

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Section 12 (3) of the Securities and Exchange Board of India Act, 1992 read with Regulation 27 and Regulation 35 of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008

In respect of:

Name of the Noticee	SEBI Registration No.	PAN
Karvy Investor Services Limited	INM000008365	AABCK2424J

In the matter of Karvy Investor Services Limited

Background

1. Karvy Investor Services Limited (hereinafter referred to as '**KISL/Noticee**') is registered as a Merchant Banker having Securities and Exchange Board of India ("**SEBI**") Registration no. INM000008365 since December 16, 2013. SEBI conducted an inspection of Noticee on March 15-17, 2023. Onsite inspection of the Noticee, it was found that it was not functioning/operational both at the Registered as well as in the correspondence address
2. Consequently, as the Noticee had *prima facie* failed to fulfil the requirements mentioned in Regulation 6 of SEBI (Merchant Bankers) Regulations, 1992 ("**MB Regulations**") and to qualify to act as Merchant Banker, SEBI passed an Ex-Parte Ad Interim Order on April 27, 2023 against the Noticee restraining from taking any new clients or assignments until further orders.
3. Subsequently SEBI had continued the Inspection of the Noticee and made the following observations in the Inspection Report:
 - I. The Noticee did not *have the necessary infrastructure like adequate office space, equipment's, and manpower to effectively discharge the activities or*

duties of Merchant Banker and also did not have two persons who have experience to conduct the business of merchant banker.

- II. The holding company of Noticee, M/s. Karvy Stock Broking Limited (KSBL) and its common director with Noticee are involved in litigation which has an adverse bearing on the business of Noticee and hence the Noticee is no longer a fit and proper person.
- III. The Noticee did not paid the renewal fee for the block December 13, 2022 to December 12, 2025

4. Based on the aforesaid observations of the Inspection, SEBI initiated enquiry proceedings against the Noticee in terms of the SEBI (Intermediaries) Regulations, 2008 (**“Intermediaries Regulations”**) and vide an Order dated May 23, 2023 ,under Section 19 of the SEBI Act, 1992 (**“SEBI Act”**) read with Regulation 24(2) of the Intermediaries Regulations, had appointed a Designated Authority (**“DA”**) to enquire and make recommendations under Regulations 25 and 26 of Intermediaries Regulations read with Regulation 23 of Intermediaries Regulations and Section 12(3) of Securities and Exchange Board of India Act, 1992 (**“SEBI Act”**) in respect of the following alleged violations by the Noticee:

4.1 Regulations 6(aa), 6(b) and 6(e) of SEBI (Merchant Bankers) Regulations,1992 (**“Merchant Bankers Regulations”**) read with Regulation 9(1)(e) of Intermediaries Regulations;

4.2 Regulation 12(1) of Merchant Bankers Regulations read with Regulation A(b) of Merchant Bankers Regulations and Regulation 9(1)(b) of Intermediaries Regulations;

4.3 Regulation 6(gg) read with Regulation 6A of Merchant Bankers Regulations, Regulation 9(1)(e) and Schedule II of Intermediaries Regulations.

Enquiry by the Designated Authority

5. The DA issued a Show Cause Notice dated September 05, 2023 (hereinafter referred to as '**DA SCN**') to Noticee under Regulation 25(1) of Intermediaries Regulations to show cause as to why appropriate action should not be recommended against Noticee as specified in Regulation 26 of Intermediaries Regulations read with Regulation 23 of Intermediaries Regulations and Section 12(3) of SEBI Act for the violations alleged above within 21 days of the receipt of DA SCN. It was also informed that if the Noticee fails to reply, it shall be presumed that the Noticee has no reply to submit and the matter shall be proceeded on the basis of the material available on record. The irregularities noticed during the course of the inspection and the allegations levelled in the DA SCN issued by the DA have been summarized hereunder:

*5.1 Noticee did not have the necessary infrastructure like adequate office space, equipment's, and manpower to effectively discharge its duties as a Merchant Banker and thereby has violated Regulation 6(aa) of Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992 ('**Merchant Bankers Regulations**') read with Regulation 9(1)(e) of Intermediaries Regulations.*

5.2 Noticee did not have two persons who have experience to conduct the business of merchant banker and thereby, has violated Regulation 6(b) of Merchant Bankers Regulations read with Regulation 9(1)(e) of Intermediaries Regulations.

*5.3 The holding company of Noticee, M/S. Karvy Stock Broking Limited ('**KSBL**') and its common director with Noticee are involved in litigation which has an adverse bearing on the business of Noticee, and thereby, Noticee has contravened Regulation 6(e) of Merchant Bankers Regulations read with Regulation 9(1)(e) of Intermediaries Regulations.*

5.4 Noticee did not paid the renewal fee for the block December 13, 2022 to December 12, 2025, and thereby has allegedly violated Noticee has contravened Regulation 12(1) Merchant Bankers Regulations read with Regulation 9A(b) of Merchant Bankers Regulations and Regulation 9(1)(b) of Intermediaries Regulations.

5.5 Noticee is no longer a fit and proper person and has violated Regulation 6(gg) read with Regulation 6A of Merchant Bankers Regulations, Regulation 9(1) (e) and Schedule II of the Intermediaries Regulations.

6. I note that the DA SCN was duly served upon the Noticee, however the Noticee failed to submit any reply on the same. The proof of service is on record. There was no response to the SCN from the Noticee. Accordingly, in the interest of natural justice and in order to conduct an inquiry in terms of Rule 4(3) of the Adjudication Rules, an opportunity of personal hearing was granted on various dates. Since no submission was made by the Noticee and no defence was offered for the violations alleged in the DA SCN, DA then observed that the Noticee has nothing to submit and in terms of Rule 4(7) of the Adjudication Rules, proceeded ex parte on the basis of material available on record.

7. In light of the above and in terms of Regulation 23 and Regulation 26 of the Intermediaries Regulations, 2008 read with Regulation 28 of the Investment Adviser Regulations, 2013, submitted an Enquiry Report dated October 31, 2023 (hereinafter referred to as '**Enquiry Report**'/ '**ER**') recommending:

"34. ...Therefore, in terms of Regulation 26(1)(ii) of the Intermediaries Regulations read with Regulation 23 of Intermediaries Regulations and Section 12(3) of SEBI Act, I recommend that the registration of the Noticee, Karvy Investor Services Limited [Registration No.- INM000008365] to be cancelled.

Post Enquiry Proceedings

8. Post Enquiry Show Cause Notice dated November 21, 2023 (hereinafter referred to as the '**SCN**') enclosing therewith the Enquiry Report, was issued to the Noticee under Regulation 27(1) of the Intermediaries Regulations calling upon to show cause as to why action as recommended by the DA or any other action including passing of appropriate directions, other than recommended by the DA, as deemed appropriate by the Competent Authority, should not be taken against the Noticee. The SCN further advised the Noticee to submit its reply, if any within 21 days of receipt of the said SCN, failing which it shall be presumed that the Noticee has no reply to submit.
9. I note that the SCN was delivered to the Noticee, vide email dated December 01, 2023 as well as through SPAD and affixture. It is noted from the record that although the SCN was duly delivered to the Noticee, it did not file any reply to the SCN. Thereafter in furtherance of principles of natural justice an opportunity of personal hearing was granted to the Noticee vide hearing notice dated February 09, 2024 ('**HN**') and directed to appear on March 12, 2024. The hearing notice was served through email as well as SPAD and was duly delivered. However, the Noticee failed to appear on the said date.
10. In view of the above, I note that the principles of natural justice have been duly complied with. Both SCN and HN were duly served upon the Noticee and sufficient opportunity was also provided to the Noticee to respond to the charges. However, the Noticee neither filed any reply in the matter nor appeared for hearing. Hence, it is presumed that Noticee has nothing to submit in respect of the allegations levelled in the SCN. In this regard, it is pertinent to note that the Hon'ble Securities Appellate Tribunal (SAT) in the matter of **Classic Credit Ltd. vs. SEBI** (Appeal No. 68 of 2003 decided on December 08, 2006) has, inter alia, held,

".....the appellants did not file any reply to the second show-cause notice. This being so, it has to be presumed that the charges alleged against them in the show cause notice were admitted by them".

11. In view of the aforesaid observation made by the Hon'ble SAT, I find no reason to take a different view and accordingly, I deem it appropriate to proceed against the Noticee ex-parte, based on the material available on record.

12. I have carefully examined the allegations made against the Noticee and the documents / material available on record. The issues that arise for consideration in the present case is to examine as to whether the Noticee has violated the various provisions of SEBI Act, Intermediaries Regulations and Merchant Banker Regulations as alleged in the para 4 above and the observations as well as the recommendation of DA on the same.

Consideration of Issues

13. I have considered the material available on record i.e. Enquiry Report along with the SCN. I note that the issues that arise for consideration in the present case are:

Issue No. I. Whether Noticee has violated the provisions of Merchant Bankers Regulation and Intermediaries Regulations as mentioned in the para 4?

Issue No. II. If the answer to issue No. I is in affirmative, then what action should be taken under Regulation 27 of the Intermediaries Regulations?

14. Before proceeding with the examination of issues, the text of the provisions alleged to be violated by the Noticee as per SCN are reproduced below:

Merchant Banker Regulations

➤ Regulation 6:

“The Board shall take into account for considering the grant of a certificate, all matters which are relevant to the activities relating to merchant banker and in particular the applicant complies with the following requirements, namely: —

(a)...

(aa) the applicant has the necessary infrastructure like adequate office space, equipment's, and manpower to effectively discharge his activities;

(b) the applicant has in his employment minimum of two persons who have the experience to conduct the business of merchant banker;

(c)...

(d)....

(e) The applicant, his partner, director or principal officer is not involved in any litigation connected with the securities market which has an adverse bearing on the business of the applicant;

(f)...

(g)...

(gg) the applicant is a fit and proper person;”

➤ Regulation 6A:

“For the purpose of determining whether an applicant or the merchant banker is a fit and proper person the Board may take into account the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.”

➤ Regulation 9A:

9A. (1) Registration granted under regulation 8 shall be subject to the following conditions, namely:

.....

b) it shall pay the fees for registration, in the manner provided in these regulations

.....

➤ **Regulation 12:**

“12(1) Every applicant eligible for grant of a certificate shall pay such fees in such manner and within the period specified in Schedule II.

➤ **SCHEDULE II**

Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992

[Regulation 12]

FEES

1. Every merchant banker shall pay a sum of twenty lakh rupees as registration fee at the time of grant of certificate of registration.

1A. [***]

2. A merchant banker who has been granted a certificate of registration, to keep its registration in force, shall pay a fee of nine lakh rupees every three years from the sixth year, from the date of grant of certificate of registration or from the date of grant of certificate of initial registration granted prior to the commencement of the Securities and Exchange Board of India (Change in Conditions of Registration of Certain Intermediaries) (Amendment) Regulations, 2016, as the case may be.

3.(a) The fee referred to in paragraph 1 shall be paid by the merchant banker within fifteen days from the date of receipt of intimation from the Board under sub-regulation (1) of regulation 8.

[(aa)***]

(b) The fee referred to in paragraph 2 shall be paid by the merchant banker one month before the expiry of the block for which the fee has been paid.]

[3A. The non-refundable fee payable along with an application for registration under sub-regulation (1A) of regulation 3 shall be a sum of fifty thousand rupees.

[4. The fee specified in paragraphs 1, 2 and 3A shall be payable by the merchant banker by way of direct credit in the bank account through online payment using SEBI payment gateway.

Intermediaries Regulations

➤ Regulation 9(1)(b) and 9(1)(e)

“Conditions of certificate.

9.(1) Any certificate granted by the Board to an intermediary shall be subject to the following conditions, namely:—

.....

b) it shall pay the applicable fees in accordance with the relevant regulations;

.....

(e) it shall meet the eligibility criteria and other requirements specified in these regulations and the relevant regulations:”

“SCHEDULE II

SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES)

REGULATIONS, 2008

[See regulation 7]

(1)The applicant or intermediary shall meet the criteria, as provided in the respective regulations applicable to such an applicant or intermediary including:

(a)the competence and capability in terms of infrastructure and manpower requirements; and

(b)the financial soundness, which includes meeting the net worth requirements.

(2)The 'fit and proper person' criteria shall apply to the following persons:

(a)the applicant or the intermediary;

(b)the principal officer, the directors or managing partners, the compliance officer and the key management persons by whatever name called; and

(c)the promoters or persons holding controlling interest or persons exercising control over the applicant or intermediary, directly or indirectly:

Provided that in case of an unlisted applicant or intermediary, any person holding twenty percent or more voting rights, irrespective of whether they hold controlling interest or exercise control, shall be required to fulfill the 'fit and proper person' criteria.

Explanation—For the purpose of this sub-clause, the expressions “controlling interest” and “control” in case of an applicant or intermediary, shall be construed with reference to the respective regulations applicable to the applicant or intermediary.

(3)For the purpose of determining as to whether any person is a 'fit and proper person', the Board may take into account any criteria as it deems fit, including but not limited to the following:

(a)integrity, honesty, ethical behaviour, reputation, fairness and character of the person;

(b)the person not incurring any of the following disqualifications:

(i)criminal complaint or information under section 154 of the Code of Criminal Procedure, 1973 (2of 1974)has been filed against such person by the Board and which is pending;

(ii)charge sheet has been filed against such person by any enforcement agency in matters concerning economic offences and is pending;

(iii)an order of restraint, prohibition or debarment has been passed against such person by the Board or any other regulatory authority or enforcement agency in any matter concerning securities laws or financial markets and such order is in force;

(iv)recovery proceedings have been initiated by the Board against such person and are pending;

(v)an order of conviction has been passed against such person by a court for any offence involving moral turpitude;

(vi)any winding up proceedings have been initiated or an order for winding up has been passed against such person;

(vii)such person has been declared insolvent and not discharged;

(viii)such person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force;

(ix)such person has been categorized as a wilful defaulter;

(x)such person has been declared a fugitive economic offender; or

(xi)any other disqualification as may be specified by the Board from time to time.

.....

.....

(6)Any disqualification of an associate or group entity of the applicant or intermediary of the nature as referred in sub-clause (b) of clause (3),shall not have any bearing on the 'fit and proper person' criteria of the applicant or intermediary unless the applicant or intermediary or any other person referred in clause (2), is also found to incur the same disqualification in the said matter:

Provided that if any person as referred in sub-clause (b) of clause (2)fails to satisfy the 'fit and proper person' criteria, the intermediary shall replace such person within thirty days from the date of such disqualification failing which the 'fit and proper person' criteria may be invoked against the intermediary:

Provided further that if any person as referred in sub-clause (c) of clause (2)fails to satisfy the 'fit and proper person' criteria, the intermediary shall ensure that such person does not exercise any voting rights and that such person divests

their holding within six months from the date of such disqualification failing which the 'fit and proper person' criteria may be invoked against such intermediary.

(7)The 'fit and proper person' criteria shall be applicable at the time of application of registration and during the continuity of registration and the intermediary shall ensure that the persons as referred in sub-clauses (b) and(c) of clause (2)comply with the 'fit and proper person' criteria."

Issue No. I . Whether Noticee has violated the provisions as mentioned in the para 4?

15. To address the instant issue the violations alleged against the Noticee are examined separately in subsequent paragraphs.

I. It was alleged that the Noticee did not have the necessary infrastructure like adequate office space, equipment's, and manpower to effectively discharge its duties as a Merchant Banker as per Regulation 6(aa) of MB Regulations and also did not have two persons who have experience to conduct the business of merchant banker in line with Regulation 6(b) of Merchant Bankers Regulations read with Regulation 9(1)(e) of Intermediaries Regulations.

16. In this regard, I note the observation of the DA in the ER that as per the available records of SEBI, the Registered Office of the Noticee was at: "Karvy House, 46, Avenue 4, Street No 1, Banjara Hills, Hyderabad, Telangana, 500 034". Similarly, the Corporate Office of KISL was at: "Plot No.31, 8th Floor, Karvy Millennium, Nanakramguda, Financial District, Hyderabad, Telangana -500032".

17. Further, I note from the ER that while conducting the onsite inspection of the Noticee, it was found that the Noticee was not functioning/operational at the aforesaid Registered Office address and stated to have shifted to correspondence address i.e. Plot No.31, 8th Floor, Karvy Millennium,

Nanakramguda, Financial District, Hyderabad, Telangana -500032. I also note from the findings of the inspection that only Karvy Data Management Services Limited (“**KDMSL**”) was at the aforementioned address in Banjara Hills. While at the onsite inspection, a notice was found containing contact details of officials of Noticee for redressal of investor grievances. Accordingly, an immediate attempt was made to contact the officials mentioned in the aforementioned notice, however no response was received. Further, I note from the ER that finally Mr. V Mahesh, Managing Director of KDMSL, had informed the inspection team that no operations of Noticee were being carried out from its registered address since FY 2019-2020.

18. It was also noted in the ER that on visiting the correspondence address of the Noticee on inspection, it was observed that no employee was present at the office and further, from the information gathered from the security guard and the security supervisor, it was found that the office had been closed for the last 2 years.

19. Subsequently, efforts were also made to sought information from the intermediaries associated with the public issue of debt issues handled by Noticee as Lead Manager to the issue during FY 2021-22 as well as from the issuer of the said debt issue to ascertain whether Noticee was active when the said issues took place and whether Noticee was in operation at present and whether it was still eligible to play a role of Merchant Banker for handling issuances of debt securities. In this regard, I note from the ER that majority of the communication on behalf of Noticee were handled by Mr. Swapnil Mahajan and the last working day of Mr. Swapnil Mahajan with Noticee was October 22, 2021. Further, I also note from ER that Noticee did not act as Lead Manager for any of the debt issues after September 2021, involving the following intermediaries and issuer.

Sr. No.	Issuer Name	Issue Open and close date	Issue Size (in Cr.)	Merchant Banker 1	Merchant Banker 2	Registrar to the Issue
1	Kosamattam Finance Limited	30-03-2021 to 30-03-2021	Rs. 263.21	KISL	SMC Capital Limited	KFin Technologies Limited
2	Kosamattam Finance Limited	30-08-2021 to 30-08-2021	Rs. 300	KISL	SMC Capital Limited	KFin Technologies Limited

20. In view of the above, I note that as per Regulations 6(aa) and 6(b) of the Merchant Bankers Regulations, for considering grant of Certificate of registration, SEBI shall take into account compliance by the applicant with the requirement for necessary infrastructure such as manpower to effectively discharge its activities and also the employment of a minimum of two persons who have experience to conduct the business of merchant banker.

21. In the present matter, taking into consideration of the aforesaid facts, it is an admitted fact that at the relevant time of inspection by SEBI, the Noticee did not have the necessary infrastructure like adequate office space, equipments, and manpower to effectively discharge its duties as a Merchant Banker. and that it did not have in its employment, a minimum of two persons having experience to conduct merchant banking business. In view of the aforementioned, I find that the Noticee had contravened the eligibility criteria and the conditions for grant of or holding the Certificate of registration as merchant banker as stipulated in terms of Regulation 6(aa) and 6(b) of the Merchant Bankers Regulations

22. In light of the observations in the preceding paragraphs, I conclude and agree with the findings of DA that Noticee did not have the necessary infrastructure like adequate office space, equipment's, and manpower to effectively discharge its duties as a Merchant Banker also did not have in its employment two persons who have experience to conduct the business of merchant banker as required under Reg. 6(aa) and 6(b) of MB regulations.

II. The holding company of Noticee, M/s. Karvy Stock Broking Limited (KSBL) and its common director with Noticee are involved in litigation which has an adverse bearing on the business of Noticee, and thereby, Noticee has allegedly contravened Regulation 6(e) of Merchant Bankers Regulations read with Regulation 9(1)(e) of Intermediaries Regulations. Hence, the Noticee is no longer a fit and proper person and therefore, is allegedly violation of Regulation 6(gg) read with Regulation 6A of Merchant Bankers Regulations, Regulation 9(1)(e) and Schedule II of the Intermediaries Regulations.

23. In respect of the said violations, I note the observation of the DA in the ER that SEBI had passed ex parte ad interim order dated November 22, 2019 and confirmatory order dated November 24, 2020 in the matter of M/s. Karvy Stock Broking Limited (holding company of KISL), prohibited Karvy Stock Broking Limited (KSBL) from taking new clients in respect of its stock broking activities. Further, stock exchanges and depositories were also directed to initiate appropriate action against KSBL and its directors, for the violations of their respective bye-laws, as have been found in the forensic audit report received in the matter, in accordance with law. Further I also note that, Mr. Comandur Parthasarathy, is a common director in both KSBL and KISL (as per the Ministry of Corporate Affairs (MCA) website). It was also mentioned that there were press releases dated January 24, 27 and 28, 2022 that the Managing Director of Karvy

Group, Mr. Comandur Parthasarathy, was arrested by Enforcement Directorate under Prevention of Money Laundering Act, 2002 (PMLA) in January 2022

24. In this connection, I note that as per Regulation 6 (e) of MB Regulations, “*The applicant, his partner, director or principal officer is not involved in any litigation connected with the securities market which has an adverse bearing on the business of the applicant*”. In other words, the directors/principal officers should not involve in any litigation to fulfil the condition mandated by the MB regulations while granting the registration as a Merchant Banker.

25. However in the present matter upon the combined analysis of the aforesaid order of SEBI, and the fact of arrest of Mr. Comandur Parthasarathy who is the common director of KSBL and KISL, SEBI registered intermediaries and the fact that no operations of the Noticee were being carried out from its registered address as well as correspondence since FY 2019-2020 as mentioned in the preceding para, I concur with the view taken by the DA that KSBL and its director’s involvement in the litigation connected with securities market had an adverse bearing on the business of the Noticee. Further, the said act also violated the provision of Regulation 6(gg) of MB regulations which requires a Merchant Banker to be a fit and proper person.

26. As per Regulation 6(gg) of the Merchant Bankers Regulations an applicant for getting registered as Merchant Banker has to be a fit and proper person. Regulation 6A of Merchant Banker Regulations states that for the purpose of determining whether an applicant is a fit and proper person, SEBI may take into account the criteria specified in Schedule II of Intermediaries Regulations. The relevant extract of Schedule II of Intermediaries Regulations is reproduced as under:

“1...

2. The ‘fit and proper person’ criteria shall apply to the following persons:

(a) the applicant or the intermediary;

(b) the principal officer, the directors or managing partners, the compliance officer and the key management persons by whatever name called; and

(c) the promoters or persons holding controlling interest or persons exercising control over the applicant or intermediary, directly or indirectly

3. For the purpose of determining as to whether any person is a ‘fit and proper person’, the Board may take into account any criteria as it deems fit, including but not limited to the following:

(a) integrity, honesty, ethical behaviour, reputation, fairness and character of the person;

(b) the person not incurring any of the following disqualifications:

(i)...

(ii) charge sheet has been filed against such person by any enforcement agency in matters concerning economic offences and is pending;

(iii) an order of restraint, prohibition or debarment has been passed against such person by the Board or any other regulatory authority or enforcement agency in any matter concerning securities laws or financial markets and such order is in force;

...”

4...

5...

6 Any disqualification of an associate or group entity of the applicant or intermediary of the nature as referred in sub-clause (b) of clause (3), shall not have any bearing on the ‘fit and proper person’ criteria of the applicant or intermediary unless the applicant or intermediary or any other person referred in clause (2), is also found to incur the same disqualification in the said matter:

Provided that if any person as referred in sub-clause (b) of clause (2) fails to satisfy the 'fit and proper person' criteria, the intermediary shall replace such person within thirty days from the date of such disqualification failing which the 'fit and proper person' criteria may be invoked against the intermediary:

Provided further that if any person as referred in sub-clause (c) of clause (2) fails to satisfy the 'fit and proper person' criteria, the intermediary shall ensure that such person does not exercise any voting rights and that such person divests their holding within six months from the date of such disqualification failing which the 'fit and proper person' criteria may be invoked against such intermediary.

7. The 'fit and proper person' criteria shall be applicable at the time of application of registration and during the continuity of registration and the intermediary shall ensure that the persons as referred in sub-clauses (b) and (c) of clause (2) comply with the 'fit and proper person' criteria"

27. Clause 2 of Schedule II of Intermediaries Regulations specifies the persons who have to fulfil the "*fit and proper person*" criteria under Intermediaries Regulations. As per Clause 2(c) of Intermediaries Regulations, the '*fit and proper person*' criteria shall be applicable to the "*promoters or persons holding controlling interest or persons exercising control over the applicant or intermediary, directly or indirectly.*" I note from website of Noticee that Noticee is a wholly owned subsidiary of KSBL. Thus, KSBL was a person holding controlling interest in Noticee within the meaning of Clause 2(c) of Schedule II of Intermediaries Regulations.

28. Further, I note from ER that a Confirmatory Order in the matter of M/s. KSBL, WTM/AB/SEBI/MIRSD/HO/17/2020 dated November 24, 2020, was passed by SEBI against the holding company of Noticee, i.e., KSBL, which confirmed the directions passed against KSBL vide ex parte ad interim order dated November

22, 2019. In the said interim order, KSBL was, *inter alia*, prohibited from taking new clients in respect of its stock broking activities and depositories were directed not to act upon any instruction given by KSBL in pursuance of Power of Attorney given to it by its clients. SEBI had ultimately vide order dated May 31, 2023 has cancelled the registration of KSBL.

29. DA has taken the view that passing of the aforementioned order dated May 31, 2023 had triggered disqualification mentioned in Clause 3(b)(iii) read with Clause 2(c) of Schedule II of Intermediaries Regulations with respect to Noticee. In this regard, I note from ER that second proviso of Clause 6 of Schedule II of Intermediaries Regulations states that “*if any person as referred in sub-clause (c) of clause (2) fails to satisfy the ‘fit and proper person’ criteria, the intermediary shall ensure that such person does not exercise any voting rights and that such person divests their holding within six months from the date of such disqualification failing which the ‘fit and proper person’ criteria may be invoked against such intermediary.*” I note that in the instant matter, there is nothing on record to suggest that KSBL had divested its holdings in Noticee within 6 months from the date of disqualification.

30. In view of the above, DA has observed that Noticee is no longer a fit and proper person as per Schedule II of Intermediaries Regulations.

III. Noticee has not paid the renewal fee for the block December 13, 2022 to December 12, 2025, and thereby has allegedly violated Regulation 12(1) Merchant Bankers Regulations read with Regulation 9A(b) of Merchant Bankers Regulations and Regulation 9(1)(b) of Intermediaries Regulations.

31. I note from ER that the due date for fee payment by Noticee to SEBI under Regulation 12(1) of MB Regulations was December 13, 2022. However, DA observed that there is no evidence available on the record to show that Noticee has paid renewal fee for the block December 13, 2022 to December 12, 2025 to SEBI as prescribed under aforesaid Regulation. Thus, DA concluded that Noticee has not paid the renewal fee for the block December 13, 2022 to December 12, 2025 to SEBI.

32. I shall now proceed to examine whether aforementioned findings against Noticee have resulted in the violation of Merchant Banker Regulations and Intermediaries Regulations as observed in the ER.

33. Regulation 9(1) of Intermediaries Regulations provides that a certificate granted by SEBI to an intermediary shall be subject to the conditions provided therein. In this context, I also note that as per Regulation 9(1)(e) of Intermediaries Regulations, a certificate granted by SEBI to an intermediary shall be subject to the condition that “ *it shall meet the eligibility criteria and other requirements specified in these regulations and the relevant regulations*”. Regulation 9(1)(b) of Intermediaries Regulations specifies that an intermediary has to pay the applicable fees in accordance with the relevant regulations as a condition of registration. The relevant regulations within the meaning of Regulation 9(1)(e) and 9(1)(b) of Intermediaries Regulations in case of merchant bankers is MB Regulations.

34. As per Regulation 9A(b) of MB Regulations, the certificate of registration granted to a merchant banker is subject to it paying the fees for registration in the manner provided in the aforesaid Regulations. Regulation 12(1) of the Merchant Bankers Regulations specifies that “ *Every applicant eligible for grant of a certificate shall pay such fees in such manner and within the period specified in Schedule II.*” I also note that Regulation 12(2) of Merchant Bankers Regulations

grants SEBI the power to suspend the registration certificate of a merchant banker who fails to pay the annual fees as provided in Regulation 12(1) of MB Regulations read with Schedule II of the aforesaid Regulations.

35. Regulation 6 of MB Regulations specifies the factors/elements to be taken into consideration by SEBI while granting certificate of registration, which includes applicant complying with the requirements laid down in Regulation 6 of MB Regulations. Thus, Regulation 6 of MB Regulations prescribes the eligibility conditions for being a SEBI Registered Merchant Banker. Some of the eligibility conditions prescribed under Regulation 6 of Merchant Bankers Regulations are applicant having necessary infrastructure, in employment minimum of two employees having the experience to conduct the business of merchant banker and being a fit and proper person. A combined reading of Regulation 9(1)(e) of Intermediaries Regulations and Regulation 6 of Merchant Bankers Regulation makes it clear that the certificate of registration granted to a Merchant Banker is subject to it fulfilling, *inter alia*, the requirements prescribed under Regulation 6 of Merchant Bankers.

36. In this context, I note that in the Ex-Parte Ad Interim Order dated April 27, 2023 against Noticee, Learned WTM, SEBI has held that “ *a Merchant Banker is expected to comply with the requirements mentioned in Regulation 6 throughout the period it acts as a Merchant Banker.*” Thus, it is clear from the aforementioned Order of Learned WTM as well from the wordings of Regulation 9 (1)(e) of Intermediaries Regulations read with Regulation 6 of Merchant Bankers Regulations that a Merchant Banker is expected to comply with the requirements mentioned in Regulation 6 of Merchant Bankers Regulations throughout the period it acts as a merchant banker.

37. Further, as per Clause 7 of Schedule II of Intermediaries Regulations states that fit and proper person criteria shall be applicable at the time of application of registration and during the continuity of registration and the intermediary shall ensure that the persons as referred in sub-clauses (b) and (c) of clause (2) comply with the '*fit and proper person*' criteria.
38. From the findings established in the preceding paragraphs and wordings of Regulation 6 of Merchant Bankers Regulations, I find that by not having necessary infrastructure like adequate office space, equipment etc. and minimum two employees having the experience to conduct the business of merchant banker and having a director who is involved in a litigation connected with the securities market which has an adverse bearing on the business of the applicant and by not being fit and proper person, Noticee is not meeting eligibility criteria as laid down in Regulation 6(aa), (b), (e), (f) and (gg) of Merchant Bankers Regulations. Further, Noticee has not paid the renewal fee for the block December 13, 2022 to December 12, 2025.
39. I find that as per Regulation 9(1)(e) and Regulation 9(1)(b) of MB Regulations, by not complying with eligibility criteria laid down in Regulation 6 of MB Regulations and by not paying the renewal fees as per Regulation 12(1) MB Regulations read with Regulation 9A(b) of MB Regulations, Noticee has not complied with the conditions subject to which the certificate of registration as Merchant Banker has been granted to it. In this regard, I note that an intermediary not complying with the conditions subject to which a certificate of registration has been granted to it is liable for action under Regulation 23 of Intermediaries Regulations. The text of Regulation 23 of Intermediaries Regulations is reproduced hereunder:

“ Cancellation or suspension of registration and other actions.

23. Where any person who has been granted a certificate of registration under the Act or regulations made thereunder, –

(a) fails to comply with any conditions subject to which a certificate of registration has been granted to him;

(b) contravenes any of the provisions of the securities laws or directions, instructions or circulars issued thereunder ;

the Board may, without prejudice to any action under the securities laws or directions, instructions or circulars issued thereunder, by order take such action in the manner provided under these regulations.”

Direction

40. In view of the foregoing, I, in exercise of the powers conferred upon me in terms of Section 12(3) of SEBI Act, 1992 and Section 19 of SEBI Act, 1992 read with Regulation 23, Regulation 27 and Regulation 35 of SEBI (Intermediaries) Regulations, 2008, hereby cancel the certificate of Registration No – INM000008365 of Karvy Investor Services Limited, Merchant Banker as recommended by DA.

41. Further, in exercise of the powers conferred upon me under Regulation 35 of SEBI (Intermediaries) Regulations, 2008, I dispose of the directions issued against the Noticee vide the said Ex parte Ad Interim order dated April 27, 2023.

42. This order comes into force with immediate effect.

43. A copy of this order shall be served on the Noticee, Depositories, Registrar and Transfer Agents and all recognized Stock Exchanges for ensuring compliance with the above direction.

Date: March 28, 2024

Place: Mumbai

G RAMAR

QUASI JUDICIAL AUTHORITY

SECURITIES AND EXCHANGE BOARD OF INDIA