

**In Re: Order Book Manipulation**

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**SooperKanoon Citation :** [sooperkanoon.com/58586](http://sooperkanoon.com/58586)

**Court :** SEBI Securities and Exchange Board of India or Securities Appellate Tribunal SAT

**Decided On :** Apr-26-2007

**Judge :** G Anantharaman

**Appellant :** In Re: Order Book Manipulation

**Judgement :**

1.1 In the recent past it has been observed that the prices of certain stocks have witnessed dramatic upsurges on the day of listing, or soon thereafter. Examination in a couple of instances revealed attempts to structure or synchronize purchase of shares that were off-loaded by certain entities, in an apparently pre-planned manner. In yet another case it was found that a predetermined minimum level of floating stock was cornered by certain company-connected entities and the price of the stock was fuelled through corporate announcements that tended to bolster the positive sentiment, though they hinged on apparently unsubstantiated events. In such cases SEBI intervened in order to rein in possible market abuses spawning runaway prices on the listing day.

Such preventive steps taken by SEBI followed closely on the heels of spying a possible manipulative intent on part of certain entities and market intermediaries in fraudulently diverting IPO allotments to them or shoring up the value of prices by adopting various subterfuges. The affected parties in each of such malpractices are the lay investors, who are denied a fair opportunity to participate in allotment of shares in IPOs or are, through deceptive signals, inveigled to invest in scrips

without fundamentals. The present case is of a piece with such continuing efforts of SEBI in dealing with issues that are likely to impair market equilibrium, in the larger interest of investors. What makes the present exercise significant is that the case is built on alerts generated by the Integrated Market Surveillance System (IMSS) of SEBI. 1.2 A preliminary analysis was made in the dealings of shares of companies on their first day of listing, since it was observed that these share prices had risen dramatically during trading. It was found that certain entities had placed abnormally large orders of shares at prices much below prevailing market prices besides unusually revealing their large order quantities in full, while dealing in the shares of companies as given below:-----

SI	Name of the company	Date of listing	Issue size(Rs)
1.	Pochiraju Industries Ltd (POCHIRAJU)	February 09, 2007	179,06,6752.
	Cambridge Technology Enterprise Ltd (CTE)	February 07, 2007	158,24,4153.
	Mindtree Consulting Ltd (MINDTREE)	March 07, 2007	372,88,5374.
	Shree Astavinayak Cine Vision Ltd (SHREEASTA)	January 10, 2007	100,31,0005.
	Pyramid Saimita Theatre Ltd (PSTL)	January 05, 2007	282,76,4646.
	AI Champdany Industries Ltd (ACIL)	February 14, 2007	112,66,742

----- Re-listing of company pursuant to amalgamation of Champdany Industries Ltd and AI Champdany Industries Ltd.

1.3 Original buy orders in these shares either remained unexecuted at the end of the day or were deleted or modified by the client/broker in a short period of time after having been placed. It is also noticed that some entities have repeatedly demonstrated such trading behaviour in shares of more than one of the above mentioned companies. Although, for price discovery purposes, the exchanges do not impose circuit filters on the first day of listing of shares, placing orders for very large quantity at prices not in sync with prevailing market prices, prima facie, raises serious doubts about the intentions of the entities placing such orders. This suspicion is all the more strengthened when the financial capacities of such entities to fund such 'buy' orders are examined. In view of these abnormalities as indicated by the Integrated Market Surveillance System (IMSS) of SEBI, an immediate examination in the matter was undertaken.

1.4 As per the extant surveillance measures of the exchanges all scrips, excepting those permitted for trade in the derivative segment, are subject to a circuit filter ranging between 02%-20%. The circuit filter varies from scrip to scrip depending upon the risk assessment by the stock exchanges. Yet, on the first day of listing, stock exchanges do not apply circuit filters in order to facilitate price discovery through its order matching mechanism

1.5 As per trading norms laid down by exchanges, a mechanism is provided whereby only a fraction of the total quantity (not less than 10% of total) is revealed for orders of a large quantity. The system then feeds this revealed quantity as order quantity and when this gets exhausted another fraction is revealed automatically for display purposes only, till the total quantity is exhausted. In the 'market picture window', only the revealed quantity is displayed in the best five orders as well as in the total depth of order book. Therefore, if fully revealed in one stroke, large orders would significantly sway the demand-supply balance in the market at that point in time.

1.6 The prima-facie findings on the basis of preliminary examination in the six scrips as referred above are given in the following paragraphs.

2.1. Trading patterns of clients, who placed large orders at prices that were not in sync with the prevailing market price were analysed.

The analysis revealed that in the cases of identified clients given in the table below, either the large order was deleted within a few minutes of it being placed or remained unexecuted due to the off-spec order price:-----

Name of Client	Exch	Name of the Broker
Maniput Investments Pvt Ltd	NSE	Latesh Chheda, 11, Bharat Kunj, Magnum Equity Broking Ltd
Maniput Investments Pvt Ltd	NSE	Latesh Chheda, Prashant Jayantilal Patel Dhiren Pajwani NSE5, Subodh Guru, 38, Tagore Road, Magnum Equity Broking Ltd
Maniput Investments Pvt Ltd	NSE	Viren Kenia, Magnum Equity Broking Ltd
Maniput Investments Pvt Ltd	NSE	Viren Kenia, Magnum Equity Broking Ltd
Maniput Investments Pvt Ltd	NSE	Bhavin Chheda, Magnum Equity Broking Ltd
Maniput Investments Pvt Ltd	NSE	Chetan Rathod, Magnum Equity Broking Ltd
Maniput Investments Pvt Ltd	NSE	Neptune Fincot P Ltd, Magnum Equity Broking Ltd
Maniput Investments Pvt Ltd	NSE	Neptune Fincot P Ltd, R SS Investments P Ltd. NSE
Maniput Investments Pvt Ltd	NSE	Own Trading Account

2.2. The following table gives the details of the large orders placed by the identified



SHREEASTHA	NSE	10-Jan07	5412364	5412364	100	120	203.8	41.12	100/0
0Viren Kenia	AICHAMP	BSE	14Feb-07	100000	100000	100	100	239.024	2.70
58.16	100/0	0Viren Kenia	CTE	BSE	7-Feb07	1350000	1350000	100	45
79.20	88.50	43.18	100/0	0Viren Kenia	MINDTREE	BSE	7-Mar07	100000	100000
100	320.00	340.00	633.00	640.00	100/0	0Viren Kenia	POCHIRAJU	BSE	9-Feb07
1450000	1450000	100	25.00	30.00	57.65	8.65	100/0	0Viren R Kenia	CTE
NSE	7-Feb07	1427000	1080000	75.68	45	85.80	87.20	47.55	100/0
0Viren R Kenia	PSTL	NSE	5-Jan07	178300	140000	78.52	80	146.80	147.25
45.51	100/0	0Viren R Kenia	POCHIRAJU	NSE	9-Feb07	493547	360000	72.94	25.30
59.35	59.60	57.88	100/0	0Viren R Kenia	AICHAMP	NSE	14Feb-07	300981	150000
49.84	100	240.10	240.90	64.69	100/0	0-----			

a) The column '% of off-spec large orders to total order quantity' indicates that off-spec large orders, i.e. those placed at prices significantly different from the prevailing market prices, constituted 100% of all orders placed by identified entities in 12 of the 29 cases listed and in 25 of the 29 cases off-spec large orders were more than 70% of total orders placed.

b) The most significant feature is that in each case the '% of net traded quantity' is practically 'Nil' vis-is the large orders placed. Incidentally, figures in this last column does not rule out the possibility of some buy and sell at prevailing market prices during the day with net position being 'Nil'.

c) The off-spec large orders have been placed at levels ranging from 28.76% to 64.69% below the prevailing market prices. This indicates the absence of intent to buy.

d) The column for '% of total buy order quantity that was deleted or unexecuted' indicates orders that were deleted after being placed, while the remaining orders lapsed as non- executed at the end of the day, with or without being modified. As may be seen from the above table the identified clients have deleted their entire order quantities in all the scrips, except for four cases where an insignificant percentage of the order was allowed to remain unexecuted at the end of the day. From details available, it was observed that the time gap between orders placed

and deletion varied between a few minutes to couple of hours.

2.3. It is observed from the above table that all the entities placed large quantity of buy orders much below the prevailing market price on the day of listing. The dealings by these identified clients is briefly described below: a) Bhavin Chheda: He is observed to be dealing in the shares of AICHAMP through Magnum Equity Broking Ltd., Member BSE. Out of the total orders placed by the client all orders were placed at 63.2% below the prevailing market prices. All order quantities were subsequently deleted by the client. His net trading position at the end of the day was nil.

b) Chetan Rathod: He is observed to be dealing in the shares of CTE and POCHIRAJU through Magnum Equity Broking Ltd., Member BSE on the first day of the listing of these shares. Out of the total orders placed by the client, 84% to 100% orders were placed below the prevailing market prices. The orders placed by the client were ranging between 41-50% below the prevailing market price across the scrips. All order quantities were subsequently deleted by the client. His net trading position at the end of the day was nil in both the scrips.

c) Dhiren Pajwani: He is observed to be dealing in the shares of PSTL and SHREEASTHA through Prashant Jayantilal Patel, Member NSE. Out of the total orders placed by the client, around 76-88% orders were placed below the prevailing market prices across the scrips.

The orders placed by the client were ranging between 28-45% below the prevailing market price. All order quantities were subsequently deleted by the client. His net position at the end of the day was nil in both the scrips.

d) Latesh M Chheda: He is observed to be dealing in the shares of PSTL, CTE, AICHAMP and POCHIRAJU through Maniput Investments Pvt Ltd, Member NSE and also he dealt in shares of CTE, MINDTREE, POCHIRAJU and PSTL through Magnum Equity Broking Ltd., Member BSE. Out of the total orders placed by the client around 39-100% orders were placed below the prevailing market prices. The orders placed by the client were ranging between 39-64% below the prevailing market price across the scrips. All order quantities were subsequently deleted by

the client except in the scrip PSTL, POCHIRAJU and AICHAMP where negligible quantity was allowed to remain unexecuted.

His net position at the end of the day was nil in most scrips, whereas in two scrip it was negligible.

e) Neptune Fincot P Ltd: It is observed to be dealing in the shares of CTE and POCHIRAJU through Maniput Investments Pvt Ltd, Member NSE and also it dealt in shares of AICHAM, POCHIRAJU and SHREEASTA through Magnum Equity Broking Ltd., Member BSE on the first day of the listing of these shares. Out of the total orders placed by the client around 88%-100% orders were placed below the prevailing market prices. The orders placed by the client were ranging between around 46%-61% below the prevailing market price across the scrips.

All order quantities were subsequently deleted by the client except for the orders in AICHAM in which 33% of off-spec orders were allowed to lapse as unexecuted. Its net position at the end of the day was nil in most of the scrips, whereas in two scrips it was negligible.

f) R SS Invest. P. Ltd: It is a member of NSE and was observed to be dealing on its own account in the shares of PSTL and SHREEASTA in which large orders constituted 99.31% and 100% of the total buy orders placed, respectively. These large orders were placed by the member at 46% and 41% below the market price, respectively in the two scrips. At NSE while dealing in the shares of SHREEASTA on proprietary account, the trading member had placed 77 buy orders that ranged from 1 share to 54,12,364 shares on the day of listing, January 10, 2007. An original order placed for 1 share at a limit price lower than the prevailing market price was scaled up to several lac shares (with a high of 54.12 lac shares) at different points in time, before the order was downsized to 1 share as at the beginning on each iteration. Later the order was cancelled without trading a single share. It is noticed that the broker besides, revealed the entire order quantity to the market. Since the buy order was at a price much below the prevailing market prices, the order did not get executed but remained in the order book, thereby substantially adding to the revealed demand. Details of the sequential happenings as described above are better illustrated in the following

Status	Time	of	Buy	Date	Buy Order No
/Modified/				Jan 10, 2007	
200701105139830	Order volume modified	10:33:46	1	120Jan 10, 2007	
200701105139830	Order volume modified	10:34:40	1,241,256.00	120Jan 10, 2007	
200701105139830	Order volume modified	11:40:32	1	120Jan 10, 2007	
200701105139830	Order volume modified	12:25:23	2,245,441.00	120Jan 10, 2007	
200701105139830	Order volume modified	12:30:48	1	120Jan 10, 2007	
200701105139830	Order volume modified	13:29:31	5,412,364.00	120Jan 10, 2007	
200701105139830	Order volume modified	13:34:16	1	120Jan 10, 2007	
200701105139830	Order volume modified	14:13:33	812,412.00	120Jan 10, 2007	
200701105139830	Order volume modified	14:17:30	1	120Jan 10, 2007	
200701105139830	Order volume modified	14:51:42	884,523.00	120Jan 10, 2007	
200701105139830	Order volume modified	14:52:49	3,341,236.00	120Jan 10, 2007	
200701105139830	Order volume modified	15:08:32	1	120Jan 10, 2007	
200701105139830	Order cancelled	15:09:29	3,345,441.00	120	

g) Viren Kenia: He is observed to be dealing in the shares of CTE, PSTL, POCHIRAJU and AICHAMP through Maniput Investments Pvt Ltd, Member NSE and also he dealt in shares of CTE, MINDTREE, POCHIRAJU and AICHAMP through Magnum Equity Broking Ltd., Member BSE on the first day of the listing of these shares. Out of the total orders placed by the client around 49%-100% orders were placed below the prevailing market prices. The orders placed by the client were ranging between 43-64% below the prevailing market price across the scrips. All order quantities were subsequently deleted by the client. His net position at the end of the day was nil in all the scrips mentioned above.

2.4. The details of income revealed in the Know Your Client (KYC) forms of identified clients and the likely financial exposure that such large orders would have entailed in the event of execution is given below.

Analysis of the trading history of these clients was also carried out for the preceding six months to understand their monetary capacity to buy. The details are given in the table

below:----- Name  
 Exch.

Annual Income as placed of-----	Total value of	Max net buy amt shown in the	KYC large orders	placed	at	the	end	of-----	Name
BSE Less than Rs.1 lac	60 lacs-	2 crores	7.53	Latesh Chheda	NSE	Less than Rs.1 lac	7.76 crores	to 28.90 crores	42.10
Viren Kenia BSE	Less than Rs.1 lac	25 lacs-	2 crores	4.23	Viren Kenia	NSE	Less than Rs.1 lac	1.12 crores	to 4.86 crores
Bhavin Chheda BSE	Rs.1-5 lacs	80 lacs-	1.95 crores	2.10	Chetan Rathod	BSE	Rs.1-5 lacs	27.5 lacs-	1.35 crores
Neptune Fincot BSE	Above Rs. 5 lacs	50 lacs-	1.27 crores	11.37	Neptune Fincot	NSE	Above Rs. 5 lacs	15.29 crores	to 44.86 crores
Dhiren Pajwani NSE	Rs.1-5 lacs	1.00 crore	to 40.29 crores	9.62	----- It is				

seen from the above table that the value of the orders placed by these entities is disproportionate to the income as shown in the KYC forms as well as with reference to the actual highest net investment through trading over the preceding six months period. Such disquietingly disparate trends indicate that these entities had never traded anywhere near to the value of the orders placed in the above mentioned scrips and do not possess the financial capacity to undertake such large purchases.

2.5. As per the broker database at BSE, Magnum Equity Broking Ltd, which is a member of BSE, has listed the firm Maniput Investments Pvt Ltd., which itself is a member at NSE, as a group company. Both these broking firms state Shri Jiten J Chheda as their CEO. It is pertinent to mention that the identified clients Latesh Chheda and Bhavin Chedda appear to be related and that another identified client, Neptune Fincot P Ltd, was introduced to the broker Maniput Investments Pvt. Ltd. by the father of Latesh Chedda. In addition to the afore-mentioned clients, Viren Kenia, has also dealt only with these two connected trading members. The identified client, Dhiren Pajwani has dealt only through the member Prashant Patel. The above suggests an apparent web of interconnections within certain identified clients as also with the brokers through whom they have dealt. As indicated in para 2.4 above, the exposure availed by these identified clients, as

compared to their income disclosed in respective KYC forms, is disconcertingly on the higher side as per accepted norms of risk management. This raises doubts about the quality of due diligence exercised by these brokers while dealing on behalf of their clients. Alternatively it prima facie suggests that the brokers turned a blind eye to the actions of the identified clients in placing large orders for apparently creating artificial volumes that disseminate misleading signals in the market.

2.6. Generally, the entities dealing in large volume of shares do not prefer to disclose their entire order quantity to the market, as the introduction of a demand for large quantity of shares may influence its price. In view of this, the trading system of exchanges provides the facility to disclose only a fraction of the total order quantity (not less than 10% of total) to the market. It is observed that the identified entities preferred to instantly disclose the entire order quantity to the market. This indicates that these entities, who placed such large orders, were apparently more interested in creating artificial demand for the securities rather than having a genuine interest in executing the trades.

3.1. The analysis of the orders placed by the above mentioned identified entities prima facie indicate that: a) The orders were placed much below the prevailing market price on the day of listing of the shares of the companies, thereby rendering them as frivolous or non-serious orders making no commercial sense.

The intention of placing such orders was therefore not for genuine trading but only for artificially enhancing the levels of demand, which constitutes a manipulative practice in the market.

b) The entire large order quantity was revealed to the market in one stroke, which is an uncommon practice in the market. A genuine buyer of large quantity of shares would not like to disclose the entire quantity of intended purchase as it would normally impact the price and thereby increase his financial burden by way of higher cost of acquisition. Therefore, it is prima facie seen that such conduct on the part of identified entities might not be consistent with anything other than market manipulation.

c) The likely financial exposure that such large orders would have entailed in the event of execution, which was liable to be borne by the identified entities, is disproportionate to the annual income disclosed by these entities in the KYC forms submitted to their respective brokers. Their trading history over the preceding six months suggests that these entities had not executed any trade remotely close to the large numbers under scrutiny. Therefore it may be prima facie inferred that these identified entities never had any intention to execute such large orders.

d) The likely possible purpose of placing such large orders seems to be one of providing artificial depth to the order book thereby seeking to subserve their own interest in the market besides misleading the lay investors. By indulging in such acts, these entities appear to have created false or misleading appearance of trading in securities market and in the process appear to have violated Regulations 4 (2) (a) (b) and (g) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003, which are reproduced below: Regulation 4(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following namely a) indulging in an act which creates false or misleading appearance of trading in the securities market.

b) dealing in a security not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress or cause fluctuations in the price of such security for wrongful gain or avoidance of loss; g) entering into a transaction in securities without intention of performing it or without intention of change of ownership of such security.

e) The present case study encompassing the trading pattern in the six scrips as detailed above on the day of listing, prima facie indicates that the identified entities has been systematically and regularly indulging in manipulation of order book to create artificiality in the market besides serving their own collateral purposes. It is quite likely that they may continue to do so in future as well, having regard to their past conduct over a period of time. The same is fraught with the risk of affecting the natural process of price discovery on the day of listing thereby introducing price distortion in the market and affecting the equilibrium of the market and

interest of lay investors. It is in this context of continuing errantries on the part of the identified entities that the need for an interim order becomes necessary to facilitate the price discovery mechanism on the first day of listing and to make the process of price discovery fair and transparent and free of such distortions.

4.1. Therefore, in exercise of the powers delegated to me by the SEBI Board in terms of Section 19 of the Securities and Exchange Board of India Act 1992 read with Section 11B, 11(4)(b) and 11D pending investigation and passing final order, I hereby issue the following directions, by way of ad interim, ex-parte order a. that the identified entities viz. Latesh Chheda, Viren Kenia, Bhavin Chheda, Chetan Rathod, Neptune Fincot P Ltd, Dhiren Pajwani and RSS Investment Ltd shall hereby cease and desist from dealing in shares in the manner described in the order as would impart artificiality to the order book with the concomitant impact on the market, in violation of Regulation 4 (2) (a) (b) & (g) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003 b. that the identified entities viz. Latesh Chheda, Viren Kenia, Bhavin Chheda, Chetan Rathod, Neptune Fincot P Ltd, Dhiren Pajwani and RSS Investment Ltd are hereby directed not to buy, sell or deal in securities, directly or indirectly, on the day of listing of any securities on the stock exchanges, till further directions in this regard.

4.2 The brokers viz., RSS Investments, Maniput Investments Pvt Ltd, Magnum Equity Broking Ltd. and Prashant Jayantilal Patel through whom the identified entities have dealt in the shares of the companies in the manner described above are directed to be cautious and exercise due diligence while dealing on behalf of their clients.

4.3 The above order is without prejudice to any other action that may be initiated against the said violations.

4.4 The above order shall take effect immediately. However, the entities/persons against whom this order is issued may file their objections, if any, to this order within 15 days from the date of this order at the Securities and Exchange Board of India, SEBI Bhavan, C4-A, G- Block, Bandra-Kurla Complex, Bandra (East), Mumbai-400 051.

