

Securities Appellate Tribunal

Sebi vs Park Light Investment Pvt. Ltd. on 29 January, 2004

Bench: T Nagarajan

JUDGMENT T.M. Nagarajan, Member

1. SEBI is conducting investigations into the role of Park Light Investment Pvt. Ltd (hereinafter referred to as PIPL) and associate concerns for alleged market manipulations in the securities market. Uday Vora is the director and major shareholder of PIPL. One of the major shareholders of Park Light Investment Pvt. Ltd, Shri Hashmukhbhai Nyalchand Vora is also a director of H. Nyalchand Financial Services-broker NSE & ASE. Directors of H. Nyalchand Financial Services are Shri Dhiren Vora (brother of Uday Vora) and Shri Hashmukh Vora (father of Uday Vora). Shri Uday Vora is director of PIPL and promoter shareholder of Parklight Securities

2. Findings of investigations conducted so far in the case of Shalibhadra Infosec Ltd reveals the prima facie violation of SEBI (Stock Brokers & Sub-brokers) Regulation, 1992 by PIPL by indulging in activities which are in violation of SEBI Act, 1992 and the regulations framed thereunder. These activities were noticed in respect of trades executed by it on behalf of clients. There are also indications of violation of SEBI Act, 1992 and the regulations framed thereunder by Park Light Investment Pvt Ltd in other scrips like Continental Controls Ltd and SMR Universal Softech Ltd. In the case of Continental Controls Ltd it has been found so far that the broker Park Light Pvt Ltd has not exercised due care and diligence in respect of client documentation. In addition it has also been seen that the broker has transferred trades/obligations meant for one client to another. These activities are in violation of Code of Conduct provisions in terms of SEBI (Stock Brokers & Sub-brokers) Regulation, 1992. Further the broker has also transferred shares to the beneficiary account of H. Nyalchand Financial Services, a related entity which were supposed to be transferred to the beneficiary account of the client thereby violating SEBI circular SMDRP/Policy/Cir-05/2001 dated February 01, 2001. Further it has also been observed that in the case of SMR Universal Softech Ltd, the broker had entered in cross deals between their clients on several occasions and some of them were not reported to the Stock Exchange (BSE). These trades were apparently executed for the purpose of creating artificial volumes in the scrip. Circular trades by PIPL have also been observed. Such activities are also in violation of SEBI (Stock Brokers & Sub-brokers) Regulation, 1992. Further it has been observed that PIPL has not maintained proper client documentation, has transferred the client obligations to its own beneficiary account instead of pool account. In addition to the above PIPL has fulfilled the delivery obligations on its own account which were however meant for its clients.

3. Further, SEBI has suspended for 6 months, the certificate of registration no. INB 021033259 of M/s Park Light Securities Ltd, a broker registered with the Ahmedabad Stock Exchange and an entity associated with Park Light Investment Pvt Ltd under Regulation 13(4) of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and imposing Penalty) Regulation, 2002 vide an order dated November 24, 2003. The Enquiry Officer has concluded that the broker had committed irregularities pertaining to failure to issue contract notes bearing pre-printed serial numbers, failure to mention order execution time on contract notes, failure to obtain date of acknowledgement on duplicate copy of contract notes, executing off the floor

transactions, non-segregation of client funds & own funds and non-maintenance of client database.

4. In addition to the above, the BSE has observed that the broker Park Light Investment Pvt. Ltd. has in concert with few brokers actively traded in many low capital stocks companies which have witnessed a spurt in volumes and / or price. BSE also observed that some of the clients trading through the broker PIPL were being paid monthly salaries and hence were employees of PIPL. It was noticed by BSE that most of these companies were based/ operated from Gujarat mainly Ahmedabad. BSE also noticed that in the recent days there were several companies in the B2 or Z categories that have declared quarterly unaudited results for the quarter ended December 2003. The BSE has issued a press release cautioning its brokers and investors to exercise due and proper care and to check the credentials of such companies and announcements before making investment decisions or transacting in such scrips. It has also been observed by BSE that :

5. The results for the quarter ended December 2003 and financial year ended March 2003 show phenomenal improvement in performance of the companies as compared to the corresponding quarterly and annual results of the previous year. All these results are declared between January 14, 2004 to January 20, 2004

6. Most of these companies are Gujarat based.

7. The performance of these companies has been glossed over in bold with big arrows to catch investor attention. These companies also appear to be giving additional information viz. placing of preferential issues in a tentative price range, names of the current/potential major shareholders, proposed high dividend and/or bonus, in the footnotes to their unaudited results. It appears that the reasons stated by these companies in the notes to accounts do not substantially corroborate the sudden improvement in the financials of the company.

8. The published results indicate that the companies have stated that they have not received any investor complaints during the year and no investor complaint were pending at the beginning and end of the year.

9. With respect to the above, the Price Volume analysis of these scrips for the period December 1, 2003 to January 23, 2004 shows that there was a spurt in price and volume prior to publication of the results and volumes in these scrips have shown a sudden spurt immediately after declaration of the unaudited quarterly results. The BSE has also observed a significant concentration in buying as well as selling in the shares of these companies by PIPL. Apart from the above, SEBI is already investigating the role of PIPL in creating interest in low capital stocks by joining hands with the promoters of the companies and publishing results indicating endearing past performance and proposed corporate actions like buy-backs, bonus issue etc . From the above PIPL appears to have indulged in a series of such operations in a manner detrimental to the interests of the investors and the securities market by generating artificial trading interest in the shares of such companies.

10. Further the BSE has also informed that Park Light Investment Pvt. Ltd and its associates have indulged in circular trades, generation of artificial volumes, synchronized deals, fictitious sales

transactions, price influence etc, in the shares of several companies. In addition there are indications to suggest the involvement of Park Light Investment Pvt. Ltd and its associates companies when such companies have changed or proposed to change their capital structure. Such involvements have been observed in the shares of Morepen Hotels Ltd., Soundcraft Industries Ltd, Sunitee Chemicals, Genius Omn-Trade Ltd., Pentafor Communication, Esquire Money Guarantees Ltd, SMR Unisoft, Amtek Auto Ltd, Fourth Generation Information Systems Ltd, Ransi Software, IT Microsystems (converted from SNAP), Goplee Lease & Finance Ltd, Birmingham Thermotech Ltd., Accurate Exports Ltd, Somplast Leather Industries Ltd. Further investigations in the case of Birmingham Thermotech, indicate possibility of Insider Trading by the Parklight group in view of price sensitive information being made available to it as a result of its association with the company. In the same case the role of the PIPL group in floating bogus entities is also being investigated. The BSE has indicated possibility of manipulation in the public issue /allotment of shares of the company. The BSE has also indicated that it proposes to conduct a full-fledged investigation in the above scrips.

11. From the forgoing, I find that the Parklight Group has indulged in activities which are in violation of SEBI Act, 1992 and the Regulations framed thereunder, such as not exercising due care and diligence in respect of client trades and improper client documentation. It has also indulged in cross deals and circular deals thereby creating artificial volumes. Further PIPL is also found to have substituted client trades and self obligation in respect of its trades. PIPL also appears to be involved in the issue of promoters of low capital companies releasing unsubstantiated advertisements /financial results to generate trading interest in the shares of such companies. Substantial trading by the PIPL group prior to and after the issuance of such advertisements is also seen. There are also indications of insider trading and manipulation in public issue /allotment in the case of Birmingham Thermotech Ltd. by the PIPL group. There are also indications that the PIPL group has acted in concert with other brokers and indulged in concentrated trading and influenced the share price of low capital stocks. It is noticed that the PIPL group has again indulged in such activities on an increasing scale in many scrips in the recent days.

12. There is thus the prima facie evidence to indicate that the activities of PIPL/ its associate concerns are not in accordance with law. There is thus a grave emergency to ensure that the above-mentioned activities do not continue to pose a threat to the security and integrity of the market thereby adversely affecting the interest of innocent investors. There is a need to curb such activities. In view of the above, I am convinced that pending investigation, it is necessary to issue an order, under Section 11(4)(b) read with Section 11 and 11B of SEBI Act, in order to protect the interest of investors and also to safeguard the integrity of the securities market.

ORDER

13. Therefore, in exercise of the powers conferred upon me in terms of Section 19 read with Section 11(4)(b) and Section 11 and 11B of SEBI Act, in the interest of market integrity and investor protection, I hereby direct that Park Light Investment Pvt. Ltd, all its associate broking entities including Park Light Securities Ltd and H Nyalchand Financial Services Ltd be prohibited from undertaking any fresh business as a stock broker or merchant banker till further orders. Further, I

also direct that Park Light Investment Pvt. Ltd, all its associate entities including Park Light Securities Ltd and H Nyalchand Financial Services Ltd, Shri Uday Vora, Shri Dhiren Vora and Shri Hashmukh Vora, the directors of the above entities and other directors of all the above mentioned entities be prohibited from buying, selling or dealing in securities in any manner until further orders.

14. Further, the entities / persons indicated above may file their objections, if any to this order within 15 days from the date of this order and, if they so desire, avail themselves of an opportunity of personal hearing at the Securities and Exchange Board of India, Head Office, First Floor, Mittal Court, B Wing, Nariman Point, Mumbai 400 021 on a date and at a time to be fixed on a specific request, to be received in this behalf from the entities within 15 days from the date of this order.

15. This order shall come into force with immediate effect.