BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO: Order/SBM/VS/2021-22/15801)

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:

AGARWAL IRON & STEEL CO. PVT. LTD.

(PAN NO.: AACCA6114C)
Eastern Bldg 19, R. N. Mukherjee Road,
Room 211, 2nd Floor, Kolkata,
West Bengal- 700001

In the matter of
Dealing in illiquid stock options at BSE

FACTS OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as **'SEBI'**) observed large scale reversal of trades in the Stock Options segment of the Bombay Stock Exchange (hereinafter referred to as **'BSE'**) leading to the alleged creation of artificial volume in the stock options segment. In this regard, SEBI conducted an investigation into the trading activity in the illiquid Stock Options segment at BSE for the period April 01, 2014 to September 30, 2015 (hereinafter referred to as **'Investigation Period'**).

2. It was observed during the course of investigation that a total of 2,91,643 trades comprising 81.38% of all the trades executed in the Stock Options Segment by various entities at BSE during the investigation period were trades which involved reversal of buy and sell positions by the clients and counterparties in a contract on the same day. It was also observed that the aforesaid trades resulted into alleged creation of artificial volume to the tune of 826.21 crore units or 54.68% of the total market volume in the Stock Options segment of BSE during the investigation period. In view of the large scale reversal of trades that were observed in the illiquid Stock Options segment at BSE, it is alleged that these trades were non-genuine in nature.

3. It was observed that Agarwal Iron & Steel Co. Pvt. Ltd. (hereinafter referred to as **'Noticee'**) was one of the various entities which had indulged in the execution of the non-genuine trades in the Stock Options Segment at BSE during the above referred investigation period. It was observed that Noticee had entered into reversal trades with its counterparties which involved squaring off

transactions with significant difference in sell value and buy value of the transactions. It was therefore alleged that Noticee had executed the reversal trades, which were non-genuine in nature and have created false or misleading appearance of trading in terms of creation of artificial volume in the Stock Options segment at BSE. Therefore, it is alleged that the Noticee has violated the provisions of regulations 3(a), (b), (c), (d) and regulation 4(1), 4(2) (a) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003 (hereinafter referred to as **'PFUTP Regulations'**). In view of the above reasons, adjudication proceedings have been initiated against the Noticee under the provisions of section 15 HA of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as **'SEBI Act'**).

APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer, vide communique dated July 27, 2021 under section 19 read with section 15-I of the SEBI Act read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as **'Adjudication Rules'**) to inquire into and adjudge under the provisions of section 15HA of the SEBI Act the aforementioned alleged violation of the provisions of law by the Noticee.

SHOW CAUSE NOTICE, HEARING AND REPLY

5. Show Cause Notice ref. EAD-1/SBM/VS/4195/2022 dated January 27, 2022 (hereinafter referred to as **'SCN'**) was issued to the Noticee in terms of rule 4 of the Adjudication Rules requiring the Noticee to show cause as to why an inquiry should not be held against it and why penalty, if any, should not be imposed on the Noticee under the provisions of section 15HAof the SEBI Act

6. The SCN issued to the Noticee, inter alia, mentioned/alleged the following-

   a. *It is further noted that said alleged non-genuine trades were not restricted to any specific contract or between any specific set of entities. It is noted that Noticee was one of the various persons/ entities which were indulged in execution of such alleged non-genuine trades in Stock Options Segment of BSE during the Investigation period. Following points deals with the dealings of Noticee during the Investigation period and allegations against its execution of non-genuine trades.*

   b. *For the purpose of illustration of non-genuine trades and creation of artificial volume by the Noticee, details of trading done by the Noticee in the contract viz. "RANB15APR800.00PEW4" on March 03, 2015 is given below:*

Date	Buyer	Seller	Buy Order Time	Sell Order Time	Trade Time	Trade Rate (₹)	Trade Quantity
30/03/2015	Nisha Drolia	Agarwal Iron & Steel Co. Pvt. Ltd.	12:37:05	12:37:05	12:37:05	7.5	72000
30/03/2015	Agarwal Iron & Steel Co. Pvt. Ltd.	Nisha Drolia	12:36:58	12:36:59	12:36:59	20	72000

c. *It is observed from the table above that the trades entered by the Noticee in the contract of "RANB15APR800.00PEW4" on March 03, with its counterparty viz. Nisha Drolia were reversed between the Noticee and the same counterparty on the same day resulting in reversal of trades which are, prima facie, considered to be as non-genuine. Therefore, in the process artificial volume in the stock option contract at BSE has been generated by the Noticee through such non-genuine trades. From the table above, it is observed that the artificial volume created as no. of units reversed in non-genuine trades is 1,44,000 units comprising both volume of initial trade and volume of reversal trade, while not considering the volume which is not reversed. In the process, it is observed that the Noticee had made a loss of ₹9,00,000/-.*

d. *It is further observed from the trade data of the Noticee that it has allegedly entered into non-genuine trades in 4 contracts wherein it executed a total of 8 trades all of which were, prima facie, non-genuine trades. In view of this, it is alleged that such fraudulent trades of the Noticee had resulted into creation of artificial volume of total 7,66,000 units.*

e. *In this regard, details of all the alleged non-genuine trades of the Noticee in Stock Option Segment of BSE during relevant period are attached as* **Annexure-B**. *From the perusal of the trade data of the alleged non-genuine trades of the Noticee, it is observed that Noticee has allegedly executed non-genuine trades in 4 contracts. The total volume of 7,66,000 units generated by the Noticee in these 4 contracts due to its alleged non-genuine trades was artificial volume generated by the Noticee in the stock option segment of BSE. These alleged non-genuine trades, executed by Noticee in above contracts, had significant differential in buy rates and sell rates considering that the trades were reversed on same day.*

f. *Further, summary of dealings of Noticee in 4 Stock Options contracts in which it had allegedly executed non genuine trades during the relevant period is enclosed as* **Annexure-C**. *The details of artificial volume generated by the Noticee through the alleged non-genuine trades are mentioned in the table below:*

S. No.	Contract Name	Avg. Buy Rate (₹)	Total Buy Volume (no. of units)	Avg. Sell Rate (₹)	Total Sell Volume (no. of units)	% of Non Genuine trades of Noticee in the contract to Noticee's Total trades in the Contract	% of Non Genuine trades of Noticee in the contract to Total trades in the Contract	% of Artificial Volume generated by Noticee in the contract to Noticee's Total Volume in the Contract	% of Artificial Volume generated by Noticee in the contract to Total Volume in the Contract
1	RANB15APR800.00PEW4	20	72000	7.5	72000	100	50	100	41.86
2	WIPR15APR680.00CE	11	100000	1	100000	100	25	100	22.22
3	YESB15APR840.00CEW3	12	100000	2	100000	100	50	100	50
4	YESB15APR880.00CE	9.5	111000	0.5	111000	100	25	100	30

g. In view of the foregoing, it is alleged that the Noticee, by indulging in execution of reversal trades in Stock Options with same entities on the same day, which were non-genuine in nature, has created false or misleading appearance of trading in the aforementioned contracts traded in the option segment of BSE. In view of the fact that these options contracts were illiquid in nature, having very small volume in trading, the Noticee allegedly created artificial volumes in stock options which was manipulative and deceptive in nature. Therefore, in view of above, it is alleged that the Noticee has violated Regulation 3(a), (b), (c), (d), 4(1) and 4(2)(a) of PFUTP Regulations, 2003.

7. It was noted from the India post website that the SCN was duly served upon the Noticee on February 12, 2022, however, no reply was received from it. Therefore, the status/address of the Noticee was ascertained from the Ministry of Corporate Affairs (MCA) website. It was observed that the status of the Noticee has been shown as '**Amalgamated**'. Subsequently, on perusal of website of National Company Law Tribunal (hereinafter referred to as '**NCLT**'), it was observed that NCLT Kolkata Bench had passed an order dated January 05, 2020, under sections 230 to 232 of the Companies Act, 2013 and Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, wherein it is mentioned that Noticee along with eight other companies **('Transferor Companies'**) have been merged with Right Aid Consultants Pvt. Ltd. (**'RACPL'/'Transferee Company'**). Therefore, an email was sent to RACPL at its email id i.e. rightaid.consultant@gmail.com (which was available on MCA website), however, no response was received from RACPL till date.

CONSIDERATION OF ISSUES AND FINDINGS

8. I have taken into consideration the facts and circumstances of the case and the material available on record. I find that a Scheme of Amalgamation has been approved by the Hon'ble NCLT, Kolkata Bench, vide an order dated January 05, 2020, wherein it is stated that the Noticee along with eight other companies have been amalgamated with RACPL. Therefore, pursuant to the Scheme of Amalgamation, as aforesaid, all the entities i.e., Noticee and eight other companies were amalgamated with RACPL and therefore, they shall be dissolved without winding up on receipt of Certified copy of order dated January 05, 2020 by the concerned from Transferor Companies, including Noticee. In this context, the relevant observation made in order dated January 05, 2020, of NCLT, Kolkata Bench, is reproduced below:

   "…13. a.…The Scheme of Amalgamation annexed to the supplementary affidavit as Annexure "A" is sanctioned by this Tribunal to be binding with effect from the appointed date, on the Petitioner Companies, their shareholders, stakeholders and all concerned with effect

from 1st April, 2018. The said scheme is annexed to this order and marked as Annexure-A..."

...

g. That the Transferor Companies and the Transferee Company shall within 30 days after the date of the receipt of this order cause a certified copy of this order to be delivered to the Registrar of Companies for registration.

h. That on receipt of certified copy of this order being so delivered to the Registrar of Companies for registration the Transferor Companies shall be dissolved without winding up…"

9. Thus, I find that a Scheme of Amalgamation has been approved by the NCLT, Kolkata Bench with effect from April 01, 2018 in respect of the Noticee and eight other Transferor companies with RACPL. Therefore, pursuant to the Scheme of Amalgamation, as aforesaid, all the entities i.e Noticee and eight Transferor Companies were amalgamated with RACPL and therefore, they have ceased to exist as independent legal entities w.e.f. April 01, 2018 i.e. the appointed date in terms of the aforementioned NCLT Order. Therefore, in view of the above observations, Noticee has ceased to exist as a legal entity w.e.f. April 01, 2018 and was not in existence at the time when the instant Adjudication Proceedings were initiated against the Noticee i.e. vide SCN dated January 27, 2022.

10. As per amalgamation order dated January 05, 2020, I find that the CIN No. of the Noticee mentioned in the said order viz. U51909WB1988PTC045077 matched with the details downloaded from the Ministry of Corporate Affairs ('**MCA**') website. Further, the address of the Noticee, as mentioned in the instant SCN, also matched with the address details mentioned in the MCA data base and the NCLT order dated January 05, 2020. Thus, pursuant to the NCLT order dated January 05, 2020, on receipt of certified copy of the order by the Noticee , the Noticee has been dissolved without winding up.

11. In this context, it is pertinent to note that the Hon'ble Supreme Court in the matter of Saraswati Industrial Syndicate Ltd vs. C.I.T, Haryana, Himachal Pradesh, Delhi, 1990 (Supp) SCC 675has held the following:-

> *" The High Court was in error in holding that even after the amalgamation of two companies, the transferor company did not become non-existent instead it continued its entity in a blended form with the appellant company. The High Court's view that on amalgamation there is no complete destruction of corporate personality of the transferor company instead there is a blending of the corporate personality of one with another corporate body and it continues as such with the other is not sustainable in law. The true effect and character of the amalgamation largely depends on the terms of the scheme of the merger.*

But there cannot be any doubt that when two companies amalgamate and merge into one the transferor company loses its entity as it ceases to have its business. However, their respective rights of liabilities are determined under the scheme of amalgamation but the corporate entity of the transferor company ceases to exist with effect from the date the amalgamation is made effective.*"(Emphasis supplied).*

12. Therefore, in view of the above observations, I am convinced that the Noticee was not in existence as on the date of initiation of the adjudication proceedings against it vide SCN dated January 27, 2022. In view of the same, I conclude that the instant adjudication proceedings in respect of the Noticee cannot be proceeded with and the SCN dated January 27, 2022 issued to the Noticee is accordingly disposed of.

ORDER

13. In view of the above observations/findings and in exercise of the powers conferred upon me under section 15I of the SEBI Act read with rule 5 of the Adjudication Rules, I hereby dispose of the Adjudication Proceedings initiated against the Noticee viz. Agarwal Iron & Steel Co. Pvt. Ltd. vide SCN dated January 27, 2022.

14. In terms of the provisions of rule 6 of the Adjudication Rules, copies of this order are sent to Right Aid Consultants Pvt. Ltd. ('Transferee Company') and also to the Securities and Exchange Board of India.

Date: March 31, 2022
Place: Mumbai

SURESH B MENON
ADJUDICATING OFFICER