

WTM/AB/SRO/SRO/15783/2021-22

SECURITIES AND EXCHANGE BOARD OF INDIA

FINAL ORDER

Under Sections 11(4) and 11B(1) of the Securities and Exchange Board of India Act, 1992

In respect of:

S. No.	Name of the Entity	PAN
1	Mr. Rajesh Ranjan, Proprietor of M/s. KM Financials	AROPR5161Q

In the matter of Unregistered Research Analyst

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1. The present proceedings emanate from a show cause notice dated **September 28, 2021** (hereinafter referred to as the “**SCN**”) issued by the Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) against Mr. Rajesh Ranjan, Proprietor of M/s. KM Financials (hereinafter also referred to as “**the Noticee**”) wherein it was alleged that the Noticee acted as a Research Analyst without obtaining a certificate of registration from SEBI in violation of the provisions of Section 12(1) of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “**SEBI Act, 1992**”) and Regulation 3(1) of SEBI (Research Analysts) Regulations, 2014 (hereinafter referred to as “**RA Regulations**”).
 2. The Noticee was asked to show cause as to why suitable directions, including refund of fees collected, debarment, non-association with listed entities, intermediaries, etc. be not issued against it under Sections 11(4) and 11B(1) of the SEBI Act, 1992. The SCN was served on the Noticee. The Noticee, vide email dated October 21, 2021 requested for 30 days’ time to file his reply. The request of the Noticee was acceded to. Since no reply was received from the Noticee, an email dated November 24, 2021 was sent to him, once again advising him to submit his reply in the matter. Thereafter, vide email dated November 27, 2021, the Noticee stated that he was in the process of collating data which was required for his reply, and hence had not been able to file a

reply. The Noticee stated that he would be filing a reply by December 3, 2021. The Noticee also requested for a personal hearing. However, the Noticee did not submit a reply. The matter was placed before for granting a date for hearing on February 2, 2022. In the interest of natural justice, and in order to proceed with the matter, an opportunity for personal hearing was granted to the Noticee on March 3, 2022. On the scheduled date the Noticee appeared before me through video conferencing and made oral and written submissions. Accordingly, the hearing was concluded *qua* the Noticee.

3. The submissions of the Noticee, *inter alia*, are as follows:

- (i) The Noticee was granted registration as a Research Analyst by SEBI on October 15, 2020.
- (ii) The Noticee started his proprietorship firm, KM Financials on January 16, 2014 and thereafter started providing market analysis reports mainly in derivative strategy to various clients and prospective clients.
- (iii) After doing some research the Noticee realized that he needed to do a certification course from NISM and thereafter get registered with SEBI. He appeared for and passed the NISM Research Analyst Certificate Examination and NISM Investment Adviser exams by December 2015.
- (iv) The Noticee applied for registration as an Investment Adviser in June 2016. During the process of registration, he was informed by SEBI of the complaint against him, and that a letter dated March 17, 2016 had been sent to him in this regard. The Noticee had not received any such letter, and on being informed of the same, he submitted all documents sought by SEBI.
- (v) The Noticee was advised by SEBI officials that the services provided by him were in the nature of a Research Analyst and not of an Investment Adviser. Due to the same, he withdrew his application and applied for registration as a Research Analyst on July 26, 2016. The Noticee also applied for registration online on August 10, 2016.
- (vi) SEBI sought some clarifications on November 9, 2016, which were provided by him on the same day. Since he received no communication after that, he sent an email dated August 28, 2017 regarding the

pendency of his application. Subsequently, SEBI sought some additional documents/ clarifications, which were provided by the Noticee. Thereafter, vide letter dated September 22, 2017, the Noticee was informed that his application for registration as a Research Analyst had been rejected.

- (vii) The Noticee was not doing any business as a Research Analyst after that for two and a half years. Any amount received in the bank account of KM Financials was for the period October 2017 to December 22, 2017 was the remaining fees paid by the existing clients.
- (viii) Subsequently, the Noticee again cleared the NISM exams and reapplied for registration as a Research Analyst on June 9, 2020. After due process was granted registration on October 15, 2020.
- (ix) The Noticee is presently working as a Research Analyst and this was his only source of earning.
- (x) The Noticee has stated that as per the Proviso to Regulation 3(1) of the RA Regulations, if a person acting was a research analyst before the commencement of the RA Regulations, such person may continue to do so for a period of 6 months (until May 31, 2015). If he/ she has applied for registration before May 31, 2015, it can act as RA till disposal of such application. The Noticee has submitted that since he applied for registration as Investment Adviser in June 2016, it can at the highest be alleged that he acted as a Research Analyst without obtaining registration only from June 2015 to June 2016.
- (xi) After receiving the SEBI letter regarding the complaint (on July 1, 2016) he stopped taking new clients, though he continued providing service to existing clients.
- (xii) There are no complaints against the Noticee apart from the one mentioned in the SEBI letter dated March 17, 2016.
- (xiii) The Noticee had received Rs.32,73,044 as fees from his clients, and not Rs.47,15,209 as alleged in the SCN.

4. I have considered the allegations made in the SCN along with the findings of the examination by SEBI stated therein, reply received in the matter and submissions made by the Noticee during the hearing.

5. In this regard, I note that Regulation 2(1)(u) of the RA Regulations defines Research Analyst (RA) as *a person who is primarily responsible for, preparation or publication of the content of the research report; or providing research report; or making “buy/sell” hold recommendation; or giving price target; or offering an opinion concerning public offer, with respect to securities that are listed or to be listed in a stock exchange, whether or not any such person has the job title of ‘research analyst’ and includes any other entities engaged in issuance of research report or research analysis.*”

Further, Regulation 2(1)(w) states as follows:

“research report” means any written or electronic communication that includes research analysis or research recommendation or an opinion concerning securities or public offer, providing a basis for investment decision and does not include the following communications: -

- (i) comments on general trends in the securities market;*
- (ii) discussions on the broad-based indices;*
- (iii) commentaries on economic, political or market conditions;*
- (iv) periodic reports or other communications prepared for unit holders of mutual fund or alternative investment fund or clients of portfolio managers and investment advisers;*
- (v) internal communications that are not given to current or prospective clients;*
- (vi) communications that constitute offer documents or prospectus that are circulated as per regulations made by the Board;*
- (vii) statistical summaries of financial data of the companies;*
- (viii) technical analysis relating to the demand and supply in a sector or the index;*
- (ix) any other communication which the Board may specify from time to time;*

6. From the SCN, I note that the Noticee was offering services related to research analyst activities through the website www.kmfinancial.in . The website *inter alia* claimed as follows:

- (i) We are a team of highly qualified and experienced technical and fundamental market analyst who deliver their expertise in providing intraday and positional market calls for traders which include stock Cash tips, commodity Tips, MCX Tips, equity derivatives, agri*

commodity tips etc. All services are provided through SMS and Instant Messenger.

(ii) Bank accounts: HDFC (50200005740709), Indian Overseas Bank (230902000000380), State Bank of India (34288779947) and Axis Bank (914020018490468).

(iii) Contact Info - #15, Site No. 1, D Group Layout Main Road, Andrahalli Magdi Main Road, VN Post, Bangalore – 560091

(iv) Phone Nos – 7676134282, 8023245136 and Email – contact@kmfinancial.in

7. From the above, I note that KM Financials claimed to have a team of highly qualified and experienced technical and fundamental market analyst who deliver their expertise in providing intraday and positional market calls for traders which include stock cash tips, commodity tips, MCX tips, equity derivatives, agri commodity tips etc. Further, all services were provided through SMS and Instant Messenger. In light of the above facts it is clear the Noticee was offering analysis on listed securities by way of SMS and instant messages, as observed from his website, which falls under the definition of “research analyst” as defined by Regulation 2(u) of the RA Regulations. Moreover, I note that the Noticee has also admitted that it was acting as an RA without having obtained registration from SEBI in his submissions before me.
8. In this regard, I also note that the Noticee has submitted that since he had first applied for registration to SEBI on June 17, 2016, albeit as an Investment Adviser (since he was under the impression that the activities carried out by him were akin to that of an Investment Adviser), he should be given benefit of the proviso to Regulation 3(1) of the RA Regulations, which states that if a person applies for registration, he/ she may continue to act as a Research Analyst till the disposal of such application. However, as the Noticee has himself stated in his reply, the same is applicable only to applications made before May 31, 2015. Since the application was made by the Noticee more than a year after the stipulated date, he is not entitled to the benefit provided in Regulation 3(1). Hence, the submission of the Noticee is not tenable.

9. The pricing of various services offered by KM Financials as per its website is as under:

Segment	Subscription Charges in Rs.
Pair Calls Service – Stock Future Pair	
Trial Pack for 25,000 Profit	5,000
Silver Pack for 50,000 Profit	8,000
Gold Pack for 1 lakh Profit	15,000
Diamond Pack for 1.5 Lakh Profit	21,000
Platinum Pack for 5 Lakh Profit	40,000
Pair Calls Service – Commodity Pair	
1 Month Service	5,000
3 Month Service	12,000
6 Month Service	20,000
12 Month Service	30,000
Other Services - Stock Future Strategy	
Silver Pack for 50,000 Profit	8,000
Gold Pack for 1lakh Profit	15,000
Platinum Pack for 3 lakh Profit	40,000
Other Services - Nifty Future Strategy	
Silver Pack for 50,000 Profit	8,000
Gold Pack for 1 lakh Profit	15,000
Other Services – Options Strategy	
Trial Pack for 25,000 Profit	5,000
Silver Pack for 50,000 Profit	8,000

10. Further, the following bank account details were mentioned in the said website, where the clients could deposit fees:

Bank Name	Account No.	Account Holder Name (PAN)	Address and Contact Details
HDFC Bank	50200005740709	KM Financials. Proprietor – Rajesh Ranjan (AROPR5161Q)	10 Soundarya LYT Andrahalli MN Rd V N Post South Bangalore Bangalore – 560091 Email – rajesh@kmfinancial.in
Indian Overseas Bank	230902000000380		
Axis Bank	914020018490468		
State Bank of India	34288779947		No 15, 1 st Floor, D Group Layout Main Road, Andrahalli, Vishwaneedam Post, Lingadeeranahalli, Bangalore

11. The SCN notes total of 433 credits were made from different sources into the HDFC, Indian Overseas Bank, State Bank of India and Axis Bank accounts since May 31, 2015 (last date of the period of six months given to entities for applying for RA Registration with SEBI) and the total credit received in the aforesaid accounts are Rs. 47,15,209.07/-. The summary of transactions observed in the aforesaid bank accounts are tabulated as under:

Bank Name	Account No.	Period	Total Credits (Rs.)	No. of Credit Transactions	Last Credit Transaction on date	Closing Balance
HDFC Bank	5020000574 0709	01.06.2015 to 01.11.2017	17,64,537.07	179	01.11.2017	0 (A/c closed on 19.02.2020)
Indian Overseas Bank (IOB)	2309020000 00380	05.06.2015 to 07.08.2017	8,27,578.20	45	07.08.2017	0 (A/c closed on 30.10.2017)
State Bank of India (SBI)	3428877994 7	01.06.2015 to 15.02.2020	9,79,902.00	94	15.02.2020	0 (A/c closed on 15.02.2020)
Axis Bank	9140200184 90468	01.06.2015 to 22.12.2017	11,43,191.80	115	22.12.2017	0 (A/c closed on 27.12.2017)
		Total	47,15,209.07	433		

12. In his submissions before me, the Noticee has stated that in the aforesaid bank accounts, he had only received Rs.32,73,044 as fees from clients for his activities as a Research Analyst, and not Rs.47,15,209.07 as alleged in the SCN. In this regard, the Noticee has submitted a list in respect of amounts for which exclusion has been sought. These are as follows:

- (i) Self/ own account transfers-The Noticee has claimed that a total of 40 credit entries in the aforementioned four bank accounts pertain to transfers from his other bank accounts. Out of these, 34 are allowed as corresponding debit entries could be determined in the other bank accounts. Remaining 6 are not allowed as corresponding entries could not be found.
- (ii) Reversals/ tax refund- The Noticee has claimed that a total of 9 credit entries pertain to reversal entries/ tax refund. All are accepted.
- (iii) Cash deposits and transfers from accounts of other persons- 11 credit entries have been claimed to be self cash deposits or account transfers from friends and family. These are not accepted as there are no means to verify the source of these transfers.

In view of the same, I find that the Noticee had received fees amounting to Rs.37,26,799.27 from his clients in respect of his activities as an unregistered RA.

13. I also note that, it is imperative that any person carrying out research analyst activities has to necessarily obtain registration from SEBI and conduct its activities in accordance with the provisions of SEBI Act, 1992 and Regulations framed thereunder. Section 12(1) of SEBI Act, 1992 reads as under:

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

14. I note that for seeking a certificate of registration for acting as an RA, an entity is required to satisfy *inter alia* the following requirements, as provided under RA Regulations:

- (i) An application for seeking certificate of registration to be made to SEBI, in Form A as specified in the First Schedule to RA Regulations along with requisite non-refundable application fee;
- (ii) In case of an individual, individuals employed as research analyst and partners of a research analyst, if any, engaged in preparation and/or publication of research report or research analysis shall have the following minimum qualifications:
 - a. professional qualification or post-graduate degree or post graduate diploma in finance, accountancy, business management, commerce, economics, capital market, financial services or markets provided by a university which is recognized by University Grants Commission or by any other commission/council/board/body established under an Act of Parliament in India for the purpose; or an institute/association affiliated with such university; or an institute/ association/university established by the central government or

- state government; or autonomous institute falling under administrative control of Government of India; or
- b. professional qualification or post-graduate degree or post graduate diploma which is accredited by All Indian Council for Technical Education, National Assessment and Accreditation Council or National Board of Accreditation or any other council/board/body set up under an Act of Parliament in India for the purpose; or
 - c. a professional qualification by completing a Post Graduate Program in the Securities Market (Research Analysis) from NISM of a duration not less than one year; or
 - d. a graduate in any discipline with an experience of at least five years in activities relating to financial products or markets or securities or fund or asset or portfolio management.
 - e. An individual registered as research analyst under these regulations, individuals employed as research analyst and partners of a research analyst, if any, shall have, at all times, a NISM certification for research analysts as specified by the Board or other certification recognized by the Board from time to time.
 - f. Individual applicant / partnership must have net worth of not less than one lakh rupees, and LLPs and body corporates must have net worth of not less than 5 lakh rupees.
15. I note that safeguards provided under RA Regulations requires continued minimum professional qualification and net-worth requirement for research analyst, including disclosure of all conflict of interest, prohibition on entering into transactions which are contrary to recommendation given, maintaining minimum infrastructure, etc. These requirements are aimed at protection of investor interest.
16. Further, as per regulation 3(1) of RA Regulations, 2013, the registration of the research analysts is mandatory. It provides that, *“On and from the commencement of these regulations, no person shall act as a research analyst or research entity or hold itself out as a research analyst unless he has obtained a certificate of registration from the Board under these regulations”*.

17. The activities of the Noticee, as brought out above, seen in the backdrop of the aforesaid provisions show that he was acting as an RA. However, it is noted that neither KM Financial nor Rajesh Ranjan were registered with SEBI in the capacity of an RA. Hence, I find that these activities were being carried out by the Noticee without holding the certificate of registration as research analyst and are in violation of Section 12(1) of SEBI Act, 1992 read with Regulation 3(1) of the RA Regulations, 2013.
18. As noted in preceding paras, the Noticee has stated that since he had applied for registration as a Research Analyst he was entitled to continue its activities till the disposal of the application. This submission of the Noticee has been dealt with and rejected in para 8 above. Subsequently, the Noticee satisfied the eligibility criteria and was granted registration as a Research Analyst by SEBI (Registration No. INH200007821) on October 15, 2020. Hence, the Noticee has now complied with requirements under the RA Regulations, including those of qualifications and net worth. In such a scenario, I am of the view that debarment of the Noticee from accessing the securities market is not warranted. However, even though the registration has been granted, the same does not absolve the liability of the Noticee for his Research Analyst activity prior to granting of the registration by SEBI. The activity of the Noticee during the relevant period cannot automatically be regularized and clients cannot be rolled over. Therefore, the Noticee has to refund the fees collected by him for the period he was acting as an unregistered Research Analyst.

DIRECTIONS

19. In view of the foregoing, I, in exercise of the powers conferred upon me in terms Sections 11(4) and 11B(1) read with of Section 19 of the SEBI Act, 1992, hereby direct that:
 - a. The Noticee shall, through registered post with acknowledgment due, write to clients who had dealt with the Noticee prior to grant of registration as a research analyst, giving them the option to take refund of the fees or consideration in any form paid by them during the said period.

- b. In respect of the clients who exercise the option to take refund, the Noticee shall refund the money received from them as fees or consideration in any form in respect of the unregistered research analyst activities, within three months of the coming into force of this direction.
- c. The repayments to the complainants/ investors shall be effected only through Bank Demand Draft or Pay Order or electronic fund transfer or through any other appropriate banking channels, which ensures audit trails to identify the beneficiaries of repayments;
- d. After completing the aforesaid repayments, the Noticee shall file a report of such completion with SEBI addressed to the Division Chief, CIS Division, Investment Management Department, SEBI Bhavan, Plot No. C4 A, G Block, Bandra Kurla Complex, Bandra (East) Mumbai– 400051, within a period of 15 days of completion, duly certified by an independent Chartered Accountant;
- e. The Noticee is prohibited from taking new clients as a Research Analyst till the completion of refunds to complainants/ clients as directed in para 19(b) above;
- f. The Noticee is hereby warned to exercise caution, care and due diligence in his future conduct as a research analyst in all his dealing with his clients and to ensure compliance with the applicable laws at all times in future.

20. This order comes into force with immediate effect.

21. A copy of this Order shall be served on the Noticee.

Date: April 22, 2022

Place: Mumbai

**ANANTA BARUA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**