownership of the shares. In addition, it is observed that the clients of the Noticee have also been exonerated vide order dated June 13, 2022 and therefore proceedings against the Noticee for its alleged connivance with its clients or negligence also does not survive in the facts and circumstances of the present case.
13. I note that the SCNs called upon the Noticees to show cause as to why action as deemed appropriate by the competent authority should not be taken against them in terms of Regulation 28 of Intermediaries Regulations. I note that by the amendments made to Intermediaries Regulations on January 21, 2021, Regulation 27 which dealt

with recommendations for actions which could be made by DA in case of default, has been substituted and Regulation 28 which dealt with procedure for action on receipt of the recommendation from DA, has been omitted and these matters now stand governed by the Regulations 26 and 27, respectively. In this regard, reference may be made to the judgment of Hon'ble Supreme Court in ***CIT, Bangalore Vs. Venkateshwara Hatcheries (P) Ltd. and Ors. (1999) 3 SCC 632*** wherein it was held as under:

“.....15. As noticed earlier, the omission of Section 2(27) and re- enactment of Section 80JJ was done simultaneously. It is a very well recognized rule of interpretation of statutes that where a provision of an Act is omitted by an Act and the said Act simultaneously re-enacts a new provision which substantially covers the field occupied by the repealed provision with certain modification, in that event such re-enactment is regarded having force continuously and the modification or changes are treated as amendment coming into force with effect from the date of enforcement of re-enacted provision. Viewed in this background, the effect of re-enacted provision of Section 80JJ was that profit from the business of livestock and poultry which enjoyed total exemption under Section 10(27) of the Act from assessment years 1964-65 to 1975-76 became partially exempt by way of deduction on fulfilment of certain conditions.....”

The aforesaid judgment has been quoted with approval by Hon'ble Supreme Court in its subsequent judgment in ***Fibre Boards (P) Ltd., Bangalore Vs. CIT, Bangalore (2015) 10 SCC 333***. In the present case, I note that prior to the aforesaid amendment, procedure for conduct of enquiry proceedings before designated authority (DA) and designated member (DM) was provided under Regulations 25 to 28 of the Intermediaries Regulations wherein Regulation 25 dealt with issue of SCN by DA, Regulation 26 dealt with reply of SCN by the Noticee, Regulation 27 dealt with recommendation for actions which could be made by the DA and Regulation 28 dealt with conduct of proceedings before DM like issue of SCN, hearing and passing of final order. After the amendment, Regulation 25, as substituted deals with holding of enquiry proceedings before DA, Regulation 26 deals with recommendation for actions which can be made by DA and Regulation 27 deals with conduct of enquiry proceedings before DM and passing of order by DM. Thus, the proceedings before DM which were earlier governed by the provisions of Regulations 28 are now governed by the provisions of Regulation 27 with certain modifications. Therefore, by virtue of the judgment of Hon'ble Supreme Court in *Venkateshwara Hatcheries case (supra)*, the new Regulation 27 is regarded having

force continuously (by virtue of pre-existing Regulation 28) and the modification or changes are treated as amendment coming into force with effect from the date of enforcement of new Regulation 27 i.e. January 21, 2021. Accordingly, the present proceedings can be concluded under the amended provisions of the Intermediaries Regulations and the present order can be passed under Regulation 27 of the Intermediaries Regulations.

Direction:

14. In view of the above, I, in exercise of the powers conferred upon me in terms of Section 12(3) and Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 27 (5) of the Intermediaries Regulations, hereby dispose of the show cause notice dated January 21, 2022 issued to the Noticee, without any direction.
15. The order comes into force with immediate effect.
16. A copy of this order shall be served on the Noticee and all recognized Stock Exchanges.

-Sd-

Place: Mumbai

Date : July 28, 2022

ANANTA BARUA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA