

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

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

ORDER

UNDER SECTIONS 11 AND 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND REGULATIONS 11 AND 13 OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003 AGAINST MR. RAJESHKUMAR V. PATEL, MRS. KIRTIBEN R. PATEL, MR. PARESH R. PATEL, MRS. HEMA PARESH PATEL, AND MR. DHAVAL V. SHAH IN THE MATTER OF GENUS COMMUTRADE LIMITED

1. The Securities and Exchange Board of India (hereinafter referred to as SEBI) conducted an investigation into the sudden rise in the price and volumes traded in the shares of Genus Commutrade Limited (hereinafter referred to as company) for the period between May 2001 and July 2001 (hereinafter referred to as investigation period). The investigation revealed, *inter alia*, that in Bombay Stock Exchange Limited (hereinafter referred to as BSE), the share price of the company rose from Rs.5.40 on May 14, 2001 to Rs.23.90 on July 2, 2001 and closed at Rs.20.25 on July 20, 2001. The traded volume in the scrip had also increased from 3,500 shares on May 14, 2001 to an intra period (investigation) high of 9,21,151 shares on May 28, 2001. The volume traded on July 20, 2001 was 1,95,133 shares. It was observed that the top ten stock brokers who had traded in the shares of the company accounted for 67.27% of the gross purchase volume and 63.27% of the gross sell volume, during the relevant period . It was noticed that a group of clients including Mr. Rajeshkumar V. Patel, Mrs. Kirtiben R Patel, Mr. Paresh R. Patel, Mrs. Hema Paresh Patel and

Mr. Dhaval V. Shah (hereinafter collectively referred to as the noticees and individually by their respective names) who were allegedly either connected with each other or with the company or with the stock broker, Park Light Investment Private Limited (hereinafter referred to as PIPL) had traded actively in the scrip which was otherwise illiquid. It was further observed that they had traded on several occasions during the investigation period and were alleged to have impacted the price/volume of the scrip. It was also alleged that they had entered into transactions among themselves in order to create artificial market in the shares of the company to induce gullible investors. Therefore, in view of the findings of the investigation, it was alleged that the noticees had contravened Regulation 4(b) & (c) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 (hereinafter referred to as the PFUTP Regulations).

2. In view of the above, SEBI issued a notice dated July 16, 2008 to various persons including the noticees to show cause as to why suitable directions under Sections 11 and 11B of the Securities and Exchange Board of India Act, 1992 read with Regulation 11 of the PFUTP Regulations should not be passed against them. Though, the noticees acknowledged the receipt of the show cause notice, they had not filed any reply. Subsequently, an opportunity of personal hearing was granted to the noticees on August 13, 2009, when, Mr. Mayukh Pandya, as authorized by the noticees appeared and sought fifteen days time to reply to the show cause notice. Accordingly, the same was granted. Thereafter, vide letter dated August 20, 2009 (received by SEBI on September 8, 2009), Mr. Rajesh Kumar V. Patel *inter alia* stated that he had no direct or indirect connection with the company, its promoters or directors and submitted that his shareholding in PIPL would not establish any connection with Mr. Uday Vora (Director, PIPL). He further stated that Mrs. Kirtiben R. Patel is his wife. He also contended that by introducing Mr. Paresh Patel to one of the stock brokers, he cannot be said to have any close relationship with him.

According to Mr. Rajesh Kumar V. Patel, the transactions took place as per the market mechanism and that the 55,000 shares bought by him during the relevant period was very negligible to affect the price movement. Mrs. Kirtiben R. Patel made similar submissions, vide letter dated August 20, 2009 (received by SEBI on September 8, 2009) and *inter alia* stated that her buy-sell of 1900 shares of the company was very negligible to affect the price movement. Mr. Paresh R. Patel and his wife, Mrs. Hema Paresh Patel, vide separate letters dated August 20, 2009 (received by SEBI on September 8, 2009) had also made similar submissions as that of Mr. Rajesh Kumar V. Patel. He further submitted that he did not purchase 500 shares as mentioned in the show cause notice and contended that his sale of 20,000 shares had not impacted the market. Mrs. Hema Paresh Patel stated that she did not sell any shares during the period and that her purchase of 50,000 shares was very negligible to affect the price movement. Mr. Dhaval V. Shah, vide letter dated August 25, 2009 (received by SEBI on September 8, 2009) had also made similar submissions. He has contended that he has his office at H.N. House which is a four storied building and that Mr. Uday Vora was having his office in a different floor in the said building. He also has contended that his buy (531452 shares) and sale (of 7900 shares) were very negligible.

3. I have examined the show cause notice, replies of the noticees and other relevant material available on record. It is not in dispute that the shares of the company had witnessed sudden rise in price and volume during May 2001–July 2001. It is pertinent to note that during January 2001 till April 2001, 12 trades involving 1,700 shares of the company were executed with a turnover of just Rs.5,910/-. It was alleged in the show cause notice that, a group of clients including the noticees had traded actively in the shares of the company which was otherwise illiquid and that their trading had resulted in the creation of artificial volume and price rise in the shares of the company. The details as to

the share price and traded volumes in the shares of the company for the period January 2001 to December 2001 are given below:

Date	Open (Rs.)	High (Rs.)	Low (Rs.)	Close (Rs.)	No. of	No. of	Net Turnover (Rs.)
					Shares	Trades	
January 2001	3.75	4.50	3.70	3.70	300	3	1,195.00
February 2001	3.00	4.50	3.00	3.50	1000	6	3,350.00
March 2001	3.95	3.95	3.00	3.70	400	3	1,365.00
May 2001	4.60	12.60	4.60	10.65	2898767	2474	29,931,294.00
June 2001	10.30	23.70	9.80	22.30	4925285	7609	81,363,260.00
July 2001	23.90	25.10	15.55	24.95	3148958	5910	60,685,158.00
August 2001	26.00	29.85	19.35	19.35	209895	916	5,277,046.00
September 2001	20.80	21.30	8.70	11.00	150396	552	2,651,229.00
October 2001	11.75	11.75	5.30	7.15	29313	343	226,138.00
November 2001	7.90	8.50	3.60	5.50	171250	1204	936,942.00
December 2001	6.25	6.25	3.30	3.55	225913	907	991,110.00

(May 2001 to July 2001- Investigation period)

4. The above table would indicate clearly that there was a manifold increase in the price and volumes during the investigation period, as compared to the periods prior to and after the investigation period.

5. Before examining the transactions of the noticees in the shares of the company, it is pertinent to note their relationship. It is an admitted fact that Mr. Rajesh Kumar V. Patel and Mrs. Kirtiben R. Patel are husband and wife. Similarly, Mr. Paresh R. Patel and Mrs. Hema Paresh Patel are husband and wife. It is observed that Mr. Dhaval V. Shah and Mr. Uday Vora (director of PIPL) had their respective offices in the same building. Further Mr. Rajeshkumar V. Patel and his wife Mrs. Kirtiben R. Patel are the shareholders in PIPL. The noticees (except Mr. Dhaval V. Shah) are shareholders of the company. It is important to note that Mr. Rajeshkumar V. Patel and his wife Mrs. Kirtiben R. Patel were shown as "Person acting in concert" in the shareholding pattern filed by the company. These facts are not in dispute. Admittedly, Mr.

Rajeshkumar V. Patel had introduced Mr. Paresh R. Patel to the stock broker, PIPL. The trades of the noticees in the shares of the company need to be seen in the background of the above mentioned relationship between the parties. It is alleged that the noticees had traded in the shares of the company during the investigation period. The total traded quantity in the shares of the company during the investigation period was 1,07,65,730 shares. The buy and sell quantities of the noticees were given in detail in the show cause notice and the same are given below.

Buy

Client	Quantity
Hemlata Patel(4378)	50,000
Kirtiben R. Patel(K008)	1,900
Dhaval V. Shah(D061)	5,31,452
Rajeshkumar Patel(R152)	55,000
Paresh R. Patel (P010)	500
Total Buy	6,38,852
Total Trading	10765730

Sell

Client	Quantity
Rajeshkumar Patel (R026)	42000
Kirtiben R. Patel (K008)	1900
Dhaval V. Shah (D061)	7900
Rajeshkumar Patel (R152)	246600
Paresh R. Patel (P010)	200000
Total Sell	4,98,400
Total Trading	10765730

6. The noticees contended that even if, the figures given in the show cause notice were correct, the same were negligible as compared to the total market volume and did not affect the price movement. I note that Mr. Rajesh Kumar R. Patel, Mr. Paresh R. Patel, Mr. Daval V. Shah and Mrs. Hema Paresh R. Patel had entered into matching transactions where their buy-sell orders were placed with a gap of less than one minute between them. The details of such transactions were mentioned in the show cause notice and the same remained uncontroverted. Their contention was that the same were done as per the

market mechanism. I am unable to accept the said contention. There were number of such transactions as mentioned in the show cause notice. The investigation conducted by SEBI observed that 128 large trade (above 10,000 shares) for 24,40,883 shares were *inter alia* executed amongst the connected clients including the noticees. Out of the said transactions, 33 large trades for 6,67,797 shares were executed on 11 days where the time gap was less than one minute between the buy and sell orders. The share price had also increased during the period of such trades. The transactions of the noticees *inter alia* created artificial volume. As stated above in this order, the noticees (except Mr. Dhaval V. Shah) were the shareholders of the company. Further, Mr. Rajesh Kumar R. Patel and his wife, Mrs. Kirtiben R. Patel was shown as persons acting in concert with the promoters of the company, in its shareholding statement. As part of the promoter group of the company, they were not expected to be involved in such unfair and manipulative trade practices in the shares of the company. In the facts and circumstances of the case, the only logical conclusion that can be arrived is that such trades were not genuine and had impacted the share price of the company. Needless to say, such trades created misleading appearance of trading in the shares of the company. It is the case of the noticees that their trades were negligible when compared to the total market volume in the shares of the company. However, I note that the scrip opened at a higher price than the previous day closing price for 31 days and for 29 days, it had closed higher than the previous day's closing price, out of total 50 days during the investigation period. The analysis of opening and closing trades showed that the connected clients including the noticees had repeatedly appeared in few opening trades but largely in closing session trades. Therefore, I hold that the noticees have dealt in the shares of the company in contravention of Regulation 4(b) and (c) of the PFUTP Regulations. Further, the noticees have contended that they were earlier issued a show cause notice dated October 14, 2005 in the said scrip and the issuance of the present show cause notice for a different period was against the principles of 'natural justice'

and 'double jeopardy'. The said contention is without any merit. Even according to them, the present show cause notice was issued in respect of an investigation in the said scrip for a different period. In view of the above findings, the show cause notice dated July 16, 2008 in so far as it relates to the noticees is disposed of as ordered hereinbelow.

7. In view of the foregoing, 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 and 11B thereof and Regulations 11 and 13 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, I hereby issue a warning to Mr. Rajeshkumar V. Patel [Permanent Account Number-ABCPP2582R], Mrs. Kirtiben R. Patel [Permanent Account Number-ABJPP8147R], Mr. Paresh R. Patel [Permanent Account Number-AGNPP9624Q], Mrs. Hema Paresh Patel [Permanent Account Number-ANCPP1816A] and Mr. Dhaval V. Shah [Permanent Account Number-AMDPS6435N] for their violations. They are directed to strictly comply with the securities laws and other requirements which govern their conduct in the securities market.

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

**PLACE: MUMBAI
DATE: MARCH 31, 2010**