

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: DR. K. M. ABRAHAM, WHOLE TIME MEMBER

ORDER

DIRECTIONS UNDER SECTIONS 11, 11(4) AND 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 IN RESPECT OF RAKHI TRADING PRIVATE LIMITED AND PEANENCE COMMERCIAL PRIVATE LIMITED IN THE MATTER OF ALLEGED MANIPULATIVE TRADING IN THE SCRIPS OF CALS REFINERIES LIMITED, CONFIDENCE PETROLEUM INDIA LIMITED, BANG OVERSEAS LIMITED, SHREE PRECOATED STEELS LIMITED (NOW KNOWN AS AJMERA REALTY & INFRA INDIA LIMITED) AND TEMPTATION FOODS LIMITED

1. As Rakhi Trading Private Limited (hereinafter referred to as RTPL) and Peanence Commercial Private Limited (hereinafter referred to as PCPL) were *prima facie* found to have played a role in the alleged manipulation in the shares of Cals Refineries Limited, Confidence Petroleum India Limited, Bang Overseas Limited, Shree Precoated Steels Limited (now known as Ajmera Realty & Infra India Limited) and Temptation Foods Limited, the Securities and Exchange Board of India (hereinafter referred to as SEBI) vide an ad interim ex-parte Order (hereinafter referred to as the Order) dated June 4, 2009, had amongst others, restrained the aforesaid entities from accessing the securities market and further prohibited them from buying, selling or dealing in securities market, directly or indirectly, till further orders. Thereafter, RTPL filed its objections to the Order, vide letter dated July 3, 2009. It also made similar submissions, vide subsequent letters (dated August 11, 2009 and an undated letter). PCPL also filed its objections, vide letter dated July 5, 2009. It also made

further submissions in respect of the Order vide an undated letter. For the sake of convenience, RTPL and PCPL shall henceforth be collectively referred to as 'the entities' and individually by their respective names. The submissions of the entities made in their respective letters are considered in the Order. An opportunity of hearing was granted to RTPL and PCPL on July 7, 2009, when Mr. P.N. Modi, learned advocate represented the entities and made submissions on their behalf. Mr. Bharat Merchant (Advocate), Mr. Sourabh Bora (director of PCPL) and Mr. D.K. Pandey (authorised signatory of RTPL) were also present during the hearing. The learned advocate reiterated the submissions made by the entities in their replies.

2. I have considered the objections of the entities, their submissions made during the personal hearing and other material on record. The limited issue to be determined in this Order is whether the interim directions issued against the entities vide the Order needs to be continued, modified or vacated in so far as they are concerned. The preliminary findings in the matter have been narrated in the Order. The *prima facie* role of the entities/persons including that of RTPL & PCPL and the allegations against them has also been brought out in the said Order. SEBI had noticed certain inter-linkages between various entities and the Maniar Group (as defined in the Order) in the form of off-market transactions, banking transactions and synchronised transactions. The acts of the connected clients were *prima facie* found to be the cause for the increased market traded volumes and their volume contribution appeared to have induced unwary investors into dealing in the shares of the aforesaid companies during the relevant period. Further, the criteria for identifying the connected clients related to Maruti Securities Limited (MSL) and Maniar Group was also set out in the said Order. One of the criteria was the off-market transactions had with MSL/or the Maniar Group by any of the entities/persons. The preliminary investigation in the matter had found that both RTPL and PCPL had entered into off-market

transactions with Kundan Leasing and Finance Private Limited (KLFPL), one of the Maniar Group entities as mentioned in the order. It was found that both RTPL & PCPL were having common directors and that both had received shares of Confidence Petroleum Limited (CPL) from KLFPL in off-market transfers. It was noticed that on January 24, 2008, KLFPL had transferred 5,00,000 shares of CPL through off-market to PCPL and on the very same day, had also transferred 20,00,000 shares of CPL to RTPL in off-market. RTPL *inter alia* stated that it was engaged in the business of trading in the shares of various companies listed on the stock exchanges. It was admitted that RTPL and PCPL were '*related concerns*' connected to one another and that they were promoted by Mr. Parag Bora and his brother Mr. Sourabh Bora. It stated that PCPL was also a company investing in shares. RTPL contended that it had traded in negligible quantities during the entire period (26 months) of investigation. As regards the transactions in the shares of CPL was concerned, RTPL stated that KLFPL had approached it for a loan of Rs.3.5 crores and as per their agreement, KLFPL was to be advanced an amount of Rs.3.5 crores as Inter Corporate Deposit (ICD) for a period of six months subject to KLFPL offering shares of CPL in sufficient quantity and double the value of the ICD to cover the interest of 21% per annum. It was stated that, pursuant to the said agreement, KLFPL had transferred a total of 37,50,000 shares of CPL in two tranches (17,50,000 shares on January 22, 2008 and 20,00,000 shares on January 24, 2008). RTPL submitted that as the share price of CPL was hitting the lower circuit filter, it apprehended that the shares may not be easily saleable in case of default by KLFPL and therefore requested KLFPL to furnish additional security. It further submitted that the shares of CPL received from KLFPL lying in the 'DP of India Bulls' was calculated as a part of margin due to fall in the value of its portfolio and therefore Indiabulls Securities Limited did not release the shares of CPL. RTPL contended that only on account of the margin shortfall at the relevant time, Indiabulls Securities Limited (the stock broker)

unilaterally sold 12,930 shares of CPL on March 10, 2008 and 25,000 shares on March 24, 2008. It further submitted that the said sale was a 'forced sale' and the stock broker had unilaterally adjusted the sale proceeds towards its margin shortfall. RTPL submitted that as it was liable to return the said shares to KLFPL, it was constrained to purchase 38,000 shares of CPL through the stock broker (JHP Securities Private Limited) and stated that 37,12,070 shares were still lying with Indiabulls Securities Limited and the balance 38,000 shares were lying in its depository account maintained with ICICI Bank. It contended that 38,000 shares of CPL purchased by it were not from any of the connected clients and that it did not indulge in circular or synchronised trading. RTPL stated that it had requested India Bulls to give finance against the shares of CPL received from KLFPL. However, it has not provided any document towards the same. Further, I also note that no money was advanced to KLFPL by RTPL. It is surprising to note that the shares (of CPL) transferred by KLFPL have not been returned to KLFPL and still remains with RTPL. RTPL stated that KLFPL had informed that legal proceedings would be initiated for the delay in returning the said shares to it. However, no steps were taken by RTPL in this regard. Thus, *prima facie* the claimed 'loan agreement' seem to be a ploy to cover up their manipulative transaction. However, the same would come to light on the conclusion of the investigation which is in process. The contention that the sale of shares of CPL on March 10 & 24, 2008 was a 'forced sale' by the stock broker cannot be accepted at this stage.

3. The preliminary finding had also revealed that on October 23, 2007, RTPL had received 1,00,000 shares of Temptation Foods Limited (TFL) from PCPL and had transferred the said shares to its demat account. Further, between February 13 and 29, 2008, RTPL was found to have sold 76,815 shares of TFL on Bombay Stock Exchange Limited and returned the balance of 23,185 shares to PCPL. In respect of the aforesaid trades, RTPL submitted that

PCPL had purchased 1,00,000 shares of TFL on September 13, 2007 through its stock broker (Religare Securities Limited) and the same were credited in the demat account of PCPL on September 24, 2007. As there was a margin shortfall in its trading account (with India Bulls Securities Limited), RTPL had requested PCPL for a short term loan of 1,00,000 shares of TFL for furnishing the same towards the margin call. It further stated that PCPL had transferred the shares on October 23, 2007 which were in turn transferred by RTPL to the demat account with 'India Bulls DP'. RTPL submitted that as the 'market' was falling during January-February 2008, Indiabulls Securities Limited had sold of 76,815 shares out of the 1,00,000 shares of TFL alongwith the other shares. RTPL contended that the said sale was a 'forced sale' and that on March 3, 2008, it returned the remaining 23,185 shares of TFL to PCPL and that a credit for the amount of sale consideration was made in its accounts in favour of PCPL. It further contended that the said transactions were not manipulative and its volume contribution was less than 0.33% to the total volume traded during the investigation period. With respect to the allegation that RTPL sold shares of TFL without any corresponding market purchases and able to meet its market delivery obligation through off market receipts of shares through connected clients, had contended that shares were received from PCPL to satisfy the margin call and the 76,815 shares were sold unilaterally by the stock broker in view of the margin shortfall. The said transaction appears to be similar as that of the aforementioned transactions in the shares of CPL.

4. With respect to its trades in the shares of Cals Refineries Limited (CRL), RTPL had stated that it purchased 70,00,000 shares of CRL through its stock brokers from the open market. It claimed that the said purchase was only for investment purpose. It also submitted that it purchased 30,000 shares of Shree Precoated Steels Limited (SPSL) on November 2, 2007 in the open market as a short term investment only and that the said shares were sold on December 1,

2008. It contended that the said trades were in the normal course. It further stated that it did not trade in the shares of Bang Overseas Limited. RTPL denied being a 'preferential allottee' of MSL and also denied having connection with the 'Maniar Group' except the proposed ICD transaction with KLFPL. As regards the 'telephone calls', it was submitted that calls were between the 'Bora brothers' who controlled RTPL and PCPL.

5. PCPL replied to the interim order vide its letter dated July 5, 2009. While making similar submissions as that of RTPL had *inter alia* stated that the balance 23,185 shares of TFL returned by RTPL was sold in the market by its stock broker and the proceeds were credited towards its 'margin account. It further submitted that on March 3, 2008, it had sold 22,980 shares of TFL in 23 trades and out of the same 5,000 matched with the connected clients which according to it were very miniscule when compared with the market volumes. In respect of the off market transfer of 12,50,000 shares of CPL received from KLFPL, PCPL made similar submission as that of RTPL. In respect of its trades in CRL, PCPL submitted that it purchased 9,00,000 shares from the open market and that the same were purchased for investment purpose. It had purchased 1,61,270 shares of SPSL and sold 10,576 in the normal course of their investment business.

6. The preliminary findings of the case had *inter alia* revealed that various entities including RTPL and PCPL had entered into off-market transactions between themselves and also with one of the Maniar Group entities. In the facts and circumstances of the case, I am of the view that individual acts should not be seen in isolation but their activities need to be viewed in the background of the case in its totality. RTPL and PCPL submitted copies of certain documents in order to substantiate their claims in respect of their purchase of TFL shares and off market transfers. RTPL also submitted a copy of the loan arrangement claimed to have entered with KLFPL. The investigation in the matter is not yet

concluded and the same is going on. The documents submitted by RTPL and PCPL would be examined by the investigation which is in progress. At this stage, the facts and circumstances of the case *prima facie* suggest their complicity in the matter. The available material on record justifies the continuation of the interim directions passed against RTPL and PCPL, vide the ad interim ex- parte Order dated June 4, 2009. Their role or involvement in the manipulation would be reviewed after the investigation is completed.

7. In view of the foregoing, I, in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Sections 11, 11B and 11(4) thereof, hereby confirm the directions issued against Rakhi Trading Private Limited and Peanence Commercial Private Limited, vide the ad-interim ex-parte Order dated June 4, 2009, in the matter of alleged manipulative trading by certain connected entities in the shares of Cals Refineries Limited, Confidence Petroleum India Limited, Bang Overseas Limited, Shree Precoated Steels Limited (now known as Ajmera Realty & Infra India Limited) and Temptation Foods Limited.

DR. K. M. ABRAHAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

PLACE: MUMBAI
DATE: MARCH 9, 2010