PROMOTER-BROKER-OPERATOR NEXUS

An extension to market manipulation and fraudulent practices is the nexus between promoters, operators and brokers.

Promoter – Broker – Operator Nexus: Modus Operandi

The nexus between promoters and so-called market 'operators' and the quantum of off-market transfers came into light after disclosures on promoter holding and shares pledged by promoters were made mandatory. The modus operandi is curiously simple:

1. Operators open an account with brokerage firm/s with nation-wide presence.
2. Thereafter, promoters transfer a large chunk of shares to the accounts of operators (obviously off-market transactions), who, in turn, create artificial liquidity through circular trading.
3. And once the desired price is achieved, the shares are transferred back to the promoters' account.

Good for both

In the process of drumming up the market, the operators get a chance to earn an extra income while the promoters attract investors thanks to increase in price levels engineered by the operators)

Market players take on these operations is that the whole exercise is concluded within a single quarter in order to avoid change in the shareholding pattern in the following reporting season. Moreover, promoters are careful in 'not' triggering the 2% limit that leads to SEBI's mandatory disclosures (wherein any change more than 2% in shareholding requires detailed disclosure by SEBI within 2 working days of the change).

Penalty

The penalties for such frauds are decided by SEBI on case by case basis and are primarily monetary in nature.

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CASE STUDIES

Sanjay Dangi

One of the biggest crackdowns by SEBI on Insider Trading / Share Manipulation or Promoter-Broker-Operator nexus cases is the case of Sanjay Dangi, a Mumbai based High Networth Individual. Dangi's cohorts were his wife Alpana Dangi and brother Sunil Dangi.

In 2010, it was reported that, SEBI in its **interim order** barred the promoters of four companies Ackruti City (now known as Hubtown), Welspun Corp, Murli Industries and Brushman India from dealing in their listed entities and group entities in the securities market- for colluding with market operators to ramp up their stock prices. SEBI also banned two operators- Dangi and Ashika group (through a total of 24 entities) for manipulating the stock prices of these four companies in nexus with the promoters.

Cases where Dangi played a major role

According to SEBI, Dangi was amongst a handful of operators who took part in circular trading in the shares of Granules India between December 2002 and January2003. Dangi used his flagship company, Pacific Corporate Services, to

buy a few lakh Granules India shares. C. Krishna Prasad, the promoter of the company, wanted to sell a part of his existing holding in the company. But it was feared that a sale would hammer the stock further down from its already low price and poor liquidity. Dangi created liquidity to facilitate offloading of the promoter's shares at better prices. Dangi, according to the SEBI order, placed two buy orders of 100,000 shares each on a single trading day. By resorting to circular trading in the stock, Dangi and some other operators succeeded in pushing the Granules India stock from a low of Rs 18 in December 2002 to a high of Rs 52 a month later

Murli Industries set up 10 bogus companies to manipulate its share price during 12 Dec' 06 to 31 Jan '07, just before commencement of the company's Foreign Currency Convertible Bond (FCCB) issue. The share price of the company increased six fold from Rs 200 to Rs 1200 during the given period. Sanjay Dangi was the operator who helped the promoters of Murli Industries to ramp up its share price. This sudden rise in the share price of the company along with Nagpur I-T department's investigation giving evidence of the manipulative activities helped SEBI to further investigate the Dangi group. This lead to the discovery of Dangi's involvement in similar manipulation for Ackruti, Welspun and Brushman.

In Ackruti's case, the stock price was ramped up in two tranches, first from 28 June 2007 to 23 October 2007 and second from 1 January 2009 to 19 March 2009. The first was at the time of a preferential issue and the second at the time of a QIP issue. In 52 trading days, by mid-March 2009, the Ackruti stock increased 250% from Rs 650 to more than Rs 2,300 (while the Sensex fell by 10 %!). What made Dangi's task of mopping up the Ackruti stock even easier was the low free float in the market. The Shah family of Ackruti held almost 82% of the equity.

In the case of Brushman India, the manipulation took place between February 2008 and November 2008 and during the period when the company's FCCBs were issued (Jun '08).

For Welspun, price manipulation was done between May 2009 and November 2009. The stock scaled up from Rs 100 to Rs 250 during the period.

Status: In 2010, SEBI barred Dangi and 24 group entities and individuals including his wife and brother from the stock markets.

In August 2013, SEBI imposed a total penalty of Rs 12 lakh on three entities for alleged non-compliance with market regulator's summons related to its probe on charges of fraudulent trading activities by Sanjay Dangi and associated entities. It also has penalized the entities associated with Dangi to the extent of Rs 3-6 lakhs, for allegedly failing to give necessary information sought by the regulator's Investigation Authority regarding a probe into the alleged share price manipulation by Sanjay Dangi and other entities in scrips of various companies.

Dangi's hand in playing the stocks of a clutch of companies that had a combined market capitalization of over Rs 10,000 crores played havoc in the markets: **Source Business Today.**

Ketan Parekh

Please refer to the IiAS related report on market manipulation & fraudulent practices.

It is speculated that Ketan Parekh is still active in the markets. The blight of Promoter- Operator- Broker nexus appears to still exist!

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