

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA**

**CORAM: V. K. CHOPRA, WHOLE TIME MEMBER**

**Order against Charmi Investments, Shri Parshwa Finance, Rujul Finance Ltd. and Shri Ashish P. Shah in the matter of Creation of Artificial Volumes and Offloading of Unlisted Shares of Shalibhadra Infosec Ltd.**

DATES OF HEARING: 24.07.2007 and 21.08.2007

APPEARANCES:

For the Noticees:

1. None

For SEBI:

1. Mrs Barnali Mukherjee, DGM, SEBI
2. Shri Naveen Sharma, Manager, SEBI
3. Shri Mohamed Rahaz P. M., Legal Officer, SEBI

**ORDER**

**(Under Section 11(4) read with Section 11 and Section 11B of the SEBI Act, 1992 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003)**

1. Shalibhadra Infosec Ltd. (hereinafter referred to as “the company” or “SIL”) was incorporated on April 25, 1994 as a private limited company. It became a public limited company in January 1995. The issued capital of SIL is 3,50,00,500 shares. However, only 50,00,500 shares of SIL are listed on the BSE, Ahmedabad and Vadodara Stock

Exchanges. On January 16, 2002 the company SIL acquired 10,00,000 shares of M/s. Jaisha Holdings Ltd. (hereinafter referred to as “JHL”) and in return issued 3,00,00,000 equity shares of Rs. 10 each of SIL at par on preferential basis to the shareholders of JHL (swap ratio 30:1). For valuation of JHL, SIL valued goodwill at Rs. 30 crores (the valuation report was prepared by Chartered Accountants M/s. Ingit C. Modi and Associates). BSE refused listing of the three crore preferential shares as it found from JHL’s balance sheet that JHL did not have a track record or fixed assets justifying the valuation. BSE appointed independent Chartered Accountants M/s. CM and RS Associates to verify the fairness of the valuation of JHL. M/s. CM and RS Associates reported that the sales estimates made by JHL for the next five years were not feasible since JHL had not generated any revenues during 2001-02, income from operations was nil and software products on whose strength the projections were made were under development as on the date of valuation. It submitted that there was no justification for the projected values arrived at earlier and it was not possible to assign any value to the goodwill of JHL which was earlier valued at Rs. 30 crores by SIL for issuance of shares to JHL shareholders and for determining the swap ratio.

2. The scrip of SIL was selected for snap investigation by the BSE for the periods June 19, 2002 to June 21, 2002, July 1, 2002 to July 2, 2002, July 5, 2002 and July 11, 2002 since heavy volumes of trading were found in the scrip during this period as compared to the capital of the company. BSE undertook detailed investigation of the scrip for the period June 3, 2002 to August 30, 2002. BSE investigation into the scrip revealed that the price of the scrip fell from Rs. 1.20 (opening price on June 3, 2002) to Re. 0.50 (closing price on August 30, 2002). High percentages of traded volumes to total listed shares were also observed, with high variation in the volume of shares traded on certain days.

3. The scrip of SIL was transferred to trading and settlement on a trade-to-trade basis w.e.f. July 15, 2002. BSE on January 9, 2003 rejected SIL’s application for the listing of 3 crore shares issued on a preferential basis to JHL. Further, NSDL vide its letter dated December 17, 2002 informed BSE that the company had dematerialized unlisted shares without obtaining in-principle approval from the Exchange. Trading in the scrip of SIL was suspended by the BSE with effect from January 13, 2003 since SIL had

dematerialized 3,00,00,000 unlisted shares issued on a preferential basis, without obtaining in-principle approval from the stock exchange. Pursuant to these findings of the BSE SEBI initiated formal investigation vide order dated September 11, 2002 for the period May 1, 2002 to July 31, 2002 (hereinafter referred to as the “relevant period” or the “investigation period”).

4. SEBI investigation into the scrip of SIL for the period between May 1, 2002 and July 31, 2002 revealed that the promoters of SIL along with other promoter-associated entities offloaded more than 1 crore unlisted shares through entities M/s. Parshwa Finance, Shri Tushar Jhaveri, Ms. Harsha Jhaveri, Shri Pankaj Patel, Shri Vinod Desai, Shri Mahesh Shah, Shri Ashit Vora, Shri Maulik Patwa and Shri Mukesh Vadecha. These entities are being proceeded against separately.

5. Show Cause Notices were issued by SEBI to SIL, Raju Shah (Chairman of SIL), Atul Shah (Manager, SIL), Santosh Gayakwad (Director, SIL), Mukesh Vadecha (Director, SIL), Shri Vinod Desai, Harsha Jhaveri, Pankaj Patel, Mahesh Shah, Ashit Vora, Maulik Patwa, Tushar Jhaveri on February 9, 2005. The entities Atul Shah, Raju Shah, Shalibhadra Infosec Ltd. and Harsha Jhaveri have applied for consent (in terms of SEBI Circular EFD/ED/Circular 1/2007 dated 20.04.2007) vide Application Nos. 39/2007 (dated July 17, 2007), 34/2007, 168/2007 and 124/2007 respectively.

6. In addition to the abovementioned entities four promoter-related entities viz. Charmi Investments, Shri Parshwa Finance, Rujul Finance Ltd. and Shri Ashish P. Shah (hereinafter collectively referred to as “the Noticees”) - offloaded around 9,80,000 unlisted shares of SIL in the secondary market to the unsuspecting investors and created artificial volumes in the scrip of the company. Separate proceedings were initiated against Rujul Shah, Ashish Shah, Charmi Investments and Parshwa Finance vide Show Cause Notices dated June 12, 2006 for violation of various provisions of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995.

7. SEBI issued a Show Cause Notice dated June 12, 2006 to SIL requiring it to show cause as to why suitable directions under Section 11 B of the SEBI Act, 1992 should not be issued against it for violation of Clause 13.1.1.1 of the SEBI (Disclosure and Investor

Protection) Guidelines, 2003 with regard to pricing of the preferential allotment to shareholders of JHL. As the company has applied for consent in terms of SEBI Circular EFD/ED/Circular 1/2007 dated 20.04.2007 referred to earlier the same is not being dealt with in this Order.

8. SIL replied vide letters dated May 16, 2007 and May 18, 2007. Vide Application dated September 27, 2007 the company SIL has applied for consent in terms of SEBI Circular EFD/ED/Circular 1/2007 dated 20.04.2007 and the same is under consideration. Charmi Investments sought time till July 31, 2006 to reply. However, after a delay of nearly one year they submitted a reply dated July 2, 2007 denying the charges. Shri Parshwa Finance replied vide letter dated August 10, 2006. Shri Rujul Finance Ltd. did not reply to the Show Cause Notice so it was posted by SEBI on its website on May 21, 2007. Affixture letter sent through ASE on October 20, 2006 (IVD/ID6/KS/79043/2006) could not be delivered and was left at the office. Shri Ashish P. Shah was served notice through the ASE on October 31, 2006 but he has also not replied to the Show Cause Notice despite reminders dated October 20, 2006 and May 24, 2007, though he has acknowledged receipt of reminder IVD/ID6/KS/79048/2006 on October 31, 2006.

9. Opportunity of personal hearing was granted to the Noticees on July 24, 2007 and August 21, 2007 but they were not availed by the Noticees. A day prior to the date of hearing on July 24, 2007, Shri Parshwa Finance requested an adjournment to any other suitable date. Accordingly, notice of next date of hearing of August 21, 2007 was given to Shri Parshwa Finance vide letter dated July 30, 2007 (receipt acknowledged August 2, 2007). However, they failed to appear again.

**10.** I have carefully examined the show cause notices, replies thereto and other materials on record.

11. The allegations against the Noticees are that they have contributed to the creation of a misleading appearance of trading in the scrip of Shalibhadra Infosec Ltd. during the investigation period and offloaded nearly 10 lakh unlisted shares of SIL in the secondary market at a time when the company had issued misleading advertisements in news papers projecting a positive picture of the financial performance of the company and stating that the Board of Directors of the company is considering a buy back of the shares of the

company at Rs. 10/- per share as against the then prevailing price of Re. 1/-. The Noticees have allegedly violated regulations 3, 4(b) and 6(a) of the SEBI (FUTP) Regulations, 1995. The same are reproduced below:

***Prohibition of certain dealings in securities***

*3. No person shall buy, sell or otherwise deal in securities in a fraudulent manner.*

***Prohibition against Market Manipulation***

*4. No person shall -*

*(b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market;*

***Prohibition on unfair trade practice relating to securities***

*6. No person shall -*

*(a) in the course of his business, knowingly engage in any act, or practice which would operate as a fraud upon any person in connection with the purchase or sale of, or any other dealing in, any securities;*

12. The proprietor of Charmi Investments is Shri Atul Shah who is also the promoter of SIL. Charmi Investments, Rujul Finance Ltd. and Rujul Securities Pvt. Ltd. all have a common address at 505, Anand Mangal II, BK Femina Town, C.G. Road, Ahmedabad – 380006. Shri Parshwa Finance (Proprietor Shri Piyush Jhaveri) has signed as “introducer” in the Know Your Client form of Charmi Investments submitted to broker Prabhudas Liladhar. Atul Shah has signed as “introducer” in Maheshbhai Shah’s Know Your Client form submitted to the sub-broker of ASE Capital. Both Shri Ashish P. Shah and Maheshbhai Shah have a common “introducer” in Shri Nrupesh C. Shah for their KYC form submitted to broker Prabhudas Liladher.

13. Charmi Investments and Shri Parshwa Finance have allegedly created artificial trading interest in the scrip, violating regulation 4(b) and 6(a) read with Regulation 3 of the SEBI (FUTP) Regulations, 1995. Rujul Finance Ltd. and Shri Ashish P. Shah have been charged with violation of Regulations 3 and 6 (a) of the SEBI (FUTP) Regulations,

1995 for offloading around 9,80,000 unlisted shares of SIL in the secondary market to the unsuspecting public. Permission from the BSE was not obtained for the listing of these shares which were dematerialized and sold to the unsuspecting public in violation of SEBI Circular SMDRP/POLICY/CIR-15/2001 dated 8.3.2001 which stipulates that the company must obtain “in-principle” approval for listing from the Exchange before issuing any further shares or securities.

14. Details of the trading by the Noticees in the scrip of the company as observed during the investigation period are presented below:-

**TRADING DETAILS OF NOTICEES IN THE SCRIP OF SIL DURING THE INVESTIGATION PERIOD**

| S. No. | Name of Client                                       | Name of Broker                               | Name of Sub Broker        | Date      | Purchase Qty. | Sales Qty. | Net    |
|--------|------------------------------------------------------|----------------------------------------------|---------------------------|-----------|---------------|------------|--------|
| 1      | Rujul Finance Limited (Director Jigen Rasiklal Vora) | P. Suryakant Share & Stock Brokers Pvt. Ltd. | Shri Parshwa Finance      | 14-Aug-02 |               | 10000      | -10000 |
|        |                                                      | ASE Capital Markets Ltd.                     | Pravin Ratilal Sharedalal | 14-Jun-02 |               | 46606      | -46606 |
|        |                                                      |                                              |                           | 17-Jun-02 |               | 53394      | -53394 |
|        |                                                      |                                              |                           | 18-Jun-02 |               | 35000      | -35000 |
|        |                                                      |                                              |                           | 19-Jun-02 |               | 5000       | -5000  |
|        |                                                      |                                              |                           | 21-Jun-02 |               | 45000      | -45000 |
|        |                                                      |                                              |                           | 24-Jun-02 |               | 10000      | -10000 |
|        |                                                      |                                              |                           | 25-Jun-02 |               | 35000      | -35000 |
|        |                                                      |                                              |                           | 26-Jun-02 |               | 11500      | -11500 |
|        |                                                      |                                              |                           | 2-Jul-02  | 25000         |            | 25000  |
|        |                                                      |                                              |                           | 10-Jul-02 |               | 5000       | -5000  |
|        |                                                      |                                              |                           | 11-Jul-02 |               | 5000       | -5000  |
|        |                                                      |                                              |                           | 15-Jul-02 |               | 5000       | -5000  |
|        |                                                      |                                              |                           | 16-Jul-02 |               | 10000      | -10000 |
|        |                                                      |                                              |                           | 2-Aug-02  |               | 10000      | -10000 |
|        |                                                      |                                              |                           | 5-Aug-02  |               | 10000      | -10000 |
|        |                                                      |                                              |                           | 6-Aug-02  |               | 20000      | -20000 |
|        |                                                      |                                              |                           | 7-Aug-02  |               | 10000      | -10000 |
|        |                                                      |                                              |                           | 8-Aug-02  |               | 2049       | -2049  |
|        |                                                      |                                              |                           | 9-Aug-02  |               | 5000       | -5000  |
|        |                                                      |                                              |                           | 12-Aug-02 |               | 7051       | -7051  |

| S. No. | Name of Client                                   | Name of Broker                               | Name of Sub Broker                       | Date      | Purchase Qty. | Sales Qty.    | Net            |
|--------|--------------------------------------------------|----------------------------------------------|------------------------------------------|-----------|---------------|---------------|----------------|
|        |                                                  |                                              |                                          | 13-Aug-02 |               | 25000         | -25000         |
|        |                                                  |                                              |                                          | 16-Aug-02 |               | 12000         | -12000         |
|        |                                                  |                                              |                                          | 19-Aug-02 |               | 10000         | -10000         |
|        |                                                  |                                              |                                          | 20-Aug-02 |               | 6800          | -6800          |
|        | <b>Total</b>                                     |                                              |                                          |           | <b>25000</b>  | <b>394400</b> | <b>-369400</b> |
| 2      | Ashish P. Shah                                   | Prabudas Liladhar                            | Jyotish Bhogilal Stock Brokers Pvt. Ltd. | 6-Aug-02  |               | 14000         | -14000         |
|        |                                                  |                                              |                                          | 12-Aug-02 |               | 115000        | -115000        |
|        |                                                  |                                              |                                          | 13-Aug-02 | 100           | 100100        | -100000        |
|        |                                                  |                                              |                                          | 14-Aug-02 |               | 25000         | -25000         |
|        |                                                  | ASE Capital Markets                          | Arth Stock Broking Pvt. Ltd.             | 24-Jun-02 |               | 51000         | -51000         |
|        |                                                  |                                              |                                          | 25-Jun-02 |               | 50000         | -50000         |
|        |                                                  |                                              |                                          | 26-Jun-02 | 1500          | 12500         | -11000         |
|        |                                                  |                                              |                                          | 27-Jun-02 |               | 5000          | -5000          |
|        |                                                  | Parklight Investment Pvt. Ltd.               |                                          | 7-Jun-02  |               | 15000         | -15000         |
|        |                                                  |                                              |                                          |           |               |               |                |
|        | <b>Total</b>                                     |                                              |                                          |           | <b>1600</b>   | <b>387600</b> | <b>-386000</b> |
| S. No. | Name of Client                                   | Name of Broker                               | Name of Sub Broker                       | Date      | Purchase Qty. | Sales Qty.    | Net            |
| 3      | Charmi Investments (Prop. Atul B. Shah)          | P. Suryakant Share & Stock Brokers Pvt. Ltd. | Shri Parshwa Finance                     | 5-Aug-02  |               |               | 0              |
|        |                                                  |                                              |                                          |           | 30000         | 30000         |                |
|        |                                                  |                                              |                                          | 7-Aug-02  | 89000         | 12500         | 76500          |
|        |                                                  |                                              |                                          | 9-Aug-02  |               | 48650         | -48650         |
|        |                                                  |                                              |                                          | 14-Aug-02 |               | 70400         | -70400         |
|        |                                                  |                                              |                                          | 16-Aug-02 |               | 38490         | -38490         |
|        |                                                  |                                              |                                          | 21-Aug-02 |               | 400           | -400           |
|        |                                                  |                                              |                                          | 22-Aug-02 |               | 2000          | -2000          |
|        |                                                  |                                              |                                          | 26-Aug-02 | 55501         |               | 55501          |
|        |                                                  |                                              |                                          |           |               |               |                |
|        |                                                  | Prabudas Liladhar                            | Jyotish Bhogilal Stock Brokers Pvt. Ltd. | 29-Aug-02 |               | 247751        | -247751        |
|        | <b>Total</b>                                     |                                              |                                          |           | <b>174501</b> | <b>450191</b> | <b>-275690</b> |
| 4      | Shri Parshwa Finance (Proprietor Piyush Jhaveri) | P. Suryakant Share & Stock Brokers Pvt. Ltd. | Shri Parshwa Finance                     | 10-Jun-02 |               |               | -23,473        |
|        |                                                  |                                              |                                          |           | 121590        | 145063        |                |
|        |                                                  | Prabudas Liladhar                            | Jyotish Bhogilal Stock Brokers Pvt. Ltd. | 9-Aug-02  |               | 71000         | -71000         |

| S. No. | Name of Client | Name of Broker | Name of Sub Broker | Date      | Purchase Qty. | Sales Qty.    | Net            |
|--------|----------------|----------------|--------------------|-----------|---------------|---------------|----------------|
|        |                |                |                    | 12-Aug-02 |               | 31000         | -31000         |
|        |                |                |                    |           |               |               |                |
|        | <b>Total</b>   |                |                    |           | <b>121590</b> | <b>247063</b> | <b>-125473</b> |

15. The extent of trading done by the Noticees and the details of volumes created by them is as under:-

| S. No. | Entity               | Gross Buy | Gross Sell | Net     | Volumes created |
|--------|----------------------|-----------|------------|---------|-----------------|
| 1.     | Charmi Investments   | 174501    | 450191     | -275690 | 174501          |
| 2.     | Shri Parshwa Finance | 121590    | 247063     | -125473 | 121590          |
| 3.     | Rujul Finance Ltd.   | 25000     | 394400     | -369400 | 25000           |
| 4.     | Ashish P. Shah       | 1600      | 387600     | -386000 | 1600            |

16. From the above table, it can be seen that the net deliverable position of Charmi Investments is 2,75,690 shares, whereas, gross sales by Charmi Investments is 4,50,191 shares. It has also been noted that between 5<sup>th</sup> August, 2002 and 26<sup>th</sup> August, 2002, Charmi Investments created artificial volume by both buying and selling 1,74,501 shares.

17. It is observed that the net deliverable position of Shri Parshwa Finance is 1,25,473 shares, whereas, gross sales by Shri Parshwa Finance is 2,47,063 shares. It has been seen that on 10<sup>th</sup> June, 2002 Shri Parshwa Finance created artificial volume by both buying and selling 1,21,590 shares.

18. By selling and introducing huge volumes of the unlisted shares into the system the Noticees have dealt in unlisted share, created artificial volumes and a false/ misleading appearance of trading in the scrip of the company. The shares were traded without permission from the BSE for listing. Hence, the Noticees have violated Regulation 4 (b) read with Regulation 3 of SEBI (Prohibition of Fraudulent and Unfair Trade practices relating to securities market) Regulations, 1995.

19. The quantity of shares offloaded by the Noticees is given in the following table:

| S. No | Entity               | No. of Shares offloaded | No. of shares held before preferential allotment | No. of unlisted shares offloaded |
|-------|----------------------|-------------------------|--------------------------------------------------|----------------------------------|
| 1.    | Charmi Investments   | 275690                  | 0                                                | 275690                           |
| 2.    | Shri Parshwa Finance | 125473                  | 0                                                | 125473                           |
| 3.    | Rujul Finance Ltd.   | 369400                  | 175700                                           | 193700                           |
| 4.    | Ashish P. Shah       | 386000                  | 0                                                | 386000                           |

20. Prior to the acquisition of 10 lakh shares of JHL by SIL and issue of shares of SIL to the shareholders of JHL with the Swap Ratio of 30:1 the issued and listed shares of the company were fifty lakhs and five hundred only. Even the swap ratio of 30:1 which is based on valuation of goodwill of JHL at Rs. 30 crores is highly irregular as per the independent Chartered Accountants appointed by the BSE. Hence, BSE did not allow further listing of the shares. The 3 crore shares allotted by SIL on preferential basis were dematted without the listing approval by the BSE. A total of over 1 crore shares were offloaded by the Noticees in concert with other promoter-related entities in the secondary market as aforesaid and sold to the unsuspecting public between May 2002 and August 2002.

21. By offloading irregularly allotted and unlisted shares of the company in the secondary market to the unsuspecting public in the aforesaid manner, the Noticees have violated Regulation 6(a) read with Regulation 3 of SEBI (FUTP) Regulations, 1995. As held by the Hon'ble Supreme Court in the case of CIT vs East Coast Commercial Co. Ltd. (AIR (1967) SC 768), even when there is no evidence of any overt act showing that entities are acting in concert, their conduct and common interest maybe used to infer that they must be acting together. In the words of the Apex Court, this is sufficient to show

that the entities have acted in concert. Since evidence of actual acting in concert is difficult to obtain, it is not insisted on.

22. Vide letter dated July 3, 2007 Shri Parshwa Finance has claimed that it did not act as introducer in the KYC form for Charmi Investments submitted to Prabhudas Liladher and its signature on the KYC form was forged. This explanation is not satisfactory. It may be noted that Shri Parshwa Finance Ltd. (Proprietor Shri Piyush Jhaveri) had large proprietary trades in the same shares at the relevant time as detailed in paragraph 14 above. The plea that its signature as introducer in the KYC form for Charmi Investment is forged is taken up as late as July 3, 2007 and is not found in its earlier reply. Therefore, it does not inspire confidence.

23. M/s. Charmi Investment vide reply dated July 02, 2007 denied any relationship with SIL and/or its promoters as well as Shri Parshwa Finance. It has also denied the allegation of offloading unlisted shares in the market and creating false/misleading appearance of trading in the market. However, in the same reply Charmi Investment admits that Shri Atul Shah is their proprietor. Shri Atul Shah is the Manager of SIL and the brother of the Chairman of SIL. Therefore, Charmi Investment is a promoter-related entity which has traded in shares of SIL, buying and short-selling substantial quantities and creating considerable volumes in the scrip.

24. In the light of the given facts and circumstances, Charmi Investment, Parshwa Finance, Ashish P. Shah and Rujul Finance Ltd. have violated the SEBI (FUTP) Regulations, 1995 as detailed in the preceding paragraphs, by creating artificial volumes in the scrip of Shalibhadra Infosec Ltd. and assisting the promoters of the company Shalibhadra Infosec Ltd. in offloading its unlisted shares in the secondary market to unsuspecting investors.

25. It is noted that on an earlier occasion also SEBI vide its Order dated June 20, 2007 has restrained Shri Piyush Jhaveri from buying, selling and dealing in or accessing the securities market in any manner for a period of two years for irregularities in the scrip of M/s MOH Ltd.

## **ORDER**

Now, therefore, in exercise of powers under Section 11B read with Section 11(4) of the SEBI Act, 1992 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade practices relating to securities market) Regulations, 2003 I hereby restrain M/s. Charmi Investment (Sub-Broker registered on the NSE, SEBI Registration No. INS 231624813) and Shri Parshwa Finance ( Sub-Broker registered on the BSE, SEBI Registration No. INS 011245110) from buying, selling or otherwise dealing in securities for a period of one year in the proprietary account.

M/s. Rujul Finance Ltd. and Shri Ashish P. Shah are also restrained from buying, selling or otherwise dealing in securities for a period of one year.

**Place: Mumbai**

**V. K. CHOPRA**

**Date: February 14<sup>th</sup>, 2008**

**WHOLE TIME MEMBER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**