

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: S. K. MOHANTY, WHOLE TIME MEMBER

ORDER

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

In respect of:

Sr. No.	Name of Noticee	SEBI Registration No.
1	Anugrah Stock & Broking Pvt. Ltd.	INZ000200231

In the matter of Anugrah Stock & Broking Pvt. Ltd.

Background

- The present matter emanates from a show cause notice dated June 7, 2021 (hereinafter referred to as “SCN”) issued to Anugrah Stock & Broking Pvt. Ltd. (hereinafter referred to as “**Anugrah / Noticee**”) under regulation 27(1) of SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as “**Intermediaries Regulations**”). Anugrah is registered with Securities and Exchange Board of India as a stock broker and its registration details are as follows:

Table No. 1

Noticee Name	Exchange	Segment	Registration No.
Anugrah Stock & Broking Pvt. Ltd. - Stock broker	NSE	Currency derivative	INZ000200231
		Equity derivative	INZ000200231
		Equity	INZ000200231
		Commodity Derivative	INZ000200231
		Debt	INZ000200231
		Interest Rate Derivative	INZ000200231
	BSE	Equity derivative	INZ000200231
		Equity	INZ000200231
		Interest Rate Derivative	INZ000200231
		Currency derivative	INZ000200231
	MSEI	Equity derivative	INZ000200231
		Interest Rate Derivative	INZ000200231
		Currency derivative	INZ000200231

		Equity	INZ000200231
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2. Vide the above mentioned SCN, Anugrah was called upon to show cause as to why action as recommended by the Designated Authority (hereinafter referred to as “**DA**”) or any other direction as deemed fit should not be issued/imposed on it in terms of regulation 27 of the Intermediaries Regulations. The report of the DA dated April 30, 2021 made with respect to Anugrah was also enclosed to the SCN that was served upon the *Noticee*.
3. The DA in his report had observed the following against Anugrah: -
 - 3.1. Offering Derivatives Advisory Services (hereinafter referred to as “**DAS**”) as a service to its clients directly and also through its associate entity, Om Sri Sai Investments (hereinafter referred to as “**OSSI**”) which was in the nature of offering Portfolio Management Services (hereinafter referred to as “**PMS**”);
 - 3.2. Shortfall of funds and securities of its clients;
 - 3.3. Payments made to clients having running debit balances;
 - 3.4. Mis-statement of debtors and creditors;
 - 3.5. Mis-statement of client ledgers available with the clients;
 - 3.6. Multiple discrepancies in the data management and reporting.
4. Based on the aforesaid finding the DA held that Anugrah has violated the following provisions of law during the period of April 1, 2019 to August 27, 2020 (hereinafter referred to as the “**Inspection Period**”):
 - 4.1. Rules 8(3)(f) and 15 of the Securities Contracts (Regulation) Rules, 1957 (hereinafter referred to as “**SCR Rules**”).
 - 4.2. Section 12 (1) of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “**SEBI Act**”) read with regulation 3 of SEBI (Portfolio Managers) Regulations, 1993 (hereinafter referred to as “**PMS Regulations**”).
 - 4.3. Clauses A (1), (2), (4) and (5) and B (6) of Code of Conduct as provided under Schedule II read with regulation 9 of the SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as “**Stock Broker Regulations**”).
 - 4.4. Regulation 17 of the Stock Brokers Regulations.

4.5. SEBI Circular no. SEBIHO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

4.6. SEBI Circular no. SMD/SED/CIR/93/23321 dated November 18, 1993.

5. The DA in his report has also made the following recommendation:

"... As already stated, the Noticee has also been expelled as a stock broker/trading member from the stock exchanges. Therefore, in terms of Regulation 26 of the Intermediaries Regulations, I recommend that the registration of the Noticee viz. Anugrah Stock & Broking Private Limited as a Stock Broker / Trading Member of BSE, NSE and MSEI (SEBI Reg. No.: INZ000200231) may be cancelled."

6. As stated above, a SCN based on the Enquiry Report of DA was issued to Anugrah. However, the said SCN sent to the address of Anugrah at its Vile Parle (West), Mumbai address could not be served upon it. Therefore, the SCN was affixed at the aforementioned address on November 15, 2021. Thereafter a personal hearing was scheduled on September 6, 2022 at 2:30 pm. The hearing notice could not be served on the Noticee through post, hence it was affixed at its last known address where it carried out its business on July 13, 2022. It is noted from the available records that no one appeared for the personal hearing on the scheduled hearing date.

Consideration of Issues and Findings

7. I note from the records that Anugrah has neither filed any reply to the SCN nor has availed the opportunity of personal hearing granted to it. It will be appropriate here to note that the findings in the Inspection Report are based on the findings of forensic audit conducted by M/s. Ernst & Young LLP, analysis of books of account maintained by Anugrah, client ledgers, bank statements and other records maintained by Anugrah. Consequently, the instances of irregularities/observations pointed out in the Inspection Report are illustrative in nature and are not all-inclusive. In the light of the aforesaid factual position, I proceed to adjudicate the matter, based on materials available on record. After going through all the material, as aforesaid, available on record, I find that the primary issue that requires determination in the present matter is whether Anugrah by its acts and conduct during the inspection period, has violated the applicable provisions of securities

law from time to time, as mentioned in preceding paragraphs and as alleged in the SCN relating to its broking operations.

8. As noted in the beginning of the present Order, neither Anugrah nor any Authorised Person on its behalf, has replied to the allegations levelled in the SCNs with respect to the findings of the Inspection Report. Nevertheless, I proceed to examine as to whether the facts unearthed during the course of the inspection and as noted in the Enquiry Report, support the allegations levelled in the SCN against Anugrah.
9. Before dealing with the issue at hand, it would be appropriate to refer to the relevant provisions of law alleged to have been violated in the matter, extract whereof is reproduced below:

SECURITIES CONTRACTS (REGULATION) RULES, 1957

Qualifications for membership of a recognised stock exchange.

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

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

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

- i. the governing body may, for reasons, to be recorded in writing, permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry on business on the stock exchange either as an individual or as a partner in a firm,*
- ii. in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for severing their connection with any such business,*
- iii. nothing herein shall affect members of a recognised stock exchange which are corporations, bodies corporate, companies or institutions referred to in items [(a) to (n)] of sub-rule (8)]¹⁶*

Books of account and other documents to be maintained and preserved by every member of a recognised stock exchange.

15.(1) Every member of a recognised stock exchange shall maintain and preserve the following books of account and documents for a period of five years:

- (a) Register of transactions (Sauda book).
- (b) Clients' ledger.
- (c) General ledger.
- (d) Journals.
- (e) Cash book.
- (f) Bank pass-book.
- (g) Documents register showing full particulars of shares and securities received and delivered.

(2) Every member of a recognised stock exchange shall maintain and preserve the following documents for a period of two years:

- (a) Member's contract books showing details of all contracts entered into by him with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members.
- (b) Counterfoils or duplicates of contract notes issued to clients.
- (c) Written consent of clients in respect of contracts entered into as principals.

SEBI (STOCK BROKERS) REGULATIONS, 1992

Conditions of registration.

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

- (f) he shall at all times abide by the Code of Conduct as specified in Schedule II;

SCHEDULE II

Securities and Exchange Board of India (Stock Brokers) Regulations, 1992

CODE OF CONDUCT FOR STOCK BROKERS

[Regulation 9]

A. General.

(1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

(2) Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business.

(3) ...

(4) Malpractices: A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stockbroker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

B. Duty to the Investor

(6) Fairness to Clients: A stock-broker, when dealing with a client, shall disclose whether he is acting as a principal or as an agent and shall ensure at the same time, that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.

To maintain proper books of account, records, etc.

17. (1) Every Stock Broker shall keep and maintain the following books of account, records and documents, namely: —

(a) Register of transactions (Sauda Book);

(b) Clients ledger;

(c) General ledger;

(d) Journals;

(e) Cash book;

(f) Bank pass book;

(g) Documents register containing, inter alia, particulars of securities received and delivered in physical form and the statement of account and other records relating to receipt and delivery of securities provided by the depository participants in respect of dematerialized securities;

(h) Member's contract books showing details of all contracts entered into by him with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members;

(i) Counterfoils or duplicates of contract notes issued to clients;

(j) Written consent of clients in respect of contracts entered into as principals;

(k) Margin deposit book;

(n) Client account opening form in the format as may be specified by the Board.

(2) Every stock broker shall intimate to the Board the place where the books of account, records and documents are maintained.

(3) Without prejudice to sub-regulation (1), every stock broker shall, after the close of each accounting period furnish to the Board if so required as soon as possible but not later than six months from the close of the said period a copy of the audited balance sheet and profit and loss account as at the end of the said accounting period:

Provided that, if it is not possible to furnish the above documents within the time specified, the Stock Broker shall keep the Board informed of the same together with the reasons for the delay and the period of time by which such documents would be furnished.

SEBI Act

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

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

Provided that a person buying or selling securities or otherwise dealing with the securities market as a stock broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and such other intermediary who may be associated with securities market immediately before the establishment of the Board for which no registration certificate was necessary prior to such establishment, may continue to do so for a period of three months from such establishment or, if he has made an application for such registration within the said period of three months, till the disposal of such application:

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

SEBI (PORTFOLIO MANAGERS) REGULATIONS, 1993

3. Registration as portfolio manager.

No person shall act as portfolio manager unless he holds a certificate granted by the Board under these regulations:

Provided that a merchant banker acting as a portfolio manager immediately before commencement of the Securities and Exchange Board of India (Portfolio Managers) (Second Amendment) Regulations, 2006 may continue to do so for a period of six months from such commencement or, if he has made an application for registration under these regulations within the said period of six months, till the disposal of such application.

CIRCULARS ISSUED BY SEBI

- *SEBI circular no. SMD/SED/CIR/93/23321 dated November 18, 1993; and*
- *SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.*

10. Now coming back to the issue at hand, it would be relevant to first highlight the findings of the inspection carried out by SEBI pertaining to the affairs of Anugrah during the inspection period, which are discussed in subsequent paragraphs.

Offering Derivatives Advisory Services as a service to its clients directly and also through its associate entity, Om Sri Sai Investments which was in the nature of offering Portfolio Management Services

11. It is noted from the records that OSSI is a partnership firm where Mr. Paresh Mulji Kariya and Ms. Sadhana Paresh Kariya who are the designated Directors and shareholders of Anugrah, are its Partners. Consequently, OSSI is an associate entity of Anugrah as Mr. Paresh Mulji Kariya and Ms. Sadhana Paresh Kariya who are Directors of Anugrah, are also Partners in OSSI.
12. It was noted at the time of inspection that Anugrah directly as well as through its associated entity i.e., OSSI was engaged in an advisory activity under the name and style of DAS in derivative segments and was also indulging in promising assured returns to its clients, which is not a permitted activity to be carried out as a stock broker. Further, while carrying out such illicit advisory business, it has committed a series of violations which are grave and repetitive and which have been found to be exposing clients' assets to huge risks. It is noted that DAS was pitched/offered to potential clients of Anugrah as an investment service under two plans, Gold and Platinum, requiring a minimum investment amount of INR 10 lakh and INR 1 crore, respectively. The investment options provided under both these plans (that a client could avail) were either investing the entire amount by cheque or 60% in cheque and remaining 40% via stocks. If one goes for the latter option, then the stocks would suffer a haircut of 50% of value of their market values. Additionally, under the Gold plan, there was no restriction on withdrawal whereas Platinum plan had a lock-in period of one year with assured return of minimum 12% per annum.

13. In this context, I note that the cumulative effect of the following circumstances and evidence make it abundantly clear that Anugrah was indeed offering DAS to its clients: -

13.1. An email dated March 2, 2020, with the subject "*MIS DAS BUSINESS 2019-20 OF FEB MONTH*" was sent from the email id *dasinvl5@gmail.com* to Mr. Paresh Kariya (designated Director of Anugrah) and was also marked to Mr. Krish Kariya (son of Mr. Paresh Kariya) and Mr. Jiten Vadgama of Anugrah, with the subject line '*MIS DAS BUSINESS 2019-20 OF FEB MONTH*'. The email had a DAS MIS excel file attached which contained details of total amount of INR 165.10 crore being collected from 677 clients for the period April 2019 to February 2020.

13.2. An email dated July 6, 2019 was sent by Anugrah to Bank of India for availing bank facilities, *inter alia*, mentioning that Anugrah provides PMS through DAS. Further, PMS and DAS were also mentioned as the services provided by Anugrah in the 'background' section of the aforesaid email.

13.3. An email dated April 11, 2017 was observed to have been sent by a client to Anugrah, whereby the client had informed Anugrah about the issuance of a cheque of INR 8 lakh (60% of investment) and its intention to transfer the balance 40% of investment in the form of equity shares to his demat account maintained with Anugrah for investment in the F&O strategy (DAS). Further, there was another email dated September 29, 2018 from a particular client, whereby the client has drawn a cheque of INR 20 lakh in favour of OSSI and requested Anugrah to start the PMS for INR 20 lakh.

13.4. It was also observed during the inspection that certain confirmation-cum-receipts were issued to the clients (who had provided the amounts towards DAS) under OSSI and it was termed as a loan having variable interest with the repayment of the principal amount at the end of one year along with a post-dated cheque.

14. Having concluded that the DAS was indeed being offered by Anugrah to its clients / potential clients, I now move on to examine how much money was collected under the said scheme of DAS. In this context, I note from the materials made available on record that for the period of April 2019 to February 2020, a total amount of

investment of INR 165.10 crore was received from 677 clients across various months. Out of these 677 clients appearing in the DAS MIS excel file, 627 clients were appearing in the client master of Anugrah. On further review of the clients' ledgers for each of these clients and bank books, it is noted that out of INR 165.10 crore so collected, INR 69.26 crore was traced in the books of Anugrah and INR 44.90 crore has been received in the books of accounts of OSSI. Thus in total, more than INR 114 crore was found to have been received in the accounts of the Anugrah and OSSI.

15. Having held above that Anugrah was offering DAS and had also collected funds from its clients pursuant to offering them DAS, the immediate issue that needs to be addressed is the nature of the said DAS offered by Anugrah. As noted in the preceding paragraphs, Anugrah used to enter into a contract with its clients to offer its services as a stock broker and at the same time it was also collecting funds from them under two of its plans viz., Gold and Platinum plans that was being promoted to the clients under its DAS wherein, Anugrah was assuring return of minimum 12% per annum to the clients. In a nutshell, Anugrah, pursuant to a contract was undertaking on behalf of its clients, the management of funds of its clients so as to give them a minimum assured return of 12% per annum. The same is nothing else but providing portfolio management services under the garb of stock broker - client relationship. Further, I note that there is nothing on record that suggests that Anugrah had sought and obtained registration under PMS Regulations to carry out such PMS activities during the relevant period, when DAS (as one of the PMS) was being offered by it to the clients. Under the circumstances, I find that Anugrah was certainly engaged in providing DAS which was in the nature of PMS, directly as well as indirectly, through its associate company, OSSI, in terms of which, it had promised to its clients minimum assured returns, without ever having a registration under PMS Regulations to carry out such activities on behalf of those clients whom it was on the face of it, onboarding as clients for providing broking services, but later on taking them into its PMS activities under the garb of DAS.
16. Having concluded that Anugrah was offering unregistered PMS to its clients, I find it relevant to note here that Anugrah is a stock broker duly registered with SEBI and under the registration granted to it, it was permitted to do acts in due

compliance of the relevant laws. Thus, Anugrah was aware that to carry out the activities of PMS, it had to necessarily obtain a registration under PMS Regulations, which it blatantly disregarded to do, before offering PMS to its clients. Therefore, Anugrah has glaringly violated Section 12 (1) of SEBI Act and regulation 3 of PMS Regulations.

17. As noted in the preceding paragraphs, Anugrah by offering DAS to its clients, had collected at least INR 114 crore from its clients and has also assured its clients, a minimum 12% return on their investment. In this regard, I note that Rule 8(3)(f) of SCRR clearly prohibits members from engaging in any business other than that of securities or commodity derivatives except for as a broker or agent not involving in any personal financial liability. Further, a clarification to Rule 8(3)(f) of SCRR was provided by SEBI vide its circular SMD/POLICY/CIR-6/97 dated May 7, 1997 wherein it was opined that borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be treated as a disqualification under Rule 8(3)(f) of SCRR.
18. Upon examining Rule 8(3)(f) of SCRR along with the relevant clarifications issued by SEBI, it is observed that for a business to be disqualified in terms of Rule 8(3)(f) of SCRR, the following three parameters have to be satisfied:
 - 18.1. The other business in question should not be the primary / dominant activity of the intermediary i.e. it cannot be securities business.
 - 18.2. The other business in question should not be in connection with or incidental to or consequential upon the securities business.
 - 18.3. The other business in question should incur financial liability for the intermediary.
19. Applying the aforesaid parameters in the given factual situation, it is noted that the primary / dominant activity of Anugrah for which it had obtained registration from SEBI, is stock broking activity, whereas as per records, the impugned business transactions entered into by it with its clients turns out to be that of managing clients' funds so as to enable them to earn minimum 12% interest on their investment. Thus, the very nature of the business of managing clients' funds to generate a minimum assured return for them, *per se* shows that it is not a business

of a stock broker *qua* its clients in the securities market. Coming to the second parameter, it is observed that managing clients' funds so that the clients earn minimum 12% return on their investment, can by no stretch of imagination be said to be an activity/business/undertaking in connection with or incidental to or consequential upon the business of a stock broker vis-à-vis the clients' of Anugrah. Therefore, I note that the impugned business transactions were not incidental to the stock broker - client business of Anugrah. To buttress my observation, I would like to refer to the decision of the Hon'ble Supreme Court of India in the matter of *Royal Talkies, Hyderabad & Ors. vs. Employees State Insurance Corp* decided on August 9, 1978 wherein it was held as follows: "*A thing is incidental to another if it merely appertains to something else as primary. Surely such work should not be extraneous or contrary to the purpose of the establishment but need not be integral to it either.*" Applying the above principle in the extant matter, it is observed that the impugned business transactions of managing clients' funds to deliver a minimum rate of return, partakes the characteristics of a PMS, which is extraneous / contrary to the business purpose of Anugrah, which is to facilitate trading activities of its clients on the Stock Exchange platform. To further illustrate, an activity which can be said to be in connection with or incidental to or consequential upon the securities business of Anugrah, can be activities like extending of margin trading facility by Anugrah to its clients in cash segment but not managing clients' funds. Consequently, even the second parameter as delineated at paragraph 18.2 above is also found to be not satisfied since the activity of managing clients' funds can't be held as a business in connection with or incidental to or consequential upon the stock broker - client business of Anugrah. Lastly, with regard to the third parameter as indicated at paragraph 18.3 above, it goes without saying that any business transactions, specifically the one which involves managing funds for others, has a probability that it may result in a personal financial liability either for the person managing the funds or for the investor. It is immaterial to consider under Rule 8(3)(f) of SCRR as to whether any personal financial liability has not happened or will not happen. I note that the above factors/ingredients are essential conditions for considering the disqualification of a stock broker and the test would always rest on the preponderances of incurring the liability and not on whether any actual liability was incurred. I have noted above that the probability of incurring

financial liability is very much inbuilt into and integrally attached with any activity of managing funds more so when the managers (Anugrah and OSSl) are offering assured returns to the clients which is a highly risky assurance to be contemplated by any PMS providers in the securities market. Under the aforesaid Rule, it is not permissible for a stock broker to engage in any business activity which involves the possibility of incurring personal financial liability, irrespective of the actual outcome of the said business activity. Hence, under Rule 8(3)(f) of SCRR it was just not permissible to Anugrah to get into such fund management activities like DAS that too when it did not have any PMS registration in place.

20. In view of the aforesaid discussions, I find no difficulty in holding that Anugrah has engaged in a business activity other than that of securities as ordinarily permitted to a stock broker thereby fastening personal financial liability on it by managing funds of its clients'. The same has resulted in violation of Rule 8 (3)(f) of SCRR by Anugrah.
21. I note that a stock broker acting as a securities market intermediary is expected to protect the interest of investors in the securities market in which it operates. Such a stock broker is required to maintain high standards of integrity, promptitude and fairness in the conduct of its business dealings and is expected not be motivated purely by prospects of financial or personal gain. The aforesaid Code of Conduct prescribed for stock brokers also casts an obligation on a stock broker to act with due skill, care and diligence in the conduct of all its business and not to indulge in any act which is detrimental to the interests of the investors'. It is equally incumbent on the stock broker to abide by all the provisions of the SEBI Act and the Rules, regulations issued by the Government, SEBI and the Stock Exchanges from time to time as may be applicable to it. In the instant matter, it is observed that Anugrah has failed to exercise any due skill, care and diligence in the conduct of its business as it has unabashedly indulged in unregistered PMS activities for a considerable period of time. Such blatant acts not only show that it was a gross transgression of statutory / regulatory limits by Anugrah but also have been committed as the result of a design which cast a serious doubt on the integrity of Anugrah apart from exposing the fact that such misconduct on the part of Anugrah has compromised the fair and smooth functioning of the securities market.

Moreover, by not disclosing to its clients that it was not registered with SEBI as a PMS provider before offering DAS to them and by further assuring a minimum return on their investment while very well knowing that any kind of return cannot be assured in the securities market where multiple factors are constantly at play at any given point in time, Anugrah has not been fair in dealing with its clients and has kept its own interest primary over its clients' interests even to the extent of putting its clients' interests at high risk. Hence, it is held that Anugrah has violated clauses A (1), (2), (3), (4) & (5) and B (6) of code of conduct as prescribed under Schedule II read with regulation 9 of the Stock Broker Regulations.

Shortfall of funds and securities of its clients

Clients' Funds: -

22. As per records, Anugrah had debtors amounting to INR 781.43 crore and creditors amounting to INR 298.95 crore as on August 27, 2020. This is to say that Anugrah had certain instances where clients' balances were positive in its books (i.e. Anugrah owed money to these clients) and such positive balances amounted to a total of INR 298.95 crore in its books of accounts. At the same time, there were also clients who were having debit balances in their accounts due to their trading in securities market and such debit balances amounted to a total of INR 781.43 crore. The potential shortfall of funds in the hands of Anugrah after considering the deposits, funded portion of bank guarantees, and bank balance etc. amounted to INR 297.62 crore which are indicated as under: -

Table No. 2

Sr. No.	Particulars	As on 27/08/2020
		(INR in crore)
1	Total payables to credit balance clients- A	298.95
2	Total cash/ bank balance/funded portion of bank guarantees - B	1.33
3	Amount misused by stock broker – C = A-B	(297.62)
4	Amount of debtors (receivable from clients)	781.43

23. It is observed from the above table that an amount of INR 298.95 crore was payable to the credit balance clients against the funds of merely INR 1.33 crore that was available with Anugrah, thereby demonstrating a significant shortage of funds to the tune of INR 297.62 crore as on August 27, 2020. The aforesaid analysis leads to an inevitable conclusion that Anugrah was not having sufficient funds so as to be in

a position to pay to its clients who are shown to be its creditors and Anugrah was falling short of funds by a big margin. The said factual conclusion that Anugrah had a huge shortage of fund, leads to a consequent finding that if the funds which were supposed to be available with Anugrah to pay out to the clients with credit balances were not available with it, then the said funds have been diverted and utilised by Anugrah for the purposes other than for paying to its credit clients. In other words, it shows that clients' funds have been routed/diverted to entities that were not associated with Anugrah as trading clients which certainly amounts to utilisation of clients' funds for purposes and reason other than permitted under the regulatory laws.

24. Here, it would be appropriate to quote the order of Hon'ble Securities Appellate Tribunal in the matter of *ISS Enterprise Ltd. vs. NSE* decided on February 23, 2023 wherein the Hon'ble tribunal held as follows:

"Having heard the learned counsel for the parties, we find that misuse of client's funds is a serious violation. Twice on January 22, 2021 and again on May 07, 2021 the appellant has utilized the funds of clients having credit balance towards margin obligation of the clients having debit balance to the tune of Rs. 8.64 crores and Rs. 6.95 crores respectively...

In view of the gross irregularities found by the Committee which is admitted by the appellant, we find that the penalty imposed to the tune of 3% of the misuse of Rs. 8.64 crores was just and proper. The impugned order does not suffer from any error of law..."

I note that the measures taken by SEBI by issuing various circulars, code of conduct etc., as cited earlier on the issue of Stock Broker – Client transactions, settlement of funds and securities etc., are primarily intended to increase transparency in management of funds of clients and securities of clients by the stock brokers. The funds in the client's accounts cannot be applied for any purpose other than what is permissible under SEBI rules and regulations. The objective of opening and maintaining a separate account for the client's funds is to segregate and identify them separately and to prevent its misuse either for trades of other clients or of the stock broker itself or for any other purposes so that they are beyond the reach of the stock broker and / or its employees. The aforesaid actions of Anugrah wherein,

the stock broker has misused its clients' funds and has routed/diverted the funds to entities that were not associated with Anugrah as its trading clients, as per its own convenience without paying any heed to its statutory obligations, cannot be viewed leniently. Thus, I find that Anugrah has acted in gross violation of the provisions of SEBI circular no. SMD/SED/CIR/93/23321 dated November 18, 1993, SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clauses A (1), (2), (4), (5) and B (6) of the code of conduct prescribed for the Stock brokers under regulation 9 of Stock Brokers Regulations.

Clients' Securities: -

25. As per SEBI circular no. SMD/SED/CIR/93/23321 dated November 18, 1993, it shall be compulsory for all the member brokers to make payment to their clients or deliver to the clients the securities purchased for them within two working days of pay-out, unless the client has requested otherwise. It is noted from the available records that the total value of securities of clients kept in the custody of Anugrah amounted to INR 704.75 crore, whereas the value of securities lying with Anugrah in its demat account amounted to INR 20.89 crore only. Consequently, there was a shortfall of securities in the custody of Anugrah amounting to INR 683.87 crore, as detailed out as under: -

Table No. 3

Sr. No	Particulars	Value as on 27/08/2020 (INR in crore)
1	Securities of creditors – INR 270.46 crore (own securities – INR 17.24 crore)	287.70
2	Securities of debit balance clients	417.05
	- Up to debit balance	206.82
	- In excess of debit balance	210.23
3	Total Value of securities- A (Sr. Nos. 1+2)	704.75
4	Value of securities as per the holding statements provided by NSDL and CDSL- B	20.89
	Shortfall (C=A-B)	683.87

26. It is observed from the above table that instead of securities worth of INR 704.75 crore that were required to be available in the Register of Securities (as per the figures reflecting in the reconstructed Register of Securities) of Anugrah, securities to the tune of INR 683.87 crore were not available in the reconstructed Register of Securities, as on August 27, 2020 and securities worth of only INR 20.89 crore was found to be available. Thus, it is observed that clients' securities to the extent of INR

683.87 crore supposedly held in various demat accounts of Anugrah as on August 27, 2020, was actually not available in those demat accounts. The same demonstrates that once the securities were purchased by its clients, pay-outs were not made to the clients within two days, as mandated by SEBI circular dated November 18, 1993. Consequently, it can be strongly inferred that if the securities were not delivered to the clients on behalf of whom it was bought and the same were also not available with the stock broker in its own demat accounts, it leads to an irresistible conclusion that the securities were misappropriated / misused by the stock broker for purposes other than for what they were meant for i.e. in sum, these shares have been used by Anugrah for its own purposes thereby depriving the clients of their assets.

27. One must note that the securities lying with the stock broker are held by the stock broker on behalf of its clients in a fiduciary capacity. The stock broker has to credit the securities to the demat accounts of its clients if the securities are fully paid. Even for some reason, if the securities of the clients are lying with the stock broker, the stock broker has been prohibited under law from using those securities for its own purpose. However, which in the instant case as revealed from the aforesaid factual findings, the illegal and unauthorised use of clients' securities by Anugrah was not confined to one or two stray instances but had continued unabatedly for a long time. Under the circumstances and considering the materials on record, I am constrained to observe that Anugrah has knowingly misrepresented the truth to its clients by assuring them that it is holding the shares on their behalf in its fiduciary capacity. Such a deceitful act seriously questions not only its integrity but also its fairness in the conduct of its stock broking business. The act of Anugrah in dealing with the shares of its clients without their authorisation, is an act which is in severe detriment to the interests of its clients. Such actions of Anugrah, which led to disappearance of clients' securities from its demat accounts due to its act of misappropriation of clients' securities, not only audaciously defies the transparency that SEBI is trying to achieve through its circular pertaining to handling of client's securities by the stock broker's, but also has caused a severe blow to the confidence of the investors in the securities market and at the same time, has also compromised the integrity of the market. Such actions of diversion

and misappropriation of clients' securities as has been committed by Anugrah, have to be viewed seriously. Consequently, I see no hesitation in holding that the above acts of Anugrah are not in consonance with the securities laws and that Anugrah has grossly violated the provisions of SEBI circular no. SMD/SED/CIR/93/23321 dated November 18, 1993, SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clauses A (1), (2), (4), (5) and B (6) of the code of conduct prescribed for the Stock brokers under regulation 9 of Stock Brokers Regulations.

Payments made to clients having running debit balance at any point in time during the revised review period – April 2019 till August 27, 2020

28. It is noted from the materials made available on record that a total amount of INR 134.15 crore was paid to 1,500 clients, when the said clients actually were carrying debit balances in their accounts with Anugrah immediately before the said payment were made to them through bank accounts, particulars of which are indicated below: -

Table No. 4

Particulars	Amount (INR in crore)
Total pay-outs	685.28
Total amount paid to clients when they had a debit balance immediately before the bank payment was made	134.15

29. It is observed based on the data in the aforesaid table that Anugrah was making payments to certain clients, when, in fact, it had to recover funds from these clients due to the debit balances in their ledgers, as maintained in the books of accounts of Anugrah. In order to make payments to these clients, Anugrah has utilised the funds lying with it that belonged to other clients, thereby suggesting misuse of funds apparently belonging to the clients having credit balances with it. Thus, it becomes apparent that the payments made to such debit balance clients were predominantly arising from some contractual agreement between Anugrah and these clients and possibly such contractual obligations arose out of the DAS with assured return scheme because of which it had to make such pay-outs to such debit balance clients despite these clients having debit balances in their trading accounts with the stock broker. Under the circumstances, I find and conclude that Anugrah has made

payments to clients having running debit balances with it, and these payments have been made in utter disregard for the applicable provisions of SEBI Act, Regulations framed thereunder as well as the applicable circulars issued by SEBI governing the conduct of trading members of the Stock Exchanges.

30. In the light of the aforesaid discussion, I find that Anugrah has violated the provisions of SEBI circular no. SMD/SED/CIR/93/23321 dated November 18, 1993, SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clauses A (1), (2), (4), (5) and B (6) of the code of conduct prescribed for the Stock brokers under regulation 9 of Stock Brokers Regulations.

Mis-statement of debtors and creditors

31. I note from the materials available on record that journal voucher (hereinafter referred to as “JV”) entries in Anugrah clients’ ledgers were present which had a corresponding entry in the general ledger of Vigil Credits and Mercantile Private Limited (hereinafter referred to as “Vigil”). Vigil is a related party of Anugrah (Directors of Anugrah were past Directors of Vigil). A JV is an accounting term that describes a transaction used for recording financial activity. Stock Brokers generally use it for recording the legitimate transactions which do not take place on the stock exchange platform viz., transfer from client account to client margin, amount transfer from client to client or to a non-client, consultancy and other charges etc. In the instant matter, on a review of Anugrah’s client ledgers, JVs entries were noted with a corresponding entry in the ledger of Vigil and thus were part of the data collected from Anugrah as on May 2, 2020. The same on its face indicates the existence of offline transactions between the clients’ of Anugrah and Vigil. However, as per the data subsequently collected on August 27, 2020, these clients’ ledgers did not have any such JVs which could correspond to entries in the general ledger of Vigil. Further, on a review of Vigil’s ledger, it was noted that JV entries were passed across the review period affecting both debtors and creditors balances as on April 30, 2020. The summary of balance of debtors and creditors as submitted by Anugrah as on April 30, 2020 vis-à-vis recalculated balances, sans JV entries, is as follows:

Table No. 5

Particulars	Debtors (INR in crore)	Creditors (INR in crore)	Net Debtors / (Creditors) in crore)
As per balances submitted by ASBPL	46.11	33.43	12.68
Recalculated balance by negating the impact of JVs	521.30	279.12	242.19
Difference in balances	475.19	245.69	229.51

32. I note from the forensic audit report that the JVs were in the nature of adjusting entries towards various client balances (credit as well as debit). In order to verify the said JVs, supporting documents were sought from Anugrah. In this regard it is noted from the available records that Anugrah has neither submitted any supporting evidence for the aforesaid JV entries in its clients' ledger nor has explained anything with respect to the details of these adjustments along with the formal communications if any, made by/to clients accepting/requesting such adjustments. In other words, no justification has been provided by Anugrah for each JV. Therefore, in the absence of any supporting documents for each JV, the impact of the JVs passed through Vigil affecting the clients' balances, were negated. Hence, in order to determine the actual client balances (potential), the figure was arrived at without considering the JV entries and the same is captured in the aforesaid table. I am of the firm view that the onus is on Anugrah to prove that the aforesaid JVs are genuine and are not false. I find that Anugrah has miserably failed to discharge the said burden. Even at this stage also, Anugrah has not offered its plausible explanation to refute the findings related to mis-statement of debtors and creditors. The entire conduct of Anugrah on this issue goes on to show that it has no explanation to offer and has scant regard for any regulatory framework.
33. As noted above that discrepancies in the data collected from Anugrah as on May 2, 2020 and data collected from Anugrah again on August 27, 2020 were noticed. Further, on review of Vigil's closing balance as per the backend data vis-à-vis the balances submitted by Anugrah for March 31, 2019 as well as April 30, 2020, differences in the same were again observed. In this respect, as per the trial balance submitted by Anugrah, the opening balance for Vigil as on April 1, 2019 was zero whereas as per the backend data, it was INR 91.04 crore (credit balance). Similarly, as per the trial balance submitted by Anugrah, the closing balance for Vigil as on April 30, 2020 was zero whereas as per the backend data, it was INR 157.30 crore

(debit balance). The FAR reports that Anugrah has informed that these entries were passed through Vigil to potentially adjust the balances for margin reporting or such entries could have also been possibly passed to adjust the balances of various clients which may belong to the same family. However, the same were found to be not convincing as no justification was advanced with supporting evidence and nothing was advanced to explain the circumstances under which entries of clients of Anugrah were found with having corresponding entries in Vigil's ledger.

34. At this stage, I am also informed that in terms of circular dated September 26, 2016 on Enhanced Supervision of Stock Brokers/Depository Participants, in order to monitor clients' funds lying with the stock broker, the Stock Exchanges have made it mandatory for every stock broker to submit *inter alia* data pertaining to aggregate of fund balances available in all client Bank Accounts; aggregate value of collateral deposited with clearing corporations and/or clearing member; aggregate value of credit balances of all clients as obtained from trial balance across Stock Exchanges; aggregate value of debit balances of all clients as obtained from trial balance across Stock Exchanges etc. The above information was required to be submitted on weekly basis to the Stock Exchanges i.e. either on last trading day of every week on or before the next trading day. One of allegations against Anugrah was misusing of clients funds and securities for purpose other than for which they were lawfully deposited with Anugrah. It has been found that Anugrah through its PMS (i.e. DAS) was engaged in providing assured return to its clients and in the process, it has on several occasions used funds and securities of clients beyond the lawful authorization and finally defaulted in fulfilling the promise of assured return. As it was using funds and securities of clients for unlawful purposes, which it could not have otherwise used without having reported through the accounts and ledges of Anugrah, it had devised a mechanism to keep the track of transactions through its related entity i.e. Vigil and at the same time concealed its reporting to the Stock Exchanges. Under the circumstances, I find that matching of entries of JV of Anugrah's client ledger with a corresponding entry in the ledger of Vigil is not a coincidence and therefore, I have no constraints in holding that Anugrah has mis-stated about debtors and creditors in its books of accounts and resultantly has not maintained its books of account. The same has led to the violation of Rule 15 of SCR

Rules, regulation 17 of the Stock Broker Regulations, SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/ P/2016/95 dated September 26, 2016 and clauses A (1), (2), (4) and (5) and B (6) of code of conduct as provided under Schedule II read with Regulation 9 of the Stock Broker Regulations.

Mis-statement of client ledgers available with the clients

35. It is noted from the records that several complaints were received against Anugrah by NSE regarding clients' ledgers. It is observed that adjustments entries were passed in the back office of Anugrah which were not visible in client ledgers. The following is the summary of 11 such sample clients where discrepancies in closing balances were observed: -

Table No. 6

Sr. No.	Client code	Closing balance as on April 30, 2020 (Debit) / Credit		
		As per trial balance submitted by Anugrah (INR)	As per recalculated balance (after reversing Vigil JVs) (INR)	As per client submission (INR)
1	TM2182	0.12	48,27,833	49,60,559
2	TM1744	(2,83,499.34)	16,90,839	30,41,470
3	TM307	(1,987.20)	(15,89,939.20)	47,05,052.60
4	TM308	(1,37,604.52)	5,54,864.22	1,95,49,241.52
5	TM1775	(28,939.99)	64,48,661	66,53,583
6	TM1296	(29,936.69)	22,76,713	36,53,122
7	TM2284	653	3,43,29,977	3,59,10,038
8	ASB040	288	28,95,219	2,60,060
9	TM1815	2,98,139.88	40,94,401.85	35,45,636
10	TM699	(4,06,904.34)	(5,13,585.17)	20,96,473.83
11	TM1858	3,69,916.72	16,20,354	25,19,450

36. I note that when the said ledgers of the aforesaid clients were compared with the back office data of Anugrah, it was found that Anugrah has reported deflated opening balances of clients by dividing the opening balance by 100 or by 20 in some ledgers in the back office, whereas higher balances were shown in ledgers given to the clients. For instance, the details of one of the clients (Client TM2284) for the month of April 2020 are shown below:

Table No. 7: Details of opening and closing balance of client TM2284 for the month of April 2020

Particulars	Amount as per Anugrah's Trial balance submitted (A) (INR)	Amount as per Client ledger submitted by the client (B) (INR)	Difference (B-A) (INR)
Opening balance as on April 1, 2020	5,28,976.89	5,28,97,689.00	5,23,68,712.11
Closing balance as on April 30 2020	653.00	3,59,10,038.00	3,59,09,385.00

Table No. 8: Details of opening and closing balance of client TM2284 for the month of April 2020

Particulars	Amount as per Anugrah's data (A) (INR)	Amount as per Client ledger submitted by the client (B) (INR)	Difference (B-A) (INR)
Debit entries	2,60,58,666.81	2,58,51,924.00	-2,06,742.81
Credit entries	2,74,11,036.65	88,64,273.00	-1,85,46,763.65

37. From the above, I have no hesitation in holding and concluding that Anugrah was mis-stating the balances in the books of accounts and at the same time, was not reporting these adjustment entries to the clients in the clients' ledgers. The purpose behind having such checks and balances is to ensure that the conduct of the market intermediary is in conformity with the accepted behaviour in the securities market. It not only promotes transparency in stock broker – client relationship but also enables the client to take an informed decision regarding its current and future investments in the securities market as the clients are aware of their balances through the ledgers. The mere fact that the said unwarranted conduct was exhibited by the registered market intermediary which is otherwise prohibited and deprives its clients of an informed choice, is good enough to hold Anugrah responsible for the said act. Thus, I hold and conclude that Anugrah has misstated client ledgers available with the clients resulting in the violation of Rule 15 of SCR Rules, regulation 17 of the Stock Broker Regulations, SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/ P/2016/95 dated September 26, 2016 and clauses A (1), (2), (4) and (5) and B (6) of code of conduct as provided under Schedule II read with Regulation 9 of the Stock Broker Regulations.

Multiple discrepancies in data management and reporting

38. I note from the records that there are various instances of discrepancies in data management and reporting done by Anugrah. The details are as follows: -

38.1. Mis-representation of financials of OSSI: The balance sheet of OSSI as on March 31, 2019 was found at the time of inspection. It was observed that there were two worksheets – one named “Bal Sheet Original” and other named “Bal Sheet for ITR”. Based on the above, it was observed that the liability towards Anugrah to the extent of INR 66.87 crore has not been disclosed in the ITR filed for the assessment year 2018-19.

38.2. Discrepancies in certain accounts in trial balance: The opening balance of account of Vigil, as per trial balance provided by Anugrah, was ‘nil’, whereas the ledger extracted from back office showed a balance of INR 91.04 crore in the said account. Similar discrepancies were also noted in the closing balance of Vigil as on April 30, 2020.

38.3. Transaction in ledgers not appearing in bank book and bank statement: Based on ledger review of Sri Sai Sadhana Investment, a bank receipt entry was noted on March 31, 2020 amounting to INR 15.66 crore. However, the same was not appearing in the bank book and bank statement of Anugrah till April 30, 2020.

38.4. Transaction appearing in bank book submitted by Anugrah, not present in back end data and bank statements: Based on the review of bank books submitted by Anugrah, it was noted that Anugrah has received INR 40 crore from Edelweiss (Anugrah’s clearing member) on April 1, 2020 and the same was transferred to Sri Sai Sadhana Investments on the same day. However, while verifying these transactions from the back-end data of Anugrah, it was noted that these entries were neither present in the back-end data of Anugrah nor were reflected in its bank statement.

39. From the above, it is observed that not only Anugrah’s financials have been misrepresented in the ITR of its associated company but there are several discrepancies in the data provided by Anugrah vis-à-vis data extracted from its back office and / or bank statement as well as its client ledger vis-à-vis bank

statement. The reflection of those transactions which appear in the ledgers but were not appearing in the bank books / bank statements and transactions that were appearing in bank books / bank statements but not seen in back-office data and bank statements, is a clear indication of the misstatement of books of accounts amounting to falsification of records. The same has led to the violation of Rule 15 of SCR Rules, regulation 17 of the Stock Broker Regulations, SEBI circular no. SEBI/HO/MIRSD/MIRSD2/CIR/ P/2016/95 dated September 26, 2016 and clauses A (1), (2), (4) and (5) and B (6) of code of conduct as provided under Schedule II read with regulation 9 of the Stock Broker Regulations.

40. To sum it up, I observe that the information and data gathered at the time of inspection unequivocally bring to light, the various flagrant regulatory lapses noticed from the way Anugrah was operating, specially the way Anugrah was indulging in unregistered PMS activities and mis-managing its clients' funds and securities. Further, the violations committed by Anugrah are undoubtedly grave in nature which have been carried out for a considerable period of time unabatedly despite the fact that Anugrah very well knew that what it was doing are not at all permissible under the extant SEBI regulations and circulars pertaining to dealing in clients' funds and securities.
41. In view of the aforesaid discussions, it is held that Anugrah has carried out its stock broking activities during the inspection period in contravention of various provisions of SEBI Act, regulations and circulars. I note that a stock broker being a vital securities market intermediary, is strictly prohibited from indulging in any act detrimental to the investors' interest or which leads to interference with the fair and smooth functioning of the market. A stock broker is required to maintain high standards of integrity, promptitude and fairness in the conduct of his business dealings, and shall have to ensure that its interests is not in conflict with its clients. In the given factual situation, Anugrah has not only failed to fulfil its avowed duty towards its clients, be it indulging in unregistered PMS activities, failure to maintain proper books of accounts / records but has gone to the extent of misutilising its clients' funds and securities. The gravity of lapses and contraventions of the statutory provisions committed by Anugrah as alluded at length in preceding paragraphs, can also be gauged from the fact that Anugrah has been expelled from

the Exchanges (BSE Ltd., NSE and MSEI) since November 2020. As a regulator of the capital markets, SEBI has the duty to safeguard the interest of investors and protect the integrity of the securities market. Since the conduct of Anugrah is not in the interest of investors in the securities market, appropriate measure need to be taken against Anugrah, else it may lead to loss of investors' trust in the securities market.

42. I note that the DA has recommended that certificate of registration of Anugrah may be cancelled. Having considered the allegations and material available on record, I find no reason to disagree with the recommendation given by the DA, rather I am of the firm view that considering the facts and circumstances of the case, the ends of justice demands that in the instant matter Anugrah does not deserve to continue as a registered intermediary.

Directions

43. In view of the foregoing, I, in exercise of the powers conferred upon me under Sections 12 (3) and 19 of the Securities and Exchange Board of India Act, 1992 read with regulation 27 (5) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby cancel the certificate of registration granted to Anugrah Stock and Broking Pvt. Ltd. (reference can be made to Table No. 1).
44. The Order shall come into force with the immediate effect.
45. A copy of this order shall be forwarded to Anugrah Stock and Broking Pvt. Ltd. and all recognized Stock Exchanges.

Date: March 28, 2023
Place: Mumbai

-Sd-
S. K. MOHANTY
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA