

SECURITIES AND EXCHANGE BOARD OF INDIA
ORDER

**UNDER SECTIONS 11(1), 11(4), 11B(1) and 11B(2) OF THE SECURITIES AND
EXCHANGE BOARD OF INDIA ACT, 1992**

In respect of:

S. No.	Name of the Entity	Registration No.
1.	First Overseas Capital Limited	INM000003671

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") conducted an inspection of First Overseas Capital Limited ("**FOCL**"/ "**MB**"/ "**the Company**"/ "**Noticee**"), Merchant Banker registered with SEBI, on August 24 and 25, 2022. The period of inspection was from April 01, 2021 to March 31, 2022. During the course of inspection, it was, *inter alia*, observed that the Noticee had failed to maintain a net worth of ₹5 Crore, and had therefore, violated regulation 7 read with regulation 9A(1)(d) of the SEBI (Merchant Bankers) Regulations, 1992 (hereinafter referred to as the "**MB Regulations**"). On the basis of the findings of the inspection, enquiry proceedings were initiated against the Noticee under regulation 35 of the MB Regulations read with regulation 23 of SEBI (Intermediaries) Regulations, 2008 ("**Intermediaries Regulations**"), which have concluded by issuance of order dated October 3, 2025.
2. Pursuant to the aforesaid inspection, a fresh inspection was conducted by SEBI on February 14 –15, 2024 for the period April 01, 2022 – October 31, 2023. The said inspection revealed the following violations on part of the Noticee:
 - a. Non-maintenance of adequate net worth;
 - b. Indulging in business other than that of the securities market;
 - c. Undertaking underwriting obligations more than 20x of its net worth;
 - d. Accepting public deposits for fulfilling underwriting obligations;

- e. Submission of false and misleading information to SEBI;
 - f. Other violations:
 - Failure to intimate SEBI about acquisition of securities of companies whose issues were managed by the MB;
 - Failure to submit half-yearly reports;
 - Key Managerial Personnel of the Noticee were not in compliance with the certification requirements;
 - Incomplete track record disclosure on the website
3. In light of the aforesaid violations, an interim order cum show cause notice dated October 23, 2024 (hereinafter referred to as “**interim order**”) was passed against the Noticee. The said interim order, *inter alia*, held the Noticee to be in violation of the allegations mentioned above at Para 2 and, *inter alia*, debarred *the Noticee from taking any new mandate in relation to the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management, until further order.*
4. Aggrieved by the interim order, the Noticee approached the Hon’ble Securities Appellate Tribunal (hereinafter referred to as “**SAT**”) and submitted that it was willing to fulfill the capital adequacy requirement, by bringing in an additional sum of ₹3 Crores, and prayed that pending consideration of the issue before SEBI, the Noticee may be permitted to carry on the business. The Hon’ble SAT allowed the appeal, in part, and, vide order dated December 11, 2024 (“**SAT Order**”), directed as under:
- “i. The appeal is allowed in part. Direction in paragraph No. 96 to debar the appellant from taking any new mandate shall be stayed subject to appellant bringing in Rs. 3 Crores within 15 days from today and thereby ensuring that the net-worth capital adequacy of Rs. 5 Crores is maintained.*

ii) The appellant shall file his reply within four weeks from today before the SEBI and the proceedings may continue thereafter. All contentions of both parties kept open.”

5. In compliance with the aforesaid directions of Hon’ble SAT, the Noticee, vide email dated December 30, 2024, informed SEBI that it had brought in an additional sum of ₹3 crores by issuing 30,00,000 preference shares to Mr. Satyen Dalal, the Chairman and Managing Director of the Noticee and was therefore, in compliance with the net worth requirement, as specified under the MB Regulations. Pursuant to the same, the Noticee filed its written submissions in the matter vide email dated January 21, 2025. Thereafter, an opportunity of hearing was accorded to the Noticee on March 20, 2025. The hearing was conducted as scheduled and the Authorized Representatives of the Noticee appeared on behalf of the Noticee and reiterated the submissions made vide letter dated January 21, 2025. The Noticee was provided 10 days’ time to file post-hearing submissions in the matter and vide email dated April 7, 2025, the Noticee filed post hearing submissions in the matter. The oral arguments made during the hearing and the written submissions dated January 21, 2025 and April 7, 2025 are summarized as under:

A. Preliminary Submission:

- i. The Noticee has already been issued two show cause notices by the Adjudicating Officer and a Designated Authority and therefore the present proceedings under Section 11 and 11B of the SEBI Act amount to double jeopardy. In this regard, the Noticee has placed reliance on the decisions of the Hon’ble SAT in the matter of ***P.G. Electroplast Limited & Others Vs. SEBI*** and ***Vital Communications Vs. SEBI***;
- ii. Since the Noticee is now in compliance with the net worth requirements, it may be treated as compliant with the requisite regulations;

B. Non-maintenance of adequate net worth;

- i. The Noticee has been in compliance with the net worth requirement of ₹5 Crores since the year ended March 31, 2023. An independent auditor has

certified that the net worth of the Noticee was ₹6,40,24,972 for the financial year ending March 31, 2023;

- ii. SEBI has incorrectly calculated the net worth of the Noticee by not including an amount of ₹3 Crores citing the same to be a doubtful debt. The alleged doubtful debt arose from an unsecured loan provided to Mr. Rajesh Mewavala (Mr. Rajesh). Mr. Rajesh played a fraud upon the Noticee and it lodged a First Information Report (FIR) against Mr. Rajesh, on the basis of which a charge-sheet has also been filed. Mr. Rajesh was in judicial custody from August 8, 2022 to May 20, 2023 and was released on bail later;
- iii. The auditors of the Noticee had made qualification in the main report dated February 5, 2024 that the Noticee had not made provisions for the loan amount recoverable from Mr. Rajesh which was doubtful for recovery and no provision against the same was made in the books despite the fact that there were legal proceedings initiated against him. In this regard, the Noticee had received a letter dated October 16, 2023 from Mr. Rajesh wherein he agreed to pay the said amount by June 24, 2025 and the same letter was forwarded to the auditors by hand delivery. Since the report was signed in September 2023, the said letter was not accounted for, however, the net worth certificate (showing the net worth of the Noticee to be ₹6,40,24,972) was issued in February 2024;
- iv. The independent auditor has considered the aforesaid amount of ₹3 Crores as receivable in the net worth certificate. Further, there is no provision in the Accounting Standards which requires an auditor to not provide for amounts which are recoverable through legal routes. In the present case, as on March 31, 2023, the net worth of the Company was above the minimum net worth of ₹5 Crores, i.e., ₹6,40,24,972 based on unaudited figures.
- v. There was an inadvertent copy paste error on part of the Noticee while mentioning the net worth amount for the year 2021-22 and the same cannot be considered as incorrect submission;

C. Indulging in business other than that of the securities market

- i. The amount of ₹7.5 Crores was not utilized as an advance towards a construction project. It was given as a loan to Boisar Realities Private Limited (Boisar) and Falcon Recreational Activities Private Limited (Falcon) and the said fact was communicated to SEBI vide email dated June 6, 2024. The Noticee has not used these funds for carrying out any business other than in the securities market;
- ii. Since the Noticee's net worth was below ₹5 Crore, the director Mr. Satyen Dalal infused ₹7 Crores through his own account and Chasam Investments and Leasing Private Limited (hereinafter referred to as "**Chasam**") to raise the capital during the period August 2022 to December 2022. As per the auditor's certificate, the net worth of the Noticee for the year ended on March 31, 2024 was ₹9,63,24,021;
- iii. The investment in Falcon falls under the head of '*Unquoted Investments*' and is a permitted investment as per clause 5.2 Deployment of Resources in Form A – Application of Grant of Certificate of Registration of the MB Regulations;
- iv. As per SEBI Master Circular dated September 26, 2023, the Noticee is allowed to invest in securities of any other company, including preference shares to the extent of their net worth, which was ₹9,63,24,021 as on March 31, 2024. The Noticee subscribed to the preference shares of Falcon for ₹7.5 Crores which is duly reflected in the Annual Report for the financial year 2023-24. The Noticee has neither any controlling interest in Falcon nor is it involved in real estate/ construction business;

D. Accepting public deposits for meeting underwriting obligations

- i. The Noticee did not receive the monies as public deposits. Rather unsecured loans were taken to bridge the losses in the books and maintain the net worth as per the MB Regulations. The funds to the extent of ₹10.3 crores were not utilized for purchase of securities as the same were taken to fund the losses of the Noticee. Monies taken as loans were later paid back and the same is reflected in the Annual Reports of the Noticee. A sum of ₹1,90,00,000 remains unpaid as on March 31, 2024.

E. Total underwriting obligations of the Noticee exceeded twenty times its net worth at certain occasions

- i. The net worth of the Noticee, as certified by the auditors, i.e., ₹6,40,24,972 Crores for the financial year ending March 2023 and ₹9,63,24,021 for financial year ending March 2024 was adequate for meeting the underwriting obligations as per the MB Regulations. The COVID pandemic affected the Noticee's business severely. It had very few assignments during 2019-20 and 2020-2021 and routine expenses such as salary etc. were piling up. In order to manage the same, the Noticee undertook assignments for managing initial public issues of SME companies. However, due to the market conditions certain IPOs managed by the Noticee were devolved and the Noticee had to subscribe to the same as an underwriting obligation;
- ii. Further, SEBI has considered the devolved amount twice – on the date of issue and on the date of closing. The said fact was brought to the notice of SEBI in response to the observations filed on April 30, 2024. However, SEBI did not consider the same;

F. False and Misleading submissions

- a) **Availability of Statutory Auditor:** The submission of the Noticee that it was unavailable to provide the audit report on account of unavailability was not false. As submitted, wife of the auditor was actually unwell and passed away. Merely because the audit report was signed on January 19, 2024 and submitted on February 8, 2024 does not mean that the submissions of the Noticee regarding unavailability of the auditor were false;
- b) **Letter received from Mr. Rajesh:** The letter from Mr. Rajesh, agreeing to pay the amount to the Noticee, was received on October 16, 2023. The said letter was forwarded to the auditors vide hand delivery but was not accounted in the reports by the auditors. The annual general meeting was held in September 2023 and the letter was received after signing of

balance sheet but before issuance of net worth certificate. Thus, there was no false statement by the Noticee;

- c) Loan *vis-à-vis* investment in property development business:** The amount of ₹7.5 Crores was not utilized as advance/ investment towards construction project and was given as loan Boisar and Falcon and the same fact was intimated to SEBI vide email dated June 6, 2024. The money was infused as capital in the books of the Noticee, which was, *inter alia*, used to invest in the preference shares of Falcon. However, due to technicalities in subscription, Falcon return the money to the Noticee. The Noticee had no intentions of participating in the business of the company;
- d) Misleading information regarding Compliance Officer:** Mr. Rushabh Shroff was the Compliance Officer at all times since 2007. Ms. Mala Soneji was an assistant to Mr. Shroff since 2016 till the time she was appointed as a Compliance Officer vide Board Resolution dated May 2, 2020. During the course of inspection, Ms. Mala was the Compliance Officer. Subsequently, Ms. Mala stepped down as a Compliance Officer and Mr. Rushabh was appointed as the Compliance Officer. As on date, Mr. Rushabh has resigned with effect from September 1, 2024 and the Noticee has appointed a new Compliance Officer who would join from March 1, 2025. Thus, the Noticee has not furnished any false information but may have, inadvertently, not intimated the appointment of Ms. Mala Soneji;
- e) Net worth of the Noticee for FY 2021-22 and 2022-23:** The net worth information provided by the Noticee was on the basis of trial balance as prepared by the Noticee and the figures were unaudited. Hence, the Noticee did not furnish any false information to SEBI;
- f) Failure to disclose management of two open offers:** The failure to disclose the same was an inadvertent error and a mere unintentional technical violation and therefore, it cannot be said that the Noticee had concealed the above fact. The Noticee has not achieved any advantage from such non-disclosure. Further, the details of the relevant open offers were available in public domain and the public announcements, as required under regulation 3(1) and regulation 4 read with regulations 13,

14 and 15(1) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;

- g) Non-compliance with regulation 27 of the MB Regulations:** The failure to inform SEBI about the acquisition of securities made in pursuance of the underwriting obligations was inadvertent and unintentional. The Noticee made annual disclosures about these acquisitions to SEBI;
- h) Repetitive non-submission of half-yearly reports:** It has been incorrectly alleged that the Noticee submitted the half yearly reports for period ending March 2022, September 2022, March 2023 and September 2023 on February 16, 2024. In terms of SEBI Circular dated May 6, 2008, the aforesaid information was submitted to the email ID – mb@sebi.gov.in. The said data was also uploaded on the SI Portal but it was not reflecting due to some technical issues. When SEBI inspection team pointed out that the data is not reflecting on the SI Portal, it was re-uploaded on February 16, 2024. The Noticee submitted the hard copies as well as soft copies of the half yearly reports on October 21, 2022;
- i) Non-compliance with certification requirements under the MB Regulations:** The erstwhile Compliance Officer Ms. Mala had to resign due to personal reasons and hence, on an urgent basis, Mr. Rushabh was appointed as the Compliance Officer. Mr. Rushabh resigned with effect from September 30, 2024 and a new Compliance Officer has been appointed by the Noticee. Accordingly, due to circumstances beyond the control of the Noticee, the Compliance Officer could not obtain the necessary certifications;
- j) Track record disclosure by the Noticee on its website:** The Noticee had been uploading the information about the track record on its website, however, the same was allegedly not done in an appropriate format. As soon as the discrepancy was brought to the notice of the Noticee, steps to rectify the deficiencies were taken up and the alleged discrepancies stand rectified as on date.

G. Other Submissions and Mitigating Factors

- i. Inspection should not be used as a tool to penalize the entities. The violations in the interim order are technical and venial in nature and could not have caused any harm to the investors. In this regard reliance is placed on the decisions of Hon'ble SAT in the matter of ***Religare Securities Limited Vs. SEBI***¹ and ***UPSE Securities Limited Vs. SEBI***² and decisions of the Hon'ble Supreme Court in the matter of ***M/S Hindustan Steel Limited Vs. State of Orissa***³ and ***Maharashtra State Board of Secondary Education and Higher Secondary Education Vs. K.S. Gandhi and Others***⁴;
 - ii. The Noticee has not been able to sign new mandates since one and half years on account of various proceedings initiated by SEBI. Pursuant to initiation of investigation by SEBI, the Noticee has stopped receiving new mandates and the business of the Noticee is practically under suspension;
 - iii. The allegations levelled in the present SCN have already been dealt with by SEBI in different proceedings and therefore the Noticee ought not to be penalized twice for the same alleged violations;
 - iv. The Noticee has been in the business of merchant banking for more than 20 years;
 - v. The Noticee has increased the authorized share capital to maintain the net worth capital adequacy requirement of ₹5 Crores to the satisfaction of SEBI;
 - vi. The violations are technical and venial in nature;
 - vii. There are no complaints against the Noticee from its clients or any third parties with respect to its working.
6. At the outset, I deem it important to deal with the preliminary submission of the Noticee that the present proceedings amount to double jeopardy / res judicata as the Noticee has been issued multiple notices for adjudication and enquiry

¹ Appeal No. 23 of 2011, Decided on June 16, 2011

² Appeal No. 109 of 2011, Decided on July 25, 2011

³ 1969 (2) SCC 627

⁴ (1991) 2 SCC 716

proceedings. I note that the legal position as regards the authority of SEBI to initiate parallel proceedings under Section 11B and Section 15I of the SEBI Act is well settled and has been acknowledged by the Hon'ble SAT, time and again. The Hon'ble SAT in the matter of ***M/s. Ethan Constructions Pvt. Ltd. vs SEBI***⁵ has observed as under:

"10. As to the issue of parallel proceedings raised by the Appellant, this Tribunal has time and again upheld that the proceedings under Section 11B and adjudication proceedings can go on simultaneously. As recent as the judgment delivered in Appeal no. 87 of 2021 on November 4, 2023 in the matter of Reliance Industries Limited we have held -

"In our opinion there is no legal bar of initiation of adjudication proceedings during pendency of Section 11B proceedings. In our opinion, adjudication proceedings and Section 11B proceedings can be held in parallel." "

7. In view of the aforesaid, the contention of the Noticee, as regards applicability of the principle of res judicata/ double jeopardy, is not tenable, and is therefore, rejected.
8. The Noticee has further submitted that since it has complied with the net worth requirements, it may be treated as compliant with the relevant regulations. In this regard, I note that while the Noticee may be in compliance with the requisite regulations as on date, the violations committed by the Noticee during the relevant inspection period still need to be examined in the present proceedings and directions, if any, need to be issued accordingly.
9. Having dealt with the preliminary submissions of the Noticee, I shall now address the other submissions made by the Noticee.

Non-maintenance of adequate net worth

10. It is alleged in the interim order that the net worth of the Noticee was less than ₹5 crores from financial year ended March 31, 2019 onwards. The details of the same are, as under:

⁵ Decided on 14 December, 2023

Financial Year	Net-worth (In ₹)
2018-19	3,39,81,005
2019-20	1,91,83,465
2020-21	2,31,22,673
2021-22	13,92,170

11. Further, as regards the net worth for FY ending March 31, 2023, the Noticee, vide its response to pre-inspection questionnaire (PIQ) dated January 19, 2024 and email dated January 25, 2024 expressed its inability to submit its latest balance sheet and the net worth certificate stating that its auditor was on long leave due to personal reasons. However, prior to start of the inspection in February 2024, the Noticee, vide email dated February 8, 2024, submitted net worth certificates dated February 06, 2024 and February 07, 2024 for the period ended March 31, 2023 and September 30, 2023, respectively. The net worth certificates were provided by an independent chartered accountancy firm, namely, Bhatner & Company, Chartered Accountants, Mumbai. The net worth of the Noticee, as on March 31, 2023 and September 30, 2023, as stated in the said certificates, was as under:

Particulars	As on March 31, 2023 (In ₹)	As on September 30, 2023 (In ₹)
Paid up Equity share Capital (A)	16,95,00,000	16,95,00,000
Less: Accumulated losses (B)	10,54,75,028	9,63,50,368
Net Worth (C = A - B)	6,40,24,972	7,31,49,632

12. Vide email dated February 08, 2024, the Noticee had also submitted audited financials for FY ended March 31, 2023 and unaudited financials for the period ended September 30, 2023. As per net worth certificates submitted by the Noticee (referred to in the previous paragraph), its net worth for FY ended March 31, 2023 was ₹6,40,24,972. However, from the Statutory Auditor's Report dated January 19, 2024, it was noted that the Statutory Auditor had provided a qualified opinion with respect to a transaction amounting to ₹3 crore entered between the Noticee and Mr. Rajesh, by treating the same as a time barred unsecured and doubtful loan/advance, made by the Noticee, for which no provision was made.

13. In view of the above, the net worth of the Noticee, as on March 31, 2023, after adjusting for non-provisioning of ₹3 crore for time barred unsecured and doubtful loan / advance was required to be restated at ₹3,40,24,972, which was less than the minimum specified net worth of ₹5 crore. Considering the non-provisioning of ₹3 Crore for time barred unsecured and doubtful loan / advance, the restated net worth of the MB as on September 30, 2023, also would have been ₹4,31,49,632 (i.e., ₹7,31,49,632 – ₹3,00,00,000), which was less than the specified limit of net worth of ₹5 crore.

14. In addition to the above, the auditor had also expressed a qualified opinion for not making provision for diminution in value of 1,40,000 shares of Nidan Laboratories & Healthcare Limited (“**Nidan**”) held by the Noticee, amounting to ₹1,28,52,000, in FY 2021-22.

15. Taking into consideration the abovementioned findings, the net worth of the Noticee, as on March 31, 2022, March 31, 2023, and September 30, 2023, is provided in the table below:

Particulars	As on March 31, 2022 (In ₹)	As on March 31, 2023 (In ₹)	As on September 30, 2023 (In ₹)
Reported Net Worth (A)	13,92,170	6,40,24,972	7,31,49,632
<u>Less:</u> Provision for doubtful debts (B)	3,00,00,000	3,00,00,000	3,00,00,000
<u>Less:</u> Provision for diminution in value of investments (C)	1,28,50,000	-	-
Net Worth (D = A - B - C)	(4,14,57,830)	3,40,24,972	4,31,49,632

16. Since the net worth of the Noticee was less than ₹5 crores from FY ended march 2022 till September 30, 2023, the Noticee was allegedly found to have violated the provisions of regulation 7 read with regulation 9A(1)(d) of the MB Regulations.

17. In this regard, the Noticee has made three broad submissions, which are as under:

- a. An independent auditor has certified that the net worth of the Noticee was ₹6,40,24,972 for the FY ending March 31, 2023;

- b. SEBI has incorrectly calculated the net worth of the Noticee by excluding the amount of ₹3 crores as the said doubtful debt arose from an unsecured loan provided to Mr. Rajesh. Mr. Rajesh, as per the Noticee, played a fraud upon the Noticee and it has filed an FIR against Mr. Rajesh too;
- c. The Noticee received the letter from Mr. Rajesh on October 16, 2023. Since the report was signed in September 2023, the said letter was not accounted for, however, the net worth certificate (showing the net worth of the Noticee to be ₹6,40,24,972) was issued in February 2024.

18. In my view, the present issue regarding the net worth of the Noticee, as on March 31, 2023 (and subsequently) boils down, primarily, to the question whether the unsecured loan provided by the Noticee to Mr. Rajesh was a doubtful debt or not and whether the said amount ought to be included while computing the net worth. In terms of regulation 7 of the MB Regulations, the Noticee was required to maintain a net worth of not less than ₹5 crore. As noted above, the net worth of the Noticee was, undisputedly, below the specified statutory requirement from 2018-19 to 2021-22. Further, as per the net worth certificates submitted by the Noticee in February 2024, the Noticee was in compliance with the statutory requirement from FY ended March 31, 2023 (₹6,40,24,972 as on March 31, 2023 and ₹7,31,49,632 as on September 30, 2023). However, the said certificates did not take into account the doubtful loan extended to Mr. Rajesh by the Noticee.

19. Basis material available on record, I note that the unsecured loan of ₹3 crores was extended to Mr. Rajesh by the Noticee on June 3, 2019. Pursuant thereto, on account of failure of Mr. Rajesh to repay the loan amount, the Noticee had filed an FIR in 2022 and Mr. Rajesh was taken into custody. It is noted that even after the same, the Noticee was unable to recover the said amount. It was in October 2023 that Mr. Rajesh, on the letterhead of his proprietorship firm (Fountain Dry Fruit Stores), gave an undertaking to the Noticee that the unsecured loan shall be repaid on or before June 24, 2025. It is noted that, as on date, no material has been brought on record to establish that Mr. Rajesh has repaid the loan amount. The Statutory Auditor of the Noticee, in the report dated January 19, 2024, has noted that “...*Had the above provisions for doubtful debts*

been made in the books of accounts, the loss for the year would have increased by Rs. 3,00,00,000...". If the said amount of ₹3 crore is removed from the net worth of the Noticee, then as on March 31, 2023, the net worth of the Noticee would be ₹3,40,24,972, which is below the requisite statutory mandate of ₹5 crore. Further, even though the Noticee has itself admitted that it became a victim of fraud at the hands of Mr. Rajesh, it has still failed to appropriately take that fact into consideration while calculating the net worth. In my view, there were sufficient indicators to alert the Noticee that the unsecured loan had become doubtful and prudence required the Noticee to factor that in while calculating the net worth. Failure to do the same resulted in inaccurate and exaggerated depiction of the net worth, while in reality, the Noticee was not in compliance with the requirement of the MB Regulations.

20. The Noticee has also submitted that there is no provision in the Accounting Standards which requires the auditor to not provide for amounts which are recoverable through legal routes. In this regard, I am of the view that the recoverability of the loan has to be analyzed from a holistic perspective. The material available on record shows that the Noticee had written off the interest receivable up to March 31, 2021, amounting to ₹89,02,492 during the FY 2021-22 and thereafter, no provisioning for interest was done for FY 2021-22 and FY 2022-23. This writing off of the interest suggests that the Noticee itself was not hopeful of recovering the loan amount from Mr. Rajesh and thus, the argument that the amount was recoverable, holds no water.

21. In addition to the above, I deem it necessary to bring on record the contradictory submissions made by the Noticee during the course of present proceedings. During inspection, the Noticee, vide letter dated April 30, 2024, submitted that it had received a confirmation for the balance loan amount (from Mr. Rajesh vide letter dated October 16, 2023) *after* the signing of the balance sheet. The relevant excerpt from the aforesaid letter of the Noticee is as under:

“...After the date of signing the balance sheet, we have received balance confirmation for loan amount due, and the entity has agreed to pay the same. Hence the loan is not doubtful of recovery...”.

22. However, in its response to the interim order cum show cause notice, dated January 21, 2025, the Noticee has made a contradictory submission that the letter dated October 16, 2023, received from Mr. Rajesh, was *forwarded to the auditors vide hand delivery but was not accounted in the report*. It is noted from the material available on record that the subject audit report was signed by the statutory auditor of the Noticee on January 19, 2024.

23. Accordingly, on one hand, the Noticee has submitted (during inspection, vide letter dated April 30, 2024) that it received the letter dated October 16, 2023, from Mr. Rajesh, *after* signing of the balance sheet on January 19, 2024 and, on the other hand, it has submitted (in written submissions dated January 21, 2025) that the said letter (received by the Noticee on October 16, 2023) was forwarded to the auditors but was not accounted in the audit report. In my opinion, such contradictory statements do not help the case of the Noticee and give further strength to the finding that the Noticee was not compliant with the net worth requirement.

24. Further, the Noticee has not made any submissions as regards non-provisioning for diminution in value of shares of Nidan which would have led to further reduction in the declared net worth of the Noticee. Accordingly, the facts regarding non-provisioning for diminution in value of shares of Nidan stand established.

25. In view of the aforesaid, I find the Noticee to be in violation of regulation 7 read with regulation 9A(1)(d) of the MB Regulations for not meeting the net worth requirements for the period April 1, 2022 – October 31, 2023.

26. At this juncture, I deem it fit to note that pursuant to the Hon'ble SAT's Order dated December 11, 2024, the Noticee infused an additional sum of ₹3 crores by

issuing preference shares to Mr. Satyen Dalal, the Chairman and Managing Director and is now in compliance with the net worth requirements.

Indulging in business other than that of the securities market

27. In the interim order, the Noticee has been alleged to have engaged in business activities outside securities market. The Noticee raised an amount of ₹7.50 crore through issue of preference shares during the FY2022-23 (August 2022 to December 2022) and ₹7 crores out of the said amount, as per the audit report, was utilized to make advance payments towards construction project to two companies (Boisar and Falcon) to engage in the business of property development. Further, the said investment by the Noticee also had a direct impact on calculation of the net worth of the Noticee. As per the financial statements of the Noticee for the FY ended March 31, 2024, the advance towards construction project, amounting to ₹7 crores was converted into redeemable preference shares of Falcon amounting to ₹11,37,50,000. In light of these facts, the Noticee is alleged to have engaged in business activities other than securities market.

28. The break-up of the net worth of the Noticee as on March 31, 2022, March 31, 2023, and March 31, 2024 by considering figures provided in annual report for FY 2022-23 and financial details submitted by the Noticee vide letter dated July 10, 2024 is as under:

Particulars	As on March 31, 2022 (In ₹)	As on March 31, 2023 (In ₹)	As on March 31, 2024 (in ₹)
Equity Share Capital (A)	9,45,00,000	9,45,00,000	9,45,00,000
Increase in Equity Share Capital (B)	-	-	2,62,50,000
2% Compulsory Convertible Non-cumulative Preference Share Capital (C)	-	7,50,00,000	7,50,00,000
Reserves & Surplus (D)	(9,31,07,830)	(10,54,75,030)	(9,94,25,979)
Net Worth as reported in the audited financial statements of MB (E = A + B + C + D)	13,92,170	6,40,24,972	9,63,24,021
Less: Provision for doubtful debts (F)	3,00,00,000	3,00,00,000	- *
Less: Provision for diminution in value of investments (G)	1,28,50,000	-	-

Actual Net Worth (H = E - F - G)	(4,14,57,830)	3,40,24,972	9,63,24,021
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* - The MB has made full provision for doubtful debts amounting to ₹3 Crore.

29. Per the interim order, the net worth of the Noticee increased from ₹13,92,170 to ₹6,40,24,972 and the said increase was primarily due to the infusion of preference share capital (₹7.50 crores) by Mr. Satyen Dalal, the Chairman and Managing Director of the Noticee and its holding company, Chasam. Further, the net worth of the Noticee increased from ₹6,40,24,972 as on March 31, 2023 to ₹9,63,24,021 as on March 31, 2024 on account of infusion of equity share capital amounting to ₹2,62,50,000.
30. The Noticee, in its defense, has submitted that the amount was not an advance for construction project, rather, a loan extended to the entities Boisar and Falcon. The investment by Mr. Satyen Dalal, through his own account and through Chasam was to increase the capital of the Noticee to recoup the shortfall in the net worth and was a need based activity and as on March 31, 2024, the net worth of the Noticee was ₹9,63,24,021.
31. The Noticee has also submitted that the investment in Falcon falls under the head of 'Unquoted Investments' and is a permitted investment as per clause 5.2 - Deployment of Resources in Form A titled *Application for Grant of Certificate of Registration* in Schedule I of the MB Regulations. Further, as per SEBI Master Circular dated September 26, 2023, the Noticee is allowed to invest in securities of any other company, including preference shares to the extent of the Noticee's net worth, which was ₹9,63,24,021 as on March 31, 2024. As submitted by the Noticee, it subscribed to the preference shares of Falcon for ₹7.5 Crores which is duly reflected in the Annual Report for the financial year 2023-24.
32. It emerges that the Noticee has primarily stressed on the fact that the amount paid to Falcon and Boisar was not investment in construction projects, rather, the same was in the nature of a loan. In this regard, vide email dated June 7, 2024, the Statutory Auditor of the Noticee, Mr. Ganesh Mehta, was advised to confirm whether the alleged loan confirmations were provided to him and whether the same were considered before signing the audit report on January 19, 2024. The

Statutory Auditor, vide letter dated June 7, 2024, *inter-alia*, stated that during the audit period, the Noticee had furnished written confirmations of both the parties (Boisar and Falcon) affirming that the advanced amount was intended towards a joint development project for the acquisition of land. The Statutory Auditor also submitted confirmation letters received from the two companies and the letters of the Noticee expressing interest to invest amount towards joint development to acquire a land parcel in a place called Boisar.

33. The letter dated July 05, 2022 sent by Boisar to the Noticee stated as under:

*“As per discussion and **interest shown by you in joint development of project**, please note that we have more than 30 acres of land in Boisar which consists of 9 sectors out of which 4 has been already developed and other 5 are still to be developed. We have the NA Order and ZP Building Permission for the property. **We invite you visit our site in Boisar for discussion in investment on joint development of the said property** in order to take further decisions we do not mind sharing with you our property details on receipt of your confirmation. **Once the said investment is received by you in our company** we will draw up a fresh Investment Joint Venture Agreement which will supersede all other agreements or correspondence.”*

34. Pursuant to the aforesaid letter, the Noticee, vide letter dated August 2, 2022, showed its interest in making investments towards joint development to acquire a land parcel in a place called Boisar. The said letter, *inter alia*, stated as under:

*“As per our ongoing discussion, telephonic talks and meeting with you. We are interested in investing a sum of Rs. 3,50,00,000/- **towards a joint development to acquire the land parcel shown to us in Boisar**. As per the talks carried out please note that if you are not able to acquire the land parcel shown to us in Boisar within a period of 18 months then the said money will be returned by you. If the said period extends more than 18 months then the interest will be levied @ 18% per annum on the money invested by us. However, the money will be returned by you within a period of 2 years with no extensions thereafter. We will be legally allowed to pursue a recovery suit against you. Once the land is acquired we will get into a formal MOU thru joint venture which will rescind all the previous communication and the said*

MOU will be binding on both of us. With good faith the funds will be transferred to the bank account details to be informed by you, in instalments in the next 2 weeks.”

35. In my view, the content of the aforesaid letters establishes, with certainty that the Noticee had extended the money to the entities Boisar and Falcon for investing in property development projects. I deem it important to mention that the aforesaid letters were also relied upon in the interim order, however, the Noticee has not made any submission to explain or justify the content of the aforesaid letters.
36. Further, the Noticee has also sought shelter under clause 5.2 - Deployment of Resources in Form A titled *Application for Grant of Certificate of Registration* in Schedule I of the MB Regulations to argue that the investments in question were ‘*Unquoted Investments*’ permitted under the said clause. I note that while *unquoted investments* are permitted under the MB Regulations, the said liberty cannot be misused to invest in business other than securities market. The Noticee, in the garb of having made *unquoted investments* could not have invested in property development projects, and thus, the arguments of the Noticee in that regard do not hold any merit and are therefore liable to be rejected.
37. Having established that the aforesaid amount was not advanced as loan but was invested for business activities, I also note that the infusion of ₹7.50 crores through issuance of preference shares and ₹2,62,50,000 through issuance of equity share capital was not for increasing the net worth of the Noticee but to invest in the property development business through Boisar and Falcon. The Noticee thus camouflaged the actual transactions, i.e., advancing funds to Boisar and Falcon for property development business and subsequently converted the same into redeemable preference shares of one entity, i.e., Falcon. I, therefore, find that the preference share capital (₹7.50 crores) infused by Mr. Satyen Dala and Noticee’s holding company, Chasam, was re-directed by the Noticee to a business other than securities, and cannot be considered for the purpose of computation of the net worth of the Noticee.

38. In view of the aforesaid facts, the re-calculated net worth, after excluding the preference share capital which was used for making investment into property development business for FY ended March 31, 2023 and March 31, 2024, is tabulated as under:

Particulars	As on March 31, 2023 (₹)	As on March 31, 2024 (₹)
Equity Share Capital (A)	9,45,00,000	12,07,50,000
2% Compulsory Convertible Non-cumulative Preference Share Capital (B)	7,50,00,000	7,50,00,000
Reserves & Surplus (C)	(10,54,75,028)	(9,94,25,979)
Net Worth reported in the audited financial statements of MB (D = A + B + C)	6,40,24,972	9,63,24,021
Less: Provision for doubtful debts (E)	3,00,00,000	-
Less: Provision for diminution in value of investments (F)	-	-
Actual Net Worth before adjustment (G = D - E - F)	3,40,24,972	9,63,24,021
Less: Preference Share Capital (H)	7,00,00,000	7,00,00,000
Actual Net Worth after adjustment (I = G - H)	(3,59,75,028)	2,63,24,021

39. Although the Noticee endeavored to fulfill the net worth requirements in terms of the MB Regulations, as on March 31, 2024, the actual net worth, as available for its securities market business / obligations, was less than the specified limit of ₹5 Crore. As noted in the interim order, the Noticee was used as a pass-through investment vehicle for channelizing the funds of Mr. Satyen Dalal and Chasam (the holding company of MB) into property development business, i.e., carrying out business other than that in the securities market. The said arrangement led to fall in the net-worth of the Noticee below the specified limit of ₹5 crore, from April 1, 2022 to October 31, 2023, in violation of the regulation 7 read with regulation 9A (1) (d) of the MB Regulations.

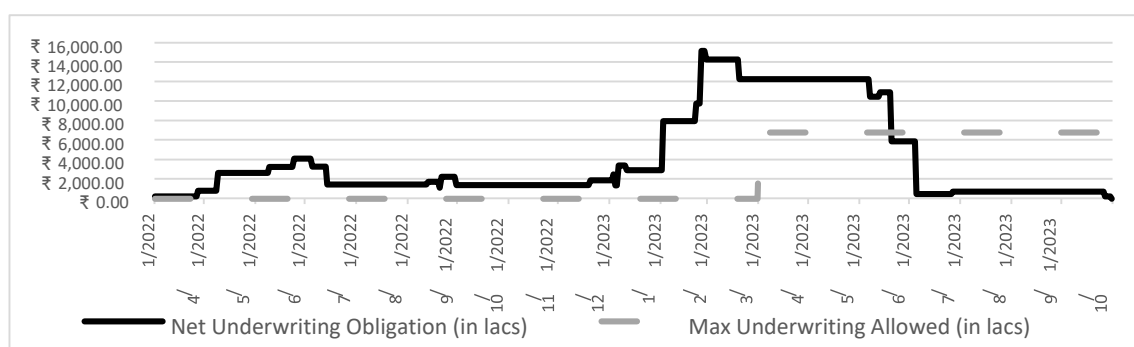
40. Further, as observed in the interim order, the Noticee's investments in business activities unrelated to the securities market left it with inadequate financial resources, to enable it to fulfil its underwriting obligations. The said fact was also reflected in Note 5 in *Notes to Accounts* section forming part of the audited financials of the Noticee for FY 2022-23. The relevant portion is as under:

“Note: Amount of Rs. 7,41,00,000/- received from various parties as earnest money deposits towards subscribing of shares by the company in the IPO of Nidaan Laboratories Ltd., as the company had to undergo hard underwriting of the IPO towards the devolvment of the issue during FY 2021-22...”

41. The Noticee secured public deposits, in order to subscribe to the shares of Nidan, to fulfill its underwriting obligations. Had the Noticee not invested ₹7 crores in property development business, it would have possessed adequate financial resources to meet its underwriting obligations and the requirement to raise public deposits could have been avoided. The issue of utilization of public deposits for meeting underwriting obligations by the Noticee has been dealt in detail later in this order.

Total underwriting obligations of the Noticee exceeded the specified limits

42. In terms of regulation 22B(2) of the MB Regulations, the Noticee had to ensure that its total underwriting obligations do not exceed 20x of its net worth. However, it is noted from the analysis of the data, with respect to underwriting obligations of the issues, during the FY 2021-22 and 2022-23, that the Noticee had underwritten issues of securities beyond the specified limits, i.e., 20x of its net worth calculated by taking into account the provision for doubtful debts of ₹3 Crore and diminution in value of 1,40,000 shares of Nidan held by the Noticee (amounting to ₹1,28,52,000) in FY 2021-22, on multiple occasions. A graphical representation depicting the same is as under:



43. The underlying data for the above chart is tabulated below. The networth, in the table below, has been calculated after adjusting for provisioning of doubtful debts as well as mis-utilization of preference share capital (₹7 crores) by the Noticee

for investment in the property development. I note that the interim order only took into consideration the non-provisioning of doubtful of debts while calculating the networth and thus, for the FY 2023-24, the recalculated networth of the Noticee has been taken as ₹-359.75 lakhs (and not ₹340.25 lakhs, as stated in the interim order):

Date	Underwriting Obligation (₹ in Lacs) of the specific issue	Net Underwriting Obligation (₹ in Lacs) of all the issues	Name of the Issuer	Net Worth (as at end of previous FY) (₹ in lacs)	Max Underwriting Allowed (₹ in lacs)
01/04/2022	218.00	218.00	Nanavati Ventures Ltd.	-414.58	0.00
27/04/2022	-218.00	810.00	Nanavati Ventures Ltd.	-414.58	0.00
	810.00		Veerkrupa Jewellers Ltd.		
09/05/2022	1,824.00	2,634.00	Ishan International Ltd.	-414.58	0.00
09/06/2022	610.00	3,244.00	Varanium Cloud Ltd.	-414.58	0.00
24/06/2022	853.05	4,097.05	QMS Medical Allied Services	-414.58	0.00
05/07/2022	-810.00	3,287.05	Veerkrupa Jewellers Ltd.	-414.58	0.00
14/07/2022	-1,824.00	1,463.05	Ishan International Ltd.	-414.58	0.00
13/09/2022	276.00	1,739.05	Amanaya Ventures Ltd.	-414.58	0.00
20/09/2022	-610.00	1,129.05	Varanium Cloud Ltd.	-414.58	0.00
21/09/2022	1,124.40	2,253.45	SVS Ventures Ltd.	-414.58	0.00
30/09/2022	-853.05	1,400.40	QMS Medical Allied Services	-414.58	0.00
20/12/2022	472.99	1,873.39	Ducol Organics And Colours Ltd.	-414.58	0.00

Date	Underwriting Obligation (₹ in Lacs) of the specific issue	Net Underwriting Obligation (₹ in Lacs) of all the issues	Name of the Issuer	Net Worth (as at end of previous FY) (₹ in lacs)	Max Underwriting Allowed (₹ in lacs)
03/01/2023	612.36	2,485.75	SVJ Enterprises Ltd.	-414.58	0.00
04/01/2023	-1,124.40	1,361.35	SVS Ventures Ltd.	-414.58	0.00
06/01/2023	2,030.29	3,391.64	Nirman Agri Genics Ltd.	-414.58	0.00
11/01/2023	-472.99	2,918.65	Ducol Organics And Colours Ltd.	-414.58	0.00
02/02/2023	5,034.00	7,952.65	Cellpoint India Ltd.	-414.58	0.00
22/02/2023	1,800.00	9,752.65	Kore Digital Ltd.	-414.58	0.00
25/02/2023	5,403.60	15,156.25	Synoptics Technologies Ltd.	-414.58	0.00
28/02/2023	-612.36	14,267.89	SVJ Enterprises Ltd.	-414.58	0.00
	-276.00		Amanaya Ventures Ltd.		
20/03/2023	-2,030.29	12,237.60	Nirman Agri Genics Ltd.	-414.58	0.00
07/06/2023	-1,800.00	10,437.60	Kore Digital Ltd.	-359.75	0.00
13/06/2023	468.00	10,905.60	Ondoor Concepts Ltd.	-359.75	0.00
20/06/2023	-5,034.00	5,871.60	Cellpoint India Ltd.	-359.75	0.00
05/07/2023	-5,403.60	468.00	Synoptics Technologies Ltd.	-359.75	0.00
27/07/2023	241.33	709.33	Shanthala FMCG Products Ltd.	-359.75	0.00
27/10/2023	-468.00	241.33	Ondoor Concepts Ltd.	-359.75	0.00
31/10/2023	-241.33	0.00	Shanthala FMCG Products Ltd.	-359.75	0.00

44. In this regard, the Noticee has submitted that the period from March 2020 was very hard for everyone due to the COVID pandemic and the pandemic affected Noticee's business too. The Noticee had very few assignments from 2019-21 and the routine expenses such as employee salary, office rent, etc., were piling up. The Noticee took different assignments for managing IPOs of different SME companies and was confident that the issues were sound and will sail through and there will not be any underwriting devolvement. However, due to market conditions, certain IPOs were devolved and the Noticee had to subscribe to the said IPOs. The Noticee has also submitted that SEBI has considered the devolved amount twice, i.e., on the date of issue and on the date of closing and this was informed to SEBI in response filed on April 30, 2024.
45. I have perused the submissions of the Noticee and I find it perplexing that an intermediary, registered with SEBI, ignored the SEBI Regulations, merely because it was *confident* that it would not fail as the issues were sound and there will be no underwriting devolvement. The Noticee, admittedly, took multiple IPO assignments as it was *confident* that the situation of devolvement would not occur. Such an approach is not only in violation of the regulations laid down by SEBI for protection of the interest of securities market and above all, the investors, but also speaks volume about the way the Noticee has conducted its business, as an intermediary. The law mandates a merchant banker to take assignments not involving underwriting obligations more than 20x its net worth, in order to ensure that the merchant banker is able to honor the obligations, if needed. If a registered intermediary, consciously and knowingly breaches the limits specified by the regulations, it may lead to defaults.
46. In the present matter, as noted in the table above at para 43, as on April 1, 2022, the underwriting obligation of the Noticee was ₹218 lakhs whereas the net worth of the Noticee was in negative. Similarly, as on September 13, 2022, the underwriting obligations of the Noticee were ₹276 lakhs (specific to the issue) and ₹ 1739.05 lakhs (in respect of all the issues) whereas the net worth of the Noticee was in negative. Accordingly, it is not in dispute that the underwriting

obligations of the Noticee were consistently in breach of the pecuniary limits specified in the MB Regulations.

47. Further, the contention of the Noticee that devolved amount has been considered twice by SEBI has been dealt appropriately in the interim order and the Noticee has not made any fresh arguments to establish that the finding in the interim order is incorrect. To recap, as noted in the interim order, the underwriting obligations in force for a particular issue are considered first on the date of signing of the underwriting agreement, and second on the date of closure of the issue. The rationale being that a merchant banker is required to ensure that its underwriting obligations are within the specified limits, at all times, and thus, the net underwriting obligation is arrived at after taking into account the incurring of fresh obligations and cessation of earlier obligations. The figures mentioned against the date of entering into underwriting agreements account for the increase in underwriting obligation incurred by the Noticee. The figures mentioned against the dates of issue closure are negative, indicating reduction of underwriting obligation, for arriving at the aggregate underwriting obligation of the Noticee, on any particular date. Thus, these negative entries are required since the underwriting obligation associated with each issue is extinguished with the closure of the issue. Accordingly, the submission of the Noticee as regards consideration of devolvement amount twice is misplaced.

48. In view of the above, I find that the Noticee had undertaken underwriting obligations which were more than 20x of the net worth of the Noticee, in violation of regulation 22B(2) of the MB Regulations.

Accepting public deposits for meeting underwriting obligations

49. As established in the preceding paragraphs, the total underwriting obligation of the Noticee was more than 20x of its net worth on multiple occasions. In that context, it was observed from the audit report for the FY 2022-23 that the Noticee had accepted deposits, aggregating to ₹10.30 crore, to fulfill its underwriting obligations from public/ entities which were neither members, nor the directors or

the relatives of the directors of the Noticee. Per the interim order, the said act of the Noticee was in violation of Para 2.3.3 under Chapter-I of the SEBI Master Circular SEBI/HO/CFD/PoD-1/P/CIR/2023/157 dated September 26, 2023 (hereinafter referred to as the “**2023 Circular**”) and Clause 21 of Schedule III read with regulation 13 of the MB Regulations. The said circular, *inter alia*, prohibits the merchant bankers from borrowing funds from the market and engaging in acquisition and sale of securities. The Noticee, on account of having borrowed funds from the market and then having deployed the said funds for acquisition of securities (to meet its underwriting obligations) was in violation of the aforesaid 2023 Circular.

50. In this regard, the Noticee has submitted that the monies were not received as public deposits but were received as unsecured loans to bridge the losses in the books and to maintain the net worth as per the MB Regulations. The funds to the extent of ₹10.30 crore were not utilized towards acquisition of securities but to fund the losses of the Noticee. The amount taken as loan was later refunded and the same is reflected in the annual reports of the Noticee. As on March 31, 2024, a sum of ₹1.90 crore remained unpaid.

51. In my view, the submission put forth by the Noticee falls short of logic. The argument of the Noticee that the money was raised to increase its net worth is flawed as any amount taken as loan would not have increased its net-worth. Such a loan, while increasing the assets of the Noticee, would also have increased the liabilities, as the loan was to be paid back, offsetting each other. Thus, the rationale presented by the Noticee for accepting public deposits cannot be accepted.

52. Further, note 5 in *Notes to Accounts* section, forming part of the audited financials of the Noticee, for the FY 2022-23, stated as under:

“Note: Amount of Rs. 7,41,00,000/- received from various parties as earnest money deposits towards subscribing of shares by the company in the IPO of Nidaan Laboratories Ltd., as the company had to undergo hard underwriting of the IPO towards the devolvement of the issue during FY 2021-22...”

53. The above statement in the *Notes to Accounts* section clearly demonstrates that the Noticee did not possess adequate financial resources, on account of lower net worth, to acquire securities in respect of the underwriting obligations it had incurred and instead resorted to obtaining public deposits in order to subscribe to the shares of Nidan to fulfil its underwriting obligations.

54. Accordingly, I find that the Noticee had utilized public deposits to meet its underwriting obligations.

False and Misleading submissions

a) Availability of Statutory Auditor

55. The interim order alleged that the Noticee had knowingly submitted false and misleading information in the PIQ dated January 19, 2024, by stating that it could not submit the latest balance sheet and net worth certificate as the Statutory Auditor was not available. However, the audited financial results of the Noticee were signed by the Statutory Auditor for the FY ended March 31, 2023 on January 19, 2024.

56. In this regard, the Noticee has submitted that the Statutory Auditor was on long leave on account of illness of his wife and there was no false statement as the auditor's wife was actually ill and had unfortunately passed away later. Further, merely because the report was signed on January 19, 2024 does not mean that there was any false statement and the Noticee merely relied upon the representation of the auditor.

57. I have perused the submissions of the Noticee and note that it has not substantiated its submissions with any evidence. The Noticee has failed to produce any communication from the Statutory Auditor that it was not available during the relevant period. On the contrary, the Statutory Auditor signed the audited financial results for the FY ended March 31, 2023 on January 19, 2024, the same day, the Noticee submitted that the auditor was not available for

submission of the balance sheet and net worth certificate. Accordingly, I conclude that the Noticee did submit false and misleading information to SEBI.

b) Letter received from Mr. Rajesh

58. As noted earlier, the Noticee, during the course of inspection (vide letter dated April 30, 2024), had submitted that the Noticee received the balance confirmation for due loan amount from Mr. Rajesh, *after signing of the balance sheet*. However, the balance sheet was signed by the Statutory Auditor on January 19, 2024 and the subject letter was received by the Noticee on October 16, 2023, and thus, the Noticee had allegedly made misleading statements as regards the receipt of the said letter.

59. I have perused the submissions of the Noticee vis-à-vis the material available on record and the allegations levelled against it. The Noticee, in its response dated April 30, 2024, had submitted that *"After the date of signing the balance sheet, we have received balance confirmation for loan amount due, and the entity has agreed to pay the same. Hence the loan is not doubtful of recovery."* It is undisputed that the balance sheet of the Noticee was signed on January 19, 2024 and as per the submissions of the Noticee itself, the letter was received on October 16, 2023. Thus, the submission of the Noticee that it received the letter *after* signing of the balance sheet is factually incorrect and the Noticee submitted incorrect and misleading information to SEBI.

c) Loan vis-à-vis investment in property development business

60. It was alleged in the interim order that the Noticee submitted false and misleading information by stating that the amount of ₹7 crore was not utilized as an advance towards a construction project but was given as loan to the companies, namely, Boisar and Falcon. In its response, the Noticee denied the said allegation. The same was also communicated to SEBI vide email dated June 6, 2024. The money was infused as capital in the books of the Noticee and was used to invest in the preference shares of Falcon Recreational Activities Private Limited. However, due to technicalities in subscription, Falcon returned the money to the Noticee.

61. The present issue of Noticee investing ₹7 crores in Boisar and Falcon has already been dealt, in detail, in Paras 27-41 above. As established above, the Noticee was involved in business activities other than securities market and this amount of ₹7 crores was, as noted in aforesaid paras, used as investment for property development projects. In light of the discussion at Paras 27-41, I find that the Noticee had, in fact, invested the amount in question for separate business activities and the same was not advanced as a loan, as claimed and submitted by the Noticee. The claim of the Noticee that the amount was used to invest in preference shares of Falcon is also contradictory to the content of the letter issued by the Noticee to the companies, Boisar and Falcon. As noted at Para 34, the letter sent by the Noticee to Boisar mentioned that “...*We are interested in investing a sum of Rs. 3,50,00,000/- towards a joint development to acquire the land parcel shown to us in Boisar...*”. In light of the content of the said letter and the fact that the Noticee has not made any submission to explain/ justify the said content, I find that the Noticee made incorrect submissions to SEBI regarding its investment in Boisar and Falcon.

d) Misleading information regarding Compliance Officer

62. It is alleged that during the course of inspection, the Noticee submitted details of three individuals, namely, Mr. Rushabh, Ms. Mala Soneji and Mr. Satish Sheth, as its Compliance Officers. Further, Ms. Mala was mentioned as the Compliance Officer in the Structured Digital Database maintained in terms of SEBI (Prohibition of Insider Trading) Regulations, 2015 (hereinafter referred to as the “**PIT Regulations**”). The Noticee, vide letter dated October 21, 2022 (in response to the communication of findings of the previous inspection) submitted that “*Mr. Rushabh Shroff is the Compliance Officer at all times since 2007. Ms. Mala Soneji was designated as compliance officer for the purpose of assisting Mr. Rushabh Shroff she is assistant compliance officer. Appointment of Mr. Rushabh Shroff was communicated to SEBI by submitting data in the year 2007.*” However, the Noticee later submitted a Board Resolution regarding appointment of Ms. Mala Soneji as the Compliance Officer with effect from May 02, 2020. Accordingly, the information submitted by the Noticee in the PIQ, wherein three individuals were shown as Compliance Officer(s), and the information submitted

in its letter dated October 21, 2022 was found to be incorrect. Further, Mr. Rushabh was also shown to be the Compliance Officer at all times in the half yearly reports from March 2020 to September 2023 and therefore the Noticee submitted incorrect information in the said half yearly reports. Additionally, the change in the Compliance Officer was not intimated to SEBI.

63. The Noticee, in this regard, has submitted that Mr. Rushabh was the Compliance Officer at all times since 2007. Ms. Mala was assistant to Mr. Rushabh from 2016 till she was appointed as Compliance Officer *vide* Board Resolution dated May 2, 2020. Pursuant to stepping down of Ms. Mala, Mr. Rushabh was appointed as the Compliance Officer. At the time of inspection, Ms. Mala was the Compliance Officer and Mr. Rushabh has resigned with effect from September 1, 2024. It was further argued that the Noticee may have, inadvertently, not intimated regarding the appointment of Ms. Mala but has not given any false information.

64. I have perused the submissions of the Noticee and I find glaring mismatches in the information submitted by it, from time to time, to SEBI. On one hand, in the half yearly reports (March 2020 to September 2023), the Noticee has submitted that Mr. Rushabh was the Compliance Officer whereas, on the other hand, it has submitted the Board Resolution dated May 2, 2020 to submit that Ms. Mala was the Compliance Officer during inspection. Further, in one of the previous inspections, the Noticee had submitted that Mr. Rushabh has been the Compliance Officer since 2007, at all times and Ms. Mala was only assisting Mr. Rushabh. Furthermore, the Noticee before me also has made submissions which are contradictory to the stance taken earlier. The Noticee, *vide* letter dated January 21, 2025, submitted that Ms. Mala was the Compliance Officer during the course of inspection and has relied upon the Board Resolution dated May 2, 2020 for the same whereas the data submitted in the half yearly reports (for the period March 2020 to September 2023) shows Mr. Rushabh as the Compliance Officer. The Noticee has also submitted that Ms. Mala resigned subsequently and Mr. Rushabh was again appointed as the Compliance Officer. I find that the submissions/ statements made by the Noticee have constantly varied over the period of time and the Noticee has made misleading/ incorrect submissions to

SEBI. Additionally, the changes in the Compliance Officers were also not intimated to SEBI by the Noticee.

e) Net worth of the Appellant for FYs 2021-22 and 2022-23

65. It is alleged in the interim order that the Noticee submitted incorrect data with respect to its net worth. Vide email dated September 13, 2023, the Noticee submitted to SEBI that its net worth for FY ending March 31, 2022 was ₹13,92,714. However, the net worth, as submitted by the Noticee in the PIQ, on January 19, 2024, was ₹1,91,83,465. Further, for FY ending March 31, 2023, the Noticee, vide the aforesaid email dated September 13, 2023 submitted that its net worth was ₹79,76,957. However, per its submissions dated January 19, 2024, it was ₹6,40,24,972. Therefore, the Noticee was alleged to have made incorrect submissions as regards its net worth.

66. The Noticee, in this regard, has submitted that the net worth information was on the basis of trial balance as prepared by the Noticee and were unaudited figures and thus there is no false information submitted by it.

67. I have perused the material available on record and find the evidence before me to be sufficient to find that the Noticee had submitted incorrect data. For the FY ending March 31, 2022, the Noticee, as on September 13, 2023 stated its net worth to be ₹13,92,714 and then in the PIQ dated January 19, 2024, the net worth was ₹1,91,83,465. I note from the material available before me that financial statements and the auditor's report for the FY ended March 31, 2022 were signed on September 24, 2022. Both the aforesaid net worth figures, i.e., ₹13,92,714 and ₹1,91,83,465 were submitted by the Noticee, *after* the audited financial statements were finalized and signed on September 24, 2022.

68. For the FY ended March 31, 2023, the Noticee, vide email dated September 13, 2023 submitted that its net worth was ₹79,76,957. However, as per its submissions dated January 19, 2024, it was ₹6,40,24,972. Although the Noticee has submitted that the said difference was on account of the Noticee having submitted unaudited figures, I am of the view that the difference between the

audited and unaudited figures cannot be so unreasonably wide. The final net worth of the Noticee was 8x higher than its net worth (submitted in September 2023). Even if the data submitted in 2023 was not audited, it is to be noted that the relevant data for preparation of rough figures was available with the Noticee and while there could have been some degree of deviation, it would be beyond logic to accept that such deviation would lead to understating the net worth 8 times.

69. In view of the aforesaid, I find the Noticee to have submitted incorrect and false information to SEBI.

f) Failure to disclose management of two open offers

70. The interim order has alleged that the Noticee failed to intimate SEBI about the fact of managing two IPOs of Savant Infocomm Limited and Velox Industries Limited. Vide email dated February 12, 2024, the Noticee was advised to “...*keep all the relevant documents pertaining to all issues (Open Offer (Takeovers)/ IPO/ SME IPO etc.)...*” available for inspection. However, the data pertaining to the aforesaid two IPOs was not shared with SEBI during the course of inspection.

71. The Noticee, in this regard, has submitted that non-submission of the said information was an inadvertent error and merely a technical violation and the Noticee had not concealed any information. Further, the data regarding the subject open offers was already available in the public domain and therefore, the Noticee could not have achieved any advantage from such non-disclosure.

72. In this regard, I have perused the material available on record and I note that the data was not submitted by the Noticee in response to the PIQ. Thereafter, the Noticee, vide letter dated February 14, 2024, was advised to make available the documents pertaining to the two IPOs. In furtherance of the same, the Noticee, vide letter dated April 30, 2024, provided the requisite data.

73. Although, the Noticee has submitted the relevant material on being asked specifically, I am of the view that such instances have to be analyzed in light of

similar past violations as well other misleading/ incorrect submissions made by the Noticee during the course of present proceedings. I note that that during the previous inspection also, the Noticee had failed to disclose, in the PIQ, details of open offers handled by it during the relevant inspection period. The said discrepancy was then communicated to the Noticee vide letter dated September 27, 2022 and adjudication proceedings were initiated against the Noticee for the same. The said circumstances show a pattern that the Noticee has consistently not submitted the data in its entirety and has not cooperated with SEBI in good faith. Additionally, the Noticee has already been found guilty of submitting misleading and incorrect information on various counts as discussed in the aforesaid paragraphs.

74. Accordingly, given the repetitiveness of same violations by the Noticee, I am not inclined to accept the submissions that failure to inform SEBI about the subject IPOs was an inadvertent failure and a mere technical violation.

Other Violations

a) Non-compliance with Regulation 27 of the MB Regulations

75. The Noticee was managing issues of three companies, namely, QMS Medical Allied Services Limited, SVJ Enterprises Limited and Veerkrupa Jewellers Limited and acquired their securities in July 2022, October 2022 and March 2023, pursuant to its underwriting obligations and devolvment. Information regarding such acquisition is required to be submitted to SEBI on quarterly basis in accordance with the proviso to regulation 27 of the MB Regulations. However, no documentary evidence of such submission was provided by the Noticee. It is pertinent to mention that during the previous inspection as well, the Noticee was found to be non-compliant with regulation 27 of the MB Regulations. The said discrepancy was communicated to the Noticee vide letter dated September 27, 2022 and upon finding the Noticee's comments to be unsatisfactory, adjudication proceedings were initiated against it.

76. In this regard, the Noticee has submitted that it was an inadvertent and unintentional lapse. The Noticee had no issue which devolved for quarter ending

June 2022. For quarters ending September 2022 and December 2022, there was 1 issue each which was devolved. For quarter ending March 2023, the devolved amount was only ₹9.72 lakhs and the issue size was ₹6.12 crore and the details of the same were covered in the annual disclosures. It has also been argued that the details of these events were disclosed in annual disclosures and therefore the Noticee is not in violation of regulation 27 of the MB Regulations.

77. On a perusal of the submissions of the Noticee, I find that it has not denied the fact that it had acquired the securities of the aforesaid three Companies while managing their issues. Further, it is also not in question that the Noticee ought to have made the quarterly disclosures as regards the acquisition of securities made in pursuance of underwriting obligations. The fact that the Noticee made annual disclosures cannot absolve the Noticee of its obligations to make the quarterly disclosures. In terms of regulation 27 of the MB Regulations, the Noticee was required to intimate SEBI, on a quarterly basis, about acquisition of securities, pursuant to its underwriting obligations which it failed to do. Therefore, I find that the Noticee violated regulation 27 of the MB Regulations.

b) Non-submission of half-yearly reports

78. The Noticee is alleged to have not submitted half yearly reports for the HY ended March 2022 to HY ended September 2023. These reports were submitted by the Noticee, with delay, pursuant to the advice of inspection team during the course of inspection. It was also noted in the interim order that the Noticee had failed to submit the half yearly reports during previous inspections as well and adjudication proceedings have been initiated against in the past. The details of delay in submission of reports are as under:

- a) HY ended March 2022: February 16, 2024 (due date June 30, 2022; delay of 596 days)
- b) HY ended September 2022: February 16, 2024 (due date December 31, 2022; delay of 412 days)
- c) HY ended March 2023: February 16, 2024 (due date June 30, 2023; delay of 231 days)

d) HY ended September 2023: February 16, 2024 (due date December 31, 2023; delay of 47 days)

79. In this regard, the Noticee has denied the allegations and has submitted that in terms of SEBI Circular dated May 6, 2008, the requisite information was sent on the email id mb@sebi.gov.in and the said data was also uploaded on the SI Portal but the same was not reflecting on the portal due to technical issues. When the same was pointed out, the data was again uploaded on February 16, 2024. Further, February 16, 2024 is the date when the reports were re-uploaded on the SI Portal and it is not the case that the filings were not made at all. Thus, it was merely a technical breach as the data was not visible on the portal due to technical issues.

80. I note that the Noticee was under obligation to submit the relevant half yearly reports within three months of each half year. The Noticee's submission that it periodically submitted the reports by emailing them to mb@sebi.gov.in cannot come to its defense. *Firstly*, the Noticee has not submitted any evidence to back up its claim that it had emailed the relevant reports to SEBI on the aforementioned email ID or had uploaded the relevant data on the SI Portal. *Secondly*, in terms of SEBI Circular-SEBI/HO/MIRSD/MIRSD1/CIR/P/ 2017/38 dated May 02, 2017, the Noticee was required to upload the relevant reports on the SI Portal and therefore emailing reports to the aforesaid email id cannot be deemed to be sufficient compliance. Therefore, this submission of the Noticee is liable to be rejected. Similarly, the argument that the reports were submitted on the SI Portal and were not visible due to technical issues is also not acceptable in absence of any supporting evidence. I note that even during the on-site inspection on February 14-15, 2024, the Noticee failed to produce any evidence to support its claims of having already submitted the half-yearly reports.

81. In view of the above, I find that the Noticee has failed to submit the half-yearly reports.

c) Non-compliance with certification requirements

82. In terms of regulation 3 of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 (hereinafter referred to as the “**CAPSM Regulations**”) read with SEBI Notifications dated March 11, 2013 and August 02, 2013, at least two KMPs of a Merchant Banker are required to have the following certificates:

- a. NISM-Series-IX: Merchant Banking Certification Examination;
- b. NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Continuing Professional Education

It is alleged that the KMPs of the Noticee did not have the aforesaid certificates between April 01, 2022 (beginning of the inspection period) and August 05, 2023, and post August 5, 2023, only one KMP had the certification.

83. In this regard, the Noticee has submitted that the erstwhile Compliance Officer, Ms. Mala, had to resign due to personal reasons and therefore, Mr. Rushabh had to be appointed as a Compliance Officer with effect from September 30, 2024. Therefore, due to circumstance beyond the control of the Noticee, the Compliance Officer of the Noticee could not obtain the requisite certificates.

84. I note that, during the course of inspection, the Noticee had submitted the relevant certificates of Ms. Mala and Ms. Shreya Jhawar. However, the material available on record shows that Ms. Shreya is not a KMP and the certificate of Ms. Mala was valid only with effect from August 6, 2023. It is noted that Ms. Mala was the Compliance Officer during the inspection period (April 1, 2022 – October 31, 2023). As noted above, the Noticee was required to ensure that at least two of its KMPs had the aforementioned two NISM certifications. However, till August 5, 2023, none of the KMPs were in compliance with the said requirement. Further, even after August 5, 2023, Ms. Mala had only one of the certifications. Therefore, I am of the view that the charge against the Noticee that its KMPs did not have the requisite certifications stands established.

85. At this juncture, I deem it fit to note that the aforesaid non-compliances, pertaining to NISM certifications, were earlier brought to the Noticee's attention by SEBI, vide letter dated September 27, 2022, while communicating the findings of the previous inspection. Further, an Administrative Warning was also issued vide letter dated January 24, 2023, *inter alia*, for failure of the Compliance Officer and the KMPs to obtain the mandatory NISM certifications. Despite the same, the Noticee has failed to take corrective measures. Additionally, the Noticee failed to ensure that the KMPs obtained the requisite NISM certifications within two years from the date of the Notifications dated March 11, 2013 and August 02, 2013, leading to violation of the aforesaid notifications. The said acts of the Noticee were in violation of regulation 9A(1)(e) of the MB Regulations which mandates that a merchant banker shall abide by the regulations made under the SEBI Act, i.e., MB Regulations and CAPSM Regulations.

d) Track record disclosure by the Noticee on its website

86. It is alleged in the interim order that the Noticee failed to disclose the track record of the public issues handled by it in the appropriate format, in accordance with the SEBI Circular No. CIR/MIRSD/1/2012 dated January 10, 2012. The Noticee, in this regard, has submitted that it had been providing information regarding the track record. As soon as it was brought to the attention of the Noticee that it was not being done in the appropriate format, the Noticee initiated steps to rectify the same and it has been rectified as on date.

87. I note that the Noticee, *inter alia*, had not disclosed the type of issue (IPO/ FPO), subscription level, details of QIB holding, details of financials of the issuer, details of trading status in the scrip of the issuer, details of change in directors, status of utilization of issue proceeds, price-related data, basis for issue price, etc.

88. The said fact has not been disputed by the Noticee and therefore, the Noticee is in violation of para 8 of Chapter-II of SEBI Master Circular SEBI/HO/CFD/PoD-1/P/CIR/2023/157 dated September 26, 2023 read with clauses 4 and 21 of Schedule III and regulation 13 of the MB Regulations. However, I note that, as

on date, as per the submissions of the Noticee, the disclosures have been made in the specified format.

89. In view of the aforesaid discussion, I find the Noticee to have committed the following violations:

- a. The Noticee failed to maintain adequate net worth;
- b. The Noticee indulged in business other than that of the securities market;
- c. Total underwriting obligations of the Noticee were more than the specified limit of 20x, at multiple points of time;
- d. The Noticee accepted public deposits for fulfilling its underwriting obligations;
- e. The Noticee submitted false and misleading information to SEBI;
- f. Other violations:
 - Failure to intimate SEBI about acquisition of securities of companies whose issues were managed by the MB;
 - Failure to submit half-yearly reports;
 - Key Managerial Personnel of the Noticee were not in compliance with the certification requirements;
 - Incomplete track record disclosure on the website

90. The aforementioned violations, committed by the Noticee, are in contravention of the following provisions:

- a. Regulation 7 read with regulation 9A(1)(d) of the MB Regulations;
- b. Regulation 22B(2) of the MB Regulations and Clause 21 of Schedule III read with regulation 13 of the MB Regulations read with para 2.3.3 under Chapter-I of the SEBI Master Circular SEBI/HO/CFD/PoD-1/P/CIR/ 2023/ 157 dated September 26, 2023;
- c. Regulation 13A of the MB Regulations;
- d. Clauses 2, 3, 4 and 20 of Schedule III read with regulation 13 of the MB Regulations;
- e. Regulation 27 of the MB Regulations;

- f. Regulation 28(2) of the MB Regulations read with para 1 and 7 of the SEBI Master Circular SEBI/HO/CFD/PoD-1/P/CIR/2023/157 dated September 26, 2023;
- g. Regulation 3 of CAPSM Regulations read with SEBI Notifications dated March 11, 2013 and August 2, 2013; and
- h. Para 8 of Chapter-II of SEBI Master Circular SEBI/HO/CFD/PoD-1/P/CIR/2023/157 dated September 26, 2023 read with clauses 4 and 21 of Schedule III and regulation 13 of the MB Regulations.

91. Before proceeding to discuss the appropriate directions, which may be issued in the matter and appropriate penalty, which may be imposed upon the Noticee, I deem it necessary to establish the gravitas of the violations established against the Noticee and the manner in which the Noticee has conducted its affairs and approached the present proceedings. The Noticee has been non-compliant with the net worth requirements since the FY 2018-19 and it was only after the instructions of the Hon'ble SAT that the Noticee became compliant. I note that the net worth requirement is not a paper condition which has to be fulfilled by the applicants at the time of seeking registration from SEBI. Appropriate net worth requirement, in case of merchant bankers, ensures that the entities are financially sound to meet the underwriting obligations, if and when the need arises. Further, it also instils confidence amongst the investors/ entities as regards the financial stability of merchant bankers. Further, as per Noticee's own admission, it has also undertaken underwriting obligations more than 20x of its net worth, because it was *confident* that underwriting obligations will not arise and the IPOs managed by it were sound. Such an approach, in my opinion, not only violates the regulatory provisions but also exposes the clients of Noticee at risk, in cases where the Noticee fails to meet its obligations.

92. In addition to the above, I must, at the cost of reiteration, highlight the false, misleading and incorrect submissions made by the Noticee to SEBI. It has submitted incorrect information regarding the IPOs managed by it, details of the Compliance Officer, indulging in property development business, etc. Such acts, by a SEBI registered intermediary, on a repetitive basis, cannot be said to have

been done in good faith and reek of *mala fide* on part of the Noticee. Therefore, directions and penalties need to be imposed on the Noticee in proportion to the violations committed by it.

93. At this juncture, I deem it fit to place reliance upon section 15J of the SEBI Act which deals with the *factors to be taken into account while adjudging quantum of penalty*. The provision states as under:

“15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely: —

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
- (b) the amount of loss caused to an investor or group of investors as a result of the default;*
- (c) the repetitive nature of the default.*

Explanation. — For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.”

94. The Noticee, *inter alia*, is found to have been in constant non-compliance of NISM certification requirements, has failed to submit half yearly reports on time, failed to submit information pertaining to acquisition of securities pursuant to underwriting obligations and has failed to disclose the track record on its website. In view of the aforesaid established violations, I am of the view that the present case is fit for imposition of monetary penalty.

ORDER:

95. In view of the aforesaid findings and having regard to the facts and circumstances of the matter, I, in exercise of the powers conferred upon me under Section 19 read with Sections 11(1), 11(4), 11B(1) and 11B(2) read with 15HB of the SEBI

Act and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, direct as under:

- a. The Noticee is restrained from accessing the securities market and prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of 2 years, from the date of coming into force of this order;
- b. The Noticee is debarred from taking any new mandate, for a period of 2 years, in relation to the business of issue management, directly or indirectly, either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management;
- c. If the Noticee has any open position(s) in any exchange traded derivative contracts, as on the date of this Order, it may close out/square off such open position(s) within 3 months from the date of order or at the expiry of such contracts, whichever is earlier. The Noticee is permitted to settle the pay-in and pay-out obligations in respect of transactions, if any, which have taken place before the close of trading on the date of this Order. Banks, Custodians and Depositories are allowed to debit the accounts for the purpose of complying with this direction.
- d. The following penalties are imposed upon the Noticee for violations mentioned in the table below:

Sr. No	Violation	Relevant Provision	Provision under which penalty is imposed	Penalty Amount (in ₹)
1	Non-submission of details of acquisition of securities pursuant to underwriting obligations	Regulation 27 of the MB Regulations	Section 15HB of the SEBI Act	7,00,000/-
2	Delay in filing of half yearly reports for the HY ended March	Regulation 28(2) of the MB Regulations read with para 1 and 7 of the SEBI Master Circular		3,00,000/-

	2022 to HY ended September 2023	dated September 26, 2023		
3	Non-compliance with NISM certification requirements	Regulation 3 of CAPSM Regulations read with SEBI Notifications dated March 11, 2013 and August 2, 2013		7,00,000/-
4	Failure to disclose track record on the Website	Para 8 under Chapter-II of SEBI Master Circular SEBI/HO/CFD/PoD1/P/CIR/2023/157 dated September 26, 2023 read with Clause 4 and 21 of Schedule III and Regulation 13 of the MB Regulations, 1992		3,00,000/-
		Total		20,00,000/-

- e. The Noticee shall pay the penalty within a period of forty-five (45) days from the date of receipt of this order.
- f. The Noticee shall pay the monetary penalty by online payment through following path on the SEBI website: www.sebi.gov.in/ENFORCEMENT → Orders → Orders of Chairman/ Members → Click on PAY NOW. In case of any difficulties in payment of penalties, the Noticee may contact the support at portalhelp@sebi.gov.in.
- g. Noticees shall forward details of the online payment made in compliance with the directions contained in this Order to the “*Division Chief, CFID, SEBI, SEBI Bhavan II, Plot no. C-7, “G” Block, Bandra Kurla Complex, Bandra (E), Mumbai-400 051*” and also to e-mail id:- tad@sebi.gov.in in the format as given in table below:

Case Name	
Name of the Payee	
Date of Payment	
Amount Paid	

Transaction No.	
Bank Details in which payment is made	
Payment is made for:	

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

97. A copy of this Order shall be served on the Noticee. A copy of this Order shall be forwarded to the Stock Exchanges, Depositories, Registrar and Share Transfer Agents and Banks to ensure necessary compliance.

Sd/-

AMARJEET SINGH

DATE: October 23, 2025

WHOLE TIME MEMBER

PLACE: MUMBAI

SECURITIES AND EXCHANGE BOARD OF INDIA