

SECURITIES AND EXCHANGE BOARD OF INDIA

AD INTERIM EXPARTE ORDER

UNDER SECTIONS 11(1), 11(4), 11B AND 11D OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 - IN THE MATTER OF SUPREME TEX MART LTD. IN RESPECT OF GAUTAM SANJAY KHANDELWAL (PAN: AZWPK6632R)

1. Securities and Exchange Board of India ("SEBI") has been receiving investor complaints alleging receipt of Short Message Service ("SMS") from certain numbers with fake or bogus recommendations on trading in the securities market. In particular, a complaint with respect to 'stock tips'/ recommendations for the scrip - Supreme Tex Mart Ltd. (hereinafter referred as "STML") having BSE code as 531934 and NSE Code as SUPREMETEX, has been examined and specific allegations relating to trades in STML are the subject matter of this Order.
2. From the available records, STML was incorporated on October 25, 1988 and its shares are listed on both BSE and NSE. Financial statements of STML during the period between 2012 and 2016 were examined, as indicated below:

Table 1

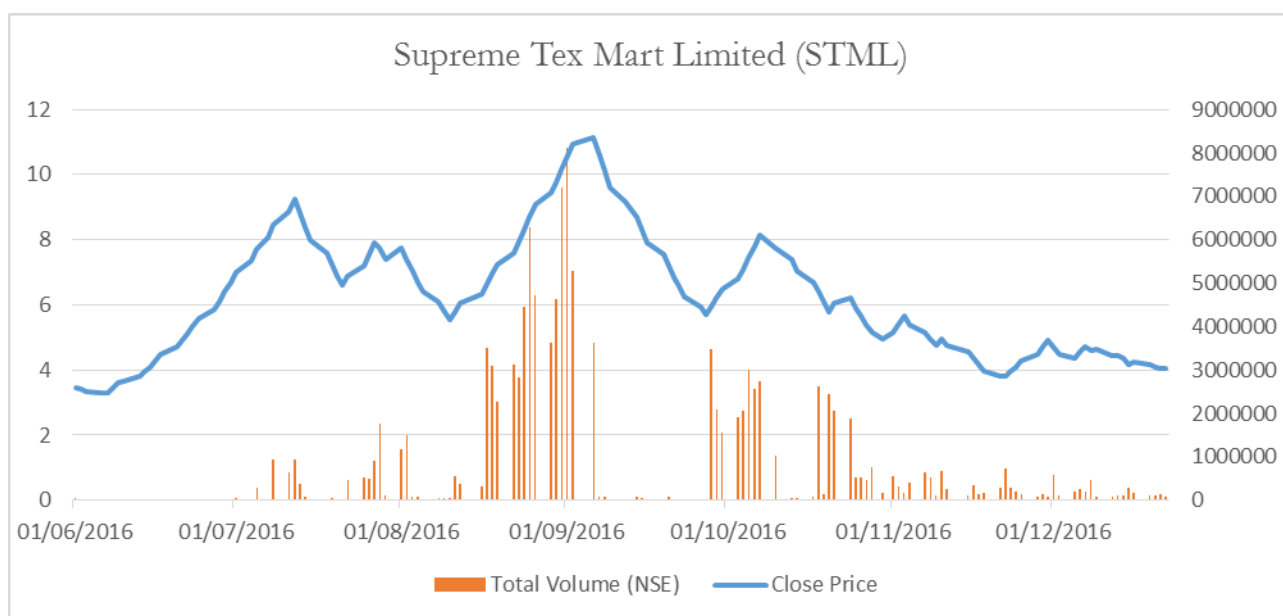
(in ₹ Cr.)	2012	2013	2014	2015	2016
Revenue	845.59	894.19	830.66	429.92	362.35
Net Profit	15.85	16.05	1.15	-208.34	-178.84
Equity	32.21	32.23	34.12	34.12	34.12
EPS	3.04	2.49	0.17	-30.54	-26.21
CEPS	5.15	5.13	4.07	-22.9	-19.12
OPM* %	10.9	10.22	9.28	-26.64	-29.92
NPM** %	1.87	1.8	0.14	-48.46	-49.36

* Operating Profit Margin ** Net Profit Margin

From the above, it is seen that the revenue of STML has been declining and profit margins (OPM and NPM) are worsening over the years. Annual Report FY 2014-15 of STML states that “*Company's accumulated losses have exceeded its entire net worth as on 31.03.2015 and has become Sick Industrial Company in accordance with the provisions of Sick Industrial Companies (Special Provisions) Act, 1985*”. The website of the Board for Industrial and Financial Reconstruction (BIFR) also states the status of the company as “*Pending Determination of Sickness*”.

3. A preliminary examination of trades in the scrip of STML revealed that there was a major spike in the price and volume of the scrip during the period commencing from July 01 to October 30, 2016 (“*Examination period*”). During the said period, average volumes on BSE and NSE were 18,83,781 shares and the scrip price on NSE ranged from a minimum of ₹ 4.95 to ₹11.15. The Price Volume (PV) chart of STML for the relevant period is as under:-

Chart 1



4. SEBI obtained SMS data records from the concerned telecom service providers/ SMS Aggregators through whom SMSes were sent pertaining to STML. It is understood that a sender places request for Bulk SMSes to re-sellers/sub-aggregators which is routed to an

SMS Aggregator and onwards to the telecom service provider before it is sent to various cell phone numbers, as per the request of the sender.

5. SMS records and documents relating thereto, pertaining to stock recommendations were sought from the telecom service providers or from their aggregator(s) to determine who were the actual senders of the SMS. It was observed that around 17.23 lakh SMSes were sent recommending BUY for STML (*recommendation for purchase of shares in STML*) across different dates during the *Examination period*.
6. I note that the trade volume of the STML scrip on the days on which SMSes were sent was significantly high in comparison to its average daily trading volume during the pre-SMS period discussed in this Order. The *Examination period* was divided into the following patches in order to ascertain the impact of SMS on volume:
 - (i) *Pre SMS* period i.e. July 01, 2016 to July 25, 2016, pertains to period before the SMSes were sent.
 - (ii) *SMS* period i.e. July 26, 2016 to Oct 04, 2016, pertains to the period when SMSes were sent. (*The end date of the SMS period was taken as 04 Oct 2016, since one of the messages disseminated via SMS mentioned the target date as being October 04, 2016.*)
 - (iii) *Post SMS* period i.e. Oct 05, 2016 to Oct 30, 2016, pertains to period after the SMSes were sent.

Table 2

	<i>Pre- SMS</i> period (1-July 2016 to 25 July 2016)	<i>SMS</i> Period (26-July, 2016 to 04 Oct 2016)	<i>Post SMS</i> period (05 Oct 2016 to 30 Oct 2016)
Average Daily Volume of shares (BSE+NSE)	4,81,884	24,24,117	16,77,563

Rise of average daily volume of shares of STML vis-à-vis Pre-SMS period		403%	248%
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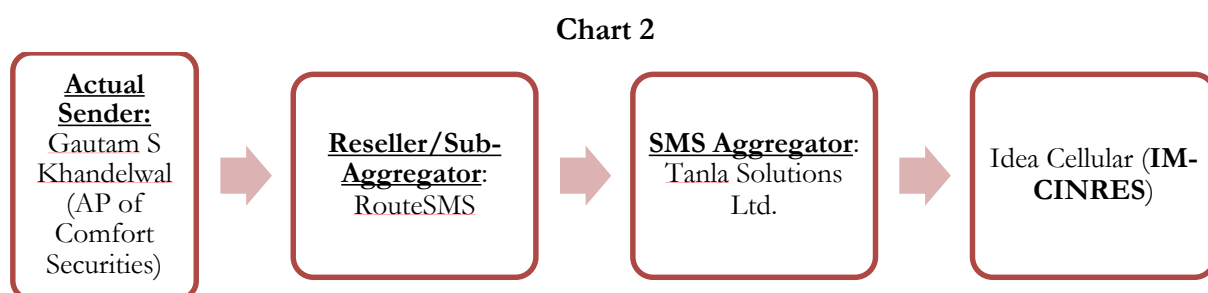
It is observed that trade volume in the scrip of STML rose significantly during '*the SMS period*' as compared to the '*Pre-SMS period*' (rise in volume is 4.03 times). Comparatively, volumes fell in the '*Post SMS period*'. A similar effect is observed in the prices of the scrip as seen in Chart 3.

7. Based on the records/documents collected with respect to messages sent from a stylised number- **IM CINRES**, the role of one of the alleged senders of SMS i.e Gautam Sanjay Khandelwal (*hereinafter referred to as “Gautam”*) in making recommendations with regard to the STML scrip, was examined. IM CINRES was registered with Idea Cellular Telecom Service provider. On further enquiry, it was learnt that Tanla Solutions Limited (*hereinafter referred to as “Tanla”*), an SMS Aggregator service provider, was used to send the Bulk SMS from the number IM-CINRES. Tanla submitted and confirmed that the person who had subscribed for the Bulk SMS service was Gautam. Tanla has submitted the following documents as *prima facie* evidence as proof of having received the request for Bulk SMS from Gautam:

- (i) Certificate of registration of Gautam as BSE registered Authorized Person to the trading member Comfort Securities Ltd. BSE has confirmed the validity of this certificate of registration of Gautam bearing registration number AP0131860123810. I note that the aforesaid certificate is generally found only in the possession of the certificate holder and the Exchange.
- (ii) Snapshot of SEBI registration details of Comfort Securities on SEBI website.
- (iii) Letter dated 30th August, 2016 signed by Gautam, from Comfort Securities Ltd a

registered stock broker, seeking Bulk SMS using, *inter alia*, the stylised number - CINRES.

The flowchart indicating the process of sending Bulk SMS through different parties involved at different stages in the instant case is depicted as follows:



8. Based on the IM-CINRES - SMS database shared by Tanla, it is noted that 8,40,057 SMSes were sent, carrying, *inter alia*, the following messages in relation to STML, during the period from August 30, 2016 to September 29, 2016:

Table 3

Date	SMS Content	No. of SMS sent
30-08-2016	INSIDER TRADING:BUY 53000 "SUPREME TEXMART" NSE/BSE @ 9.75 TGS 15/21 SL 9 (DAILY UPPER CIRCUIT +5%)(NSE TOP GAINER) WWW.THECINRESEARCH.CO	5,16,526
31-08-2016	NSE TOP MULTI BEGER STOCK :- "SUPREME TEXTILES" BUY BUY BSE/NSE CASH @10.20 TGS 17/22 SL 9.75 FROM :- CV RESEARCH	343
08-09-2016	STOCK CASH PREMIUM :- BUY "SUPREME TEX" @10.10 TG 14 SL 10	9,185
09-09-2016	NSE MONTH TOP GAINER :- BUY BUY 8700 SHARE OF "SUPREME TEXTILES" @9.60 TGS 18/22 SL 9 (NOT A FAKE JUST FOR 35% STAKE BY RAYMAND LTD) http://goo.gl/CmeKkC	35,765
14-09-2016	CV PREMIUM STOCK CASH:- BUY 26600 SHARE OF "SUPREME TEXTILES " @ 8.70 SL 8 TGT 14/20 WWW.CAPITALVIA.COM	76,457

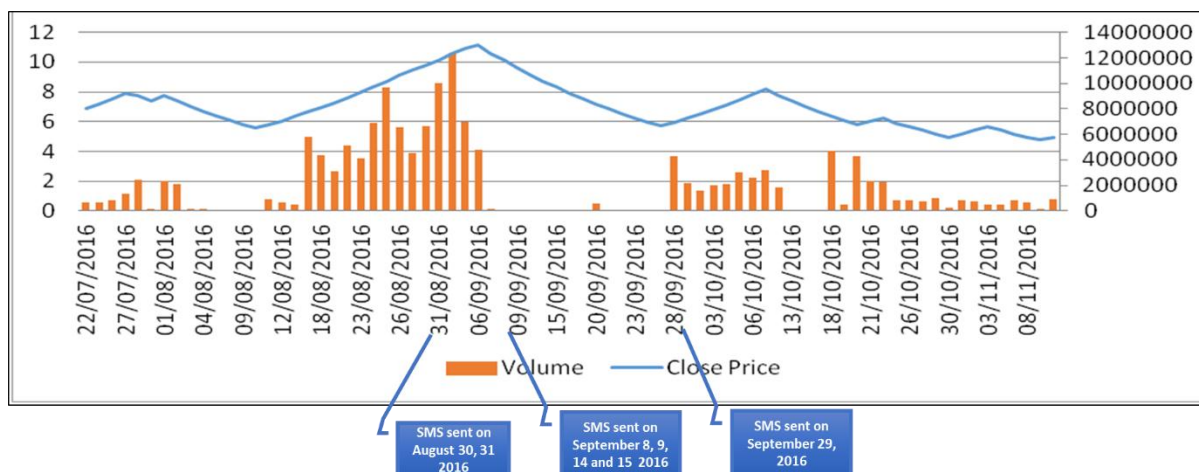
14-09-2016	CV PREMIUM STOCK CASH:- BUY 6600 SHARE OF "SUPREME TEXTILES " @ 8.70 SL 8 TGT 14/20 WWW.CAPITALVIA.COM 8268151460	
15-09-2016	CV NSE PREMIUM STOCK CASH:- BUY 26600 SHARE OF "SUPREME TEXTILES " @ 8.30 SL 8 TGT 14/20 WWW.CAPITALVIA.COM 8268151460	1,70,240
29-09-2016	NSE STOCK CASH:- BUY 18700 SHARE OF "SUPREME TEXT MART" @ 6.20 SL 5 TGT 12 IN(4 OCTOBER) (UPSIDE :+5)(NSE TOP GAINER)	31,541
	TOTAL	8,40,057

I note the following with respect to the aforementioned list of messages:

- (i) Specific target price, target dates and specific sender name/websites were mentioned in the SMSes sent.
- (ii) Factually incorrect information is mentioned in one of the SMSes that one RAYMAND company is purchasing 35% stake in STML. However, as per the corporate announcement dated September 06, 2016 of STML, 24% stake of STML was being acquired by KTE Exports PTE Ltd.

9. The pictorial representation of the likely impact of SMSes sent, including those from IM-CINRES, on the price and volumes of the STML scrip is as under:

Chart 3



Date	30-08-2016	31-08-2016	08-09-2016	09-09-2016	14-09-2016	15-09-2016	29-09-2016	TOTAL
No of SMS Sent	5,16,526	343	9,185	35,765	76,457	1,70,240	31,541	8,40,057
Volume	66,49,853	1,00,43,809	1,03,321	42,623	1,00,590	76,449	21,81,155	1,91,97,800

10. Gautam has sent BUY recommendations over SMS through IM-CINRES. In relation to the aforesaid SMSes sent, the trades of Gautam in the STML scrip were also analysed. Gautam's trades & the corresponding SMS chronology of IM-CINRES during the *Examination period* is as under:

Table 4

Date	SMS/ Trade	No. of SMS	Buy Volume	Sell Volume	Buy Price	Sell Price
Pre-SMS trade summary (1/6/2016- 29/8/2016)			10,26,217	7,64,522	6.82*	7.30*
30-08-2016	SMS	5,16,526				
31-08-2016	SMS	343				
08-09-2016	SMS	9,185				
08-09-2016	Trade			86,854		10.10
09-09-2016	SMS	35,765				
09-09-2016	Trade			37,313		9.58
12-09-2016	Trade			11,944		9.15
14-09-2016	SMS	76,457				
15-09-2016	SMS	1,70,240				
15-09-2016	Trade			27,590		8.30
19-09-2016	Trade			9,178		7.55
20-09-2016	Trade			1,85,591		7.11
28-09-2016	Trade		6,94,771	-	5.73	
29-09-2016	SMS	31,541				
03-10-2016	Trade			1,37,409		6.80
04-10-2016	Trade			1,47,900		7.10
05-10-2016	Trade			2,00,000		7.45

07-10-2016	Trade			1,00,000		8.15
14-10-2016	Trade			80,234		6.98
17-10-2016	Trade			29,228		6.70
TOTAL		8,40,057	17,20,988	18,17,763		

* *Average price is considered. For other trades mentioned, average daily purchase/sale price is considered.*

On an examination of Gautam's trades vis-à-vis the SMS sent from IM-CINRES in STML, it is observed that Gautam traded contrary to the recommendations sent in SMS mentioned above via Comfort Securities as trading member. As can be distinctly observed from the above trading pattern, Gautam sold the shares at higher prices, after sending the SMS. Shares of this scrip were purchased by him at lower price before sending the SMS. Once the price decreased, he indulged in purchase of shares at lower price and again resent SMS with a view to increase the price to further offload his holding at higher prices. This further indicates that Gautam was aware that the 'buy' recommendations he sent as SMS were false/misleading or that he did not believe in its truth. Further during the examination period, Gautam's shareholding shows no beneficial ownership of STML as confirmed by CDSL, with which alone he held a demat account. This goes on to indicate that, *prima facie*, Gautam's dealings in STML were not intended to effect transfer of beneficial ownership but only to operate as a device to impact volume and price of the scrip.

11. Some of the counterparties as buyers of Gautam are SMS recipients of IM-CINRES during the period 30/8/2016-17/10/2016 which is part of the *Examination Period*. Summary of the trades by SMS recipients from number stylized as IM-CINRES, who are counterparties to trades of Gautam, is as below:

Table 5

Period	30/8/2016-17/10/2016
Total shares sold by Gautam	10,53,241
No of shares sold by Gautam which were bought by SMS recipients	1,02,502 (9.73%)
Unique entities (PAN wise) who bought shares from Gautam	89 out of 718

The following table depicts the trades executed by the SMS recipients as buyers and sellers during the period when SMSes were sent by Gautam using the stylised number IM-CINRES.

Table 6

SMS Period	No. of shares traded in the scrip during the period	No. of shares traded by SMS recipients as Buyers (% buy volume of total traded volume)	No. of shares traded by SMS recipients as Sellers (% sell volume of total traded volume)
30/8/2016-17/10/2016	6,54,37,777	69,55,016 shares (10.63%)	46,91,449 (7.17%)

PRIMA FACIE FINDINGS

12. As noted above, the available records on SMSes sent by Gautam and his trading pattern, reveal that:

- (i) Gautam has sent SMSes recommending purchase of shares in the STML scrip;
- (ii) The messages attempted to induce investor interest in the scrip;
- (iii) The messages were misleading in as much as, details regarding poor financial fundamentals of STML (i.e. the fact that STML was a sick company) were not revealed;

- (iv) Gautam took contra position in the STML scrip i.e. he sold shares of STML during the same time he was sending messages recommending purchase of the shares;
- (v) A portion of the counter parties to Gautam's trades in STML scrip were recipients of the SMSes sent by Gautam;
- (vi) There was no change in beneficial ownership in the shares of STML which Gautam purchased.

13. Based on the facts and conclusions stated earlier, it can, *prima facie*, be reasonably inferred that Gautam has:

- (i) disseminated, through SMS, information which is not true or which he did not believe to be true relating to STML, to mislead the innocent investors, and which has influenced their decision to invest in STML; and
- (ii) bought and sold shares in fraudulent manner and devised a scheme to defraud the market.

14. In view of the above, it *prima facie* appears that the acts of Gautam violates the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 and the registration mandate contained in the SEBI (Research Analyst) Regulations, 2014.

SEBI (Research Analysts) Regulations, 2014 ("Research Analysts Regulations")

15. As noted earlier, Gautam has in the SMSes made 'buy' recommendations and indicated that price targets for STML (i.e. the prices at which shares of STML should be bought), thereby bringing him within the definition of a "research analyst" as defined in regulation 2(u) of the

SEBI (Research Analysts) Regulations, 2014. Regulations 2 (u) of the Research Analysts Regulations, reads as follows:

“research analyst” means a person who is primarily responsible for,-
i. preparation or publication of the content of the research report; or
ii. providing research report; or
iii. making 'buy/sell/hold' recommendation; or
iv. giving price target; or
v. offering an opinion concerning public offer,
with respect to securities that are listed or to be listed in a stock exchange,
whether or not any such person has the job title of 'research analyst' and
includes any other entities engaged in issuance of research report or
research analysis.
...”

16. In order to protect the interests of the investors, it is imperative that any person or entity carrying out research analyst activities has to necessarily obtain registration from SEBI and conduct its activities in accordance with the provisions of the SEBI Act and the relevant Regulations made thereunder. Section 12(1) of the SEBI Act, 1992 reads as under:

"No stock broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and such other intermediary who may be associated with securities market shall buy, sell or deal in securities except under, and in accordance with, the conditions of a certificate of registration obtained from the Board in accordance with the regulations made under this Act:"

Further, as per Regulation 3(1) of the SEBI (Research Analysts) Regulations, 2014, the registration of the research analysts is also mandatory. It provides that,

“On and from the commencement of these regulations, no person shall act as a research analyst or research entity or hold itself out as a research analyst unless he has obtained a certificate of registration from the Board under these regulations:...”

17. In this context, it is noted that Gautam is not registered with SEBI in any capacity, either as an *investment advisor* or as a *research analyst*. The characteristics and features of the business activity carried out by Gautam as discussed in the preceding paragraphs, *prima facie*, leads to the conclusion that the entity is providing services of research analyst as defined in Regulation 2(u) of the Research Analysts Regulations. As a result of the aforesaid activities, I am convinced *prima facie* that Gautam Sanjay Khandelwal has violated the provisions of Section 12(1) of SEBI Act, 1992 read with Regulation 3(1) of SEBI (Research Analysts) Regulations, 2014.

SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 ("PFUTP Regulations")

18. I am of the considered view that the scheme, plan, device and artifice employed in this case is *prima facie* a fraud in the securities market inasmuch as it involves manipulative transactions in securities and misuse of the securities market. The STML scrip's volume and price were manipulated by inducing gullible and genuine investors to trade in the scrip in contravention of provisions of the SEBI Act and regulations thereunder. As such the acts and omissions of Gautam Sanjay Khandelwal are 'fraudulent' as defined in regulation 2(1)(c) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 ('PFUTP Regulations') and are *prima facie* in contravention of the provisions of regulation 3 and clauses (b), (e), (f) and (r) of regulation 4(2) and clauses (a), (b) and (c) of section 12A of the SEBI Act, 1992. Extract of the relevant provisions of Section 12A of the SEBI Act, 1992 are reproduced hereunder:

"12A. No person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

- (b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;*
- (c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;"*

Extracts of regulation 3 and relevant clauses of regulation 4(2) of the PFUTP Regulations are reproduced hereunder :

"3.

No person shall directly or indirectly-

- (a) buy, sell or otherwise deal in securities in a fraudulent manner;*
- (b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;*
- (c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;*
- (d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.*

4. (1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.

(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)...;*
- (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;*
- (c)...*
- (d)...*
- (e) any act or omission amounting to manipulation of the price of a security;*
- (f) publishing or causing to publish or reporting or causing to report by a person dealing in securities any information which is not true or which he does not believe to be true prior to or in the course of dealing in securities;*

...

(r) planting false or misleading news which may induce sale or purchase of securities "

19. In the instant case, Gautam S Khandelwal has solicited and induced investors to deal in securities on the basis of stock trade tips, ideas, etc. over SMS. The price/volume data in STML during the examination period and the entry/exit points of Gautam reveal that investors at large were misled on account of such unauthorized activities of Gautam. Preliminary examination reveals that Gautam has sent SMSes relating to other scrips also. This adds to the apprehension that his alleged violations in the securities market may continue to the detriment of gullible investors.

20. SEBI is established to protect the interests of investors and the integrity of the securities market. Considering the facts and circumstances of the present matter and on the basis of *prima facie* findings, it is necessary to intervene in this matter to take immediate steps to prevent such persons from further misleading investors and prevent them from indulging in unauthorized research analyst activities without due registration from SEBI. I am of the view that a detailed and comprehensive investigation of the entire scheme employed in this case is necessary so as to ascertain the role of Gautam S. Khandelwal and any other entity(ies) and connections inter se, whether in the scrip of STML or other scrip(s), if any. However, I am also convinced that this is a case where, effective and expeditious action is required to be taken to prevent any possible harm to investors caused by such unauthorized dissemination of misleading stock tips through bulk SMS route or otherwise, along with fraudulent or manipulative trades in the securities market.

ORDER

21. In view of the foregoing and in order to protect the interest of the investors and the integrity of the securities market, I, in exercise of the powers conferred upon me by sections 11(1), 11(4), 11B and 11D read with section 19 of the SEBI Act, 1992, hereby direct that pending investigation in the matter, Gautam Sanjay Khandelwal (PAN:. AZWPK6632R) is -
- (i) prohibited from buying, selling or dealing in securities, directly or indirectly, or in any manner whatsoever, till further directions;
 - (ii) directed to cease and desist from disseminating news or messages in any form related to the securities market, by any means whatsoever.
22. Further Gautam Sanjay Khandelwal is directed to withdraw and remove all advertisements, representations, literatures, brochures, materials, publications, documents, websites, etc., if any, in connection with the scheme employed as detailed above.
23. This order is without prejudice to any enforcement action that SEBI may deem necessary against Gautam on completion of the investigation in the matter.
24. Gautam Sanjay Khandelwal may file his objections, if any, within twenty one (21) days from the date of this Order and, if so desired, avail himself of an opportunity of personal hearing before the Securities and Exchange Board of India, on a date and time to be fixed on a specific request, received from him.

25. This Order shall come into force with immediate effect and shall be in force until further orders. The Stock exchanges and Depositories are directed to ensure that all the above directions are strictly enforced.

DATE: FEBRUARY 23, 2017

PLACE: MUMBAI

**G MAHALINGAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**