IN THE SECURITIES APPELLATE TRIBUNAL
AT MUMBAI

DATED THIS THE 3RD DAY OF JULY, 2025

**CORAM: Justice P.S. Dinesh Kumar, Presiding Officer**
**Ms. Meera Swarup, Technical Member**
**Dr. Dheeraj Bhatnagar, Technical Member**

**Appeal No.142 of 2025**
**[Along with Misc. Application Nos.171 & 172 of 2025]**

Madhu Inderlal Gerela
1501, Sovereign Hiranandani Gardens,
Central Avenue Road,
Powai, Mumbai – 400 076. …..Appellant

(By Mr. Ram Awatar Dhoot, Chartered Accountant for the Appellant.)

Securities and Exchange Board of India
SEBI Bhavan, C-4A, G Block,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051. ……Respondent

(By Mr. Manish Chhangani, Advocate with Mr. Sumit Yadav, Mr. Abhay Chauhan, Mr. Atul Kumar Agrawal, Advocates i/b. The Law Point for the Respondent).

THIS APPEAL IS FILED UNDER SECTION 15T OF SEBI ACT, 1992 TO SET ASIDE ORDER DATED OCTOBER 31, 2024 PASSED BY AO, SEBI.

THIS APPEAL HAVING BEEN HEARD AND RESERVED FOR ORDERS ON APRIL 22, 2025 COMING ON FOR PRONOUNCEMENT OF ORDER THIS DAY, THE TRIBUNAL MADE THE FOLLOWING:

## ORDER

**Per : Justice P. S. Dinesh Kumar, Presiding Officer**

This appeal is directed against order dated October 31, 2024 passed by the AO[1], SEBI[2] imposing a monetary penalty of Rs.5 lakhs on the appellant for violation of Regulation 3(a), (b), (c), (d), Regulation 4(1) and Regulation 4(2)(a) of SEBI (PFUTP) Regulations[3], 2003.

2. The delay of 40 days in filing this appeal is condoned.

[1] Adjudicating Officer
[2] Securities And Exchange Board Of India
[3] SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003.

3. We have heard Mr. Ram Awatar Dhoot, Authorised Representative for the appellant and Mr. Manish Chhangani, learned Advocate for the respondent.

4. Brief facts of the case are, SEBI conducted an investigation from April 1, 2014 to September 30, 2015 into the trading activities of certain entities in illiquid stock options at BSE[4]. The investigation revealed that a total of 2,91,744 trades comprising 81.40% of all the trades executed in stock options segment of BSE were non genuine trades which resulted into creation of artificial volume in stock options segment of BSE.

5. Appellant had indulged in execution of 13 non genuine trades in 3 stock options contracts and created artificial trading volumes in stock options which were manipulative and deceptive in nature. A show cause notice dated August 12, 2022 was issued *inter alia* alleging that the appellant had executed 13 non-genuine trades in three stock options contract which resulted in

[4] Bombay Stock Exchange

artificial volume of total 1,76,000 units. The show cause notice was duly served. By way of the above show cause notice, appellant was also informed about the SEBI Settlement Scheme, 2022, but the appellant did not avail the said scheme. Later, during the personal hearing on June 2, 2023, appellant appeared through the authorised representative and stated his willingness to opt for settlement scheme. Subsequently, appellant was informed about the SEBI Settlement Scheme, 2024, but the appellant did not avail the said scheme and the adjudication proceedings were resumed. Appellant was once again heard by the AO, SEBI in which authorised representative submitted that the appellant failed to avail the scheme due to his financial constraints. Finally, SEBI has passed the impugned order

6. Shri Ram Awatar Dhoot, Authorised representative for the appellant submitted that:

- There is an inordinate delay of more than 7 years in issuing show cause notice and also in initiating proceedings against the appellant. To support this submission, he placed reliance on *Rajeev Bhanot & Anr v. SEBI*[5], *Mr. Rakesh Kathotia & Ors v. SEBI*[6], *Mahamad Kavi Mahamad Amin v. Fatmabai Ibrahim*[7],
- SEBI has provided the investigation report which does not show the name of the appellant. Investigation was conducted against 59 entities and it does not include appellant's name and and his broker.
- The illiquid stock options of BSE was a defective product. SEBI Circular dated June 2, 2011 bearing reference no.CIR/DNPD/5/2011 permitted stock exchanges to introduce Liquidity Enhancement Scheme (LES) to enhance liquidity

[5] Rajeev Bhanot & Anr v. Securities And Exchange Board of India, passed by Securities Appellate Tribunal, Mumbai on September 30, 2024 in Appeal No. 396 of 2018.
[6] Mr. Rakesh Kathotia & Ors v. Securities And Exchange Board of India, passed by Securities Appellate Tribunal, Mumbai on May 27,2019 in Appeal No.7 of 2016.
[7] (1997) 6 SCC 71

of illiquid securities in their equity derivatives segment. Further, SEBI issued revised guidelines for Liquidity Enhancement Scheme (LES) in the equity derivatives segment vide Circular dated April 23, 2014 bearing reference no.CIR/MRD/ DP/14/ 2014.

- Reversal trades were not recognized as unlawful/ illegal at the relevant time period. On March 14, 2016, Reversal Trade Prevention Check (RTPC) for the stock options segment of BSE came into existence and reversal trades were recognized as illegal. All trades executed before the said mechanism, though were in the nature of reversal trades, were proper and were executed in the normal course of trading.
- Alleged objectionable trades of the appellant cannot be treated as abnormal and non-genuine.

- No connection/collusion between the appellant and counter party entity is established. The trades were executed on the anonymous trading platform of BSE without any knowledge of counter-party and at price ranges that were allowed by the exchange and SEBI. One of the alleged trades i.e., trades executed on March 9, 2015 were in the nature of intra-day buy and sell trades which were permissible and cannot be equated or termed as artificial volume. Impugned trades were genuine and took place in the normal course of a trading session. In support of this submission, he has placed reliance on *Nishit M Shah HUF v. SEBI*[8], *Saroj & Co. Proprietor Sanjay Agarwal v. SEBI*[9].
- No action has been taken against the intermediaries/trading members. All deals were executed by broker. Reversal trades if any, were

[8] Securities Appellate Tribunal in Appeal No.97 of 2019
[9] Appeal No.213 of 2011

done by the broker. With these submissions, appellant prayed to set aside the impugned order.

7. Shri Manish Chhangani, learned Advocate for SEBI submitted that:

- Show cause notice and hearing notice were duly served. The appellant through his authorised representative had submitted his willingness to opt for settlement scheme.
- Appellant was duly informed about the SEBI Settlement Scheme 2024. But the appellant did not avail the settlement scheme. Again, SEBI provided another opportunity of hearing, appellant through his authorised representative appeared and submitted his financial constraints in availing the settlement scheme.
- Appellant has executed 13 non-genuine trades in three contracts with the same counter party within a short time strongly indicates meeting of minds.

Appellant and counter party N M Impex Pvt Ltd had prior meeting of minds to execute the reversal trades at a pre-determined price. Appellant traded in illiquid stock options and created artificial volume of 1,76,000 units and as such appellant violated the SEBI (PFUTP) Regulations, 2003. With these submissions, SEBI prayed to dismiss the appeal.

8. We have carefully considered the rival contentions and perused the records.

9. Undisputed facts of the case are, the appellant executed buy and sell trades within a short span of time with the same counter party in the same contract of same quantity. In one such contract out of three, on March 9, 2015 appellant entered into buy trade at 11:35:33 for 18,000 units at rate of Rs.34 per unit with counter party N M Impex Pvt Ltd (first leg of the transaction). Within a short of span of one hour i.e., at 12:33:16 appellant sold 6000 units at the rate of Rs.18.4 per unit, at 12:33:30

appellant sold 12000 units at the rate of Rs.19.10 to the same counter party (Second leg of the transaction). Thus reversal trade took place in two installments between the same entities.

10. The appellant executed trades with the same counter party with whom he had executed the first leg of transaction i.e., reversal trades of same quantity with the same counter party in the same contract, which is not a coincidence and clearly demonstrates *consensus ad idem* to execute reversal trades at pre-determined price. Trades by the appellant created an artificial volume of 36,000 units in one contract within a short span of time. In another two contracts also appellant followed the same *modus operandi* and created artificial volume of 1,40,000 units and sold at a higher price than the price at which he bought the shares.

11. It cannot be a mere coincidence that transactions of the same scrip of the same quantity take place between the very same entities. In one contract, the reversal trades

were done at a lower price than the buy price. In other two contracts, where reversal trades got executed were purchased at average price of Rs.62, Rs.30 and sold the same at an average price of Rs.104.82 and Rs.46.51 respectively, which created an artificial volume of 1,40,000 shares.

12. The gullible investors who innocently get misguided by these non-genuine trades will be enticed to invest and lose their hard earned money. In view of undisputed transactions between parties and its impact on the securities market, we are of the view that these kind of non-genuine reversal trades are to be strongly dealt with. Hence, we find no merit to interfere with the impugned order.

13. In view of the above undisputed facts, the ground of delay in issuing notice urged by the appellant, is, in our opinion untenable because appellant’s transactions seriously affect the securities market.

14. In view of the above discussion, the following:

**ORDER**

1. Appeal is ***dismissed*** .
2. Pending interlocutory application(s), if any, stand disposed of.
3. No costs.

Justice P.S. Dinesh Kumar
Presiding Officer

Ms. Meera Swarup
Technical Member

Dr. Dheeraj Bhatnagar
Technical Member

03.07.2025
RHN

RAJALAKSHMI H NAIR Digitally signed by RAJALAKSHMI H NAIR Date: 2025.07.03 15:01:13 +05'30'