BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

(ADJUDICATION ORDER NO: ORDER/SS/RK/2023-24/29744)

UNDER SECTION 15 - I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995, IN RESPECT OF:

Name of the Entity	Registration Number	PAN
Inventure Merchant Banker Services Private Limited	**INM000012003**	**AACCI7082H**

FACTS OF THE CASE

1. The Securities and Exchange Board of India (hereinafter referred to as **"SEBI"**), had conducted inspection of documents and other records of Inventure Merchant Banker Services Private Limited, (hereinafter referred to as "**Noticee/Inventure Merchant Banker Services Private Limited/MB**"), registered with SEBI as a Merchant Banker having Registration No. INM000012003, to verify the possible violation(s) of the provisions of the Securities And Exchange Board Of India (Merchant Bankers) Regulations, 1992 **("**hereinafter referred to as the **"MB Regulations"),** Securities And Exchange Board Of India (Issue Of Capital And Disclosure Requirements) Regulations, 2018 **("**hereinafter referred to as the **"ICDR Regulations")** and provisions of SEBI circulars by the Noticee. A copy of the findings of the Inspection Report (IR) has been shared with the Noticee.

2. Consequent upon the analysis of the finding of the inspection vis-a-vis the reply of the Noticee, it was allegedly observed the following:

    a) Failure to ensure proper due diligence regarding estimation of Working Capital requirement in SME –IPO.
    b) Failure to submit half-yearly report within the stipulated time.
    c) Failure to update track record on the website and false submission on the same

3. The aforesaid alleged conduct of the Noticee were in violation of the followings:

    a) Regulation 28 (2) of MB Regulations read with SEBI Circular CIR/MIRSD/6/2012 dated May 14, 2012;
    b) Regulation 245(3) of ICDR Regulations and Regulation 13 read with Clause 4 of Schedule III of MB Regulations;
    c) Regulation 13 read with Clause 20 of Schedule III of MB Regulations and SEBI Circular No. CIR.MIRSD/1/2012 dated January 10, 2012.

4. In view of the above, Adjudication proceedings was initiated under against the Noticee.

APPOINTMENT OF ADJUDICATING OFFICER

5. In this regard, the undersigned was appointed as the Adjudicating Officer **("AO")** by SEBI, vide order dated July 17, 2023, communicated vide communique dated August 31, 2023 under Sub-section 1 of Section 15-I of the SEBI Act read with Rule 3 of the SEBI (Procedure of Holding Inquire and Imposing Penalties) Rules, 1995 (hereinafter referred to as **"Adjudication Rules"**) to inquire into and adjudge under Section 15A(b) and 15HB of the SEBI Act for the aforesaid alleged violations by the Noticee.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

6. Accordingly, a Show Cause Notice No SEBI/HO/EAD/EAD/P/OW/2023/0000036036/1 dated September 01, 2023 (hereinafter referred to as **'SCN'**) was issued to the Noticee under Rule 4 of the Adjudication Rules, to show cause as to why an inquiry should not be held and penalty be not imposed under Section 15A(b) and 15HB of the SEBI Act for the aforesaid alleged violations.

7. The said SCN was duly served on the Noticee via SPAD and vide email dated September 01, 2023. The proof of service is on record. Further, in the interest of natural justice and in order to conduct an inquiry in terms of Rule 4(3) of the Adjudication Rules, vide email dated September 15, 2023 which was delivered, hearing opportunity was granted to appear virtually on September 22, 2023. However, the said hearing was rescheduled to September 25, 2023. The said hearing was attended to by the Principal Officer, Compliance Officer, Designated Director, Managers- MB Operations of the Noticee wherein they reiterated the submissions made earlier by the Noticee vide its letter dated September 14, 2023. Further, Noticee vide its email dated September 29, 2023 apprised that it would opt for Settlement mechanism as provided under (Settlement Proceedings), Regulations 2018. However, the said Noticee vide email dated October 31, 2023 confirmed of having not submitted the settlement application within the timeframe mentioned under said Regulations. The submissions made by the Noticee vide its reply dated September 15, 2023 are summarized hereunder:

   a) *Noticee submitted that the working capital is an estimate based on company's internal assessment and working and that the estimation has been verified by it based upon the past requirement and working.*
   b) *Noticee further submitted that it had adequately disclosed all the assumptions in the Prospectus on page 51 and 52 and that it has covered the risk factor 26 on page 23 of the Prospectus which reads as mentioned below:*

"Our funding requirements and deployment of the issue proceeds are based on management estimates and have not been independently appraised by any bank or financial institution"

c) *Noticee confirmed of having not submitted the said half yearly reports as on the date of inspection and that the same was submitted belatedly on January 10, 2023. It further submitted that utmost care to submit the same will be taken in future.*
d) *Noticee made a submission that it had been regularly updating the track record on the website till the year 2018 and that due to pandemic its compliance officer had resigned owing to which there was an undue delay in updating the track record.*
e) *Noticee further added that due to oversight there might be a few minor incorrect statement in the past half yearly report and that there was no intention of hiding or suppressing any material fact in the report.*

8. Taking into account the aforesaid facts, I am of the view that the principles of natural justice have been duly followed in the matter by granting the Noticee, an opportunity for replying to the SCN and of being heard. Therefore, I deem it appropriate to decide the matter on the basis of the facts/material available on record and reply submitted by the Noticee.

CONSIDERATION OF ISSUES AND FINDINGS: -

9. I have carefully perused the charges levelled against the Noticee and the documents / material available on record. The issues that arise for consideration in the present case are:

Issue No. I: Whether Noticee has violated the aforesaid provisions of MB Regulations, ICDR Regulations and SEBI Circulars as mentioned at para 3 above?

Issue No. II: If yes, does the violation, on the part of the Noticee would attract monetary penalty under Section 15A(b) and 15HB of the SEBI Act, as applicable?

Issue No. III: If so, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act?

10. Before proceeding further, I would like to refer to the relevant provisions of law as under:

Relevant provisions of SEBI (Issue of Capital And Disclosure requirements) Regulations, 2018

Disclosures in the draft offer document and offer document

Regulation 245(3). *The lead manager(s) shall exercise due diligence and satisfy themselves about all aspects of the issue including the veracity and adequacy of disclosure in the draft offer document and the offer document*

SEBI (Merchant Bankers) Regulations, 1992

GENERAL OBLIGATIONS AND RESPONSIBILITIES

Code of conduct

Regulation 13. *Every merchant banker shall abide by the Code of Conduct as specified in Schedule III*

Disclosures to the Board

Regulation 28(2). *The merchant banker shall submit a periodic report in such manner as may be specified by the Board from time to time*

SCHEDULE III

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

Regulation 13

CODE OF CONDUCT FOR MERCHANT BANKERS

4. *A merchant banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment.*
20. *A merchant banker shall not make untrue statement or suppress any material fact in any documents, reports or information furnished to the Board**.***

Relevant Provisions of SEBI Cicular CIR/MIRSD/1/2012 dated January 10, 2012

Relevant provisions are specified under the below mentioned link:
https://www.sebi.gov.in/legal/circulars/jan-2012/disclosure-of-track-record-of-the-public-issues-managed-by-merchant-bankers_21940.html

Relevant Provisions of SEBI Cicular CIR/MIRSD/6/2012 dated May 14, 2012

Relevant provisions are specified under the below mentioned link:
https://www.sebi.gov.in/legal/circulars/may-2012/review-of-regulatory-compliance-and-periodic-reporting_22759.html

Issue No. I: Whether Noticee has violated the aforesaid provisions of MB Regulations, ICDR Regulations and SEBI Circulars as mentioned at para 3 above?

Alleged Violation 1: Failure to ensure proper due diligence regarding estimation of Working Capital requirement in SME –IPO

11. With respect to the captioned violation, I note from IR that in the case of IPO of Omnipotent Industries Limited (OIL)which was one of the 6 IPOs handled by the Noticee during the IP, basis of estimation of additional working capital requirement which was one of the objects of issue i.e the working capital augmentation, the

Noticee had solely relied on the submissions of the OIL regarding working capital estimation and that it did not carry out an independent verification of the same, Further I note from IR that it did not even insist upon CA certificate or statutory auditor certificate by the OIL regarding authenticity of the working capital estimation.

12. In this regard, Noticee submitted that the working capital is an estimate based on company's internal assessment and working and that the estimation has been verified by it based upon the past requirement and working. Noticee further submitted that it had adequately disclosed all the assumptions in the Prospectus on page 51 and 52 and that it has covered the risk factor 26 on page 23 of the Prospectus which reads as mentioned below:

    "Our funding requirements and deployment of the issue proceedings are based on management estimates and have not been independently appraised by any bank or financial institution"

13. With regard to the Noticee's aforesaid submission, I note that Noticee merely relied upon the OIL's working on the estimation which shows that it had not done an independent verification and did not even insist upon CA certificate or statutory auditor certificate by the OIL regarding authenticity of the working capital estimation. Since issuer company had already shown working capital estimation as a risk factor, the Noticee should have been more diligent and independent on this point. Further, Noticee didn't even provide with documentary evidence to concrete its claim of having assessed the said estimation. Apart from the above, I note that due-diligence is a critical function of a merchant banker to an issue and the MB is duty bound for ensuring the correctness of the disclosures in the offer document. Thus, sole dependence by the MB on management estimates and failure to undertake independent due-diligence, is a serious violation. Accordingly, I hold that the submission of the Noticee is bereft of merits.

14. Accordingly, in view of the aforesaid, it stands established that the Noticee has violated Regulation 245(3) of ICDR Regulations and Regulation 13 read with

Clause 4 of Schedule III of SEBI MB Regulations by having failed to conduct due diligence, ensure proper care and exercise independent professional judgment

Alleged violation 2: Failure to submit half yearly report within the stipulated time:

15. In addition to above, I note from IR that the half yearly reports of half year ending March 2022 and September 2022 were not submitted as on the date of inspection and that it was submitted with delay on January 10, 2023 i.e after the said non-compliance was pointed out by the inspecting team to the Noticee.

16. In this regard, Noticee confirmed of having not submitted the said half-yearly reports as on the date of inspection and that the same was submitted belatedly on January 10, 2023. It further submitted that utmost care to submit the same will be taken in future.

17. In view of the above, I note that the Noticee has admittedly violated the Regulation 28(2) of MB Regulations read with SEBI Circular CIR/MIRSD/6/2012 dated May 14, 2012 by having failed to submit the half-yearly reports within the stipulated time.

Alleged violation 3: Failure to update track record on the website and false submission on the same

18. As regards captioned violation, I note from IR that the track record of public issues handled by the Noticee during the IP were not updated on its website. The last track record update was till March 2018 only and that in the half yearly reports, the Noticee had incorrectly claimed that it had updated the disclosure of track record of public issues managed by it on its website.

19. In this regard, Noticee made a submission that it had been regularly updating the track record on the website till the year 2018 and that due to pandemic its compliance officer had resigned owing to which there was an undue delay in updating the track record. In addition to the above, Noticee further added that due to oversight there might be a few minor incorrect statement in the past half yearly

report and that there was no intention of hiding or suppressing any material fact in the report.

20. With regard to the Noticee's aforesaid submission, I note that Noticee failed in updating the track record and no SEBI circular exempted or granted relaxation to it in updating the same on its own website due to pandemic and that it could have been updated from anywhere even during COVID. Further, I note that Noticee's tacit admission on incorrect statement submission in the half yearly report due to its oversight does not absolve from the lapse on its part. It is pertinent to add here that in a similar observation of non-updation of the track record report on the website of the MB was also raised in the past inspection, for which adjudication proceeding was initiated which shows repetitive nature of default on the part of Noticee. Therefore, the submission of the Noticee is devoid of merits.

21. Accordingly, in view of the above, I note that the Noticee has admittedly violated provisions Regulation 13 read with Clause 20 of Schedule III of SEBI MB Regulations and SEBI Circular No. CIR.MIRSD/1/2012 dated January 10, 2012 by having failed to update track record on its website and and in turn falsely submitting to SEBI about submission of the same.

22. The upshot of the above discussion is that the Noticee has violated the relevant provisions of the MB Regulations, ICDR Regulations and SEBI circulars as alleged in the SCN and the same has been established in the preceding paragraphs.

Issue No. II: If yes, does the violation, on the part of the Noticee would attract monetary penalty under Section 15A(b) and 15HB of the SEBI Act, as applicable?

23. As it has been established that the Noticee has violated following provisions of MB Regulations, ICDR Regulations and SEBI circulars.

    a) Regulation 28 (2) of MB Regulations read with SEBI Circular CIR/MIRSD/6/2012 dated May 14, 2012;

b) Regulation 245(3) of ICDR Regulations and Regulation 13 read with Clause 4 of Schedule III of MB Regulations;

c) Regulation 13 read with Clause 20 of Schedule III of MB Regulations and SEBI Circular No. CIR.MIRSD/1/2012 dated January 10, 2012.

24. In the context of the above, I refer to the observations of Hon'ble Supreme Court in the matter of Chairman, ***SEBI vs. Shriram Mutual Fund {[2006] 5 SCC 361}*** wherein the Hon'ble Court had held that: *"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established......."*

25. Therefore, in view of the foregoing and placing reliance on the above judgement of Hon'ble Apex Court, I am of the view that the Noticee is liable for imposition of monetary penalty under Section 15A(b) and 15HB of the SEBI Act, which are reproduced hereunder:

<u>Relevant provisions of SEBI Act, 1992</u>

Penalty for failure to furnish information, return, etc..

15A. *If any person, who is required under this Act or any rules or regulations made thereunder,—*

(b) *to file any return or furnish any information, books or other documents within the time specified therefor in the regulations, fails to file return or furnish the same within the time specified therefor in the regulations or who furnishes or files false, incorrect or incomplete information, return, report, books or other documents, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.*

Penalty for contravention where no separate penalty has been provided.

15HB. *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no* *separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

Issue No. III: If so, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act?

26. While determining the quantum of penalty under Section 15A(b) and 15HB of the SEBI Act, it is important to consider the factors stipulated in Section 15J of the SEBI Act which reads as under:

SEBI Act, 1992

15J

While adjudging quantum of penalty under section 15-I, the adjudicating officer shall have due regard to the following factors, namely

(a)the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

27. I observe, that the material available on record does not quantify any disproportionate gains or unfair advantage, if any, made by the Noticee and the losses, if any, suffered by the investors due to such violations on the part of the said Noticee. From the document available on record, it is not ascertainable whether the acts of the Noticee are repetitive in nature barring updation of track record on its website which is repetitive in nature. However, it is pertinent to note that the role of a Merchant Banker (MB) is crucial to the development of the securities market, especially for the company's involved/interested in raising

capital from market for whom the Merchant Banker is responsible for due diligence and proper disclosures in the offer document relied upon by the investors. In this regard, the role of a MB is crucial as a facilitator to such companies in the securities market. So, it is of utmost importance that every MB abides by the relevant regulations, provisions of SEBI/Exchange circulars and various guidelines issued by SEBI/Exchanges. The non-compliances on the part of the Noticee as brought out in the preceding paragraphs clearly shows that it has failed in its fiduciary duties owed to its clients.

ORDER

28. Accordingly, taking into account the aforesaid observations and in exercise of power conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules, 1995, I hereby impose following penalty under Section 15 A(b) and 15HB of the SEBI Act on the Noticee for violations of the following provisions of MB Regulations, ICDR Regulations and SEBI Circulars:

    a) Regulation 28 (2) of MB Regulations read with SEBI Circular CIR/MIRSD/6/2012 dated May 14, 2012;
    b) Regulation 245(3) of ICDR Regulations and Regulation 13 read with Clause 4 of Schedule III of MB Regulations;
    c) Regulation 13 read with Clause 20 of Schedule III of MB Regulations and SEBI Circular No. CIR.MIRSD/1/2012 dated January 10, 2012.

Name of the Noticee	Penal provisions	Penalty
Inventure Merchant Banker Services Private Limited	Section 15 A(b) of the SEBI Act	Rs. 5,00,000/- (Rupees Five Lakhs Only)

	Section 15HB of the SEBI Act	Rs. 2,00,000/- (Rupees Two Lakhs Only)

29. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link: **ENFORCEMENT → Orders → Orders of AO → PAY NOW**

30. The forwarding details and confirmations of e-payments made (in the format as given in table below) should be forwarded to "The Division Chief, Enforcement Department (EFD1 – DRA IV), Securities and Exchange Board of India, SEBI Bhavan, Plot No. C –4 A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai –400 051.

1. Case Name:	
2. Name of the Noticee:	
3. PAN No. of the Noticee	
3. Date of payment:	
4. Amount paid:	
5. Transaction no.:	
6. Bank details in which payment is made:	
7. Payment is made for: (like penalties/ disgorgement/ recovery/ settlement amount etc.)	

31. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to

recovery proceedings under Section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

32. In terms of the provisions of rule 6 of the Adjudication Rules, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

Date: November 07, 2023	**SANTOSH KUMAR SHARMA**
Place: Mumbai	**ADJUDICATING OFFICER**