

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NOS. PG/AO - 35/2011]**

**UNDER RULE 5 OF SECURITIES AND EXCHANGE BOARD OF INDIA
(PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY
ADJUDICATING OFFICER) RULES, 1995**

In respect of

**Ranjana R Kothari
(PAN: AAIPK5758P)**

**In the matter of
Rasi Electrodes Ltd**

Facts of the case in brief

1. Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) had conducted an investigation into the rise in price and volume of the scrip of M/s.Rasi Electrodes Ltd. (hereinafter referred to as “**the Company**”) during the period June 08, 2007 to July 20, 2007 (hereinafter referred to as “**investigation period**”). The scrip of the Company is listed on Bombay Stock Exchange Ltd. (hereinafter referred to as “**BSE**”). During the investigation period the price of the scrip of the Company rose from ₹ 19.1 to ₹ 58.45 with a high of ₹ 63.10, a rise of 307% in 34 trading days. The total traded volume during the investigation period was 9, 94, 508 shares. It was observed that certain promoter entities have traded in the scrip during the investigation period and made profits to the tune of ₹ 7.44 lakhs. It was observed that the company had made various corporate announcements mainly related to financial results, dividend declaration and issue

of bonus shares. Major corporate announcements made during the investigation period and their impact on scrip price / volume are tabulated as under:

S. No	Date and Time	Announcement	Price Impact/Shares Traded	Remarks																
1	June 21, 2007 @ 3:32 PM	<p>A meeting of Board of Directors (“BoDs”) will be held on June 30, 2007 for</p> <p>➤ consideration and taking on record the audited financial results for the FY ending March 31, 2007 and QE March 31, 2007</p> <p>➤ recommendation of dividend for the FY ending March 31, 2007.</p>	<p>21/06/07</p> <table><tr><th>O</th><th>H</th><th>L</th><th>C</th></tr><tr><td>26.05</td><td>27.00</td><td>25.55</td><td>26.35</td></tr></table> <p>No. of shares traded: 16,150</p> <p>22/06/07</p> <table><tr><th>O</th><th>H</th><th>L</th><th>C</th></tr><tr><td>25.90</td><td>26.95</td><td>25.90</td><td>26.55</td></tr></table> <p>No. of shares traded: 10,672</p>	O	H	L	C	26.05	27.00	25.55	26.35	O	H	L	C	25.90	26.95	25.90	26.55	On 22/06/07, the scrip closed 0.76% above its previous day’s closing price.
O	H	L	C																	
26.05	27.00	25.55	26.35																	
O	H	L	C																	
25.90	26.95	25.90	26.55																	
2	Saturday, June 30, 2007 @ 1:59 PM	<p>BoDs in its meeting held on June 30, 2007 decided the following:</p> <p>➤ The Audited financial results for the FY ending March 31, 2007 & q.e. March 31, 2007 was approved and taken on record.</p> <p>➤ BoDs has recommended a dividend of 5% on the paid-up value of equity shares for the FY ending March 31, 2007.</p>	<p>29/06/07</p> <table><tr><th>O</th><th>H</th><th>L</th><th>C</th></tr><tr><td>25.55</td><td>30.35</td><td>24.20</td><td>28.75</td></tr></table> <p>No. of shares traded: 17,669</p> <p>2/07/07</p> <table><tr><th>O</th><th>H</th><th>L</th><th>C</th></tr><tr><td>30.50</td><td>34.35</td><td>28.00</td><td>32.10</td></tr></table> <p>No. of shares traded: 18,520</p>	O	H	L	C	25.55	30.35	24.20	28.75	O	H	L	C	30.50	34.35	28.00	32.10	The scrip closed on 2/07/07 at 11.65% above its previous day’s closing price.
O	H	L	C																	
25.55	30.35	24.20	28.75																	
O	H	L	C																	
30.50	34.35	28.00	32.10																	
3	July 17, 2007 @ 3:31 PM	A meeting of BoDs will be held on July 25, 2007 to consider among others, recommendation of issue of bonus shares in the ratio to be approved by the BoDs subject to approval of shareholders at the ensuing AGM.	<p>17/7/07</p> <table><tr><th>O</th><th>H</th><th>L</th><th>C</th></tr><tr><td>48.75</td><td>52.15</td><td>46.10</td><td>51.85</td></tr></table> <p>No. of shares traded: 66,395</p>	O	H	L	C	48.75	52.15	46.10	51.85	The scrip opened 9.84% higher on 18/7/07 and closed 9.93% above its previous day’s closing price. The trading volume increased by 28.25%								
O	H	L	C																	
48.75	52.15	46.10	51.85																	

			<table><tr><td colspan="4">18/7/07</td></tr><tr><td>O</td><td>H</td><td>L</td><td>C</td></tr><tr><td>56.95</td><td>57.00</td><td>53.50</td><td>57.00</td></tr></table> <p>No. of shares traded: 85,152</p>	18/7/07				O	H	L	C	56.95	57.00	53.50	57.00	<p>on 18/7/07 as compared to the previous trading day.</p>												
18/7/07																												
O	H	L	C																									
56.95	57.00	53.50	57.00																									
4	July 25, 2007 @ 4:34 PM	The BoDs has recommended issue of bonus shares in the ratio of 2:5 subject to approval of shareholders at the AGM to be held on September 28, 2007.	<table><tr><td colspan="4">25/7/07</td></tr><tr><td>O</td><td>H</td><td>L</td><td>C</td></tr><tr><td>58.90</td><td>61.90</td><td>58.00</td><td>61.40</td></tr></table> <p>No. of shares traded: 33,603</p> <table><tr><td colspan="4">26/7/07</td></tr><tr><td>O</td><td>H</td><td>L</td><td>C</td></tr><tr><td>62.20</td><td>64.80</td><td>61.80</td><td>62.50</td></tr></table> <p>No. of shares traded: 48,000</p>	25/7/07				O	H	L	C	58.90	61.90	58.00	61.40	26/7/07				O	H	L	C	62.20	64.80	61.80	62.50	<p>The scrip closed on 26/7/07 at 1.79% above its previous day closing price.</p> <p>The volume increased by 42.84% on 26/7/07 as compared to the previous trading day.</p>
25/7/07																												
O	H	L	C																									
58.90	61.90	58.00	61.40																									
26/7/07																												
O	H	L	C																									
62.20	64.80	61.80	62.50																									

2. During the investigation it was observed that the price of the scrip of the Company had mainly increased during the periods June 28 2007 to July 03, 2007 when the closing price of the scrip moved up from ₹ 25.30 to ₹ 33.10 and during July 09 2007 to July 19, 2007 when closing price of the scrip moved up from ₹34.70 to ₹ 60.75.
3. To a query during the investigation, the company had replied that the agenda for the Board meeting to be held on June 30, 2007 was discussed internally between Mr. B Popatlal Kothari, Chairman & MD and Mr. G Mahavirchand Kochar, Whole time Director. Agenda was finalized between June 19 - 21, 2007 and the agenda papers were circulated on June 21, 2007. However, the rate of dividend was finalized in the meeting held on June 30, 2007. The price of the scrip closed 11.65% higher on the next day immediately after declaration of financial results and rate of dividend on June 30, 2007. In view of the above factors, the period of June 19 – 30, 2007 has been considered as a period when the information about financial results and dividend was unpublished price sensitive information (hereinafter referred to as “**UPSI**”).

4. Similarly, during the investigation, the company had replied that the agenda for the Board meeting to be held on July 25, 2007 was discussed internally during the period July 15-17, 2007 and the agenda papers were circulated on July 17, 2007. The price of the scrip closed 9.93% higher on July 18, 2007 than previous day's closing price after the announcement of bonus issue proposal and by 1.79% higher on July 26, 2007 after the announcement of bonus ratio on July 25, 2007. As per investigation report, the period July 15-17, 2007 has been considered to be the period when information about issue of bonus shares was UPSI.
5. The trading details of all the company related entities who dealt in the scrip when the information about the announcement of financial results and dividend was UPSI were analyzed. The summary of trading by the above entities is tabulated below

S. No	Entities	19/6/2007 - 30/6/2007					1/7/2007 – 6/7/2007				
		Buy Qty	Avg. Buy Price (₹)	Sell Qty	Avg. Sell Price (₹)	Net Buy Qty	Buy Qty	Avg. Buy Price (₹)	Sell Qty	Avg. Sell Price (₹)	Net Sell Qty
1	Ranjana Kothari	17505	25.54	1000	30.35	16505	10349	32.15	-	-	(10349)
2	Uttam Kothari	10060	26.02	-	-	10060	-	-	400	31.75	400
3	Chandrakala	4065	26.38	6300	25.79	(2235)	3550	31.41	1611	32.63	(1939)
4	Kashyap Kothari	3700	25.25	-	-	3700	-	-	-	-	-

Appointment of Adjudicating Officer

6. The undersigned has been appointed as the Adjudicating Officer, vide order dated January 17, 2011 under section 15 (I) of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “**Act**”) and rule 3 of Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties

by Adjudicating Officer) Rules, 1995 (hereinafter referred to as “**Rules**”) to inquire into and adjudge under section 15I of SEBI Act, the allegation of violation of regulations 3 (i), (ii) and 4 of Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 1992, (hereinafter referred to as “**PIT Regulations**”) by Ranjana R Kothari (hereinafter referred to as “**Noticee**”)

Show cause notice, hearing and reply

7. Show cause notice (hereinafter referred to as “**SCN**”) dated March 11, 2011 was issued to the Noticee under rule 4 (1) of the Rules to show cause as to why inquiry should not be held and penalty be not imposed on her under section 15G of SEBI Act for the alleged violations of regulations 3 (i), (ii) and 4 of PIT Regulations. No response was received to the SCN.
8. However in the interest of principles of natural justice a personal hearing was granted to Noticee on April 05, 2011 which was informed to the Noticee vide hearing notice dated March 24, 2011. The Company vide letter dated March 28, 2011 replied to the SCN stating that trading done by Noticee was part of her regular practice of buying the company’s shares within the creeping acquisition limit and not in order to gain profit.
9. Vide letter dated March 30, 2011, Noticee submitted that the Company has directed Popatlal Kothari Managing Director to reply to SCN hence he will reply to SCN on behalf of Noticee.
10. Personal hearing that was scheduled for April 5, 2011 was postponed to April 18, 2011. The hearing was conducted on April 18, 2011 wherein Mr. A.M. Gopikrishnan (Company Secretary), Authorised Representative appeared on behalf of Noticee and submitted that Noticee had purchased 31, 454 shares however she was not influenced by any UPSI. He further submitted that Noticee has not disposed off those shares till date.

Consideration of issues and findings

11. The issues that arise for consideration in the present case are:
- a). Whether Noticee had violated regulations 3 (i), (ii) and 4 of PIT Regulations?
 - b). Does the violation, if any, on the part of Noticee attract monetary penalty under sections 15G SEBI Act?
 - c) If so, what would the monetary penalty be that can be imposed taking into consideration the factors mentioned in section 15J of SEBI Act?

Before moving forward, it will be appropriate to refer to the relevant provisions which read as under:

“Prohibition on dealing, communicating or counseling on matters relating to insider trading

3. *No insider shall—*
- (i) *either on his own behalf or on behalf of any other person, deal in securities of a company listed on any stock exchange when in possession of any unpublished price sensitive information; or*
 - (ii) *communicate, counsel or procure directly or indirectly any unpublished price sensitive information to any person who while in possession of such unpublished price sensitive information shall not deal in securities:*

Provided that nothing contained above shall be applicable to any communication required in the ordinary course of business or profession or employment or under any law.

Violation of provisions relating to insider trading

4. Any insider who deals in securities in contravention of the provisions of regulation 3 or 3A shall be guilty of insider trading.

12. I note that Noticee had traded through Angel Broking Ltd and Religare Securities Ltd. through who she had purchased a total of 31,354 shares of the Company at an average price of ₹ 28.78 during the period June 26 2007 to July 20, 2007 and sold 1,000 shares at an average price of ₹ 30.35 on June 29, 2007 when the information of financial results and dividend was UPSI. I note that she had purchased 17,505 shares of the Company at an average price ₹ 25.54 per share during the period June 26 –29, 2007. After the said announcement, she had bought 13,849 shares upto July 11, 2007. Details of trading done by her under Client codes: R 2652 & N123145 are as under

S. No.	Buy Date	Buy Qty	Buy Value	Avg. Buy Price	Sell Date	Sell Qty	Sell Value	Avg. Sell Price
1	26/6/2007	2800	74060	26.45				
2	27/6/2007	9051	230633	25.48				
3	28/6/2007	952	24174	25.39				
4	29/6/2007	4702	118144	25.13	29/6/2007	1000	30350	30.35
	Sub total	17505				1000		
5	2/7/2007	1500	44985	29.99				
6	3/7/2007	4249	138023	32.48				
7	4/7/2007	3500	113940	32.55				
8	5/7/2007	1100	35818	32.56				
9	9/7/2007	3000	104987	35.00				
10	11/7/2007	500	17735	35.47				
11	20/7/2007	100	6150	61.50				
Total		31354	902499	28.78		1000	30350	30.35

13. I find that she had during the investigation, vide letter dated December 18, 2009 admitted that she had purchased shares for the purpose of investment. Investigation has brought out that her trades in the scrip of Company during the investigation period accounted for 89.7% of the total traded value of all her transactions. Perusal of her bank account statements revealed that on June 26, 2007, her husband, Ranjeet Kothari had transferred an amount of ₹ 2.00 lacs from his ING Vysya Bank account no. 400010070205 to her ING Vysya Bank account no. 400010070195. It is noted that on June 27, 2007, an amount of ₹ 2 lacs was debited from Ranjana's aforesaid account to Angel Broking Ltd. towards the purchases in the scrip of the Company around the same period. The transfer of funds from the bank account of Ranjeet Kothari to the bank account of his wife establishes that he was well aware of her transactions which happened during the period when the information was UPSI.
14. I note that investigation has brought out that out of the total investments done by Noticee during the investigation period, 89.7% was in the shares of the Company. It is difficult to accept that someone invests so much in any particular scrip without knowledge of any extraordinary event/ news about a company. Further her husband is a Director on the Board of the same Company. Noticee has not submitted any details supporting her claim that she is a regular investor and that investment done in the scrip of the Company was only a part of her portfolio. I also note that she has not denied the statement that 89.7% of trading was in the scrip of the Company, hence accepted. I note that a large portion of her purchases were in the period when the information was UPSI and that her husband, who is a director of the company, has also extended financial support for purchase of the shares.
15. It is observed that the Noticee has purchased 17, 505 shares within a price range of ₹ 25.13 to ₹ 26. 45 and sold 1, 000 shares of the Company on June 29, 2007 at a rate of ₹ 30.35 while the information with regard to financial results and dividend was UPSI.

16. PIT Regulations have been framed as a measure to prohibit insider trading. The intention behind the prohibitions provided under PIT Regulations is inter alia to ensure that the insiders do not breach the fiduciary duty or the duty arising out of a relationship of trust or confidence towards the investors. Further, these regulations aim to achieve the objective of growth of securities market by ensuring that the securities market operates in fair manner with all the participants having equal access to all the information so that they can make informed investment decisions.

Therefore, I am of the opinion that the noticee has traded based on the UPSI and the violation of regulations 3 (i) and 4 of PIT Regulations is established which makes Noticee liable for monetary penalty under section 15G of SEBI Act which reads as under

“Penalty for insider trading

15G. If any insider who,-

- (i) either on his own behalf or on behalf of any other person, deals in securities of a body corporate listed on any stock exchange on the basis of any unpublished price sensitive information; or*
- (ii) communicates any unpublished price- sensitive information to any person, with or without his request for such information except as required in the ordinary course of business or under any law; or*
- (iii) counsels, or procures for any other person to deal in any securities of any body corporate on the basis of unpublished price-sensitive information,*

shall be liable to a penalty of twenty-five crore rupees or three times the amount of profits made out of insider trading, whichever is higher.”

17. While determining the quantum of penalty it is important to consider the factors stipulated in section 15J of SEBI Act, which reads as under:-

“15J - Factors to be taken into account by the adjudicating officer

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.”*

The loss caused to investors cannot always be quantifiable in monetary terms and the unfair advantage to insider as a result of insider trading may also not always be possible to be specified in pecuniary terms. The prohibitions provided in SEBI Act and PIT Regulations have specific purpose and the penalty provisions for enforcing Regulations need to be given effect to ensure that a level playing field is provided to all participants and the securities market works on sound business principles. Therefore, even if no quantifiable loss is caused to any investor or no unfair advantage is made as a result of violations, it has to be kept in mind that in respect of contraventions of PIT Regulations, the violator should face the consequences otherwise the objects of Regulations is defeated.

Order

In terms of provisions of rule 5 (1) of Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995, I impose a penalty of ₹ 3, 50, 000/- (Rupees three lakhs and fifty

thousand only) on Ranjana R Kothari under section 15G of Securities and Exchange Board of India Act, 1992 for violation of regulations 3 (i) and 4 of Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992.

Considering the facts and circumstances of the case, the above penalties will be commensurate with the violations committed by Noticee.

18. Ranjana R Kothari shall pay the said amount of penalty by way of demand draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, within 45 days of receipt of this order. The said demand draft should be forwarded to General Manager, ID-3, Investigations Department, SEBI, SEBI Bhavan, Plot No. C – 4 A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051.

In terms of rule 6 of the Rules, copies of this order are sent to the Noticee and to Securities and Exchange Board of India.

Date: April 29, 2011

PIYOOSH GUPTA

Place: Mumbai

ADJUDICATING OFFICER