
BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA**EX-PARTE AD INTERIM ORDER**

Under Sections 11(1), 11(4) and 11B (1) of the Securities and Exchange Board of India Act, 1992 and Regulation 35 of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008

In respect of:

Sl. No.	Noticee	SEBI Registration No.	PAN
1	Karvy Investor Services Limited	INM000008365	AABCK2424J

In the matter of Inspection of Karvy Investor Services Limited

1. Background –

1.1. In exercise of the powers contained under the SEBI Act, 1992 (“**SEBI Act**”) read with SEBI (Merchant Bankers) Regulations, 1992 (the “**MB Regulations**”), SEBI sought to carry out physical inspection of Karvy Investor Services Limited (“**KISL**”), a SEBI registered Merchant Banker (since December 16, 2013) bearing registration number, INM000008365. The inspection was required to be carried out for the purpose of verifying its compliance status with various regulatory requirements while handling the public issues of debt securities during Financial Year 2021-22, and carried out without issuing notice of inspection to KISL in line with Regulation 30(2) of the MB Regulations, 1992.

1.2. KISL, as a SEBI Registered Merchant Banker, during the Financial Year 2021-22 had managed the following two public issuances of debt securities by Kosamattam Finance Limited:

Table – 1

Sr No	Issuer Name	Issue Size – Rs. (crore)	Issue Open Date	Issue Close Date	Merchant Banker 1	Merchant Banker 2	Registrar to the Issue	Debenture Trustee
1	Kosamattam Finance Limited	263.21	30-03-2021	30-03-2021	Karvy Investor Services Limited	SMC Capitals Limited	KFin Technologies Limited	Vistra ITCL (India) Limited
2	Kosamattam Finance Limited	300.00	30-08-2021	30-08-2021	Karvy Investor Services Limited	SMC Capitals Limited	KFin Technologies Limited	Vistra ITCL (India) Limited

1.3. From the information available with SEBI, it was seen that the registered office of KISL was at: Karvy House, 46, Avenue 4, Street No 1, Banjara Hills, Hyderabad, Telangana, 500 034. Similarly, as per the records, the Corporate Office of KISL was at: Plot No.31, 8th Floor, Karvy Millennium, Nanakramguda, Financial District, Hyderabad, Telangana - 500032. The website address of KISL is <https://www.karvyinvestmentbanking.com>.

2. Inspection of KISL –

Visit to the Registered and Corporate Offices of KISL

2.1. For the purpose of carrying out physical inspection of KISL, a team of SEBI officials visited the registered office of KISL in Hyderabad during March 15-17, 2023. On visiting the premises of the registered office of KISL, it was found by the SEBI inspection team that KISL was not operating from the said premises, which was located at Banjara Hills in Hyderabad. Consequently, efforts were made by the SEBI inspection team to collect information regarding the whereabouts of KISL and its employees. It was gathered from the persons present at the said

premises that the merchant banking functions had shifted to the corporate office of KSIL at Plot No.31, 8th Floor, Karvy Millennium, Nanakramguda, Financial District, Hyderabad, Telangana - 500 032.

2.2. It was also gathered from interactions with people present at the said premises that only Karvy Data Management Services Limited (“**KDMSL**”) was operating from that location, and it provided only PAN and Aadhaar Card related services. It was also informed to the SEBI inspection team that no personnel from KISL was present at the said premises.

2.3. The SEBI inspection team also found a Notice at the premises of the registered office of KISL with the following details:

“KARVY INVESTMENT BANKING
KARVY INVESTOR SERVICES LIMITED

*Registered Office: Karvy House, 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad
500 034, Telangana*

*Corporate Office: Plot No.31, 8th Floor, Karvy Millennium, Nanakramguda, Financial
District, Gachibowli, Hyderabad 500 032, Telangana.*

Phone Nos. 91-40-23312454/23428774/33216840-44 Fax No. 91-40-23374714

*Email: cmg@karvy.com, Investor Grievances: igmbd@karvy.com. Website:
www.karvyinvestmentbanking.com*

SEBI Registration No.MB/INM000008365

Dear Investor,

In case of any grievance / complaint against the Intermediary; Karvy Investor Services Limited, please contact Mr. M P Naidu, Compliance Officer of Karvy Investor Services Limited, Corporate Office: Plot No.31, 8th Floor, Karvy Millennium, Nanakramguda, Financial District, Gachibowli, Hyderabad 500 032, Telangana. email-id:cmg@karvy.com, igmbd@karvy.com and Phone No.91-40-23428774/91-40-33216840 Fax No.91-40-23374714.

You may also approach Mr. T R Prashanth Kumar, CEO, at email-id: prashanth.kumar@karvy.com and Phone No. 91-40-33216845/ 23428774.

If not satisfied with the response of the intermediary you can lodge your grievances with SEBI at <http://scores.gov.in> or you may also write to any of the offices of SEBI. For any

queries, feedback or assistance, please contact SEBI Office on Toll Free Helpline at 1800 22 7575/ 18002667575.”

2.4. Consequently, on the basis of the details available in the above-mentioned notice, attempts were made by the SEBI inspection team to contact the officials named therein. However, all calls made to the phone numbers of the officials named in the said notice remained unanswered.

2.5. It was, therefore, inferred that KISL did not exist/operate from the office premises at the registered address. The notice affixed at the office premises strengthened the inference that there were no merchant banking activities were being carried out from the said address.

2.6. As gathered from the notice at the registered address of KISL and as per the information available on record with SEBI, the inspection team visited the office premises of KISL situated at its correspondence address (Gachibowli, Hyderabad).

2.7. On visiting the office premises of KISL situated at the correspondence address (Plot No.31, 8th Floor, Karvy Millennium, Nanakramguda, Financial District, Gachibowli, Hyderabad 500 032, Telangana), it was found that neither any operations of KISL were being carried out from there nor any employee of KISL was present. This was also confirmed by the security guard, Mr. Ratnakar and the security supervisor, Mr. Christopher. It was also informed that the office had been closed since the last two years and, therefore, no employee of KISL attended office. However, KDMSL, a group company of Karvy, had its servers installed in the said office premises, for which two employees of KDMSL i.e., Mr. K. Durga Prasad and Mr. N. Durga Prasad were found on the site. The SEBI inspection team enquired from these employees about KISL and its employees.

- 2.8. Getting a lead from these employees of KDMSL, an attempt was made to contact the management of KDMSL so as to get more information and details about the whereabouts of KISL and its employees. Accordingly, a meeting was scheduled with Mr. V. Mahesh, Managing Director of KDMSL on March 16, 2023 for seeking more information about KISL.
- 2.9. The meeting was conducted at the office of KDMSL which was situated at the same address in Banjara Hills as that of KISL. Pursuant to the meeting with Mr. V. Mahesh, it was gathered that no employee of KISL had been operating from its registered office since 2019-20.
- 2.10. As regards KDMSL, from the records available with SEBI Records, it was observed that it was registered with SEBI as a KYC Registration Agency (KRA) from November 22, 2012 to November 21, 2017 with registration no. IN/KRA/005/2012. Mr. Mahesh claimed that KDMSL was presently undertaking only processing of Aadhaar cards through UIDAI and processing of PAN cards through NSDL, and they had the requisite licenses from the government for undertaking those activities. Being part of the management of KDMSL, a group company of Karvy, he confirmed to the inspection team that no one was heading KISL.

Information Sought From the Karvy Group

- 2.11. During the meeting, it was also found that the Human Resource Department of Karvy Group ("**HRD-Karvy Group**"), was active and common for all the companies in the Karvy Group, including KISL and KDMSL. Therefore, it was decided to seek information from the HRD-Karvy Group through Mr. Mahesh about KISL's existing employees including the employees who handled the public issues of debt securities issued by Kosamattam Finance Limited. Accordingly, an email was sent to Mr. Mahesh on March 16, 2023 seeking the following information:

“

- (i) *Details of present KMPs and employees of KISL, details of employees as on March 31, 2021 i.e., at the time of aforesaid public issuances including name, designation and contact details and changes therein;*
- (ii) *Latest net worth certificate to verify the eligibility of KISL for being a SEBI Registered Merchant Banker;*
- (iii) *Details of employees who were engaged in public issue of debt securities by Kosamattam Finance Limited in March 2021 and August 2021;*
- (iv) *Copy of appointment letter along with inter-se work allocation among KISL and SMC Capitals Limited (SMC) with regard to the aforesaid issues of Kosamattam Finance Limited and due diligence carried out by KISL in the aforesaid issues;*
- (v) *Details of fees received from Kosamattam Finance Limited for acting as Co-lead Manager for the aforesaid issues;*
- (vi) *Shareholding structure of KISL along with details of its current business operations and of its promoters;*
- (vii) *Details of latest fees paid by KISL to SEBI pursuant to its registration as Merchant Banker as required under Regulation 12 read with Schedule II of SEBI (Merchant Bankers) Regulations including details such as amount, date of payment and mode of payment;*
- (viii) *Latest audited financial statements of KISL.”*

2.12. Mr. V Mahesh replied to the aforesaid email from SEBI vide his email dated March 16, 2023, providing information regarding some of the employees of KISL, the details of which are provided below. Mr. V. Mahesh sought time of up-to two weeks was for providing the balance information sought.

Table - 2

Sr. No.	Employee Name	Designation	Last Working Day with KISL	Phone No.
1	Swapnil Mahajan	Assistant General Manager	22-Oct-21	XXXXXX2220
2	Atlada Venkata Shanmukanath Sameer	Manager	28-Aug-21	XXXXXX9036
3	Tarun Saxena	Senior Manager	16-Jul-21	XXXXXX9759
4	Pentayya Naidu Malla	Assistant General Manager	05-Apr-21	XXXXXX5940
5	Bhavin Vakil	Senior Manager	19-Feb-20	XXXXXX7197
6	Prashanth Kumar TR	Head – Investment Banking	16-Apr-20	XXXXXX5377

2.13. With respect to Mr. Allada Venkata Shanmukhanath Sameer, it is noted from the offer document dated August 26, 2021 (issued by Kosamattam Finance Limited for its public issue of debt securities) that he was the compliance officer of KISL. However, it was informed by Mr. Mahesh that Mr. Allada Venkata Shanmukhanath Sameer resigned from KISL on August 28, 2021 which was prior to the closing of the public issue on August 30, 2021. With respect to the other persons named in the table, attempts were made by SEBI to get in touch with them on the said phone numbers. However, all calls made remained unanswered.

2.14. Further, post his initial reply on March 16, 2023, a reminder vide email dated March 21, 2023 was sent to Mr. V. Mahesh. He is yet to revert with the rest of the information sought by the SEBI inspection team.

Information from Other Intermediaries Engaged in the Public Issues of Kosamattam Finance Ltd.

2.15. It was observed that KFin Technologies Limited (“**KFin**”) was the Registrar to the Issue for both the public issues of debt securities which were managed by KISL during FY 2021-22 (as mentioned in Table 1). Further, KFin had its office in the vicinity of KISL and KFin used to be a Karvy Group company in the past. So, the office of KFin was also visited to gather any information about KISL and its employees who were involved with these specific debt issues.

2.16. On visiting the office of KFin, it was gathered from Mr. Sourav Mukherjee, Head – PMO, FMS and Real Estate in KFin that KFin was no longer a Karvy Group company. Relevant information was also sought from KFin, being the Registrar to the issues, through email dated March 17, 2023 in order to verify the existence of KISL and the details of employees who had co-ordinated with the Registrar on behalf of KISL. Similarly, relevant information was also sought from the Vistra ITCL India Limited (Debenture Trustee), SMC Capitals Limited (Merchant Banker) and Kosamattam Finance Limited (the Issuer). Reply was obtained from the intermediaries. Based on the replies from the intermediaries and the issuer, it was observed that a majority of the communication on behalf KISL was handled by Mr. Swapnil Mahajan. In this regard, it was informed by the MD of KDMSL that Mr. Swapnil Mahajan’s last working day with KISL was October 22, 2021, and as such he was no longer working with KISL.

Other efforts to contact KISL

2.17. From the website of KISL, following contact numbers were found:

Head Office: +91 40 23428774 / 23312454 33216840 to 33216844

Regional Offices:

Mumbai: 61491500 (Board), 61491521-D, 61491527-D;

Kolkata: +91-033-24634787-89, 24647231, 7232, 4891, 24651275-78

Chennai: +91 44 42067830

New Delhi: 011 – 4350 9200, 9971249759

Bangalore: +91-40-23312454 and 23428774/33216840

2.18. Efforts were made to contact KISL on all the phone numbers mentioned on the website. However, no response was received. It was observed that some of the numbers disclosed on the website were no longer working, and the ones which were working, the calls made to them went unanswered.

2.19. Further, contact details of certain former employees of KISL were obtained from the merchant bankers active in the market. Some did not respond to the calls made by SEBI while some, who did answer the calls, did not show up for the meeting(s) set up to gather information about KISL.

3. *Prima Facie* Findings –

3.1. Based on the facts brought out in the preceding paragraphs and the details gathered by the SEBI inspection team during their physical visit to the registered office and the office premises at the address for correspondence (both in Hyderabad), it *prima facie* appears that – a) KISL was no longer operating as a Merchant Banker and b) KISL had violated provisions of the MB Regulations.

3.2. These *prima facie* findings have been elaborated in the subsequent paragraphs.

KISL no Longer in Operation as a Merchant Banker

3.3. Based on the findings of the inspection team and the information collected from physical visits to KISL's registered office and the office premises at the address for correspondence, I find that presently KISL does not have any active employees and is not operational as a Merchant Banker. I also note that the SEBI inspection team has made sufficient efforts to locate the whereabouts of KISL and its employees during the inspection. That being the case, it appears that KISL

neither has any physical infrastructure nor any employee working for it. Without any physical infrastructure and employees no merchant banking activity can be carried out. So, it is concluded that KISL is no longer in operation as a SEBI Registered Merchant Banker.

KISL has Violated Provisions of the MB Regulations

3.4. It has already been brought out that KISL does not have any infrastructure or manpower to continue as a Merchant Banker. Such a circumstance, would lead to violations of the MB Regulations, 1992. In this respect, the regulatory requirements for becoming and continuing as a SEBI Registered Merchant Banker are provided hereunder.

3.5. Regulation 6 of SEBI (Merchant Bankers) Regulations prescribes that:

“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, equipments, 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) The applicant fulfils the capital adequacy requirement specified in regulation 7;

(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) The applicant, his director, partner or principal officer has not at any time been convicted for any offence involving moral turpitude or has been found guilty of any economic offence;

(g)...

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

3.6. Regulation 12 of SEBI (Merchant Bankers) Regulations requires as under:

“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.

(2) Where a merchant banker fails to pay the annual fees as provided in sub-regulation (1), read with Schedule II, the Board may suspend the registration certificate, whereupon the merchant banker shall cease to carry on any activity as a merchant banker for the period during which the suspension subsists”

3.7. It is noted that a Merchant Banker is expected to comply with the requirements mentioned in Regulation 6 throughout the period it acts as a Merchant Banker. However, based on the inspection findings as elaborated above, the following are noted:

- a. KISL no longer has the necessary infrastructure like adequate office space, equipment and manpower to effectively discharge its duties as a Merchant Banker. During the onsite inspection, it was observed that the registered office of KISL as well as the office for receipt of correspondence were no longer operational. Also, there were no employees or infrastructure in place and there were no merchant banking activities being carried out from the said addresses. The same was also confirmed from the information gathered from people present at the said addresses, including Mr. V. Mahesh, MD of KDMSL. In view of the same, it appears that KISL by not having the necessary infrastructure and manpower to

discharge its activities as a Merchant Banker has violated Regulation 6(aa) of the MB Regulations.

- b. In view of the finding brought out above that KISL had no employees, it logically flows that KISL does not have in its employment two persons who have necessary experience in conducting merchant banking business. In view of the same, it appears that KISL has violated Regulation 6(b) of MB Regulations.
- c. Vide SEBI's 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), directions have been issued prohibiting Karvy Stock Broking Limited ("**KSBL**") from taking new clients in respect of its stock broking activities. Further, Stock Exchanges and Depositories were directed to initiate appropriate action against KSBL and its directors, for the violations of their respective bye-laws, as had been found in the forensic audit report received in the matter. It is noted from the records available on the website of the MCA that Mr. Comandur Parthasarathy was one of the directors of KSBL, and also a director in KISL. In view of the same, it appears that KSBL and its director were involved in litigation connected with securities market which had an adverse bearing on the business of KISL. Accordingly, it appears that KISL has violated Regulation 6(e) of the MB Regulations.
- d. It is also noted from SEBI's record that KISL had not paid the renewal fee for the block, December 13, 2022 to December 12, 2025 to SEBI as prescribed under Regulation 12(1) of the MB Regulations. Accordingly, it appears that KISL has violated Regulation 12(1) of MB Regulations.

3.8. In view of the foregoing, I have reasonable material on record to believe that KISL is in *prima facie* breach of the eligibility conditions for being a SEBI Registered Merchant Banker. Its continued presence in the securities market could be construed as a reflection of its operational status which, as has been brought out

in the preceding paragraphs, is quite doubtful. Also, KISL's continued presence in the securities market could also attract trusting market participants to assign it with merchant banking activities, the wherewithal for which it has *prima facie* lost. Therefore, the presence of such an entity which is not in operation and which is in breach of the eligibility conditions for being a SEBI Registered Merchant Banker, could pose a serious threat to the integrity of the securities market and the interests of investors. Accordingly, directions by way of an Interim Order are necessitated.

4. Directions –

- 4.1. In exercise of the powers under Sections 11 (1), 11(4) and 11B (1) read with Section 19 of the SEBI Act, 1992, and Regulation 35 of the SEBI (Intermediaries Regulations), 2008 KISL is hereby restrained from taking any new clients or assignments till further orders.
- 4.2. The above mentioned direction is without prejudice to the right of SEBI to initiate any other action against KISL.
- 4.3. The above direction shall take effect immediately and shall be in force until further orders.
- 4.4. A copy of this Order shall be served on KISL immediately. A copy of this Order shall also be served on the recognised Stock Exchanges and Depositories for ensuring compliance of this Order.

Place: Mumbai

Date: April 27, 2023

ASHWANI BHATIA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA