

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NOS. PG/AO - 93/2011]**

**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

**Mrs. Chandrakala
(PAN: AAEP5084C)**

**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>	<div>21/06/07</div> <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> <div>22/06/07</div> <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>	<div>29/06/07</div> <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> <div>2/07/07</div> <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	<div>17/7/07</div> <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								
O	H	L	C																	
48.75	52.15	46.10	51.85																	

		<i>to approval of shareholders at the ensuing AGM.</i>	<table><tr><td colspan="4"><i>18/7/07</i></td></tr><tr><td><i>O</i></td><td><i>H</i></td><td><i>L</i></td><td><i>C</i></td></tr><tr><td><i>56.95</i></td><td><i>57.00</i></td><td><i>53.50</i></td><td><i>57.00</i></td></tr></table> <i>No. of shares traded: 85,152</i>	<i>18/7/07</i>				<i>O</i>	<i>H</i>	<i>L</i>	<i>C</i>	<i>56.95</i>	<i>57.00</i>	<i>53.50</i>	<i>57.00</i>	<i>trading volume increased by 28.25% on 18/7/07 as compared to the previous trading day.</i>												
<i>18/7/07</i>																												
<i>O</i>	<i>H</i>	<i>L</i>	<i>C</i>																									
<i>56.95</i>	<i>57.00</i>	<i>53.50</i>	<i>57.00</i>																									
<i>4</i>	<i>July 25, 2007 @ 4:34 PM</i>	<i>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.</i>	<table><tr><td colspan="4"><i>25/7/07</i></td></tr><tr><td><i>O</i></td><td><i>H</i></td><td><i>L</i></td><td><i>C</i></td></tr><tr><td><i>58.90</i></td><td><i>61.90</i></td><td><i>58.00</i></td><td><i>61.40</i></td></tr></table> <i>No. of shares traded: 33,603</i> <table><tr><td colspan="4"><i>26/7/07</i></td></tr><tr><td><i>O</i></td><td><i>H</i></td><td><i>L</i></td><td><i>C</i></td></tr><tr><td><i>62.20</i></td><td><i>64.80</i></td><td><i>61.80</i></td><td><i>62.50</i></td></tr></table> <i>No. of shares traded: 48,000</i>	<i>25/7/07</i>				<i>O</i>	<i>H</i>	<i>L</i>	<i>C</i>	<i>58.90</i>	<i>61.90</i>	<i>58.00</i>	<i>61.40</i>	<i>26/7/07</i>				<i>O</i>	<i>H</i>	<i>L</i>	<i>C</i>	<i>62.20</i>	<i>64.80</i>	<i>61.80</i>	<i>62.50</i>	<i>The scrip closed on 26/7/07 at 1.79% above its previous day closing price.</i> <i>The volume increased by 42.84% on 26/7/07 as compared to the previous trading day.</i>
<i>25/7/07</i>																												
<i>O</i>	<i>H</i>	<i>L</i>	<i>C</i>																									
<i>58.90</i>	<i>61.90</i>	<i>58.00</i>	<i>61.40</i>																									
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<i>62.20</i>	<i>64.80</i>	<i>61.80</i>	<i>62.50</i>																									

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. N o	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 Chandrakala / Chandrakala 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 Noticee vide letter dated March 30, 2011 replied to the SCN stating as under

“I am the wife of Mr. B Uttam Kumar Kothari who is related to the Promoter Director Mr. B Ranjit Kumar Kothari and Managing director Mr. B Popatlal Kothari on the Board of M/s Rasi Electrodes Limited.

I wish to reply as under:

I regularly trade in the shares of Rasi Electrodes Limited and also in the scrip of all the other companies.

The trades mentioned in your notices were all genuine transactions which was carried out by me as part of normal buying and selling. I have not sought for nor

have I received any price sensitive information from my brothers Mr. B Ranjeet Kothari or Mr. B. Popatlal Kothari.

I have not based my trades on any material information to the detriment of other investors. The trades have not been done with a view to profiteer out of other investors.

I have invested in the shares of Rasi Electrodes Limited during the public issue during the year 1995. Even assuming a return based on bank rate the price of the scrip as on June July 2007 works out to Rs 27 @ 8% CAGR. Hence when the price of the scrip reached around this price first time during the period June- July 2007. I was tempted to sell. Hence you will appreciate that there is no ulterior motive in selling our holdings which was kept for around 12 years without matching returns from ordinary bank deposit.”

9. 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. Uttam Kothari, Authorised Representative appeared on behalf of Noticee and reiterated that submissions made by the Noticee vide reply dated March 30, 2011.

Consideration of issues and findings

10. 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.***

11. I note that Noticee had traded through Angel Broking Ltd., JRG Securities Ltd. and Kantilal Chaganlal Securities Ltd. and had purchased 24, 484 shares at an average price of ₹ 46. 94 per share during the period June 12 2007 to July 20, 2007 and sold 30, 610 shares at an average price of ₹ 49. 22 per share during the period June 11 2007 to July 20, 2007. Transaction details of the Noticee are as under

<i>S. No</i>	<i>Buy Date</i>	<i>Buy Qty</i>	<i>Buy Value</i>	<i>Avg. Buy Price</i>	<i>Sell Date</i>	<i>Sell Qty</i>	<i>Sell Value</i>	<i>Avg. Sell Price</i>
1					11/06/2007	60	1374	22.90
2	12/06/2007	1119	24768	22.13				
3					15/6/2007	300	7503	25.01
4	20/6/2007	850	22474	26.44				
5					21/6/2007	1300	33786	25.99
6	25/6/2007	1000	27250	27.25	25/6/2007	500	13550	27.10
7					26/6/2007	1100	29105	26.46
8	28/6/2007	900	22500	25.00	28/6/2007	3300	83550	25.32
9	29/6/2007	1315	35028	26.64	29/6/2007	100	2500	25.00
10								
11	02/07/2007	1550	46198	29.81				
12	03/07/2007	1400	45613	32.58				
13					04/07/2007	200	6800	34.00
14					05/07/2007	200	6378	31.89
15	6/7/2007	600	19700	32.83	06/07/2007	1211	39383	32.52
16					07/07/2007	150	4908	32.72
	13/7/2007	2000	86000	43				
	16/7/2007	150	6683	44.55	16/7/2007	2000	95000	47.5
17	17/7/2007	2000	97000	48.5	17/7/2007	4250	215450	50.69412
18					18/7/2007	5000	284500	56.90
19	19/7/2007	3600	221415	61.50	19/7/2007	9466	591830	62.52
20	20/7/2007	8000	494700	61.84	20/7/2007	1473	91031	61.80
Total		24484	1149329	46.94		30610	1506648	49.22

12. It was observed that the Noticee had submitted to have purchased 16,729 shares at an average price of ₹ 42.85 per share and sold 22,787 shares at an average price of ₹ 46.54 per share during the period June 08 2007 –

July 20, 2007. It was also submitted that the Noticee, however, incurred a loss of ₹ 61,730 on the sale and purchase of 16, 729 shares during the said period as per First In - First Out method. It was observed that the trades of the Noticee in the scrip of the Company during the investigation period accounted for 69.17% of the total traded value of all her transactions. The Noticee was a net seller of 2, 235 shares at an average price of ₹ 24. 72 per share when the information of financial results and dividend was UPSI and net buyer of 3, 789 shares upto July 13, 2007 after the same became public. During the period when information of bonus was UPSI, the Noticee bought 2, 150 shares and sold 6, 250 shares i.e., net sale of 4, 100 shares. After announcement of bonus, she was a net seller of 4, 339 shares.

13. I note that investigation has brought out that out of the total investments done by Noticee during the investigation period, 69.17% 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. 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 as not denied the statement that 69.17% of trading was in the scrip of the Company, hence accepted. I note that during the periods when the information about declaration of results, dividends and bonus issue was UPSI, the Noticee purchased 6, 215 shares of the Company for ₹ 2, 10, 935 at an average price of ₹ 33.93. Noticee also sold 12, 550 shares of the Company for ₹ 4, 72, 941/- at an average price of ₹ 37.68. The Noticee had made a profit of ₹ 2, 62, 006/- by trading in the shares of company during UPSI periods. The details of transactions conducted by Noticee during UPSI period are as under :

S. No	Buy Date	Buy Qty	Buy Value	Avg. Buy Price	Sell Date	Sell Qty	Sell Value	Avg. Sell Price
1	20/6/2007	850	22474	26.44				
2					21/6/2007	1300	33786	25.99
3	25/6/2007	1000	27250	27.25	25/6/2007	500	13550	27.10
4					26/6/2007	1100	29105	26.46
5	28/6/2007	900	22500	25.00	28/6/2007	3300	83550	25.32
6	29/6/2007	1315	35028	26.64	29/6/2007	100	2500	25.00
7	16/7/2007	150	6683	44.55	16/7/2007	2000	95000	47.5
8	17/7/2007	2000	97000	48.5	17/7/2007	4250	215450	50.69412
Total		6215	210935	33.93		12550	472941	37.68

14. It is noted that the Noticee is wife of B Uttam Kumar Kothari who is brother of B Popatlal Kothari, Chairman & Managing Director (CMD) and Ranjeet Kumar Kothari, Director of the Company. She stays at the same address as her husband and CMD of the company. As such she is deemed to be connected person with the Company & its Directors, had access to UPSI and hence is an insider who had traded while in possession of UPSI.
15. The Noticee has denied that she received any UPSI from Mr B Popatlal Kothari or B Ranjit Kothari. She has stated that she had been holding shares of the company since their allotment in the public issue in 1995 and had sold them now only on seeing a good price of around ₹ 27/- which was equal to about 8 % CAGR which may have been received from a bank deposit. A perusal of her trading done does not indicate that she has only sold shares which may have been acquired earlier. It is clear that she has also acquired shares of the Company during the period when the information about financial results & dividend and about bonus issue was UPSI. Thus it cannot be said that she was not acting on the UPSI received by virtue of her relationship with the directors / promoter. She has purchased a smaller quantity and sold a much larger quantity of shares of the Company and made a substantial profit which is indicative of possession of UPSI and her contention does not appear plausible.

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 Noticee has made a gain of ₹ 2,62,006/- by trading in the shares of company during UPSI periods. 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 that the integrity of securities markets is maintained. 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 violators should face the consequences otherwise the

objects of Regulations is defeated. Considering the number of transactions, the violations by the Noticee appear to be repetitive.

Order

18. 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 ₹ 8,00,000/- (Rupees eight lakhs only) on Mrs.Chandrakala 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 penalty will be commensurate with the violations committed by Mrs.Chandrakala.

Mrs. Chandrakala 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 Mr. Suresh Gupta, Chief General Manager, ID-7, Investigation 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: August 30, 2011
Place: Mumbai

PIYOOSH GUPTA
ADJUDICATING OFFICER