

SECURITIES AND EXCHANGE BOARD OF INDIA

FINAL ORDER

UNDER SECTION 12(3) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH REGULATION 27 OF SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008

In respect of:

S. No.	Name of the Intermediary	SEBI Registration no./ PAN
1.	Gogia Capital Services Limited	Reg. no.: INZ000202733 PAN: AAACG2906L

In the matter of Gogia Capital Services Limited

A. BACKGROUND:

1. Gogia Capital Services Limited (hereinafter referred to as “**Noticee**”) is registered with Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) as a Stock Broker bearing registration no. INZ000202733.
2. SEBI along with BSE Limited (hereinafter referred to as “**BSE**”) and National Stock Exchange of India Limited (“**NSE**”), Multi Commodity Exchange of India Limited (hereinafter referred to as “**MCX**”) had conducted a thematic inspection of the Noticee for the period from April 01, 2022 to July 31, 2023 (hereinafter referred to as “**Inspection period**”). The findings of the inspection were communicated to the Noticee vide letter dated November 30, 2023. After examining the reply submitted by the Noticee vide letter dated December 05, 2023, SEBI observed violation of relevant provisions of Securities Contracts (Regulation) Rules, 1957 (hereinafter

referred to as “**SCRR**”), SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as “**Stock Brokers Regulations**”) and various SEBI Circulars.

3. Pursuant to findings/ observations made in the course of inspection and after examining the response of the Noticee to the same, enquiry proceedings under SEBI (Intermediaries) Regulations, 2008 (“hereinafter referred to as “**Intermediaries Regulations**”) were initiated against the Noticee and a Designated Authority (hereinafter referred to as “**DA**”) was appointed on March 06, 2024 to enquire into the alleged violations by the Noticee and make a recommendation in compliance with Intermediaries Regulations. The DA issued a show cause notice dated March 28, 2024 (“**DA SCN**”) to the Noticee under regulation 25 of Intermediaries regulations to show cause as to why appropriate recommendation should not be made against it in terms of Regulation 26 of the Intermediaries Regulations for the alleged violations given in the table below.

Table 1

S. No.	Alleged violations	Regulatory Provisions
1.	Shortfall in net worth and improper maintenance of books of accounts	Section 12(1) of SEBI Act, 1992 read with SEBI Circular no. FITTC/DC/CIR-1/98 dated June 16, 1998 (“ 1998 SEBI Circular ”), Regulation 9(g) read with Schedule VI of Stock Brokers Regulations.
2.	Noticee engaged as a principal or employee in a business other than that of securities involving personal financial liability	Rule 8(3)(f) of SCRR read with SEBI Master circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/CIR/2023/71 dated May 17, 2023 (“ SEBI Master Circular ”) and circular no. SMD/Policy/Cir-6 dated May 07, 1997 (“ 1997 SEBI Circular ”).
3.	Non-settlement of clients’ funds and securities	Clause 47.1.1 and 47.8 of SEBI Master Circular read with clause 12(e) of Annexure A of SEBI Circular no. MIRSD/SE/Cir-19/2009 dated December

S. No.	Alleged violations	Regulatory Provisions
		03, 2009 (“ 2009 SEBI Circular ”), Clause 8.1 of Annexure to SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 (“ 2016 SEBI Circular ”), Clause 5.4 of SEBI Circular no. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 (“ 2021 SEBI Circular ”) and SEBI Circular no. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022 (“ 2022 SEBI Circular ”).

4. Pursuant to the transfer of DA, another DA was appointed on July 31, 2024. In response to the show cause notice issued by the DA, the Noticee filed its reply vide email/ letter dated October 04, 2024. Further, an opportunity of personal hearing was granted by the DA on October 04, 2024, which was availed by the Noticee.
5. Thereafter, upon completion of the enquiry, the DA submitted an Enquiry Report dated November 19, 2024 (hereinafter referred to as “**Enquiry Report**”) wherein the DA concluded that all the alleged violations mentioned at **Table 1** above against the Noticee were established. Accordingly, the DA recommended that the Noticee, as a Stock Broker, may be prohibited from onboarding new clients for a period of one month.

B. SHOW CAUSE NOTICE, REPLY AND HEARING

6. Based on the Enquiry Report, a post-Enquiry Show Cause Notice dated November 29, 2024 (hereinafter referred to as “**SCN**”) was issued to the Noticee, enclosing a copy of the Enquiry Report, calling upon it to show cause in terms of regulation 27(1) of the Intermediaries regulations as to why action as recommended by the DA or any other action in terms of the Intermediaries Regulations should not be taken against the Noticee. Any reference in this Order to the ‘allegations made in

the SCN' must also be read to include the conclusions arrived at in the Enquiry Report.

7. In response to the SCN, the Noticee submitted its reply vide letter dated December 30, 2024. Thereafter, the Noticee was granted an opportunity of personal hearing on January 29, 2025, however, the Noticee sought adjournment. Subsequently, the Noticee was granted another opportunity of personal hearing on February 25, 2025. On the said date, the Authorized Representative ("AR") of the Noticee appeared before me and reiterated the submissions made *vide* the Noticee's letter dated December 30, 2024. During the hearing, the AR was advised to make detailed submissions/ documents in respect of transactions alleged to have been a part of business other than that of securities and submit Noticee's net worth certificate as on March 31, 2023 within the specified time. The Noticee filed its additional written submissions *vide* letter dated March 06, 2025. In relation to the additional submissions made, certain clarifications were sought from the Noticee which were replied to by the Noticee vide email dated May 28, 2025.

8. The contentions raised in the Noticee's written submissions are summarised below.

Noticee is engaged as a principal or employee in a business other than that of securities involving personal financial liability

8.1. It has been alleged that the noticee has violated Rule 8(3)(f) of SC(R) Rules, 1957 read with SEBI Master Circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 and Circular No. SMD/Policy/Cir-6 dated May 07, 1997 by providing loans and advances to multiple entities during the inspection period.

8.2. The Noticee has submitted that the said regulation prohibits a broker from carrying out any business other than that of securities and the Noticee has not carried out any business other than securities and the loans given are not the business of the Noticee. The intent of Rule 8(1)(f) and Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957 is only to prohibit brokers from carrying out any business other than securities business.

- 8.3.** Vide an agreement dated April 1, 2022, the Noticee had engaged Arpna Capital Services Pvt. Ltd. (Arpna) to assist in proprietary trading as per the terms mentioned in the agreement provided as Annexure A.
- 8.4.** During the financial year 2022-23, basis the losses incurred by the Noticee, an amount of Rs. 33,81,75,088.25 was transferred to Arpna on March 31, 2023. Arpna paid Rs. 2.5 Crores in June 2023. Ledgers of Arpna for the relevant period are provided as Annexure B. Since the balance amount was not received, the management decided to write off the balance on December 31, 2023.
- 8.5.** The Noticee has stated that it had not carried out any fund based activity but the debit amount of Arpna was due to trading activities.
- 8.6.** Without prejudice to the forgoing, assuming for the sake of argument that the Noticee had not transferred the debits to Arpna then the said loss would have remained in its books and the effect thereof would have remained the same.
- 8.7.** As regards the observations of the DA in this regard, the Noticee submits the following:
- 8.7.1.** No stamp duty and witness in the agreement: The germane issue is whether the Noticee had advanced any loans or carried out fund based activity and the same is not affected by these deficiencies.
- 8.7.2.** Recovery of the disputed amount and measures to be taken for it won't affect the nature of the transaction that these were not fund based activities or activities of other business.
- 8.7.3.** There was a loss due to share trading basis the agreement. Had this not been debited to Arpna then the same would have remained in the Noticee's books and the networth would still remain the same whether it does a debt write-off or record losses on account of securities trading.
- 8.8.** With regards to Arun Kumar Bhalla HUF, the Noticee has submitted that an amount of Rs. 25 Lakhs was paid as a token amount for purchasing a property. However, the transaction got delayed and therefore the promoters decided to transfer the receivable to Gogia Commodities. The ledger of the entity has been provided.

8.9. The DA has expressed concerns that the Noticee did not provide any documentation to verify whether the payment was for property purchase. In this regard, the Noticee has submitted as under:

8.9.1. The Noticee does not have any document for it as the same was to be done after a few days of payment but never happened.

8.9.2. Lack of document does not in any way result in Noticee becoming a principal or employee in a business other than that of securities involving personal financial liability.

8.9.3. This is one off transaction for property purchase which was assigned to Noticee's sister concern – Gogia Commodities and in no way result in engagement in a business as alleged.

8.10. The regulation prohibits a broker from carrying out any business other than that of securities. The Noticee has submitted that the Noticee has not carried out any business other than securities and the loans given are not the business of the Noticee.

Books of accounts & Networth calculation:

8.11. The SCN has alleged that the net worth of the Noticee as on March 31, 2023 is negative to the extent of Rs.10,11,70,306/- as the Noticee has not deducted an amount of Rs.51,50,60,971/- towards accounts receivables due for more than 3 months and the Noticee has passed certain JVs in the general ledgers for adjusting its significant outstanding receivable from Gogia Commodities Trading Pvt Limited with various parties' payables.

8.12. In this regard, the Noticee has submitted the following:

8.12.1. The Networth certificate as on March 31, 2023 as submitted with the respective exchanges was made in accordance with the recommendations given by LC Gupta Committee (which has now been incorporated in the Stock Broker Regulations) in this regard.

8.12.2. The DA has expressed concern over the Noticee's response that debtors were outstanding for less than 3 months hence was not reduced from net worth at the relevant time. The ledger entries in the account of Arpna shows that the Debtors as on March 31, 2023 came into existence on that day itself and the same has been provided.

8.12.3. The ledger of Arun Bhalla HUF also shows that the payment was made on February 2, 2023 and therefore, the time elapsed is less than 3

months. Date wise transaction, which was submitted to the DA, has been provided again.

8.12.4. The Noticee has submitted that it had maintained sufficient net worth as on 31.03.2023 and there was no shortfall. The Noticee had changed its membership type from TCM to SCM with all the exchanges and consequently, its net worth requirement has been reduced from INR 15 crore to INR 5 crore. Confirmations from Exchanges have been provided.

8.12.5. A net worth certificate as on September 30, 2024, prepared in line with the provision of SEBI and Exchanges substantiating that the Noticee has been maintaining adequate net worth has been provided.

a. The Noticee's related party had losses incurred on account of trading and therefore the Noticee had receivables from the said entity. At the same time, the individual promoters of the Noticee had to recover monies from the Noticee. The JVs were passed with the consent of all parties and the bad debts of the company were taken over by the promoter. There was a write off of the debts owed and at the same time the liabilities of the company were also written off by the consent of all parties concerned.

8.12.6. The DA has expressed concern that a mutual consent from related parties is not available on record. Copies of consent letters from all parties whose debt was written off has been submitted. Therefore, the journal entries were validly passed and the Noticee meets the net worth requirement.

8.12.7. Without prejudice to the foregoing, the Noticee has submitted that the consent document is unwarranted as all parties have recorded it in their books accordingly and are related entities.

8.12.8. In any case the matter pertains to networth certificate dated March 31, 2023 and subsequent certificates have substantiated that the networth requirement is met on the days to which these later certificates pertain and there is full compliance with the requirements as on date.

Settlement of client funds and securities

8.13. During verification of running account settlement of funds for active clients, it was observed that the Noticee has not done settlement of all clients on first Friday of the quarter i.e. 07-10-2022. There were 7 instances out of 237

instances (amounting to INR 4.11 lakh) verified for clients having credit balance in excess of their permissible obligations. Further, no benefit of repledged securities were allegedly given to these clients.

8.13.1. The Noticee had successfully settled the funds and securities for all eligible clients as appearing in its back office software as on October 07, 2022 i.e. without any manual intervention.

8.13.2. The settlement of all clients on first Friday of the quarter was made effective from quarter ended September 2022 i.e. the quarter under reference in the present case. Since the same was made applicable for the very first time, the systems of the vendor were not appropriately updated with the changes, as a result thereof, the settlement of 7 clients could not be made successfully.

8.13.3. The retention statements are auto-generated from the back office and the benefit of repledged securities could not be provided to the said clients due to error on the part of back office vendor.

8.13.4. Due to an issue with the BO Software, there was an issue with the settlement of client funds and these clients getting the benefit of repledging. The entire process of client settlement and margin is automated and there is no manual intervention. The non-settlement of Rs. 4 Lakhs is testament to the fact that this is not a serious violation and therefore, the Noticee has requested that a lenient view be taken in this regard.

8.13.5. The DA has not considered the submission recoding that the issue with the vendor cannot be an excuse for noncompliance. However, the DA failed to appreciate certain facts:

- a. This was the first quarter after implementation of a new change and hence a new build of software was implemented.
- b. There are always teething issues in live environment and any amount of testing can't give 100% correct result at the first time.
- c. Further the amount involved is merely Rs. 4.11 Lakh which is no way substantial.

8.14. Most of the allegations do not hold good and even if a few still remain those are of technical and venial nature and have not caused any prejudice to the clients or markets at large. The Noticee has requested that the procedural lapses be seen in the context of overall scale of operations handled and

various compliance measures adopted. On becoming aware of the stray instances pointed out during the course of inspection, the Noticee had immediately taken steps to rectify the same and avoid their recurrence in future.

8.15. In the past for the similar procedural/technical violations, regulators and exchanges had merely issued warning to the brokers. The Noticee has referred to the following orders passed by SEBI wherein similar procedural/ technical violations were condoned by SEBI and it had issued simple warning to the brokers as stated in the SAT Order in the matter of Chona Financial Services Pvt. Ltd. vs SEBI (appeal no. 95 of 2003): Bakliwala investment, J.M. Morgan Stanley Retail Services Pvt. Ltd., Bama Securities, Ratanbali Capital Markets Ltd., Twenty First Century Shares & Securities Ltd., Sanjay C Bakshi, Mahesh Kothari Share & Stock Brokers Pvt. Ltd. and Mukesh Sawhany.

8.16. The Noticee has also relied on the orders of SAT in the matters of Religare Securities vs. SEBI dated 16.06.2011, UPSE Securities Ltd. vs SEBI dated July 25, 2011 and Inspection of Indiabulls Mutual Fund vs SEBI dated 16.06.2017.

8.17. Without admitting that the Noticee has defaulted on the requirements of SEBI and Exchanges, it has submitted the following:

8.17.1. It is neither alleged in the SCN nor has the Noticee made any disproportionate gain or unfair advantage.

8.17.2. It is neither alleged in the SCN nor has the Noticee caused any loss to investor or group of investors.

8.17.3. The observations are highlighted for the first time and are not of a repetitive nature. Further, the Noticee has put in place processes to ensure non-repetition thereof.

8.18. Further, the Noticee has requested to consider the following factors:

8.18.1. Neither the Noticee nor its clients have ever defaulted in meeting their payment/ delivery obligations.

8.18.2. The alleged discrepancies do not exist or are at the highest a technical, procedural and venial breach.

8.18.3. The alleged technical lapses were not deliberate and intentional and in contumacious disregard of provisions of law.

8.18.4. The Noticee has not indulged in any manipulative, fraudulent or unfair trade practices. Admittedly, there is not finding/ observation in the

Inspection Report against the Noticee indulging in any kind of fraudulent, manipulative or unfair trade practices in the market.

8.18.5. The Noticee has not made any gains or derived any unfair advantage as a result of alleged technical and minor lapses.

8.18.6. The alleged deficiencies as pointed out in the report have already been cured.

8.18.7. The alleged discrepancies have not caused any loss to any of the Noticee's clients. Further, there are no client/ investor complaints in this regard.

8.18.8. The Noticee has not made any gain or unfair advantage as a result of the alleged discrepancies. The same has not even been observed in the Report.

8.18.9. The Noticee has assured that it will continue to scrupulously abide by the provision of the SEBI / Exchange Circulars and Regulations.

8.19. As a part of its post-hearing submissions, the noticee submitted the following:

8.19.1. Arpna Capital Services Limited possesses in-depth knowledge and experience in trading across various segments: Cash, Futures & Options, Currency derivatives and Commodity segment. Arpna Capital Services Limited provided specialized trading and arbitrage services, in different markets or segments to generate profits.

8.19.2. The Noticee was aiming to leverage Arpna Capital Services Limited expertise in arbitrage to enhance its trading strategies and operation. The nature of transaction is a strategic arbitrage partnership. The bank statements for all transactions with Arpna has been submitted.

8.19.3. The nature of transaction with Arun Kumar Bhalla HUF was advance payment towards property purchase. This payment was intended to be a partial fulfilment of the total purchase consideration for the property of Arun Kumar Bhalla HUF. Copy of the bank statement for the same has been submitted.

8.19.4. Further, a copy of net worth certificate as of March 31, 2023 has also been submitted.

C. CONSIDERATION OF ISSUES AND FINDINGS

9. I have perused the Enquiry Report, SCN, replies of the Noticee and other material available on record. Before moving forward to examine the charges, it is necessary to mention the relevant legal provisions and the same are reproduced below for reference:

Securities Contracts (Regulation) Rules, 1957.

Qualifications for membership of a recognised stock exchange.

8. *The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:*

....

(3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if—

.....

(f) he engages either as principal or employee in any business other than that of securities [or commodity derivatives] except as a broker or agent not involving any personal financial liability, provided that—

(i) the governing body may, for reasons, to be recorded in writing, permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry on business on the stock exchange either as an individual or as a partner in a firm,

(ii) in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for severing their connection with any such business,

(iii) nothing herein shall affect members of a recognised stock exchange which are corporations, bodies corporate, companies or institutions referred to in items (a) to (n)¹⁵ of the proviso to sub-rule (8).

Circular No. SMD/Policy/Cir-6 dated May 07, 1997

“Based on the suggestions/representations received from various Stock Exchanges, SEBI has examined the applicability of Rule 8(1)(f) and 8(3)(f) of the Securities Contract (Regulation) Rules, 1957, relating to Fund Based Activities of

Brokers. It has been opined that borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under Rule 8(1)(f) and 8(3)(f).”

SEBI Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023

25. Severance of connections with other businesses

25.1 Rule 8(1)(f) and Rule 8(3)(f) of the SCRR 1957, requires that members of a Stock Exchange, whether individual, partnership or corporate, shall not engage in any business other than that of securities. Stock Exchanges should be ensured that the applicants do not attract the above stated rule.

26. Applicability of Rule 8(1)(f) and 8(3)(f) of the Securities Contract (Regulation) Rules, 1957

26.1 Borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under Rule 8(1)(f) and 8(3)(f) of the SCRR 1957.

47. Settlement of Running Account of Client's Funds lying with Trading Member (TM)

47.1 Regarding Settlement of running account, following shall be complied with:

47.1.1 The TM, after considering the End of the Day (EOD) obligation of funds across all the Exchanges, shall settle the running accounts at the choice of the clients on quarterly and monthly basis, on the dates stipulated by the Stock Exchanges.

.....

47.8 Once the TM settles the running account of funds of a client, an intimation shall be sent to the client by SMS on mobile number and also by email. The intimation should also include details about the transfer of funds (in case of electronic transfer –transaction number and date; in case of physical payment instruments –instrument number and date). TM shall send the retention statement along with the statement of running accounts to the clients as per the existing provisions within 5 working days.

Securities and Exchange Board of India Act, 1992

Registration of stock brokers, sub-brokers, share transfer agents etc.

12. (1) 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:

Provided that a person buying or selling securities or otherwise dealing with the securities market as a 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 immediately before the establishment of the Board for which no registration certificate was necessary prior to such establishment, may continue to do so for a period of three months from such establishment or, if he has made an application for such registration within the said period of three months, till the disposal of such application:

Provided further that any certificate of registration, obtained immediately before the commencement of the Securities Laws (Amendment) Act, 1995, shall be deemed to have been obtained from the Board in accordance with the regulations providing for such registration.

SEBI Circular FITTC/DC/CIR-1/98 dated June 16, 1998

No specific clause of the circular has been mentioned in the SCN and so the Circular in its entirety may be referred.

SEBI (Stock Brokers) Regulations, 1992

Conditions of registration.

9. Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,-

.....

(g) he shall at all times maintain the minimum networth as specified in Schedule VI.

SEBI Circular no. MIRSD/SE/CIR-19/2009 dated December 03, 2009.

Annexure-A

**Requirements relating to dealings between a Client and Stock Broker
Running Account Authorization**

12. Unless otherwise specifically agreed to by a Client, the settlement of funds/securities shall be done within 24 hours of the payout. However, a client may specifically authorize the stock broker to maintain a running account subject to the following conditions:

e. The actual settlement of funds and securities shall be done by the broker, at least once in a calendar quarter or month, depending on the preference of the client. While settling the account, the broker shall send to the client a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

Annexure

8. Running Account Settlement

8.1 In partial modification of circular on running account settlement, the stock broker shall ensure that;

8.1.1. There must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements.

8.1.2. For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.

8.1.3. The required bank details for initiating electronic fund transfers shall be obtained from new clients and shall be updated for existing clients. Only in cases where electronic payment instructions have failed or have been rejected by the bank, then the stock broker may issue a physical payment instrument.

8.1.4. Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled.

SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16, 2021

....

5. In partial modification of the aforementioned circulars dated December 03, 2009 and September 26, 2016 on settlement of running account, following has been decided:

....

5.4. For the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days irrespective of the date when the running account was previously settled.

SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022

No specific clause of the circular has been mentioned in the SCN and so the Circular in its entirety may be referred.

10. I shall now proceed to adjudicate the violations alleged in the SCN one by one.

I. Improper maintenance of Books of accounts and Net worth deficiency

10.1. It was observed that the Noticee failed to exclude INR 51,50,60,070 in accounts receivable due for more than three months in its net worth computation and thereby misrepresented its net worth as of March 31, 2023. The details of the receivables due for more than three months are as given in the table below (as recorded in annexures to the DA SCN).

Table 2

S. No.	Account Name	Trade receivables as on 31/03/2023 (In INR Cr)	Balance as on 28/09/2023 (in INR Cr)
1.	Kusum Lata Khetan	-208	60,542
2.	Satish Gogia	-21,047	0
3.	Arun Kumar Bhalla HUF	-25,00,000	0
4.	Arpna Capital Services Pvt. Ltd.	-33,81,75,088	-31,61,75,088
5.	Gogia Commodity Trading Pvt. Ltd.	-16,53,52,028	-15,44,44,247
6.	India Commodity Exchange Ltd.	-90,11,699	0
Total		-51,50,60,070	-47,05,58,793

10.2. The Noticee was a trading cum clearing member as on March 31, 2023 and was required to maintain a minimum net worth of INR 15 crore. However,

the net worth of the Noticee as on March 31, 2023 (*based on updated balance of trade receivables as on September 28, 2023*) was computed to be negative INR 10,11,70,306 after exclusion of the trade receivables which were considered to be due for more than three months. The detailed computation of net worth is given in the Table below (as recorded in annexures to the DA SCN).

Table 3

Particulars (in INR)	Noticee's submission	SEBI's computation
Capital (A)	7,28,32,598	7,28,32,598
Free Reserves (B)	40,56,27,071	40,56,27,071
Less: Non-allowable assets (C) viz.		
(a) Fixed Assets	3,29,53,612	3,29,53,612
(b) Pledged Securities	5,61,78,269	5,61,78,269
(c) Doubtful Debts and Advances (debts or advances overdue for more than three months or debts or advances given to the associate persons)	-	47,05,58,793
(d) 30% Value of Marketable securities	1,99,39,301	1,99,39,301
Sub Total	10,90,71,182	57,96,29,975
Net worth (A + B - C)	36,93,88,487	(10,11,70,306)

10.3. Further, it was observed that the Noticee used Journal Voucher (JV) entries in the general ledgers to adjust significant outstanding receivables from Gogia Commodities Pvt. Ltd. ("Gogia Commodities") against various payable amounts owed to other parties.

10.4. In view of the observations detailed above, it was alleged that the Noticee violated section 12(1) of SEBI Act read with 1998 SEBI Circular and Regulation 9(g) read with Stock Brokers Regulations, which specify the net worth calculation method. As per the Stock Brokers regulations, net worth shall not include any debts and advances overdue for more three months or debts and advances given to associate persons.

10.5. The Noticee had submitted before the DA that its trade receivables were due for less than 3 months. The DA observed that the Noticee failed to provide adequate evidence to substantiate this claim. As regards the JVs passed for adjusting receivables with payables, the Noticee submitted that the debts were

transferred to various entities against debts owed to them and therefore, they were not considered for net worth computation. The DA recorded that these internal accounting entries have no real impact on the financial position and that the Noticee failed to provide documents to show actual cash flows or consent from related parties. With respect to the net worth deficiency, the Noticee had submitted that it met the net worth requirement of INR 5 crore given their change from TMCM to SCM. Further, the Noticee had also submitted a net worth certificate dated October 03, 2024 certifying its net worth as on September 30, 2024 was INR 15 crore. The DA noted that the Noticee's change in status from TMCM to SCM, which reduced the net worth requirement, was effective from July 29, 2024 and the net worth certificate as on September 30, 2024 was not relevant for its net worth as on March 31, 2023.

10.6. In response to the SCN, the Noticee has submitted its ledger and claimed that the payment made to Arun Kumar Bhalla HUF (*transaction date – February 02, 2023*) and the debt outstanding from Arpna were less than three months old. The Noticee has stated that it had sufficient net worth and once again submitted the net worth certificate dated September 30, 2024 and documents related to change in its status from TMCM to SCM effective from July 29, 2024. As regards, the JV entries passed, the Noticee has reiterated that it had adjusted its receivables with its payables and submitted consent letters of the concerned parties.

10.7. During the course of hearing, the Noticee was advised to submit bank account statements for its transactions with Arun Kumar Bhalla HUF and Arpna. Further, the Noticee was also instructed to submit its net worth certificate as on March 31, 2023. The Noticee submitted the requested documents *vide* letter dated March 6, 2025.

10.8. I note that out of the six entries (*given at **Table 2***) of trade receivables alleged to have been due for more than three months, the Noticee has made submissions in respect of three entries (*Arun Kumar Bhalla HUF, Arpna and Gogia Commodities*). The Noticee has contended that the trade receivables from **Arun Kumar Bhalla HUF** were less than three months old as on March 31, 2023 and therefore not “doubtful debt” in nature. In support of its

contention with respect to the transaction with Arun Kumar Bhalla HUF, the Noticee has submitted its bank account statement for the relevant period. On perusal of the said bank account statement, I note that the transaction date with Arun Kumar Bhalla HUF was February 02, 2023. Since the transaction date falls within the period of three months as on March 31, 2023, I agree with the submission of the Noticee that this trade receivable should not be excluded from the net worth computation. In any case, the net worth computation provided in the SCN i.e. INR (10,11,70,306) was based on the updated balance of trade receivables (see **Table 2**) and accordingly, did not deduct this advance from its net worth.

10.9. As regards the trade receivable from **Arpna**, the Noticee claimed that the receivable was less than 3 months old as of March 31, 2023. The Noticee further submitted that it had entered into a strategic arbitrage partnership for profit sharing from proprietary trading in different market segments, and that the amounts in lieu of losses incurred by Arpna were transferred to it. The outstanding trade receivable from Arpna was INR 33.81 crores as of March 31, 2023 and as of September 28, 2023, it was still INR 31.61 crore. The Noticee has not provided any evidence to show that the outstanding trade receivable of INR 33.81 crores itself was less than 3 months old. In addition to that, even six months after March 31, 2023, the outstanding amount was still INR 31.61 crores, basis which the SCN imputed a net worth of INR -10.11 crores as of March 31, 2023. In the absence of any supporting documents to counter the allegation that the trade receivable was more than 3 months old as of March 31, 2023 and given the continued outstanding even as of September 28, 2023, I find that the said trade receivable is a doubtful asset and must be excluded from the net worth computation. This trade receivable entry made on the reporting date has the effect of inflating the Noticee's net worth.

10.10. As a part of its post-hearing submissions, the Noticee had submitted a net worth certificate as on March 31, 2023 dated May 30, 2023 certifying its net worth to have been INR 42.54 crore. Since the Noticee had stated its net worth to be INR 36.93 crore during SEBI's inspection, the Noticee was advised to provide a working note from the chartered accountant detailing the methodology and the documents considered for computation of net worth for

the aforesaid certificate. In response, the Noticee stated that the net worth certificate as on March 31, 2023 (dated May 30, 2023) submitted before me as a part of the post-hearing submission was prepared on the basis of provisional financial data and submitted another net worth certificate as on March 31, 2023 dated July 17, 2023 certifying its net worth to have been INR 36.93 crore (*which evidently matches with the net worth computed and submitted during the inspection by SEBI*). Additionally, the Noticee submitted only trial balance, audited balance sheet and ageing of trade receivables (*containing details of only entries at s. no. 1 & 2 in **Table 2***) as supporting documents referred to by the chartered accountant. Considering that the net worth certificate submitted by the Noticee had been prepared without detailed examination of all relevant documents (other than trial balance and financials provided by the Noticee) and in particular not considering the ageing of the trade receivables as described above, I am not inclined to consider the net worth certificate dated July 17, 2023, submitted by the Noticee.

10.11. The SCN also alleges that the Noticee adjusted advances extended to Gogia Commodity against loans taken from several entities. By Noticee's own submission the said adjustment was made through JV entries and not backed by actual movement of funds between the concerned parties. The Noticee has submitted consent letters from the said entities in support of passing JV entries.

10.12. As stated earlier, trade debts overdue for more than three months and loans and advances given to associated persons are non-allowable in the net worth computation of a stock broker. As per MCA records, the Noticee company and Gogia Commodity are associate companies promoted by the same promoter-director namely, Satish Gogia. Satish Gogia holds 86% of shareholding in Gogia Commodity. The consent letters submitted by the Noticee for offsetting assets and receivables were all signed by the concerned parties after March 31, 2023. Therefore, there is no dispute that there was INR 16.53 crore outstanding from Gogia Commodities, an associate company, as of March 31, 2023. Any claimed adjustment/ set off of this advance, if at all, only happened later beyond March 31, 2023, by the Noticee's own submission. To that extent, the undisputed advance to Gogia commodities as of March 31, 2023, has to be deducted to compute the net worth as of March 31, 2023. Note

that even if this so-called 'advance' was considered for the purpose of networth computation, its revised net worth (INR 5.33 crore) would still fall short of the required net worth threshold (INR 15 crore).

- 10.13.** In view of the foregoing, the net worth of the Noticee as on March 31, 2023 basis the SCN would be as given in the Table below.

Table 4

Particulars (in INR)	Revised computation
Capital (A)	7,28,32,598
Free Reserves (B)	40,56,27,071
Less: Non-allowable assets (C) viz.	
(a) Fixed Assets	3,29,53,612
(b) Pledged Securities	5,61,78,269
(c) Doubtful Debts and Advances and related party advances (includes credit balance of INR 60,542)	47,05,58,793
(i) debts or advances overdue for more than three months	31,61,75,088
(ii) debts or advances given to the associate persons	15,44,44,247
(d) 30% Value of Marketable securities	1,99,39,301
Sub Total	57,96,29,975
Net worth (A + B - C)	(10,11,70,306)

- 10.14.** Accordingly, I find that the Noticee had failed to maintain the minimum required net worth for stock broker (trading-cum-clearing member) as on March 31, 2023. Further, I find that the Noticee failed to properly maintain its books of account by making accounting adjustments to inflate its net worth. Consequently, the Noticee has violated section 12(1) of SEBI Act, 1992 read with 1998 SEBI Circular and Regulations 9 read with Schedule VI of Stock Brokers Regulations.

II. Engaged as principal in a business other than that of securities involving personal financial liability

- 10.15.** The SCN alleges that it was observed that the Noticee had extended loans and advances outside the securities domain amounting to INR 31.56 crore as given in the table below (as recorded in annexures to DA SCN).

Table 5

Party Name	Opening balance as on 01/04/2022	Debit during inspection period	Credit during inspection period	Closing balance as on 31/07/2023
	In INR Cr.			
Arpna Capital Services Pvt Ltd	-33,81,75,088	-	2,50,00,000	-31,31,75,088
Arun Kumar Bhalla HUF	-25,00,000	-	-	-25,00,000

10.16. It was alleged that the Noticee had violated provisions of rule 8(3)(f) of SCRR read with SEBI Master Circular and 1997 SEBI Circular. Rule 8(3)(f) of SCRR *inter alia* states that a stock broker shall not engage either as a principal or employee in any business other than that of securities except as a broker or agent not involving financial liability. The 1997 SEBI Circular states that borrowing and lending related to securities activities do not constitute a disqualification under Rule 8(3)(f) of SCRR. SEBI Master Circular reiterates the restrictions imposed *vide* Rule 8(3)(f) of SCRR and 1997 SEBI Circular.

10.17. In this regard, the Noticee had submitted before the DA that it had a profit sharing agreement on proprietary trading with Arpna Capital Services Pvt. Ltd. ("Arpna") and the loss incurred by it were transferred to Arpna. The DA observed that there were deficiencies in execution of the said agreement i.e. lacks witness signatures, unregistered and unstamped. Further, the DA recorded that no bank account statements were submitted by the Noticee to substantiate the claimed transfer in accordance with the agreement. Further, the Noticee had written off the said amount without approaching any judicial forum for recovery. With respect to the outstanding balance against Arun Kumar Bhalla HUF, the Noticee had submitted that the said transaction was an advance payment for a property purchase. However, the DA observed that no documents were submitted by the Noticee to substantiate this claim. The DA after considering the submissions of the Noticee concluded that the alleged violations were established.

10.18. In response to the SCN, the Noticee has submitted that the deficiencies in execution of the profit sharing agreement and recovery measures for the disputed amount do not affect the nature of the transaction. Further, the Noticee has contended that had this loss amount not been debited to Arpna, the same would have remained in the Noticee's books and the net worth still remain the same whether it writes off or records losses on account of securities trading. As regards the transaction with Arun Kumar Bhalla HUF, the Noticee has submitted that it does not have any document as the documentation was to be done a few days after the payment but did not happen. The Noticee has contended that the lack of documentation does not in any way result in Noticee becoming a principal or employee in a business other than of securities involving personal financial liability.

10.19. I note that the DA has questioned the veracity of the noticee's agreement with Arpna for proprietary trading due to the deficiencies in the agreement execution and the absence of bank account statements for transfer of funds to Arpna. As held earlier in this Order, the proprietary trading losses incurred from Noticee's agreement with Arpna were recorded as advances and there was no actual transfer of funds for INR 31.31 crore. In this regard, I draw reference to a recent order of NSE i.e. NSE's Member Committee Order dated January 23, 2025 passed against the Noticee with respect to the JVs passed by the Noticee as on March 31, 2023. The said Order *inter alia* observes that "*trades are reflected in the account of Gogia as per the records of the Exchange while the losses were accounted for as advances extended and shifted to Arpna Capital.*". The NSE has made a factual assertion that the specific transaction, which is also impugned in this Order, were the result of trades executed by Gogia itself. Therefore, the factual basis of the allegation of the Noticee having violated Rule 8(3)(f) as alleged in the Enquiry Report is now arguable. This aspect has not been dealt with in the Enquiry Report nor argued by the Noticee before me. Notwithstanding the same, considering the aforesaid NSE Member Committee Order, it cannot be definitively said on the basis of available material on record that the Noticee has violated Rule 8(3)(f) of SCRR on account of its impugned transaction with Arpna Capital.

10.20. With respect to the transaction with Arun Kumar Bhalla HUF, I note that the Noticee has not been able to provide any documentary evidence around this entry. In the absence of any documentary evidence to show that the transaction was in relation to its securities business, I am constrained to hold that the Noticee has violated rule 8(3)(f) of SCRR.

III. Non-settlement of clients' funds and securities

10.21. It was alleged that the Noticee failed to settle client funds on the 1st Friday of the quarter i.e. 07/10/2022 in 7 instances involving 7 clients (*amounting to INR 4.11 lakh*) out of 237 instances. Further, the Noticee sent incorrect retention statements to said clients. The Noticee also failed to give the benefit of securities re-pledged to CC/ CM for the said clients. Therefore, it was alleged that the Noticee violated Clauses 47.1.1 and 47.8 of SEBI Master Circular read with Clause 12(e) of Annexure A to 2009 SEBI Circular. Clause 8.1 of Annexure to 2016 SEBI Circular, Clause 5.4 of 2021 SEBI circular and 2022 SEBI Circular, which mandate settlement of running accounts and issuance of retention statement at a specified frequency.

10.22. The Noticee had submitted before the DA that the issues of non-settlement, incorrect retention statement and not providing benefit of repledging were due to software limitations in adapting to new regulations and requested leniency. Further, the Noticee submitted that the missed settlement amount of INR 4.11 lakh had limited financial impact. The DA did not accept this contention and noted that the responsibility of compliance is of the broker's and that vendor's limitations do not absolve the broker of its obligation to meet compliance standards.

10.23. In response to the SCN, the Noticee has stated that the entire process of client settlement and margin calculation is automated. The instances of violation were in the first quarter after implementation of a new change and hence a new software build was implemented. Further, the Noticee has stated that there are always such teething issues in live environment and any amount of testing can't give 100% results the first time.

10.24. I note that the noticee has admitted the alleged violations and has submitted that the default was due to software issues. Every registered

intermediary is required to comply with the statutory requirements laid down by SEBI from time to time. Therefore, the Noticee cannot evade its responsibility by citing issues with software and back-office vendor. The Noticee's failure to detect and correct system error reflects a lack of adequate oversight and a failure to meet the required compliance standards. The contention that the missed settlement amount had limited financial impact does not mitigate the seriousness of the lapse. Any delay involving client funds is a material breach, regardless of scale.

10.25. In view of the above, I find that the Noticee violated of Clauses 47.1.1 and 47.8 of SEBI Master Circular read with Clause 12(e) of Annexure A to 2009 SEBI Circular. Clause 8.1 of Annexure to 2016 SEBI Circular, Clause 5.4 of 2021 SEBI circular and 2022 SEBI Circular.

IV. Other submissions

10.26. The Noticee has stated that its violations are merely technical/procedural and that regulators and exchanges had issued warning to the brokers for similar violations. The Noticee has referred to SAT order dated August 23, 2004 in the matter of Chona Financial Services Pvt. Ltd. (supra) (*wherein the violations were inter alia delay in issue of contract notes, making payments, deliveries, non-segregation of client's funds, misutilisation of client account etc.*) and submitted that similar technical violations were condoned by SEBI and warning was issued. In this regard, I note that the aforesaid case was distinguished by Hon'ble SAT itself in K. Seetharam vs. SEBI (Appeal No: 86 of 2005) decision dated July 07, 2005, wherein it held that:

"The appellant has requested to cancel the penalty considering the facts and circumstances of the case. He has further stated in the appeal that where similar violations along with other violations had occurred, this Tribunal has reduced the penalty to a mere warning. He has cited the following judgments of the Tribunal:

i. Intech Shares and Stock Brokers Vs. SEBI

ii. Sumedha Fiscal Services Ltd. Vs. SEBI

iii. Prakash K. Shah Shares and Securities Pvt. Ltd. Vs. SEBI

iv. Bakliwala Investment v. J.M. Morgan Stanley Retail Services Pvt. Ltd.
vi. Bama Securities
vii. Shyama Sundar Dalmia Vs. SEBI
viii. Sanjay C. Bakshi
ix. Mahesh Kothari Shares and Stock Brokers Pvt. Ltd.
x. Kumesh Sawney
xi. Chona Financial Services Pvt. Ltd.

10. We have gone through the documents submitted by the appellant and the facts of the case. We have also gone through some of the judgments cited in the appeal. While it is a fact that in all these cases the Tribunal has modified the order of the respondent but we must admit that each case is a different case and decision is taken on the facts and circumstances of each case. Each order sets out detailed finding and reasons for taking action or imposing the penalty. In this particular case we have to examine basically two issues.

(emphasis supplied)

10.27. SEBI mandates stockbrokers to maintain a specific net worth to ensure investor protection, operational stability, and market integrity. The Noticee not only failed to meet the specified requirement but also has engaged in misrepresentation of its books of accounts to inflate its net worth. Therefore, the violations of the Noticee cannot be said to be merely technical in nature.

D. CONCLUSION AND DIRECTIONS

11. In the instant case, the Noticee has been observed to have

- given advances unconnected with its securities business;
- misrepresented its book of accounts to inflate its net worth;
- failed to comply with the net worth requirement;
- failed to settle the clients' running accounts;
- sent incorrect retention statements; and,
- failed to give benefit of securities re-pledged to CC/CM.

12. The DA has recommended that the Noticee may be prohibited from on-boarding new clients for a period of 1 month. I also note that no other enforcement action has been initiated against the Noticee for the violations alleged in the Enquiry Report. In view of all of the above, I find that the punitive measure recommended by the DA is commensurate with the violations established in this case. Accordingly, I am inclined to agree with the recommendation made by the DA.

13. In view of the aforesaid observations and findings, I, in exercise of the powers conferred upon me under Section 12(3) read with Section 19 of the SEBI Act and Regulation 27 of the Intermediaries Regulations, hereby prohibit the Noticee from taking up any new clients as a stock broker for a period of one month from the date of this Order.

14. This Order shall come into force with immediate effect.

15. A copy of this Order shall be served upon the Noticee and all recognised Stock Exchanges to ensure compliance with the above direction.

Sd/-

ANANTH NARAYAN G.

DATE: OCTOBER 06, 2025

WHOLE TIME MEMBER

PLACE: MUMBAI

SECURITIES AND EXCHANGE BOARD OF INDIA