BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. MC/DPS/2018-19/38]

UNDER SECTION 15-I (2) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES, 1995.

In respect of –

1. **Jai Laxmi Cement Co Pvt Ltd** (PAN: AAACL5427H) having address at – D-64/52 B-1 Sant Raghubir Nagar Madhopur Sigra, Varanasi, Uttar Pradesh – 221010 and 71 B R B Basu Road, No. B 404, Kolkata, 700001.

In the matter of Dealing in Illiquid options on the BSE.

BACKGROUND

1. The Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") conducted an investigation into the trading activity in illiquid Stock options at BSE for the period between April 1, 2014 to September 30, 2015 (hereinafter referred to as the "**Investigation Period**") after observing large scale reversal of trades in the Stock Options segment of the Bombay Stock Exchange Ltd. (hereinafter referred to as "**BSE**").

2. Investigation revealed that during the Investigation Period, a total of 2,91,643 trades comprising 81.38% of all the trades executed in BSE Stock Options Segment were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract. Jai Laxmi Cement Co Pvt Ltd ("**the Noticee**") was one such client whose reversal trades involved squaring off transactions with significant difference in the sell value and buy value of the transactions. The aforesaid reversal trades allegedly resulted into generation of artificial volumes by the aforesaid clients and counterparties, leading to

allegations that the Noticee had violated Regulation 3(a),(b),(c),(d) and Regulation 4(1), 4(2)(a) SEBI (Prohibition of Fraudulent and Unfair Trading Practices related to Securities Markets) Regulations, 2003 (hereinafter, referred to as "**PFUTP Regulations, 2003**").

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI initiated adjudication proceedings and appointed the undersigned as Adjudicating Officer (hereinafter referred to as "**AO**") under section 15-I of the SEBI Act read with rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter be referred to as the "**Adjudication Rules**") vide order dated May 31, 2018, to inquire into, and adjudge under section 15 HA of the SEBI Act, the alleged violations of the aforesaid provisions of the PFUTP Regulations, 2003, by the Noticee. The appointment of the AO was communicated vide order dated June 4, 2018.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice No. EAD5/MC/DPS/28548/1/2018 dated October 11, 2018 (hereinafter referred to as "**SCN**"), was issued to the Noticee in terms of Rule 4 (1) of the Adjudication Rules, to show cause as to why an inquiry should not be held and penalty not be imposed against the Noticee in terms of section 15 HA of the SEBI Act, for alleged violation of Regulation 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003.

5. The allegations levelled against the Noticee in the SCN are summarized as below:
    a) The Noticee was one of the entities which indulged in reversal trades which allegedly created false and misleading appearance of trading, generating artificial volumes in the Stock Options Segment of BSE during the Investigation Period.

b) The Noticee is alleged to have engaged in 50 such reversal trades in 17 unique contracts, which led to generation of alleged artificial volume of 5807500 units, between March 18, 2015 and July 8, 2015.

c) The trades entered by the Noticee were reversed on the same day with same counterparties at a substantial price difference without any basis for significant change in the contract price which indicates that these trades are artificial and are non-genuine in nature.

d) A summary of dealings of Noticee in 17 Stock Options contracts in which Noticee allegedly executed non genuine reversal trades during the Investigation Period, provided in the SCN is reproduced below-

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	AMBC15APR230.00CEW2	16.60	415000	28.50	415000	100%	53%
2	ANBK15JUL85.00PEW2	11.10	8000	18.60	8000	100%	29%
3	BOIL15APR180.00CEW2	11.35	250000	21.34	250000	100%	100%
4	BOSH15JUL22400.00PEW1	220.00	2875	225.30	2875	100%	65%
5	GRSM15MAR3650.00PE	5.00	27000	42.00	27000	100%	16%
6	GRSM15MAR3750.00CE	2.00	45375	24.00	45375	100%	37%
7	HULL15APR860.00PEW4	6.00	100000	16.00	100000	100%	58%
8	HULL15MAR920.00PE	0.50	307500	12.20	307500	100%	86%
9	IBRL15JUL50.00PE	0.50	264000	2.00	264000	100%	100%
10	IDBI15JUL80.00CEW2	0.05	228000	2.20	228000	100%	75%
11	IDBI15JUN60.00PE	0.05	140000	1.20	140000	100%	5%
12	IDFC15APR145.00CEW2	10.47	332000	17.99	332000	100%	35%
13	IFCI15JUN36.00PE	5.70	192000	9.30	192000	100%	41%
14	OBNK15APR190.00CEW2	12.30	200000	26.75	200000	100%	91%
15	SAIL15JUL50.00PEW2	0.05	108000	1.25	108000	100%	5%
16	UBIL15JUL130.00CEW2	23.03	68000	25.10	68000	100%	100%
17	UNIT15JUN4.00CE	2.50	216000	4.10	216000	100%	17%

6. By indulging in execution of aforesaid non-genuine reversal trades, the Noticee was alleged to have violated regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003, text of which has been reproduced below:-

   "*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"

7. The aforesaid SCN was issued through Speed Post Acknowledgement Due (SPAD) to the Noticee on October 11, 2018 at the two addresses i.e. Jai Laxmi Cement Co Pvt Ltd, D-64/52 B-1 Sant Raghubir Nagar Madhopur Sigra, Varanasi, Uttar Pradesh – 221010, which was delivered to the Noticee on

October 17, 2018 and Jai Laxmi Cement Co Pvt Ltd, 71 B R B Basu Road, No. B 404, Kolkata, 700001, which returned undelivered with remark, “unclaimed”. SCN was also communicated / served to Noticee through email dated October 15, 2018 at email ID: jlccopvt@gmail.com. However, no reply was received from the Noticee in respect of the SCN.

8. An opportunity of personal hearing was provided to the Noticee on November 15, 2018 *vide* Notice of Hearing dated November 02, 2018 by way of SPAD. Hearing notice was also communicated / served to Noticee through email dated November 02, 2018 and another email dated November 06, 2018 at email ID: jlccopvt@gmail.com. Noticee vide letter dated November 12, 2018, requested for adjournment of hearing on November 15, 2018 and requested for extention of time for filing reply. Accordingly another opportunity of hearing was provided to the Noticee on December 11, 2018 vide notice dated November 16, 2018. In this regard, vide email dated December 5, 2018, Noticee filed its reply dated December 4, 2015 and again requested for adjournment of hearing. Accordingly another opportunity of hearing was provided to the Noticee on December 18, 2018. Hearing on December 18, 2018 was attended by the Authorised Representative of the Noticee (AR) – Mr. Rajesh Khandelwal. AR of the Noticee reiterated the submissions made in its reply dated December 4, 2018.

9. The Submissions made by the Noticee are summarized below:-
   (a) I was not aware of nitty gritties of share market and undertake trades in the share market with a view to make some profits apart from my regular business I have undertaken trades for myself without any ill design or ill motives.
   (b) I submit that it is alleged that the trades executed by me were in illiquid Stock Options at Bombay Stock Exchange. However, the scrips, in which I traded, were at no time banned and hence there was no bar on trading in the said scripts. Therefore, it would be too far-fetched for me to assume that these shares are so called "ill-liquid". The mere fact that BSE allowed trading in these shares renders bonafides in trading in these shares. Moreover, in absence of

any warnings, estoppels from BSE, I failed to understand how I could gather the awareness of the shares being ill-liquid.

(c) The said trades were executed in the normal course of business and I was in no way related to the alleged counter party Shubham Lancdon Limited. Also, the said SCN has failed to establish any connection between us and the alleged counter party except for matching of 2 trades which could also be a chance without any intent and much less malafide.

(d) Till date no investor complaints have been received for trading in the said illiquid scrips.

(e) There was no bar on trading in the said illiquid scrips and therefore I continued to trade in the said scrips in the normal course of business.

(f) All the trades executed by me are well recognised, legal and permitted by BSE and carried out on the floor of exchange. There were no wrongful gains made by me out of the alleged trades even for sake of assumptions.

(g) The impugned trades were executed on the floor of exchange through a registered share broker who has the requisite software as approved by the Exchange. It is impossible for me to know who is/are the counter parties to my trades. Further, I have made due payments for my purchases and have received payments against sale by me.

(h) The trading system prevents a member who places any orders from identifying the counterparty member or client and thus ensures anonymity of trades. There was no alert from the broker or the Exchange which would prompt me to take any caution or create an alarm to stop trading.

(i) My trades were at most intra-day trades wherein I had purchased some stocks and on huge price variations, I have sold them. For each of such trades there are contract notes generated by the broker for us.

(j) I have no connections with the alleged counter party Shubham Lancdon Limited. Also the SCN has failed to establish any connection between me and the alleged counter party apart from the presumption that the trades executed between us are matching trades. There is a huge time difference between the buy and sell trades. Therefore, any price variation in the meantime, is a market phenomenon on which I do not have any control.

CONSIDERATION OF ISSUES AND FINDINGS

10. The issues that arise for consideration in the instant matter are:

Issue No. I Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?

Issue No. II If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?

Issue No. III If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?

Issue No. I **Whether reversal trades in illiquid Stock options carried out by the Noticee during the Investigation Period were in violation of regulations 3(a),(b),(c),(d), 4(1), 4(2)(a) of the PFUTP Regulations, 2003?**

11. The allegation that the Noticee carried out reversal trades is directly supported by evidence from the trade log records in Annexures B and C of the SCN. Between March 18, 2015 and July 8, 2015, the Noticee is seen to have indulged in 50 reversal trades in 17 contracts.

12. To illustrate, on March 18, 2015, the Noticee bought 102500 units each from three separate counterparties viz, Kundan Care Products Limited, Star Trafin Pripate Limited and Gian Finance Ltd at Rs. 0.5 per unit (i.e total bought 307500 units) of the contract named "HULL15MAR920.00PE". Within 9 seconds, the Noticee sold back the same 102500 units each to the same counterparties i.e. Kundan Care Products Limited, Star Trafin Pripate Limited and Gian Finance Ltd at Rs. 12.2 per unit (i.e total bought 307500 units). Again on March 19, 2015, Noticee bought 27000 units from the counterparty - Jindal Exports and Imports Private Limited at Rs. 5 per unit of the contract named "GRSM15MAR3650.00PE". Within 4 seconds, the Noticee sold back the same 27000 units to the same counterparty i.e. Jindal Exports and Imports Private

Limited at Rs. 42 per unit. Within 21 seconds of the said reversal trade, the Noticee again carried out buy transaction for 45375 units from the same counterparty i.e. Jindal Exports and Imports Private Limited at Rs. 2 per unit of another contract "GRSM15MAR3750.00CE". Within 6 seconds, the Noticee sold back the same 45375 units to the same counterparty i.e. Jindal Exports and Imports Private Limited at Rs. 24 per unit of another contract. Thus on March 19, 2015, 4 reversal trades in 2 contracts were observed, with same counterparty.

13. A similar modus operandi is seen to have adopted by the Noticee with respect to trades on March 18, 19, 27, 20, 31, June 24, July 2, 3 and July 8, 2015. It is also noted that out of 50 reversal trades, in 36 reversal trades the time difference between sell order and buy order was less than 1 second. In 42 reversal trades the time difference between sell order and buy order was less than 1 minute indicating the buy and sell orders were synchrosnied for most of the trades.

14. Noticee in its reply has submitted that the impugned trades were executed on the floor of the exchange through a registered share broker who has the requisite software as approved by the Exchange. The trading system prevents a member who places any orders from identifying the counterparty member or client and thus ensures anonymity of trades. Noticee further submitted that he did not know who was the counterparty to the trades and that SCN has failed to establish any connection with the counterparties. There was no alert from the broker or the Exchange which would prompt me to take any caution or create an alarm to stop trading. Noticee also submitted that there is a huge time difference between the buy and sell trades.

15. In this context, I note that buy and sell orders in 36 reversal trades were synchronised to the seconds, with maximum time difference between buy and sell orders being 1 seconds, and in 42 trades, the time difference between buy and sell orders was less than 1 minute. While synchronised trades may occur

by accident in a liquid stock, execution of synchronised trades in an illiquid market with anonymous trading indicates a prior meeting of minds with a view to execute the reversal trades at a pre-determined price. There is also no justification for the wide variation in prices of the same contract within seconds, except for an element of pre-determination in the prices by both counterparties when reversing the trade. Thus, the nature of trading as brought out above clearly indicates an element of prior meeting of minds and hence collusion to carry out trades at pre-determined prices.

16. With regard to the contention that trading on exchange is anonymous and noticee was not aware of who the counterparty was, the very nature of the synchronized orders entered by the noticee and counterparties, and the identical and widely varying prices for the buy and sell legs of the reversal trades indicates pre-arrangement and prior meeting of minds to ensure execution of trades at the same time at pre-determined prices. Noticee's contention that there was huge time difference between buy and sell trades is not correct as many of the trades have been reversed with seconds. The contentions of the Noticee that there was no warning from BSE, there was no bar on trading in the scrips and that no investor complaints have been received for trading in illiquid scrips, have no bearing on the violation, and do not mitigate the charges vis-a-vis the Noticee and hence do not require further consideration.

17. I note that as stated in the SCN, the Noticee generated a total trading volume of 5807500 units through such reversal between March 18, 2015 and July 8, 2015 in 17 separate contracts as per the table reproduced below:-

S. No.	Contract Name	Avg. Buy Rate (Rs.)	Total Buy Volume (no. of units)	Avg. Sell Rate (Rs.)	Total Sell Volume (no. of units)	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract

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3	BOIL15APR180.00CEW2	11.35	250000	21.34	250000	100%	100%
4	BOSH15JUL22400.00PEW1	220.00	2875	225.30	2875	100%	65%
5	GRSM15MAR3650.00PE	5.00	27000	42.00	27000	100%	16%
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7	HULL15APR860.00PEW4	6.00	100000	16.00	100000	100%	58%
8	HULL15MAR920.00PE	0.50	307500	12.20	307500	100%	86%
9	IBRL15JUL50.00PE	0.50	264000	2.00	264000	100%	100%
10	IDBI15JUL80.00CEW2	0.05	228000	2.20	228000	100%	75%
11	IDBI15JUN60.00PE	0.05	140000	1.20	140000	100%	5%
12	IDFC15APR145.00CEW2	10.47	332000	17.99	332000	100%	35%
13	IFCI15JUN36.00PE	5.70	192000	9.30	192000	100%	41%
14	OBNK15APR190.00CEW2	12.30	200000	26.75	200000	100%	91%
15	SAIL15JUL50.00PEW2	0.05	108000	1.25	108000	100%	5%
16	UBIL15JUL130.00CEW2	23.03	68000	25.10	68000	100%	100%
17	UNIT15JUN4.00CE	2.50	216000	4.10	216000	100%	17%

18. From the table above, I note that the Noticee on average contributed 54% of the volume in the contracts traded, and in 15 of the 17 contracts, the volume contribution was an average of 60% which indicates the lack of public participation in the contracts.

19. The manner of placing buy and sell orders in a synchronised manner within seconds of each other, reversal of the trades within a short time on the same day, and wide variation in prices of the trades in the same contract in a short time without any basis for such wide variation, all indicate that the trades executed by the Noticee were not genuine trades and being non-genuine, created an appearance of artificial trading volumes in respective contracts. By engaging in such trades, the Noticee violated provisions of Regulation 4(2)(a) of PFUTP Regulations, 2003 which states that dealing in securities will be deemed to be a fraudulent and unfair trade practice if it involves "*indulging in an act which creates false or misleading appearance of trading in the securities market*".

20. The Noticee, by engaging in non-genuine transactions which created a misleading impression of trading in respective contracts, dealt in the stock options contracts in a fraudulent manner in violation of Regulation 3(a) and 4(1) of the PFUTP Regulations, 2003.

21. I find it relevant to note here that in the matter of ***Securities and Exchange Board of India*** v. ***Rakhi Trading Private Limited*** (Civil Appeal Nos. 1969, 3174-3177 and 3180 of 2011 decided on February 08, 2018), which was a similar case involving execution of reversal trades in index options, the Hon'ble Supreme Court observed that "…*the traders thus having engaged in a fraudulent and unfair trade practice while dealing in securities, are hence liable to be proceeded against for violation of Regulations 3(a), 4(1) and 4(2)(a) of PFUTP Regulations…"*

Issue No. II **If yes, whether Noticee is liable for imposition of monetary penalty under Section 15HA of SEBI Act?**

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Issue No. III **If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules?**

22. As it has been established that the Noticee violated provisions of Regulations 3(a), 4(1) and 4(2) (a) of the PFUTP Regulations, 2003; hence the Noticee is liable for imposition of monetary penalty under Section 15 HA of the SEBI Act.

23. While determining the quantum of penalty under Section 15HA of the SEBI Act, the following factors stipulated in Section 15J of the SEBI Act, have to be given due regard:

    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.

24. As established above, the trades by the Noticee were non genuine in nature and created a misleading appearance of trading. I note that the trading was in illiquid stock option contracts where there was nil or negligible participation by the public. Investigation has shown amount of profit / loss of the counterparties to the trades as a result of the non-genuine trades. However, considering that the violation by the Noticee is creation of artificial trading volumes by trading between two counterparties and wider market is not involved in the trades, the trades are such that one of the counterparty books a profit while the other counterparty books a loss. Hence, it would be appropriate to consider the impact of these transactions between the two counterparties in totality. When the impact of artificial volumes created by the two counterparties is seen as a whole, it is not possible from material available on record to quantify the amount of disproportionate gain or unfair advantage resulting from the artificial trades between the counterparties or the consequent loss caused to investors as a result of the default. I further note that the Noticee contributed around 0.02% of the artificial reversal trades in the market during the Investigation Period.

25. The Noticee has contributed to artificial volumes in 17 contracts through 50 reversal trades on 9 days during the Investigation Period. Therefore, taking into account the facts and circumstances of this matter, and the proportion of trading by the Noticee as compared to the total volume of reversal trades in the market during the Investigation Period, I am of the view that a penalty of ₹5,00,000/- will be commensurate with the violations committed by the Noticee.

ORDER

26. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15I (2) of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a penalty of ₹5,00,000/- (Rupees Five Lakh only) upon the Noticee, i.e. Jai Laxmi Cement Co Pvt Ltd, under Section 15HA of the SEBI Act, for violation of regulations 3(a), 4(1), 4(2)(a) of the PFUTP Regulations, 2003.

27. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through e-payment facility into Bank Account the details of which are given below:

Account No. for remittance of penalties levied by Adjudication Officer	
Bank Name	State Bank of India
Branch	Bandra-Kurla Complex
RTGS Code	SBIN0004380
Beneficiary Name	SEBI – Penalties Remittable To Government of India
Beneficiary A/c No.	31465271959

28. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to the Enforcement Department – Division of Regulatory Action – I of SEBI. The Noticee shall provide the following details while forwarding DD/ payment information:

   a) Name and PAN of the entity (Noticee)
   b) Name of the case / matter
   c) Purpose of Payment – Payment of penalty under AO proceedings
   d) Bank Name and Account Number
   e) Transaction Number

29. Copies of this Adjudication Order is being sent to the Noticee and also to SEBI in terms of Rule 6 of the Adjudication Rules.

DATE: DECEMBER 24, 2018 **MANINDER CHEEMA**
PLACE: MUMBAI **ADJUDICATING OFFICER**