BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO: Order/SBM/VS/2022-23/16850-16852)

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. **Ms. Madhu Chanda** (PAN No ADGPC2308E), having address at: D3, 201, Tapovandeep, Pathanwadi, Malad, Mumbai 400097
2. **Mr. Anandilal Chanda** (PAN NO.: AACPC9029K), having address at: D3, 201, Tapovandeep, Pathanwadi, Malad, Mumbai 400097
3. **Anandilal Chanda HUF** (PAN NO.: AACHC8681B), having address at: D3, 201, Tapovandeep, Pathanwadi, Malad, Mumbai 400097

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 was conducted by SEBI in the matter 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 Rranka ('**Abhinandan**'), Mr. Sandeep Maloo ('**Sandeep**'), Ms. Neeta Maloo ('**Neeta**'), Ms. Madhu Chanda ('**Madhu**'), Anandilal (being karta of Anandilal HUF) 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 Madhu, Anandilal and Anandilal HUF (hereinafter referred to by their individual names and/or also collectively referred to as '**Noticees**') under the provisions of section 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 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 communiques 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 impose such penalty on the Noticees, as deemed fit, in terms of Rule 5 of the Adjudication Rules and in terms of Section

15HA of the SEBI Act. Pursuant to transfer of Ms. Rachna Anand, the undersigned was appointed as 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.

<u>SHOW CAUSE NOTICE, REPLY AND HEARING</u>

4. Show Cause Notices ref. SEBI/EAD-1/AA/ASR/492/2019, SEBI/EAD-1/AA/ASR/493/2019 and SEBI/EAD-1/AA/ASR/494/2019 dated December 23, 2019 (hereinafter referred to as '**SCN'**) 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 section 15HA of the SEBI Act for their alleged violation of 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. 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. *<u>Mr. Manish Manoharlal Chaturvedi (Manish)</u>: 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. *<u>Mr. Praveen Kumar Jain (Praveen):</u> 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. *Mr. Bhavesh Gadhavi (Bhavesh): 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. *Mr. Sandeep Maloo (Sandep): 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. *Mrs. Neeta Maloo (Neeta): Neeta is Sandeep's wife, was authorized to trade in Shree Jaisal Electronics & Industries Ltd. (Jaisal) account.*

h. *Mr. Abhinandan Ranka (Abhinandan): 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 Auto, 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. *Mrs. Madhu Chanda (Madhu): 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, Pinky, E-Ally, Jaisal and Bhavesh Gadhavi at Sharekhan.*

k. *Mr. Anandilal Chanda (Anandilal): 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. *Vishal Vijay Shah (Vishal): 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 Pinky 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

Sr. No.	Particulars	Value
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, Pinky, E-Ally, Jaisal, Bhavesh, Anandilal and Anandilal Chanda 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.*

5. The SCN dated December 23, 2019 was duly served upon the Noticees and the same is evident from the postal records/communication. 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. The Noticees vide their individual letter dated January 20, 2020 requested for inspection of all the documents collected during the period of investigation. In this regard, vide letter dated March 12, 2020, the Noticees were informed that their request for inspection of records/document have been forwarded to the concerned department of SEBI and the Noticees were advised to address further communication if

any, to the said department of SEBI. Thereafter, SEBI vide letter dated February 09, 2021 informed the Noticees about the appointment of the undersigned in the instant matter. The Noticees were also advised to file their reply to SCN by February 26, 2021 and appear for a personal hearing on March 08, 2021. Madhu vide her email dated March 03, 2021, requested to adjourn the said hearing citing her medical condition and also the medical condition of her husband (Anandilal). Thereafter, vide letter dated March 10, 2021, the Noticees were advised to file their reply to SCN by March 31, 2021 and appear for personal hearing on April 07, 2021. Madhu vide her email dated April 01, 2021 requested to adjourn the said hearing fixed on April 07, 2021, citing medical emergencies. Subsequently, the Noticees vide email dated April 27, 2021 have submitted that they were infected with Covid during the said period and were therefore not in a position to appear for hearing. Thereafter, vide letter dated March 21, 2022, the Noticees were given another opportunity to file their reply to the SCN by April 15, 2022 and also to appear for hearing on April 22, 2022. Madhu vide her email dated April 21, 2022 requested for adjournment of the hearing once again and further requested to grant additional time to file reply to the SCN. In light of the above and in the interest of natural justice, a final opportunity to file reply to the SCN and also to appear for the personal hearing before the undersigned on April 28, 2022 was provided to the Noticees.

6. The Noticees vide email dated April 26, 2022 submitted their replies to the SCN, details of which are as follows:
   a. *Madhu vide her reply dated April 26, 2022, inter alia submitted as follows:*
      i. *There is a long and unexplained delay in initiation of proceedings against her. Madhu also submits that the investigation period in the instant case is 2009-2011, more than 8 years back from the date of issuance of SCN. The inordinate delay in initiation of the present proceedings and the investigation has caused prejudice to her and has impeded on the ability of her to present a constructive reply and defend the charges levied against her. She also relied upon following judgments of Hon'ble Securities Appellate Tribunal in this regard:*
         - *Libord Finance Ltd. V. SEBI, 2008 86SCL 72SAT*
         - *HB Stockholdings Limited V. SEBI (Appeal No. 114 of 2012)*
         - *Ashlesh Gunavantbhai Shah v. SEBI (Appeal no. 169 of 2019)*
         - *Mr. Rakesh Kathotia & Ors. V. SEBI (Appeal No. 7 of 2016)*
      ii. *Madhu submits that there is violation of the Adjudication Rules as opportunity of personal hearing was provided to her before examining her reply, which is to be submitted.*
      iii. *Madhu submits that the SCN is bad in law and mentioned that it must contain the exact nature of the measures/actions. Madhu also submits that the SCN is general I and vague in nature and there*

is no specific case made out against her. In this regard, she had relied upon judgment of Hon'ble Supreme Court in the matter of **Gorkha Security Services vs. Govt. of NCT of Delhi & Ors. (2014) 9 SCC 105**.

iv. *It I submitted that the management of Sharekhan had given instructions to all the departments for smooth execution of trades by Manish and group. T was in regular course of employment that Madhu followed the instruction given to her by her superiors at Sharekhan.*

v. *It is submitted that Madhu was the employee of the Sharekhan since 2004, as an employee of Sharekhan, Madhu as well as other dealers of Sharekhan executed trades on the instruction of Manish.*

vi. *It is submitted that Manish used to share his research and tips on securities and it was a part of the Madhu's employment with Sharekhan to share the research reports of Sharekhan with its clients*

b. Anandilal and Anandilal HUF vide their common reply dated April 26, 2022, *inter alia* submitted as follows:

i. *There is a long and unexplained delay in initiation of proceedings against her. Madhu also submits that the investigation period in the instant case is 2009-2011, more than 8 years back from the date of issuance of SCN. The inordinate delay in initiation of the present proceedings and the investigation has caused prejudice to her and has impeded on the ability of her to present a constructive reply and defend the charges levied against her. She also relied upon following judgments of Hon'ble Securities Appellate Tribunal in this regard:*

- *Libord Finance Ltd. V. SEBI, 2008 86SCL 72SAT*
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- *Ashlesh Gunavantbhai Shah v. SEBI (Appeal no. 169 of 2019)*
- *Mr. Rakesh Kathotia & Ors. V. SEBI (Appeal No. 7 of 2016)*

ii. *Madhu submits that there is violation of the Adjudication Rules as opportunity of personal hearing was provided to her before examining her reply, which is to be submitted.*

iii. *Madhu submits that the SCN is bad in law and mentioned that it must contain the exact nature of the measures/actions. Madhu also submits that the SCN is general I and vague in nature and there is no specific case made out against her. In this regard, she had relied upon judgment of Hon'ble Supreme Court in the matter of* **Gorkha Security Services vs. Govt. of NCT of Delhi & Ors. (2014) 9 SCC 105**.*It is submitted that Madhu never passed any information of client's trade to anyone including him. It was the unusual and normal market practice to pass on investment ideas and tips of the securities with clients which the clients on the basis of their own analysis and the investment ideas provided by Sharekhan, trades in securities in the normal course of practice.*

iv. *It is submitd that Manish himself was a research analyst and used to share his recommendation to Sharekhan and its dealers.*

v. *It is submitted that Anandilal did not have knowledge of any information nor he was aware that while executing the trades in his own account an Anandilal HUF account, h was front running the trades of Sharekhan. The tradin in the securities was done by Anandilal on the basis of his own knowledge and without been assisted by anyone. It is further submitted that only on the mere fact that Madhu is wife of him, it cannot be said that Madhu had provided the details of trades of clients' of Sharekhan.*

vi. *It is submitted hat Anandilal and Madhu were not located in the same branch when the alleged front running the trades of Sharekhan's clients were executed.*

vii. *It is submitted that Anandilal was not a dealer but client of Sharekhan and in fact he had approached Shaekhan for a job opportunity for which he had given interview for the same, where he was asked to submit his personal details and documents.*

viii. *It is submitted that without even considering and accepting his job application, his personal details was misused by creating bogus NCFM ID and executed trades in proprietary account of Sharekhan.*

7. It is noted that, in the instant matter, 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 seeking adjournment of hearing and also time to furnish reply to the SCN by citing reasons viz., pandemic situation of Covid-19, on medical grounds of the Noticees etc. On the scheduled date of hearing, i.e. on April 28, 2022, Mr. V. N. Singh, Mr. Sukrut Mhatre and Madhu, appeared as Authorized Representatives (ARs) on behalf of all the Noticees and reiterated the submissions made by them vide their reply dated April 26, 2022. During the course of hearing, AR also made a request for filing written submission in the matter post hearing, time to file written submission in the matter post hearing was granted till May 06, 2022. The Noticees vide their common reply dated May 06, 2022 made further submission and reiterated the submission made by them vide their earlier email/letter dated April 26, 2022.

CONSIDERATION OF ISSUES AND FINDINGS

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 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>

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 inordinate delay in the present proceeding which is highly prejudicial to them. Further, they have contended that SEBI has concluded the investigation in the instant case in 2011 and the SCN was issued to them on December 23, 2019. From the material made available on record, I find that the investigation in the instant matter involved the examination of trades by multiple 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 Anandilal HUF and proprietary trades of 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, the proceedings in the present matter have been adjourned on numerous occasions due to the request made by the Noticees and also due to lockdown on account of Covid-19 Pandemic, 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 28, 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.

11. The Noticees have further contended that the Adjudication Rules have been violated in terms of the scheduling of hearing prior to the filing of reply by the Noticees to the SCN. In this regard, I note that the said SCN was issued to the Noticees on December 23, 2019 and thereafter, multiple reminders/ letters were sent and served upon the Noticees to file reply to SCN and to also appear for the hearing as already elaborated in para 5 of this order. Further I note that in the instant matter the hearing of the Noticees took place on April 28, 2022 (at 11.30 am) whereas, the reply/submissions made by the Noticees to the SCN was received by SEBI on April 26, 2022 (at 5.56 pm). Therefore, in view of the above observations, the contention of the Noticees is without any merit and not tenable.

12. In their respective submissions that were made during the course of the proceedings, the Noticees have also contended that the SCN issued to them is bad in law and mentioned that it must contain the exact nature of the measures/actions that SEBI proposes to take, failing which, any Order passed would be violative of the principles of natural justice and would be rendered invalid. In this regard, the Noticees have placed reliance on the judgment of the Hon'ble Supreme Court in the matter of

Gorkha Security Services vs. Govt. of NCT of Delhi & Ors. (2014) 9 SCC 105. On perusal of the said Order of the Hon'ble SC, I find that the same is factually distinguishable and not applicable to the facts and circumstances of the present proceeding against the Noticees. I note that in the Gorkha Security Services case, the matter pertained to blacklisting of a contractor by a government agency for breaching the terms and conditions of the contract, which resulted in depriving the contractor from entering into any public contracts with the government agencies, thereby violating the fundamental right of equality of opportunity in the matter of public contract of such person. In the instant proceeding, the SCNs issued to the Noticees were for their violations / breach of the provisions of the securities law, which confer discretion upon SEBI to take such measures as it thinks fit in the interest of the investors and the securities market. In this regard, among other enforcement actions that were initiated against the entities, including the Noticees, SEBI also initiated adjudication proceedings against the Noticees under the provisions of the SEBI Act and the Adjudication Rules. Further, it is observed that the SCNs issued to the Noticees in this regard have clearly spelt out the provisions of law allegedly violated by the Noticees under various provisions of the SEBI Act and the PFUTP Regulations. Therefore, it is observed that the specific allegations levelled against the Noticees in the instant proceeding have been unambiguously conveyed to them in the SCN. Further, in the interest of natural justice and in terms of the Adjudication Rules, opportunities were provided to the Noticees to make their submissions and also appear for a personal hearing before the undersigned. As already stated, Noticees have not only made their written submissions in the matter but also appeared before the undersigned during the course of the proceeding and made their submissions (both oral and written). Therefore, based on the submissions made by the Noticees and the overall assessment of the facts and circumstances of the case, the current Adjudication Order is passed against the Noticees.

13. 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 i.e. Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh (who were the trading clients of Sharekhan) and unfair gains had accrued to such accounts. It was observed that Madhu who was the dealer of Sharekhan had communications with Manish who was the dealer on behalf of the *Sterling Group*. It is alleged that Manish used to pass on the information about the impending orders/trades of the *Sterling Group* to Madhu, which were in turn used by Madhu (dealer of Sharekhan) to trade in the accounts of the seven entities ahead of the orders/trades of the *Sterling Group*. Further, it is alleged that Madhu passed on the information to Anandilal (her husband) who traded/placed orders in the accounts of Anandilal (husband of Madhu), Anandilal HUF (Karta Anandilal) and the Proprietary account of Sharekhan ahead of the placement of trades/orders in the

above mentioned seven trading accounts. Thus, it is noted that the front–running activity in the aforesaid accounts were carried out by Manish with the support of Praveen and Madhu. Further, I note from the SCN that the clients of Sharekhan who had front run the trades of the *Sterling Group* were front–run by Sharekhan (in its proprietary account), Anandilal and Anandilal HUF and that Madhu used/passed the information of orders placed by Manish to her husband, Anandilal and had also facilitated (a) Manish in front–running the trades of the *Sterling Group* through the seven accounts and (b) Sharekhan, Anandilal and Anandilal HUF to front–run the above clients of Sharekhan. It was also alleged that Anandilal had, in connivance with Madhu, obtained confidential information about orders placed by the clients of Sharekhan and had front–run the trades of Sharekhan's clients in his own account, HUF account and proprietary account of Sharekhan. 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 read with Regulations 3(a), (b), (c), (d) and 4(1) of the PFUTP Regulations.

14. I note that Noticees in their submissions have denied the allegations and *inter alia* contended that Madhu was only placing the orders given by Manish and had no knowledge of the trades of the *Sterling Group* being front–run and further, that the NCFM ID of Anandilal was wrongly misused by Sharekhan to front–run the trades of the *Sterling Group*.

15. For determining the violations alleged in the SCN, it is important to firstly ascertain whether the front-runners (Anandilal, Anandilal HUF), the seven trading clients of Sharekhan as mentioned above and other entities viz. Madhu and Praveen who have abetted/aided in the front-running were known/connected to Manish. In this context, I note that the Investigation Report/SCN has detailed out the connections of the Noticees with Manish during the course of investigations. 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 in the *Sterling Group* accounts. 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, Pinky, E-Ally, Jaisal and Bhavesh which were maintained with Sharekhan. Apart from trading in the account of the seven entities, Madhu who is the spouse of Anandilal had passed on the information to him and placed orders in the accounts of Anandilal, Anandilal HUF (Karta Anandilal) and the proprietary account of Sharekhan. The above three trading accounts were also maintained with Sharekhan. Thus, from

the above, the connections of the front-runners (Anandilal & Anandilal HUF) and Madhu, who have aided and abetted the front-runners with Manish is amply established. I note that Noticees in their submissions had sought documentary evidence from SEBI evidencing the fact that Madhu and Anandilal were sitting at the same branch i.e. Lower Parel. In this context, I note that apart from the assertion that Madhu was at a different location from Anandilal, the Noticees have not produced any evidence to substantiate such assertion. Having regard to the aforementioned, I am inclined to believe the information obtained by SEBI from BSE.

16. 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 Anandilal and Anandilal HUF and the seven entities i.e E Allay, Viraj, Laxmi etc. were placed through Sharekhan. It is noted that Madhu is the dealer of Sharekhan and had constant telephonic conversations with Manish during the relevant period of investigation. 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. One such dealer with whom Manish had conversation is Madhu.
    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 viz., Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh.
    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 Gro*up 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, 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, 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, viz., Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh.

17. To illustrate, the following trades show that Laxmi and Viraj had front-run the trades of Abhi Ambi and Ratha (*Sterling Group* companies) during the investigation period:

a. Trades of Laxmi ahead of Abhi Ambi (a *Sterling Group* entity) in Idea on November 19, 2010, on NSE:

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

Sl. No.	Client	Short sell trade time (Hrs)	Buy trade time (Hrs)	Sell Quantity	Buy Quantity	Profit	% matched with *Sterling Group*
1	Laxmi	09:16:10-09:38:24	09:38:56-09:39:18	5,52,478	5,52,000	5,41,198	99.89
2	**Laxmi**	**10:08:06-10:25:35**	**10:26:01-10:26:06**	**92,336**	**92,336**	**60,537**	**100.00**
3	Laxmi	10:39:56-11:32:35	11:33:06-11:33:18	4,47,478	3,79,876	1,99,882	99.20
4	Laxmi	11:35:24-11:53:16	11:52:11-11:52:22	54,398	1,20,000		
5	Laxmi	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

ii. The relevant order and trade details of the tranche highlighted above at Sl. no. 2 of above are analysed below in light of trades of Abhi Ambi and along with the synchronization of relevant calls between Manish–Madhu and Manish–JMFL (as per voice recordings made available by JMFL) as under:

	Laxmi				Abhi Ambi			
Tranche II	Total Sell Qty	Avg. Sell Price (₹)	Turnover (₹)		Abbreviations Used B.O.T – Buy Order Time B.O.P – Buy Order Price B.T.T – Buy Trade Time B.T.P – Buy Trade Price		S.O.T – Sell Order Time S.O.P – Sell Order Price S.T.T – Sell Trade Time 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. 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 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.

b. Trades of Viraj ahead of Ratha Infrastructure (a *Sterling Group* entity) in K SOIL (NSE) on December 13, 2010:

i. The trades of Viraj on December 13, 2010 (in one of the 3 Tranches) are analysed in light of trades of Ratha Infrastructure as under:

	Viraj				Ratha			
Tranche I	Total Buy Qty	Avg. Buy Price (₹)	Turnover (₹)		Abbreviations Used B.O.T – Buy Order Time B.O.P – Buy Order Price B.T.T – Buy Trade Time B.T.P – Buy Trade Price		S.O.T – Sell Order Time S.O.P – Sell Order Price S.T.T – Sell Trade Time S.T.P – Sell Trade Price	
	8,02,000	40.03	3,21,04,688					
	B.O.T	B.O.P (₹)	B.T.T	B.T.P (₹)				
From	09:24:26	39.55	09:24:30	39.55				
To	09:33:51	40.50	09:33:51	40.50				
	Total Sell Qty	Avg. Sell Price (₹)	Turnover (₹)		Total Buy Qty	Avg. Buy Price (₹)	Turnover (₹)	
	8,02,000	40.45	3,24,40,900		11,00,000	40.52	4,45,71,287	
	S.O.T	S.O.P (₹)	S.T.T	S.T.P (₹)	B.O.T	B.O.P (₹)	B.T.T	B.T.P (₹)
From	09:34:16	40.45	09:34:21	40.40	09:34:46	40.45	09:34:46	40.35
To	09:34:52	40.45	09:35:54	40.45	09:35:54	41.00	09:38:55	41.00

ii. Buy orders were being placed in Viraj's account from 09:24:26 to 09:33:51 for a total of 8,02,000 shares (Average order quantity of 22,278 shares) translated into 758 trades (Average trade quantity of 1,058 shares).

iii. At 09:34:16, a sell order was placed in Viraj Mercantile's account for 6,45,000 shares which was followed by another sell order at 09:34:52 for 1,57,000 shares at the same order price of ₹40.45.

iv. Three buy orders for a total buy quantity of 11,00,000 shares were placed by Ratha Infrastructure at (a) 09:34:46 for 3,00,000 shares, (b) 09:35:33 for 4,00,000 shares and (c) 09:35:54 for 4,00,000 shares. All the three orders were placed at ₹40.45 i.e. the same price at which sell orders were placed in Viraj's account *30 seconds prior* to the start of buy orders being placed by Ratha Infrastructure. The LTP at the time of buy order placed by Ratha Infrastructure was ₹ 40.40, ₹ 40.30 and ₹ 40.35 respectively.

v. The total number of shares sold by Viraj in the first tranche were 8,00,000 in 137 trades, out of which 7,22,753 (i.e. 90.34%) shares got matched with Ratha Infrastructure in 21 trades (average of 34,417 shares per trade) while the balance 77,247 shares got matched in 116 trades with other clients (average of 666 shares per trade). At the end of this tranche, the net position of Viraj Mercantile was squared off exactly.

vi. Though Madhu dialled Manish on 9987261632 for 9 times near the timing of orders/ trades of Viraj for 21 minutes, no trades were observed in Manish's account on that date. Also from Madhu's itemised mobile bills, it was observed that during the market hours no calls were placed to other numbers other than the 9 calls to Manish on 9987261632 and 2 calls to 9967031632 (both numbers belonging to Manish).

Therefore, it can be inferred that Manish spoke to Madhu for front–running the trades of the *Sterling Group* through Viraj's account. Further, as detailed at paragraph 17(b)(ii) and (iii), while buy orders placed in Viraj's account were placed for smaller number of shares, the sell orders of large quantities clearly indicates that the trades in the account were carried out on the basis of prior information of trades of Ratha Infrastructure.

18. Therefore, from the above trading pattern of the Laxmi and Viraj, it is evident that the Noticees were front-running the trades of the Sterling group. I also note that Manish operated the same scheme to indulge in the illegal front running in the remaining five accounts (accounts of 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. As already stated Madhu, who used to get the information from Manish through telephonic calls about the orders placed by the *Sterling Group* in turn were placing order in seven accounts to front-run the trades of the *Sterling Group.*

19. Further, as already stated, Madhu being the dealer of Sharkhan had passed on the information to Anandilal (her husband) and traded in the accounts of Anandilal, Anandilal HUF and Prop. Account of Sharekhan. On the basis of analysis of the trading pattern in respect of orders placed for clients of Sharekhan, the following *modus operandi* was observed:
    a. Madhu and Anandilal were located in the same branch of Sharekhan. Upon observing the trading and order placement pattern in various accounts of 7 front runners (namely Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh), Madhu passed on this information to Anandilal and pursuant to that Anandilal placed orders in his own account, Anandilal HUF's account and the proprietary account of Sharekhan and front–run the clients of Sharekhan.
    b. However, the orders placed to square off the existing position in the accounts of Anandilal, Anandilal HUF and in the proprietary account of Sharekhan were being placed before the orders in the accounts of 7 front runners (namely Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh) and/or at a price better than that of the orders in the accounts of 7 front runners (namely Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh). Due to the aforesaid strategy, trades in these accounts executed before the trades in the accounts of 7 front runners (namely

Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh). This also resulted in orders of clients of Sharekhan remaining unexecuted which had to be later deleted by the clients.

20. It is noted that Noticees had traded in their accounts i.e., (Anandilal and Anandilal HUF) 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. Accordingly, the analysis for one scrip day for front–runner account belonging to Anandilal and Anandilal HUF was analysed and observations are made as under:

a. Trades of Anandilal ahead of E-Ally in KSOIL (NSE) on December 15, 2010:

i. *The* trades of Anandilal on December 15, 2010 are analysed in light of trades of E–Ally (client of Sharekhan and entity who had front–run the trades of *Sterling Group* entities) as under:

	Anandilal				**E-Ally**			
Tranche I	Total Buy Qty	Avg. Buy Price (₹)	Turnover (₹)		Total Buy Qty	Avg. Buy Price (₹)	Turnover (₹)	
	15,000	44.90	6,73,500		1,90,307	44.88	85,40,416	
	B.O.T	B.O.P (₹)	B.T.T	B.T.P (₹)	B.O.T	B.O.P (₹)	B.T.T	B.T.P (₹)
From	11:17:19	44.90	11:17:40	44.90	11:11:36	44.50	11:12:00	44.50
To	11:17:19	44.90	11:17:41	44.90	11:18:45	45.50	11:18:50	45.50
	Total Sell Qty	Avg. Sell Price (₹)	Turnover (₹)		Total Sell Qty	Avg. Sell Price (₹)	Turnover (₹)	
	15,000	45.65	6,84,750		1,90,307	45.70	86,96,999	
	S.O.T	S.O.P (₹)	S.T.T	S.T.P (₹)	S.O.T	S.O.P (₹)	S.T.T	S.T.P (₹)
From	11:19:52	45.65	11:20:08	45.65	11:19:10	45.60	11:19:11	45.60
To	11:19:52	45.65	11:20:25	45.65	11:21:30	45.70	11:21:30	45.70

ii. It is observed that a buy order was placed at 11:17:19 Hrs for 15,000 shares in Anandilal's account and the same got executed in 11 trades at an average of 1,364 shares per trade. After execution of the above buy order, no buy/ sell order was placed for next 2 minutes. It was noted that E-Ally was placing buy orders through Sharekhan from 11:11:36 Hrs and continued till 11:18:45 Hrs and placed a sell order at 11:19:10 Hrs for 1,90,000 shares at ₹45.70.

iii. At 11:19:52 Hrs, a sell order was placed in Anandilal's account for 15,000 shares at ₹ 45.65 when the LTP was ₹ 45.45. Though, Anandilal entered the sell order 42 seconds after E-Ally, trade of Anandilal executed before trades of E-Ally since the sell order price of Anandilal was ₹ 45.65 and that of E-Ally was ₹45.70.

iv. Of the shares sold by E-Ally in this tranche, 1,90,000 shares were sold at ₹45.70 and a sell order for 307 shares was placed at 11:21:30 Hrs to achieve square-off.

v. The total number of shares sold in Anandilal's account in first tranche was 15,000 in 13 trades, of which 6,948 (i.e., 46.32%) shares in single trade matched with Ratha (i.e., the same entity which was front-run by E-Ally through Sharekhan) while the balance 8,052 shares got matched with other clients in 12 trades. At the end of this tranche, the net position of Anandilal was exactly squared.

vi. Similar observations were made for the subsequent tranches. A summary of trades of Anandilal in KSOIL (NSE) on December 15, 2010 is tabulated below:

No. of Shares day traded	Matched with *Sterling Group*	Profit
61,000 (86 buy and 23 sell trades)	44,948 (73.69%) (3 sell trades of Anandilal)	**₹ 32,888**

b. Trades of Anandilal HUF ahead of Josh in KSOIL (NSE) on December 15, 2010:

i. The trades of Anandilal HUF on December 15, 2010 are analysed in light of trades of Josh (client of Sharekhan and entity who had front–run the trades of *Sterling Group* entities) as under:

	Anandilal HUF				Josh			
	Total Buy Qty	Avg. Buy Price (₹)	Turnover (₹)		Total Buy Qty	Avg. Buy Price (₹)	Turnover (₹)	
	30,000	41.94	12,58,164		1,19,603	41.84	50,04,771	
	B.O.T	B.O.P (₹)	B.T.T	B.T.P (₹)	B.O.T	B.O.P (₹)	B.T.T	B.T.P (₹)
From	09:32:19	41.60	09:32:19	41.60	09:29:07	41.55	09:34:11	41.60
To	10:01:13	42.05	10:01:21	42.05	10:02:18	42.15	10:02:18	42.15
Tranche I	Total Sell Qty	Avg. Sell Price (₹)	Turnover (₹)		Total Sell Qty	Avg. Sell Price (₹)	Turnover (₹)	
	30,000	42.25	12,67,500		1,19,603	42.30	50,59,207	
	S.O.T	S.O.P (₹)	S.T.T	S.T.P (₹)	S.O.T	S.O.P (₹)	S.T.T	S.T.P (₹)
From	10:03:07	42.25	10:03:07	42.25	10:03:08	42.30	10:03:09	42.30
To	10:03:07	42.25	10:03:08	42.25	10:03:08	42.30	10:03:46	42.30

ii. Buy orders were being placed in Anandilal HUF account from 09:32:19 to 10:01:13 Hrs. Anandilal and Madhu, both were dealers at Sharekhan and are husband and wife. It is observed that a call was placed by Madhu to Manish at 09:29:05 Hrs for 30 airtime pulse i.e., call ended between 09:58:05 and 09:59:04 Hrs. In 19 buy orders, total of 31,800 shares were ordered. Of the above, 30,000 shares got executed in 86 trades i.e., an average of 349 shares were purchased per buy trade of Anandilal HUF.

iii. Josh Trading was observed to be continuously placing buy orders through Sharekhan from 09:29:07 Hrs till 10:02:18 Hrs before entering a sell order at 10:03:07 Hrs at ₹42.30.

iv. A call was placed by Madhu to Manish at 09:59:05 Hrs for 10 airtime pulse i.e., the call ended between 10:08:05 and 10:09:04 Hrs. At 10:03:07 Hrs, single sell order for

30,000 shares was placed in Anandilal HUF's account with sell order price of ₹42.25 after the entry of sell order in the account of Josh.

v. The sell order in Anandilal HUF account was placed just 1 second before sell order placed by Josh and Anandilal's trade got executed before the trade of Josh.

vi. The total number of shares sold by Anandilal HUF in the first tranche was 30,000 in 10 trades, of which 29,967 shares (i.e., 99.89%) in 9 trades matched with Ratha i.e., the same entity which was front-run by Josh through Sharekhan. At the end of this tranche, client's net position was exactly squared.

vii. Similar observations were made for subsequent tranches A summary of trades of Anandilal HUF in KSOIL at NSE on December 15, 2010 is tabulated below:

No. of Shares day traded	Matched with *Sterling Group*	Profit
202,556 (604 buy and 111 sell trades)	1,56,067 (77.05%) - 43 sell trades by Anandilal HUF	₹ 98,579

21. Therefore, from the above trading pattern of the Anandilal and Anandilal HUF, it is evident that the Noticees were front-running the trades of the *Sterling Group*. As already stated, Madhu has aided and abetted Manish in such illegal trading activity and in the process of aiding and abetting manish, Madhu as dealer of Sharekhan had transferred the information regarding buy/sell order of *Sterling Group* to her husband, Anandilal. Subsequently Anandilal has used the said information and placed buy/sell order in his individual trading account (with Sharekhan) and as well as in the account of Anandilal HUF account (also maintained with Sharekhan).

22. From the material made available on record, I find that Anandilal had traded in 472 scrip days (out of 1460 days) which were common with the *Sterling Group*. I also find that about 61.63% of the trades of Anandilal got matched with the trades of the *Sterling Group* in terms of same order price to total trades matched. Similarly, Anandilal HUF had traded in 339 scrip days (out of 471 days) which were common with the *Sterling Group* and about 78.65% of the trades of Anandilal HUF matched with the *Sterling Group* with same order price to total number of trades matched. I find from the above trading pattern of Anandilal and Anandilal HUF 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 observed that Noticees and the seven clients referred above had traded through one broker viz. Sharekhan and earned a total profit of ₹7.01 crores during the referred investigation period. Apart from the above, it is observed that the seven trading clients also traded through other brokers viz. Indianivesh and

Arihant capital (i.e apart from Sharekhan). The profits earned by the Noticees alone as a result of the above front-running of trades worked out to ₹39,28,959/- on the various scrip days which were common with that of the *Sterling Group*. A break-up of the profit earned by them on the various scrip days common with that of the *Sterling Group* is provided as under:

Name of the Noticee	Total Profit in (₹)
Anandilal	17,29,561
Anandilal HUF	22,05,398
Total	**39,28,959**

23. I also observe from the above trading pattern and the details concerning phone calls between Manish and Madhu, matching of trades executed in the accounts of 7 front runners (namely Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh), with the trades of the *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 others that , it is can be inferred that the clients of Sharekhan were attempted to be invisibly front–run by Anandilal and Anandilal HUF. Further, I am also of the considered view that the trades of Anandilal and Anandilal HUF had occurred on account of information obtained by Anandilal from Madhu. In other words, Madhu had facilitated Anandilal and Anandilal HUF to front–run the clients of Sharekhan. 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.

24. Sections 12A(a), (b), (c) of the SEBI Act read with Regulations 3(a), (b), (c) and (d) of the PFUTP Regulations, 2003 *inter alia* prohibit employment of any manipulative/deceptive device, scheme or artifice to defraud in connection with dealing in securities; engaging in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with dealing in securities. Regulation 4(1) of the PFUTP Regulations, 2003, provides for prohibition on indulging in fraudulent or unfair trade practices in securities. The aforementioned actions of the aforementioned Noticees as detailed in the preceding paragraphs clearly resulted in '*fraud*' under the PFUTP Regulations 2003, being committed, which in turn affected the interests of investors in the securities market.

25. I also note that the synchronization between the call timings and the trade timings on the one hand and the trade quantity which is almost matching with the actual trades of the big clients (*Sterling Group)* or the clients of Sharekhan, establishes the front–running in this instant case. It is also observed that

the trade price is pre–decided and it is not moving in tandem with the market price. There is a trail of front–running activity that the investigation has unravelled in different stages, which are as follows:

a. Placing of orders on behalf of *Sterling Group* by Manish (on the basis of the information available with him) through various accounts that were used for front–running before orders were placed by him in the accounts of the *Sterling Group*.

b. In most of the cases, the order price in the accounts that were used for front–running was far away from the market but the same as the price offered by the *Sterling Group* and therefore, most of the orders in the accounts that were used for front–running got executed only upon the entry of 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 orders of the front-runners.

c. Upon observing the trading and order placement pattern in various accounts (i.e. accounts of Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh), Anandilal placed orders in his own account, Anandilal HUF's account and the proprietary account of Sharekhan and front–run the clients of Sharekhan. Such orders were placed before the orders in the accounts that were used for front–running i.e. accounts of Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh and/or at a price better than that of the orders in the aforesaid accounts resulting in trades in the accounts of Anandilal, Anandilal HUF, etc. getting executed before the trades in the accounts of Laxmi, Viraj, Josh, Pinky, E-Ally, Jaisal and Bhavesh.

26. From the preceding paragraph I note that Madhu, a long standing employee and dealer of Sharekhan, had facilitated the front–running activity of Manish as Manish was observed to be frequently communicating with her during market hours and the orders placed in the trading accounts of the front runners were also in synchronization with the call timings made between them. The same has been established in the investigation report. While the front-running by the aforesaid seven entities (clients of Sharekhan) ahead of the trades/orders of the *Sterling Group* have been established, it is noted that Madhu used the said information to trade in her husband's account and his HUF account and enriched substantially as a result of the front running exercise. As stated in the preceding paragraphs, Madhu was working at the Lower Parel branch of Sharekhan and is married to Anandilal. Madhu's husband i.e. Anandilal is also the Karta of Anandilal HUF in which Madhu is also a member. Further, Madhu had used/passed the information of the orders placed by Manish (on behalf of *Sterling Group*) to her husband (Anandilal). Anandilal with the strength of such *'information'* passed on by Madhu, used the accounts of Anandilal HUF and his own account to front–run the clients of Sharekhan, as revealed from the attendant circumstances, discussed in the preceding paragraphs.

Further, by entering into such trades in a fraudulent manner, Anandilal and Anandilal HUF had defrauded the investors in the securities market and had obtained profits for themselves. Thus, it is in the fitness of things that entities indulging in front–running activity are not allowed to unjustly enrich themselves at the cost of investors.

27. Therefore, in view of the above observations, I hold 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 section 15HA of the SEBI Act. The provisions of section 15HA 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.*

29. 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…"

30. 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."*

31. 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 indulge in the manipulative activities and which in turn also induced Manish to indulge in the manipulative trades of front running indicates deceitful intent on the part of the Noticees. In this context, the 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 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.

32. Further, in the facts and circumstances of the case, the quantum of penalty has to be adjudged taking into account the 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;*

33. 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 seven entities, Anandilal and Anandilal HUF were used for the purpose of front running the trades of the *Sterling Group*. Several transactions had taken place in the trading accounts of the seven entities, Anandilal and Anandilal HUF 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, Madhu and Anandilal. This indicates repetitive nature of 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 alone by way of front-running was ₹39,28,959/-, details of which are as under:

Name of the Noticee	Total Profit in (₹)
Anandilal	17,29,561
Anandilal HUF	22,05,398
Total	**39,28,959**

34. I note from above table that the Noticees have made a collective profit of ₹39,28,959/-. In this connection, I note from investigation report that the profits earned in the trading account of Anandilal and Anandilal HUF were retained by the Noticees only. 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 accounts of Anandilal and Anandilal HUF, would lie against the Noticees, as the said two trading accounts were used by Madhu and Anandilal to front-run the trades of the *Sterling Group*. In the said Final Order, WTM- SEBI has however 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 6 years 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 the Noticees with the assistance of Madhu, Manish have clearly aided and abetted in the front running of the trades orchestrated by Manish and in the process were 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.

ORDER

35. 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 upon the Noticees under the provisions of section 15HA of the SEBI Act for their violations of the provisions of sections 12 A (a), (b) and (c) of the SEBI Act read with Regulations 3 (a), (b), (c), (d) and 4 (1) of the PFUTP Regulations as under. I am of the view that the said penalty is commensurate with the default committed by the Noticees.

Noticee No.	Name of Noticee	Amount of Penalty (₹)
1	Ms. Madhu Chanda	₹25,00,000/- (Rupees Twenty Five lakh only) to be paid jointly and severally
2	Mr. Anandilal Chanda	
3	Anandilal Chanda HUF	

36. 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)	

37. 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.

38. 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.

39. In terms of rule 6 of the Adjudication Rules, copies of this order are sent to the Noticees viz. Ms. Madhu Chanda, Mr, Anandilal Chanda and Anandilal Chanda HUF and also to Securities and Exchange Board of India.

Date: May 31, 2022
Place: Mumbai

SURESH B MENON
ADJUDICATING OFFICER