BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/PB/UR/2024-25/30378-30377]

UNDER SECTION 15-I OF 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:

Finshore Management Services Limited

Merchant Banker SEBI Registration No. INM000012185

PAN: AABCF8557F

In the matter of *Finshore Management Services Limited.*

BACKGROUND OF THE CASE

1. The Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") carried out an inspection of Finshore Management Services Limited (hereinafter referred to as the "**Noticee / MB**") for the period April 01, 2021, to March 31, 2022 (hereinafter referred to as the "**Inspection period / IP**"). Noticee is a Merchant Banker (hereinafter referred to as "**MB**") registered with SEBI having SEBI Registration No. INM000012185.

2. The inspection team observed certain irregularities by the Noticee in its business as MB during the IP. The findings / observations made during the course of inspection were communicated to the Noticee by SEBI vide letter dated December 05, 2022. After examining the replies submitted by the Noticee vide letters dated September 14, 2022, December 12, 2022, and February 7, 2023, it has been alleged that the Noticee violated various provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 2011 (hereinafter referred to as "**SAST Regulations**"), SEBI (Merchant Banking) Regulations 1992 (hereinafter referred to as "**MB Regulations**"), SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018 (hereinafter referred to as "**ICDR Regulations**") and SEBI (Prohibition of Insider Trading) Regulations, 2015

(hereinafter referred to as "**PIT Regulations**") and applicable SEBI Circulars thereunder. The extracts of violations alleged to have been committed by the Noticee and the corresponding provisions of the Regulations enumerated above and SEBI Circulars are given in the tabulation below:

Table 1:- Violations alleged to have been committed by the Noticee			
Sr. No.	**Alleged Violations**	**Regulatory Provisions**	**Penal Provisions**
1	Failure to comply with the SEBI observation letter with respect to the open offer. (Disclosure of background of the Acquirer)	**(i)** second proviso to regulation 16(4) of SAST Regulations; **(ii)** regulation 27(5) of SAST Regulations; **(iii)** clauses 6 and 7 of Schedule III Code of Conduct r/w regulation 13 of MB Regulations 1992.	**<u>Sr. No. (s) 1-9</u>** Adjudication proceedings under Section 15HB of SEBI Act, 1992.
2	Failure to undertake independent due diligence with respect to verification of background of directors and promoters as to whether any of them are wilful defaulters, fugitive economic offenders or debarred by SEBI	**With respect to SME IPO of Dynamic Services & Security Limited** **(i)** regulation 14(1)(e) of MB Regulations; **(ii)** clause 4 of Schedule III Code of Conduct r/w regulation 13 of MB Regulations; **(iii)** regulation 245(3) of ICDR Regulations. **With respect to IPO of Mehai Technology Limited** **(i)** clause 4 of Schedule III Code of Conduct r/w regulation 13 of MB Regulations; **(ii)** regulation 14(1)(e) of MB Regulations;	
3	Failed to classify two entities under the promoter group of the issuer	**(i)** clause 4 and 6 of Schedule III (Code of Conduct) r/w regulation 13 of MB Regulations; **(ii)** regulation 245(3) r/w Schedule VI of ICDR Regulations.	
4	Furnished incorrect declaration in the draft prospectus w.r.t. the issuer	**(i)** clause 4 and 7 of Schedule III Code of Conduct r/w regulation 13 of MB Regulations;	

Table 1:- Violations alleged to have been committed by the Noticee			
Sr. No.	**Alleged Violations**	**Regulatory Provisions**	**Penal Provisions**
	company being in compliance with all relevant provisions of the Companies Act.	**(ii)** regulation 245(3) read with Schedule I of ICDR Regulations.	
5	Failure to upload Investor Charter on website of the Noticee.	SEBI circular SEBI/HO/CFD/DCR2/P/CIR/2021/0661 dated November 23, 2021	
6	Failure to create and utilise a dedicated email ID for investor grievances.	SEBI circulars SEBI/ HO/ MIRSD/ DoR/ AV/AH/ 15042/ 2021 dated July 12, 2021 and MIRSD/DPS III//Cir-01/07 dated January 22, 2007	
7	Use of person-centric email IDs instead of general email IDs for regulatory communications.	SEBI Circular No. MIRSD/DPSIII/Cir-24/08 dated July 25, 2008	
8	Information as required under SEBI Circular No. CIR/MIRSD/3/2014 dated Aug 28, 2014 not displayed in the office premises of MB as on the date of inspection.	SEBI Circular No. CIR/MIRSD/3/2014 dated Aug 28, 2014.	
9	Failure to maintain list of designated persons, Structured Digital Database and deficiencies in the internal controls put in place by the MB.	regulations 3, 9, 9A and Schedule C of PIT Regulations.	
10	Non-disclosure of information by not providing details of group companies in the reply to PIQ.	regulation 13 read with Clause 20 of Schedule III of MB Regulations.	**Sr. No. (s) 10-11** Adjudication proceedings under Section 15A(a) of SEBI Act, 1992
11	Non-disclosure of information in reply to PIQ	regulation 13 read with Clause 20 of Schedule III of MB Regulations.	

Table 1:- Violations alleged to have been committed by the Notice			
Sr. No.	**Alleged Violations**	**Regulatory Provisions**	**Penal Provisions**
	with respect to the Administrative Warnings and Deficiency Letters previously issued by SEBI against the MB.		

APPOINTMENT OF ADJUDICATING OFFICER

3. The undersigned was appointed as Adjudicating Officer (hereinafter referred to as "**AO"**) under Section 19 of the SEBI Act, 1992 (hereinafter referred to as "**SEBI Act**") read with Section 15 I (1) of the SEBI Act and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules**') conveyed vide communique dated April 27, 2023, to inquire into and adjudge the aforesaid alleged violations against the Noticee, and if satisfied that the Noticee is liable, impose such penalty as it deems fit in terms of Rule 5 of Adjudication Rules and Section 15HB and Section 15A(a) of the SEBI Act.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Pursuant to the inspection and consequent to the appointment of the undersigned, a show cause notice (hereinafter referred to as "**SCN**") dated July 31, 2023 bearing reference no. AO/PB/VP/30637/2023 was issued to the Noticee under rule 4 of the Adjudication Rules and was served to the Noticee through speed post on August 07, 2023. The SCN also enclosed the following annexures:

Table No. 2:- Annexures to the SCN	
Annexures No.	**Particulars**
Annexure 1	Copy of the communique dated April 27, 2023 appointing the AO
Annexure 2	Copy of Noticee letter dated September 14, 2022.
Annexure 3	Copy of Noticee letter dated December 12, 2023.
Annexure 4	Copy of Noticee letter dated February 7, 2023.
Annexure 5	Copy of BSE email dated February 08, 2023.
Annexure 6	Copy of Noticee letter dated July 28, 2022.

5. Vide letter dated August 21, 2023, Noticee submitted its reply to the SCN. Along with the reply on the specific allegations made against it, Noticee also requested for an opportunity of personal hearing to clarify any of the submissions made by its reply, or on any other issue that may require additional elaboration or corroboration and further Noticee requested that the said hearing be not treated as part of the adjudication proceedings under Section 15-I of the SEBI Act, and in the event the SEBI is dissatisfied with the response furnished to the SCN, an additional opportunity be given to the Noticee to submit its written arguments and have another opportunity of personal hearing at the stage of adjudication.

6. In terms of Rule 4(3) of Adjudication Rules and in the interest of Principles of Natural Justice, the Noticee was given an opportunity of personal hearing vide Hearing Notice (hereinafter referred to as "**HN**") dated August 24, 2023 scheduled on September 06, 2023. Noticee vide letter dated August 25, 2023, requested the said hearing opportunity dated September 06, 2023 not to be treated as part of the Adjudication proceeding u/s 15-I of the SEBI Act, and in the event that the Board communicated its dissatisfaction with its response, a further opportunity of personal hearing along with opportunity to make written submissions be granted. Noticee submitted that in terms of Rule 4(3) of the Adjudication rules, adjudication proceedings would commence only after Board, upon consideration of its reply forms an opinion that an inquiry is necessary. Noticee further submitted that if upon consideration of its reply Board forms an opinion that Inquiry is to be conducted, such opinion be conveyed to it and notified in advance by providing it with a date for personal hearing for Adjudication so as to enable it to prepare its written submissions, or opt for Settlement proceedings if the situation so warrants.

In view of the request of the Noticee, as stated in the preceding paragraph, (regarding non-treatment of hearing opportunity dated September 06, 2023 as part of the Adjudication proceeding and conveying of opinion and granting additional opportunity of hearing) vide E-mail dated September 04, 2023, Noticee was informed that the HN dated August 24, 2023, scheduling the date of the hearing on September 06, 2023 has been issued placing reliance on the judgement passed by the Hon'ble Supreme Court of

India in the matter of **Kavi Arora vs. SEBI**[1]. The relevant extracts of the judgement are placed below:

"....20. On 26th July 2021, the Petitioner's Advocate sent an email showing that the proceedings could not be fixed for final hearing in terms of Rule 4(1), 4(2), 4(3) 4(4) and 4(5) of SEBI Adjudication Rules 1995 which provide for two-tier adjudication process.

32. Rule 4 of the SEBI Adjudication Rules 1995 contemplates that the Adjudicating Authority is first required to form an opinion on the basis of the reply to the Show Cause Notice, as to whether an inquiry should be conducted against the Noticee or not. Even after forming the opinion, the Adjudicating Authority cannot proceed to the stage of final hearing, without first issuing notice to the Petitioner for explaining the charges against him and then giving him an opportunity to produce documents and examine witnesses.

*33. It is submitted that, in this case, the Adjudicating Authority has not followed the procedure, and instead fixed the case for final hearing without forming an opinion, as required under Rule 4(3) of the SEBI Adjudication Rules 1995. In the context of his argument. Mr. Luthra relied on the decision of the High Court at Bombay in **Shashank Vyankatesh Manohar** (supra) upheld by this Court in SLP (C) No. 017104/2014 titled **Union of India v. Shanshank Vyankatesh Manohar**. In **Shashank Vyankatesh Manohar**(supra), the High Court held:-*

"10. It is true that ordinarily this Court would not entertain a Writ Petition against a show cause notice as the noticee would get an opportunity to submit his reply and of hearing before the adjudicating authority. However, the scheme of the Adjudication Rules in question is different from the other inquiries where an authority issues a show cause notice, the noticee submits his reply, the authority then hears the complainant and the noticee for taking a decision in the matter. Ordinarily, inquiries are not divided into different stages, unlike the inquiry for which procedure is laid down in Rule 4 of the Adjudication Rules. In ordinary inquiries, the inquiry officer is not required to form any

[1] SLP (C) No. 15149 of 2021 (can be accessed at https://www.sebi.gov.in/enforcement/orders/sep-2022/judgment-of-the-hon-ble-supreme-court-in-slp-c-no-15149-of-2021-kavi-arora-vs-sebi_63011.html)

opinion before conclusion of the inquiry. On the other hand, the scheme of Rule 4 of the Adjudication Rules is quite different and the same is required to be examined both for the purpose of considering the last alternative submission of the petitioner about breach of Rule 4 of the Adjudicating Rules and also for considering the aforesaid preliminary objection raised by the learned Additional Solicitor General about maintainability of the Writ Petition.

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12. On reading the above Rule, particularly sub-rules(1) and (3) thereof, it is clear that on the issue of show cause notice, a noticee is permitted to submit his reply to the same. In terms of the above Rule, the Adjudicating Authority has to consider the objections raised by the noticee and only if he forms an opinion that an inquiry should be continued further that the Adjudicating proceedings can be proceeded with, byissuing a notice for personal hearing. However, if the Adjudicating Authority is satisfied that the objections raised to the notice are valid, he may drop the show cause notice. The provision as found in Rule 4 of the Adjudication Rules is a unique provision. The Counsel for the parties were not able to point out any similar rules under which a two tier adjudication of a show cause notice is provided for in any other statute. Normally, once a show cause notice has been issued, the Adjudicating Authority deals with all the objections of the noticee, be it preliminary as well as any other defence, by passing one common order of adjudication. The fact that the legislature has provided in Rule 4 of the Adjudication Rules that on issue of notice, the noticee can object to the same and this objection has to be considered by the Adjudicating Authority for forming an opinion to proceed further with the show cause notice would require giving some meaning to it, otherwise it would be rendered otiose."

46.After the Board forms its opinion to appoint an Adjudicating Officer, comes the next stage, which is the stage under Rule 4 of an inquiry for adjudging under Sections 15A, 15B, 15C, 15D, 15E, 15F,15G, 15H, 15I, 15J and 15HB whether any person has committed contraventions as specified in those sections. The inquiry commences with a Show Cause Notice calling upon the noticee to show cause why an inquiry should not be held against him. The Show Cause Notice has to specify the nature of offence alleged to have been committed and the penalty proposed, to enable the noticee to effectively reply to the show cause. A reading of Section 4(3) makes it clear that, if after considering the cause, if any shown by the noticee, the Adjudicating Officer is of the opinion that *an inquiry should be held, he shall issue a notice fixing a date for appearance of that person either personally or through his lawyer or other authorised representative. The noticee is not required to be heard personally or through lawyer before taking a decision to proceed with an inquiry in respect of the contraventions alleged in the Show Cause Notice. Decision to proceed or not to proceed with the inquiry may be taken on the basis of the reply of the noticee to the Show Cause Notice. Once it is decided to proceed with the inquiry, an opportunity of personal hearing is mandatory. The inquiry has to be conducted in accordance with law, in compliance with the principles of natural justice.*

47. In this case, the Board was of the opinion that there were grounds for adjudication and accordingly appointed Adjudicating Officer. Adjudicating Officer issued Show Cause Notice to the Petitioner to which the Petitioner gave a preliminary reply and thereafter sought documents as observed above. Inspection of some documents was permitted. After considering the reply, the Adjudicating Officer was of the opinion that inquiry should be held. Accordingly, a notice fixing a date for appearance was issued. There was no procedural irregularity, at least till the stage of notice fixing a date of hearing.

Accordingly vide e-mail dated September 05, 2023, Noticee informed that Mr. Udayan Mukherjee will be its Authorized Representative (hereinafter referred to as "**AR**") for the purpose of the proceedings.

7. The AR attended the hearing on the scheduled day and time wherein he reiterated the submissions made vide letter dated August 21, 2023. Further, he submitted that he would be making his additional submissions in the instant matter for which he sought time till September 13, 2023. The minutes of the hearing in the matter are on record. Vide letter dated September 12, 2023, the Noticee made his additional submissions in the instant matter.

8. Further, vide e-mail dated September 21, 2023, Noticee informed that it has submitted the Settlement Application in the matter. Thus, in view of regulation 8(1) of the SEBI (Settlement Proceedings) Regulations, 2018, the adjudication proceedings in the instant matter was kept in abeyance. The relevant text of regulation 8(1) of the SEBI (Settlement Proceedings) Regulations, 2018 is as below:

"Effect of pending application on specified proceedings.

8. (1) *The filing of an application for settlement of any specified proceedings shall not affect the continuance of the proceedings save that the passing of the final order shall be kept in abeyance till the application is disposed of."*

With respect to its settlement application, vide email dated December 27, 2023, Noticee informed that it is withdrawing the settlement application filed in the instant matter. Thereafter, the adjudication proceedings were resumed. Vide email dated December 27, 2023, Noticee was inquired whether it requires another opportunity of hearing or it wishes to make any further additional submissions. In this regard, Noticee replied that it has no further submissions to make besides its reply to the SCN and the written submissions already filed in course of the Adjudication.

Thus sufficient opportunity of hearing was provided to the Noticee, and thus I note that hearing in the instant matter was concluded.

9. Now I shall proceed to examine the matter on merits. The crux of the allegation made in the SCN is that inspection of Noticee's MB operations were carried out by SEBI wherein various non-compliances and violations were observed.

10. To that effect, I have carefully perused the Inspection Report, the charges levelled against the Noticee in the SCN, its replies and other documents available on record. The issues that arise for consideration in the instant matter are:

Issue no. 1: Whether the Noticee failed to comply with the SEBI observation letter dated January 11, 2022, with respect to the open offer of Mehai Technology Limited and thus has violated provisions of SAST Regulations and MB Regulations?

Issue no. 2: Whether the Noticee failed to undertake independent due diligence with respect to verification of background of directors and promoters of Dynamic Services & Security Limited and Mehai Technology Limited as to whether any of them are wilful defaulters, fugitive economic offenders or debarred by SEBI?

Issue no. 3: Whether the Noticee failed to classify two entities under the promoter group of the issuer, Indong Tea Company Limited?

Issue no. 4: Whether the Noticee furnished incorrect declaration in the draft prospectus in respect of the issuer company viz. QVC Exports Limited being in compliance with all relevant provisions of the Companies Act, 2013?

Issue no. 5: Whether the Noticee failed to upload Investor Charter on its website?

Issue no. 6: Whether the Noticee failed to create and utilise a dedicated email ID for investor grievances?

Issue no. 7: Whether the Noticee used person-centric email IDs instead of general email IDs for regulatory communications?

Issue no. 8: Whether the information as required under SEBI Circular No. CIR/MIRSD/3/2014 dated Aug 28, 2014 was not displayed in the office premises of Noticee as on the date of inspection ?

Issue no. 9: Whether the Noticee failed to comply with the requirements under PIT Regulations (viz. Code of Conduct, maintaining list of designated persons, Structured Digital Database and deficiencies in the internal controls put in place by it, etc.)?

Issue no. 10: Whether the Noticee did not disclose the information pertaining to its group companies in the reply to the PIQ?

Issue no. 11:Whether the Noticee did not disclose the information in reply to PIQ with respect to the Administrative Warnings and Deficiency Letters previously issued by SEBI against it?

Issue no. 12: Do the violations, if any, on the part of the Noticee attract penalty under Sections 15 HB and 15A(a) of the SEBI Act?

Issue no. 13: If so, what would be the monetary penalty that can be imposed against the Noticee taking into consideration the factors mentioned in section 15J of the SEBI Act?

11. Before moving forward, it is pertinent to refer to the relevant provisions of the SAST Regulations, MB Regulations, ICDR Regulations and PIT Regulations, which are alleged to have been violated by the Noticee. The said provisions are reproduced hereunder:

Provisions of SAST Regulations

Filing of letter of offer with the Board.

16. (1)…

(2)…..

(3)…..

(4) The Board shall give its comments on the draft letter of offer as expeditiously as possible but not later than fifteen working days of the receipt of the draft letter of offer and in

the event of no comments being issued by the Board within such period, it shall be deemed that the Board does not have comments to offer:
Provided that in the event the Board has sought clarifications or additional information from the manager to the open offer, the period for issuance of comments shall be extended to the fifth working day from the date of receipt of satisfactory reply to the clarification or additional information sought.
Provided further that in the event the Board specifies any changes, the manager to the open offer and the acquirer shall carry out such changes in the letter of offer before it is dispatched to the shareholders.
(5).....

Obligations of the manager to the open offer.
27(1).....
(2)……
(3).....
(4).....
(5) The manager to the open offer shall exercise diligence, care and professional judgment to ensure compliance with these regulations.

Provisions of MB Regulations
GENERAL OBLIGATIONS AND RESPONSIBILITIES
Code of conduct.
13. Every merchant banker shall abide by the Code of Conduct as specified in Schedule III.
Maintenance of books of account, records etc

14.(1) Every merchant banker shall keep and maintain the following books of account, records and documents namely :—
(a)a copy of balance sheet as at the end of the each accounting period;
(b)a copy of profit and loss account for that period;
(c)a copy of the auditor's report on the accounts for that period.
(d)a statement of financial position.
(e) Records and documents pertaining to due diligence exercised in pre-issue and post –issue activities of issue management and in case of takeover, buyback and delisting of securities.]
(2) Every merchant banker 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 merchant banker shall, after the end of each accounting period furnish to the Board copies of the balance sheet, profit and loss account and such other documents for any other preceding five accounting years when required by the Board.
(4) Every merchant banker acting as an underwriter shall also maintain the following records with respect to—
(i) details of all agreements entered with a body corporate on whose behalf it is acting as an underwriter;
(ii) total amount of securities of each body corporate subscribed to in pursuance of an agreement;
(iii) statement of capital adequacy requirements;
(iv) such other records 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

1…

4. A merchant banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment.
6. A merchant banker shall ensure that adequate disclosures are made to the investors in a timely manner in accordance with the applicable regulations and guidelines so as to enable them to make a balanced and informed decision.
7. A merchant banker shall endeavour to ensure that the investors are provided with true and adequate information without making any misleading or exaggerated claims or any misrepresentation and are made aware of the attendant risks before taking any investment decision.
6…….
20. A merchant banker shall not make untrue statement or suppress any material fact in any documents, reports or information furnished to the Board.

Provisions of ICDR Regulations
PART VI: DISCLOSURES IN AND FILING OF OFFER DOCUMENTS
Disclosures in the draft offer document and offer document
245. (1) The offer document shall contain all material disclosures which are true and adequate so as to enable the applicants to take an informed investment decision.
(2) Without prejudice to the generality of sub-regulation (1), the offer document shall contain:
a) disclosures specified in the Companies Act, 2013; and
b) disclosures specified in Part A of Schedule VI.
(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.
(4) The lead manager(s) shall call upon the issuer, its promoters and its directors or in case of an offer for sale, also the selling shareholders, to fulfil their obligations as disclosed by them in the draft offer document or offer document, as the case may be, and as required in terms of these regulations.
(5) The lead manager (s) shall ensure that the information contained in the offer document and the particulars as per audited financial statements in the offer document are not more than six months old from the issue opening date.

SCHEDULE I–LEAD MANAGERS' INTER-SE ALLOCATION OF RESPONSIBILITIES
[See regulations 23(2), 69(2), 121(2), 184(2) and 245(2)]

(1) The lead manager(s) shall prepare a schedule, listing the activity-wise allocation of responsibilities relating to the issue, the name of the lead manager responsible for each set of activities or sub-activities, and disclose the same in the offer document.
(2) Where circumstances warrant the joint and several responsibility of the lead manager(s) for any particular activity, a co-ordinator designated from amongst the lead manager(s) (hereinafter referred to as the "designated lead manager") shall furnish to the Board, when called for, information, report, rationales, etc. on matters relating to such activity.
(3) The activities and sub-activities may be grouped on the following lines:
(a)Capital structuring with the relative components and formalities such as composition of debt and equity, type of instruments, etc.
(b)Drafting and design of the offer document, application form and abridged prospectus, and of the advertisement or publicity material including newspaper advertisements.
(c)Selection of various intermediaries/agencies connected with the issue, such as registrars to the issue, printers, advertising agencies, bankers to the issue, collection centres as per schedule XII, etc.
(d)Marketing of the issue, which shall cover, inter alia, formulating marketing strategies, preparation of publicity budget, arrangements for selection of (i) media, (ii) centres for holding conferences of media, stock brokers, investors, etc., (iii) brokers to the issue, and(iv)

underwriters and underwriting arrangement, quantum and distribution of publicity and issue material including offer documents, application form and abridged prospectus.
(e)Post-issue activities, includingessentialfollow-up with bankers to the issue and self certified syndicate banks to get quick estimates of subscription and advising the issuer about the closure of the issue, finalisation of the basis of allotment after weeding out multiple applications, listing of instruments,despatch of certificatesordemat credit and refunds/unblocking and co-ordination with various agencies connected with the post-issue activity such as registrars to the issue, bankers to the issue, self certified syndicate banksandunderwriters.
(4) The designated lead manager shallbe responsible for ensuring compliance with these regulations and other requirements and formalities specified by the Registrar of Companies, the Board and the stock exchanges.
(5) The designated lead manager shall be responsible for ensuring that all intermediaries fulfil their obligations and functions as specified in their agreements with the issuer.
(6) In case of under-subscription in an issue, the lead manager responsible for underwriting arrangements shall be responsible for invoking underwriting obligations and ensuring that the notice for devolvement containing the obligations of the underwriters is issued in terms of these regulations.

SCHEDULE IV –FILING OF OFFER DOCUMENTS WITH THE BOARD[See regulations: 25(1)340{59C (1)}, 71(1), 123(1), 186(1)]

Draft offer documents/ letters of offer/ offer documents shall be filed by the lead manager(s) 341[at the Head Office of the Board, situated at: SEBI Head Office, SEBI Bhavan, Plot No. C4-A, “G” Block, Bandra Kurla Complex, Bandra (East), Mumbai –400051.]

<u>Provision of Circular Ref. No. MIRSD/DPS III//Cir-01/07January 22, 2007</u>
Exclusive e-mail ID for redressel of Investor Complaints.

1. SEBI has been mandated, inter-alia, under the SEBI Act, 1992 to protect the interests of investors in the Indian securities market. To this end, several investor protection measures and regulatory reforms have been initiated by SEBI from time to time for the benefit of investors and to make the Indian securities market a more transparent and safer place for their investments.
2. In the recent past, SEBI has been receiving representations from various investors requesting for a direct and quicker forum for enabling them to register their complaints expeditiously with the intermediaries/listed companies/stock exchanges. It has also been observed in several cases that pursuant to registering a complaint, the investors do not have any mode for a follow-up or monitoring the processing of their complaints.
3. In order to address the aforesaid representations, it is felt desirable to designate an exclusive e-mail ID of the grievance redressel division / compliance officer in which the investors would be able to register their complaints and also take necessary follow-up actions as necessary. Such a process would not only expedite the redressel of the complaints of the investors but also enable several investors across the country to register their complaints through a single, centralized, exclusive e-mail ID that is designated for the purpose.
4. Accordingly, all registered Merchant Bankers, registered Registrars to an Issue/ Share Transfer Agents, registered Debenture Trustees, registered Bankers to Issue and registered Underwriters are advised to designate an e-mail ID of the grievance redressel division/compliance officer exclusively for the purpose of registering complaints by investors. The above entities are also advised to display the email ID and other relevant details prominently on their websites and in the various materials/pamphlets/advertisement campaigns initiated by them for creating investor awareness.

5. This circular is being issued in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

<u>Provisions of SEBI Circular No. MIRSD/DPSIII/Cir-24/08 dated July 25, 2008</u>

Sub: Designated e-mail ID for regulatory communication with SEBI

Attention is drawn to the SEBI circular MIRSD/DPSIII/Cir-21/08 dated July 7, 2008 wherein SEBI has advised the Registrars to an Issue/ Share Transfer Agents, Debenture Trustees, Bankers to Issue, Credit Rating Agency and Underwriters to create and communicate to SEBI a designated e-mail id for regulatory communications. SEBI has already put in place a system for issuance of digitally signed circulars with respect to stock exchanges, depositories and merchant bankers. However, it is observed that some of the e-mail ids available with SEBI are not exclusive e-mail ids but are personal e-mail ids. Hence, the Merchant Bankers are also advised to create a designated e-mail id for regulatory communications. This e-mail id shall be an exclusive e-mail id only for the above purpose and should not be a person-centric e-mail id. The Designated e-mail ID shall be communicated to SEBI at intermediary@sebi.gov.in as per the format prescribed at Annexure A, latest by August 8, 2008.

<u>Provisions SEBI Circular No. CIR/MIRSD/3/2014 dated Aug 28, 2014.</u>

Sub: Information regarding Grievance Redressal Mechanism

1.SEBI has been taking various measures to create awareness among investors about grievance mechanisms available to them through workshops as well as through print and electronic media.

2.As an additional measure and for information of all investors who deal/ invest/ transact in the market, it has now been decided that offices of all Stock Brokers (its registered Sub-Broker(s) and Authorized Person(s)) and Depository Participants shall prominently display basic information, as provided in Annexure-A, about the grievance redressal mechanism available to investors. For other intermediaries, the information as provided in Annexure-B shall be prominently displayed in their offices.

3.The intermediaries shall take necessary steps to implement the provisions of this circular and ensure its full compliance in respect of all its offices on or before 60 days from the date of this circular.

4.This Circular is issued in exercise of powers conferred underSection 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

5.This circular is available on SEBI website at www.sebi.gov.inunder the categories "Legal Framework" and "Circulars"

SEBI circulars SEBI/HO/MIRSD/DoR/AV/AH/15042/ 2021 dated July 12, 2021
Sub: Updation of information pertaining to registration on SEBI Intermediary Portal

1. *SEBI vide circular no. SEBl/HO/MlRSD/MlRSD1/ClR/P/2017/38 dated May 02, 2017) had operationalized the SEBI Intermediaries Portal (Sl Portal) <u>https://siportal.sebi.qov.in</u> for the intermediaries to submit all the registration applications online. As per Clause (3) of the circular, the portal shall include online application for registration, application for surrender/cancellation, submission of periodical reports, requests for change of name/address/other details etc. Accordingly, all the applications for registration/surrender / other requests are being made through Sl Portal.*

2. *The applications for approval of the change in Directors, Compliance Officer, correspondence address, address of the principal place of business, shareholders (where there is no change in control) shall also be submitted on the aforesaid Sl Portal and where filing of such applications itself shall be treated as compliance with the relevant SEBI*

circulars issued by SEBI which cast obligation on the intermediaries to inform SEBI about the changes.

3. *It has been noted that intermediaries continue to inform changes by physical letters. Henceforth, intermediaries shall update the changes online in Sl Portal. Further, intermediaries shall update email IDs and contact details on the Sl Portal w.r.t the Compliance Officers immediately.*

4. *For carrying out the updation, the path is as mentioned below:*

   Go to Sl Portal at https://siportal.sebi.gov.in/ → Registration Login → Post Registration activities → Update details

5. *While updating the Sl Portal with the changes, please be guided by the following :*

   l. Update entire demographic details in Sl portal forthwith. Demographic would illustratively include and not restricted to

   a)*Correspondence Office address*
   b)*Principal place of business*
   c)*Names, phone numbers, email ID of directors and Key Managerial Personnel (KMP)*
   d)*Names, phone numbers, email ID of Compliance Officer*
   e)*Name , phone numbers, email ID of the contact person*

ll. Email IDs provided in the portal shall not be public email like gmail, yahoo etc. The email ID shall be of the intermediary's domain name. Ex: All the email IDs provided by PQZ Merchant banker in the portal, shall be xxxxxx@pqz.com etc.

Ill. Email IDs being provided have to be generic and not person specific. Ex. If Vinod Sharma is the compliance officer of ABC Merchant banker, the email ID of this compliance officer shall be compliance@abc.com etc.

6. *The updation on the Sl Portal in the manner as mentioned above is required to be updated latest by August 31, 2021 and thereafter on real time basis, without any reminder from SEBI. Failure to make updation through the Sl Portal would make the intermediary liable for any enforcement action by SEBI as deemed fit.*

7. *In case of any queries and issues with regard to the updation on SEBI Intermediary Portal, intermediaries may contact Market Intermediaries Regulation and Supervision Department — Division of Registration and Portal help Team (portalhelp@sebi.gov.in).*

Provisions of PIT Regulations

CHAPTER –II
RESTRICTIONS ON COMMUNICATION AND TRADING BY INSIDERS

Communication or procurement of unpublished price sensitive information.
3.(1) No insider shall communicate, provide, or allow access to any unpublished price sensitive information, relating to a company or securities listed or proposed to be listed, to any person including other insiders except where such communication is in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.

NOTE: This provision is intended to cast an obligation on all insiders who are essentially persons in possession of unpublished price sensitive information to handle such information with care and to deal with the information with them when transacting their business strictly on a need-to-know basis. It is alsointended to lead to organisations developing practices based onneed-to-know principles for treatment of information in their possession.

(2) No person shall procure from or cause the communication by any insider of unpublished price sensitive information, relating to a company or securities listed or proposed to be listed, except in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.

NOTE: This provision is intended to impose a prohibition on unlawfully procuring possession of unpublished price sensitive information. Inducement and procurement of unpublished price sensitive information not in furtherance of one's legitimate duties and discharge of obligations would be illegal under this provision.

(2A) The board of directors of a listed company shall make a policy for determination of "legitimate purposes" as a part of "Codes of Fair Disclosure and Conduct" formulated under regulation 8.
Explanation –For the purpose of illustration, the term "legitimate purpose" shall include sharing of unpublished price sensitive information in the ordinary course of business by an insider with partners, collaborators, lenders, customers, suppliers, merchant bankers, legal advisors, auditors, insolvency professionals or other advisors or consultants, provided that such sharing has not been carried out to evade or circumvent the prohibitions of these regulations.]

(2B) Any person in receipt of unpublished price sensitive information pursuant to a "legitimate purpose" shall be considered an "insider" for purposes of these regulations and due notice shall be given to such persons to maintain confidentiality of such unpublished price sensitive information in compliance with these regulations.]

(3) Notwithstanding anything contained in this regulation, an unpublished price sensitive information may be communicated, provided, allowed access to or procured, in connection with a transaction that would: –
(i)entail an obligation to make an open offer under the takeover regulations where the board of directors of the [listed] company is of informed opinion that [sharing of such information]is in the best interests of the company;

NOTE: It is intended to acknowledge the necessity of communicating, providing, allowing access to or procuring UPSI for substantial transactions such as takeovers, mergers and acquisitions involving trading in securities and change of control to assess a potential investment. In an open offer under the takeover regulations, not only would the same price be made available to all shareholders of the company but also all information necessary to enable an informed divestment or retention decision by the public shareholders is required to be made available to all shareholders in the letter of offer under those regulations.
(ii)not attract the obligation to make an open offer under the takeover regulations but where the board of directors of the 14[listed] company is of informed opinion [that sharing of such information]is in the best interests of the company and the information that constitute unpublished price sensitive information isdisseminated to be made generally available at least two trading days prior to the proposed transaction being effected in such form as the board of directors may determine [to be adequate and fair to cover all relevant and material facts].

NOTE:It is intended to permit communicating, providing, allowing access to or procuring UPSI also in transactions that do not entail an open offer obligation under the takeover regulations [when authorised by the board of directors if sharing of such information]is in the best interests of the company. The board of directors, however, would cause public disclosures of such unpublished price sensitive information well before the proposed transaction to rule out any information asymmetry in the market.

(4) For purposes of sub-regulation (3), the board of directors shall require the parties to execute agreements to contract confidentiality and non-disclosure obligations on the part of such parties and such parties shall keep information so received confidential, except for the purpose of sub-regulation (3), and shall not otherwise trade in securities of the company when in possession of unpublished price sensitive information.

(5) The board of directors or head(s) of the organisation of every person required to handle unpublished price sensitive information shall ensure that a structured digital database is maintained containing the nature of unpublished price sensitive information and the names of such persons who have shared the information and also the names of such persons with whom information is shared under this regulation along with the Permanent Account Number or any other identifier authorized by law where Permanent Account Number is not available. Such database shall not be outsourced and shall be maintained internally with adequate internal controls and checks such as time stamping and audit trails to ensure non-tampering of the database.]

(6) The board of directors or head(s) of the organisation of every person required to handle unpublished price sensitive information shall ensure that the structured digital database is preserved for a period of not less than eight years after completion of the relevant transactions and in the event of receipt of any information from the Board regarding any investigation or enforcement proceedings,the relevant information in the structured digital database shall be preserved till the completion of such proceedings.

Code of Conduct.9.

1)The board of directors of every listed company and [the board of directors or head(s) of the organisation of every intermediary shall ensure that the chief executive officer or managing director] shall formulate a code of conduct 43[with their approval] to regulate, monitor and report trading by its 44[designated persons and immediate relatives of designated persons] towards achieving compliance with these regulations, adopting the minimum standards set out in Schedule B 45[(in case of a listed company) and Schedule C (in case of an intermediary)] to these regulations, without diluting the provisions of these regulations in any manner

[Explanation –For the avoidance of doubt it is clarified that intermediaries, which are listed, would be required to formulate a code of conduct to regulate, monitor and report trading by their designated persons, by adopting the minimum standards set out in Schedule B with respect to trading in their own securities and in Schedule C with respect to trading in other securities.

NOTE: It is intended that every company whose securities are listed on stock exchanges and every [intermediary] registered with SEBI is mandatorily required to formulate a code of conduct governing trading by [designated persons and their immediate relatives]. The standards set out in the 49[schedules] are required to be addressed by such code of conduct

(2)[The board of directors or head(s) of the organisation, of every other person who is required to handle unpublished price sensitive information in the course of business operations shall formulate a code of conduct to regulate, monitor and report trading by their designated persons and immediate relative of designated persons towards achieving compliance with these regulations, adopting the minimum standards set out in Schedule C to these regulations, without diluting the provisions of these regulations in any manner.

Explanation -Professional firms such as auditors, accountancy firms, law firms, analysts, insolvency professional entities, consultants, banks etc., assisting or advising listed companies shall be collectively referred to as fiduciaries for the purpose of these regulations.]

NOTE: [This provision is intended to mandate persons other than listed companies and intermediaries that are required to handle unpublished price sensitive information to formulate a code of conduct governing trading in securities by their designated persons. These entities include professional firms such as auditors, accountancy firms, law firms, analysts, insolvency professional entities, consultants, banks etc., assisting or advising listed companies. Even entities that normally operate outside the capital market may handle unpublished price sensitive information. This provision would mandate all of them to formulate a code of conduct.]

(3) Every listed company, [intermediary] and other persons formulating a code of conduct shall identify and designate a compliance officer to administer the code of conduct and other requirements under these regulations.

NOTE: This provision is intended to designate a senior officer as the compliance officer with the responsibility to administer the code of conduct and monitor compliance with these regulations.

[(4) For the purpose of sub regulation (1) and (2), the board of directors or such other analogous authority shall in consultation with the compliance officer specify the designated persons to be covered by the code of conduct on the basis of their role and function in the organisation and the access that such role and function would provide to unpublished price sensitive information in addition to seniority and professional designation and shall include:-
(i) Employees of such listed company, intermediary or fiduciary designated on the basis of their functional role or access to unpublished price sensitive information in the organization by their board of directors or analogous body;
(ii) Employees of material subsidiaries of such listed companies designated on the basis of their functional role or access to unpublished price sensitive information in the organization by their board of directors;
(iii) All promoters of listed companies and promoters who are individuals or investment companies for intermediaries or fiduciaries;
(iv) Chief Executive Officer and employees upto two levels below Chief Executive Officer of such listed company, intermediary, fiduciary and its material subsidiaries irrespective of their functional role in the company or ability to have access to unpublished price sensitive information;
(v) Any support staff of listed company, intermediary or fiduciary such as IT staff or secretarial staff who have access to unpublished price sensitive information.]

Institutional Mechanism for Prevention of Insider trading.
9A. (1) The Chief Executive Officer, Managing Director or such other analogous person of a listed company, intermediary or fiduciary shall put in place adequate and effective system of internal controls to ensure compliance with the requirements given in these regulations to prevent insider trading.
(2) The internal controls shall include the following:
(a).all employees who have access to unpublished price sensitive information are identified as designated [person];
(b).all the unpublished price sensitive information shall be identified and its confidentiality shall be maintained as per the requirements of these regulations.
(c).adequate restrictions shall be placed on communication or procurement of unpublishedprice sensitive information as required by these regulations;

(d).lists of all employees and other persons with whom unpublished price sensitive information is shared shall be maintained and confidentiality agreements shall be signed or notice shall be served to all such employees and persons;
(e).all other relevant requirements specified under these regulations shall be complied with;
(f).periodic process review to evaluate effectiveness of such internal controls.
(3) The board of directors of every listed company and the board of directors or head(s) of the organisation of intermediaries and fiduciaries shall ensure that the Chief Executive Officer or the Managing Director or such other analogous person ensures compliance with regulation 9 and sub-regulations (1) and (2) of this regulation.
(4) The Audit Committee of a listed company or other analogous body for intermediary or fiduciary shall review compliance with the provisions of these regulations at least once in a financial year and shall verify that the systems for internal control are adequate and are operating effectively.
(5) Every listed company shall formulate written policies and procedures for inquiry in case of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information, which shall be approved by board of directors of the company and accordingly initiate appropriate inquiries on becoming aware of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information and inform the Board promptly of such leaks, inquiries and results of such inquiries.
(6) The listed company shall have a whistle-blower policy and make employees aware of such policy to enable employees to report instances of leak of unpublished price sensitive information.
(7) If an inquiry has been initiated by a listed company in case of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information, the relevant intermediaries and fiduciaries shall co-operate with the listed company in connection with such inquiry conducted by listed company.]

[SCHEDULE C
[See sub-regulation (1) and sub-regulation (2) of regulation 9]
Minimum Standards for Code of Conduct for Intermediaries and Fiduciaries to Regulate, Monitor and Report Trading by Designated Persons

1. The compliance officer shall report to the board of directors or head(s) of the organisation (or committee constituted in this regard) and in particular, shall provide reports to the Chairman of the Audit Committee or other analogous body, if any, or to the Chairman of the board of directors or head(s) of the organisation at such frequency as may be stipulated by the board of directors or head(s) of the organization but not less than once in a year.
2. All information shall be handled within the organisation on a need-to-know basis and no unpublished price sensitive information shall be communicated to any person except in furtherance of legitimate purposes, performance of duties or discharge of legal obligations. The code of conduct shall contain norms for appropriate Chinese Wall procedures, and processes for permitting any designated person to "cross the wall".
3. Designated persons and immediate relatives of designated persons in the organisation shall be governed by an internal code of conduct governing dealing in securities.
4. Designated persons may execute trades subject to compliance with these regulations. Trading by designated persons shall be subject to pre-clearance by the compliance officer(s), if the value of the proposed trades is above such thresholds as the board of directors or head(s) of the organisation may stipulate.
5. The compliance officer shall confidentially maintain a list of such securities as a "restricted list" which shall be used as the basis for approving or rejecting applications for pre-clearance of trades.
6. Prior to approving any trades, the compliance officer shall seek declarations to the effect that the applicant for pre-clearance is not in possession of any unpublished price

sensitive information. He shall also have regard to whether any such declaration is reasonably capable of being rendered inaccurate.

7. The code of conduct shall specify any reasonable timeframe, which in any event shall not be more than seven trading days, within which trades that have been pre-cleared have to be executed by the designated person, failing which fresh pre-clearance would be needed for the trades to be executed.

8. The code of conduct shall specify the period, which in any event shall not be less than six months, within which a designatedperson who is a connected person of the listed company and is permitted to trade in the securities of such listed company, shall not execute a contra trade. 87[In case of dealing in the units of mutual funds, thecode of conduct shall specify the period, which in any event shall not be less than two months, within which a Designated Person who is a connected person of the mutual fund/asset management company/trustees and is permitted to trade in the units of such mutual fund, shall not execute a contra trade.]The compliance officer may be empowered to grant relaxation from strict application of such restriction for reasons to be recorded in writing provided that such relaxation does not violate these regulations. Should a contra trade be executed, inadvertently or otherwise, in violation of such a restriction, the profits from such trade shall be liable to be disgorged for remittance to the Board for credit to the Investor Protection and Education Fund administered by the Board under the Act.

Provided that this shall not be applicable for trades pursuant to exercise of stock options.

9. The code of conduct shall stipulate such formats as the board of directors or head(s) of the organisation (or committee constituted in this regard) deems necessary for making applications for pre-clearance, reporting of trades executed, reporting of decisions not to trade after securing pre-clearance, and for reporting level of holdings in securities at such intervals as may be determined as being necessary to monitor compliance with these regulations.

10. [Without prejudice to the power of the Board under the Act, the code of conduct shall stipulate the sanctions and disciplinary actions, including wage freeze, suspension, recovery, etc., that may be imposed, by the intermediary or fiduciary required to formulate a code of conduct under sub-regulation (1) and sub-regulation (2) of regulation 9, for the contravention of the code of conduct. Any amount collected under this clause shall be remitted to the Board for credit to the Investor Protection and Education Fund administered by the Board under the Act.]

11. The code of conduct shall specify that in case it is observed by the intermediary or fiduciary required to formulate a code of conduct under sub-regulation (1) or sub-regulation (2) of regulation 9, respectively, that there has been a violation of these regulations, suchintermediary or fiduciary shall89[promptly inform the stock exchange(s) where the concerned securities are traded, in such form and such manner as may be specified by the Board from time to time].

[11A. In case of dealing in the units of mutual funds, the code of conduct shall specify that in case it is observed by the intermediary or fiduciary required to formulate a code of conduct under sub-regulation (2) of regulation 5F, that there has been a violation of these regulations, such intermediary or fiduciary shall promptly inform thesame to thestock exchange(s) in such form and such manner as may be specified by the Board from time to time.]

12. All designated persons shall be required to disclose name and Permanent Account Number or any other identifier authorized by law of the following to the intermediary or fiduciary on an annual basis and as and when the information changes:

a) immediate relatives

b) persons with whom such designated person(s) shares a material financial relationship

c)Phone, mobile, and cell numbers which are used by them in addition, names of [educational]institutions from which designated persons have [graduated] and names of their past employers shall also be disclosed on a one-time basis. Explanation –the term "material financial relationship" shall mean a relationship in which one person is a recipient of any kind of payment such as by way of a loan or gift 93[from a designated person] during the immediately preceding twelve months, equivalent to at least 25% [of the annual income of *such designated person] but shall exclude relationships in which the payment is based on arm's length transactions.*

13. Intermediaries and fiduciaries shall have a process for how and when people are brought 'inside' on sensitive transactions. Individuals should be made aware of the duties and responsibilities attached to the receipt of Inside Information, and the liability that attaches to misuse or unwarranted use of such information.

Issue no. 1: Whether the Noticee failed to comply with the SEBI observation letter dated January 11, 2022, with respect to the open offer of Mehai Technology Limited and thus has violated provisions of SAST Regulations and MB Regulations?

Allegation in the SCN: During the Inspection period, Noticee handled 3 Open Offers and the Open Offer of Mehai Technology Limited was selected for the inspection by the inspection team on the basis of maximum offer size. The date of opening of Open Offer was January 28, 2022 and the date for closing of Open Offer was February 10, 2022.

It was observed by the inspection team during the inspection that no details on the status of Promoters and Directors under the 'Fugitive Economic Offenders' category was provided in the Letter of Offer by the Noticee, as required vide SEBI Observation Letter dated January 11, 2022. It was further observed by the inspection team from the reply dated December 12, 2022, that the Noticee had admitted that there was an inadvertent error in mentioning the fugitive economic offender.

In view of the above, it was alleged that Noticee had failed to comply with SEBI observation letter dated January 11, 2022, with respect to the open offer of Mehai Technology Limited. Hence it was alleged that the Noticee has violated regulations 16(4) and 27(5) of SAST Regulations and clauses 6 and 7 of the Code of Conduct given under Schedule III of the MB Regulations read with regulation 13 of MB Regulations.

Reply of the Noticee: Noticee submitted that in its capacity as the manager to the open offer, it exercised thorough due diligence based on the material available pertaining to the letter of offer and it is a duty incumbent upon the acquirer to furnish true and correct details in the Draft Letter of Offer, and Noticee's obligations to that effect is to exercise its due diligence within the framework of the law. The Noticee from its own end had conducted its due diligence search from credible sources in order to ascertain the fact that none of the Promoters/Directors were classified as Fugitive Economic Offenders as of date. However, expressly specifying the same in the Draft Letter of Offer was inadvertently omitted by the Acquirer. Noticee further submitted that the lapse in the Draft Offer Letter inadvertently escaped its notice, however, no prejudice has been caused to the public investors. Noticee contended that the alleged lapse, if at all attributable to it is a technical and inadvertent error of oversight.

Findings: In terms of regulation 27(5) of SAST Regulations the manager to the open offer is required to exercise diligence, care and professional judgment to ensure compliance with the SAST Regulations. In terms of regulation 13 of MB Regulations the merchant banker is required to abide by the Code of Conduct specified in Schedule III of the MB Regulations. Further, clauses 6 and 7 of the Code of Conduct given under Schedule III of the MB Regulations require the merchant banker to ensure that adequate disclosures are made to the investors in a timely manner in accordance with the applicable regulations and guidelines so as to enable them to make a balanced and informed decision. The merchant banker is further required to ensure that the investors are provided with true and adequate information without making any misleading or exaggerated claims or any misrepresentation and are made aware of the attendant risks before taking any investment decision.

I note that vide observation Letter dated January 11, 2022, SEBI had sought information in the Letter of Offer regarding Acquirer not being 'Fugitive Economic Offender'. Although, Noticee had confirmed that the Acquirer was not a fugitive economic offender, however, MB, being the manager is required to exercise diligence and professionalism regarding the Open offer. The information / disclosures in the Letter of Offer are made to provide the requisite information about the acquirer / offer so as to enable the shareholders to make an informed decision of either continuing with the target company or to exit from the target company. The standard Letter of Offer enumerates the minimum disclosure requirements to be mandatorily contained in the Letter of Offer of an open offer.

Noticee has contended the lapse as inadvertent, however I note that the lapse by the Noticee cannot be termed as inadvertent error by oversight, once SEBI had drawn attention by way of specific observation to confirm the acquirer's status as fugitive economic offender.

I find that Noticee did not exercise diligence, care and thus did not make adequate disclosures to the investors and failed to comply with the SEBI Observation Letter dated January 11, 2022, violating second proviso to regulations 16(4) and 27(5) of SAST Regulations and Clauses 6 and 7 of Schedule III Code of Conduct read with regulation 13 of MB Regulations, 1992.

Issue no. 2: Whether the Noticee failed to undertake independent due diligence with respect to verification of background of directors and promoters of Dynamic Services & Security Limited and Mehai Technology Limited as to whether any of them are wilful defaulters, fugitive economic offenders or debarred by SEBI?

It is observed that the abovementioned issue is regarding two scrips, which are as follows:

A. With respect to SME IPO of Dynamic Services & Security Limited
B. With respect to open offer of Mehai Technology Limited

A. With respect to SME IPO of Dynamic Services & Security Limited:

Allegation in the SCN: It was alleged that the only source which was relied upon by the Noticee / MB for checking the background of the promoter of Dynamic Services & Security Limited for wilful defaulter, fugitive economic offender and debarment from accessing capital market was a website 'watchoutinvestors.com', which contains database of economic offenders. However, the search snapshot of the same has been provided by the Noticee without time stamp.

B. With respect to open offer of Mehai Technology Limited:

Allegation in the SCN: The inspection team inspected documents with respect to Mehai Technology Limited in connection with the following:

a. Whether Acquirer has been declared as a wilful defaulter.
b. Whether Acquirer has been declared as a fugitive economic offender.

With respect to the above points, the Noticee was asked by the inspection team to explain the due diligence undertaken to back the submission in the Letter of Offer- "Acquirer had confirmed that it was not categorized as a "Wilful Defaulter" in terms of the definition of wilful defaulter given in regulation 2 (1) (ze) of the SAST Regulations. It was further confirmed that the name of the acquirer was not appearing in the wilful defaulter's list of the Reserve Bank of India and was not debarred by SEBI from accessing the capital markets or from dealing in securities in terms of the provisions of section 11B of the SEBI Act or under any other Regulation of the SEBI Act". The Noticee had stated that a search on the Watchout Investors website was done for the same. However, the search snapshot of the same has been provided by the Noticee without a time stamp. Hence it was alleged that the Noticee had failed to provide evidence of having conducted due diligence.

Reply of the Noticee: Noticee contended that the aforesaid allegations are misplaced. Thorough due diligence was conducted to ascertain the background of the promoters for being a wilful defaulter, fugitive economic offender, or having been debarred from the capital market. Further, vide letter dated December 12, 2022, the Noticee further clarified that apart from relying on the data available at 'watchoutinvestors.com', a legal advisor was additionally appointed to conduct independent due diligence into the backgrounds of the promoters of the respective companies. Relevant snapshots, and other records relied upon for the purpose of such independent due diligence maintained by the Noticee in accordance with regulation 14(1)(e) of the MB Regulations have already been furnished. Noticee submitted that SEBI, vide letter dated December 5, 2022 sought to impose an additional burden of proof by demanding that the relevant snapshots taken from 'watchoutinvestors.com' must mandatorily contain the time stamp. In this regard, Noticee stated that this was never made a mandatory precondition to preservation of records, nor was this ever clarified by the Board. Noticee submitted that the absence of time stamps on the snapshots forming the part of the furnished record is no basis for alleging the violation off Clause 4 under Schedule III read with regulation 13 and regulation 14(1)(e) of the MB Regulations.

Findings: Regulation 14 (1) of MB Regulations mandates that every merchant banker is required to keep and maintain certain books of account, records, and documents. In terms of regulation 13 every merchant banker shall abide by the Code of Conduct as specified in Schedule III. Further, in terms of clause 4 of the Code of Conduct given under Schedule III a merchant banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment. Further, in terms of regulation 245 (3) of ICDR Regulations the lead manager(s) is required to 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.

I note that, the aforesaid violation relates to non-maintenance of records, documents or books of account of the due diligence undertaken to back the submission in the Letter of Offer by the Noticee, that the acquirer / promoter is not a wilful defaulter, fugitive economic offender and not debarred from accessing capital market. Noticee had for the said submission in the Letter of Offer submitted screenshots from the website 'watchoutinvestors.com' as record. The records as mandated to be maintained are regarding due-diligence exercised for Pre-issue activities of the issue management. I note that although the Noticee has submitted the screenshot as an evidence, however, it is difficult to ascertain, whether, the Noticee took those screen shot at the pre-issuance of the open offer or IPO or at the later stage when the inspection was being conducted. The screenshots though may be admissible, however, should contain the time-stamping. The screenshots as an evidence lacks the hash values and metadata needed to prove the authenticity. However, benefit of doubt may be given to the Noticee. Hence I do not find the Noticee to be in violation of regulation 14(1)(e), clause 4 of Schedule III Code of Conduct read with regulation 13 of MB Regulations and regulation 245(3) of ICDR Regulations.

Issue no. 3: Whether the Noticee failed to classify two entities under the promoter group of the issuer, Indong Tea Company Limited?

Allegation in the SCN: The Inspection was conducted with respect to IPO of Indong Tea Company Limited. It was observed by the inspection team that there were two Limited Liability Partnerships' ("**LLPs**") in which promoters of the issuer company were holding more than 20% of capital and were not classified as Promoter group. It was observed that there have been disclosure lapses/ incorrect disclosures given in the draft offer documents. Hence, it was inferred that there was clear gap in the due diligence by the Noticee and a failure on the part of the Noticee to provide true and correct information in the draft document. The said disclosure lapses/ incorrect disclosures were admitted by the Noticee in its reply dated December 12, 2022, and email dated February 08, 2023.

Reply of the Noticee: Noticee submitted that non classification of two group entities as promoter groups were excluded for the sole premise that the due diligence revealed that both the entities had no substantial business operations, and had never undertaken any related party transactions with the Issuer. On account of the same, since these entities had no material effect on the Issuer Company, they were not classified as Promoter group, notwithstanding the fact that their shareholding in the issuer being in excess of 20% was duly disclosed in the prospectus filed with BSE. Pursuant to the query raised by the Stock Exchange (NSE), the same was duly rectified. Noticee stated that such inadvertent lapses are human errors, and the very object of a multi-facet scrutiny mechanism of a public issue is to ensure that such lapses are identified and corrected. In any event it is pertinent to note that the Public Offer of Indong Tea was subsequently withdrawn from the NSE, and the same was placed afresh before the BSE, wherein no such similar queries were raised by the exchange. Thus, the Public Issue in the NSE never saw the light of day, and the entire application became redundant and fallen infructuous.

Findings: Regulation 13 of the MB Regulations mandates that every merchant banker shall abide by the Code of Conduct as specified in Schedule III. Further, in terms of clause 4 of the Code of Conduct given under Schedule III a merchant banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment. Further, in terms of clause 6 of the Code of Conduct given under Schedule III a merchant banker is required to ensure that adequate disclosures are made to the investors in a timely manner in accordance with the applicable regulations and guidelines so as to enable them to make a balanced and informed decision. Further, in terms of regulation 245 (3) of ICDR Regulations the lead manager(s) is required to 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.

I note that the IPO prospectus carries minute details, including the company overview, risk factors, business model, sector information, etc. The objective of IPO prospectus is to let the investors make an informed decision on whether to invest in a firm's IPO or not. I note that the primary role of an MB is to carry on activity of the issue management which includes preparation of prospectus diligently and it has to ensure proper care, while checking the veracity and adequacy of disclosure in the offer document. Noticee has contended that the public issue in the NSE never saw the light of day, and the entire IPO application became redundant and fallen infructuous. I note that the contention of the Noticee that ultimately IPO at NSE did not went through and the violation never saw the light of the day is not maintainable as Clause 4 and 6 of Schedule III (Code of Conduct) read with regulation 13 of MB Regulations clearly lay down that the MB has to at all times exercise due diligence, ensure proper care and also ensure that adequate disclosures are made to the investors. The Code of Conduct does not creates any exception in case the public issue does not goes through.

Therefore, I find that the Noticee is in violation of Clause 4 and 6 of Schedule III (Code of Conduct) read with regulation 13 of MB Regulations and regulation 245(3) read with Schedule VI of ICDR Regulations.

Issue no. 4: Whether the Noticee furnished incorrect declaration in the draft prospectus in respect of the issuer company viz QVC Exports Limited being in compliance with all relevant provisions of the Companies Act, 2013?

Allegation in the SCN: The Inspection was conducted with respect to IPO of QVC Exports Limited. It was alleged in the SCN that Noticee had made an untrue and incorrect declaration in the draft prospectus by declaring on page 196 that the Issuer company has complied with all the relevant provisions of the Companies Act, 2013. Section 19 of the Companies Act, 2013, states that no company shall, either by itself or through its nominees, hold any shares in its holding company, and no holding company shall allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void. It was observed by the inspection team that 3,92,154 shares had been issued by the issuer company to its subsidiary on March 31, 2014, through private placement which was in violation of the provisions of section 19 of the Companies Act, 2013. In case the issuer company proceeds with IPO, these impugned shares forming 6.23% of the post-issue capital would also be listed and traded at the Exchange. The Noticee had submitted before the inspection team that the issuer company had never filed the consolidated financial statements since the applicability of the Companies Act was never noticed by the issuer company. In terms of section 137 of the Companies Act, 2013 the company is mandatorily required to file with the Registrar within thirty days of the date of the annual general meeting, a copy of the financial statements, including consolidated financial statement, if any, (Accounts and Audit. Compliance & AMP; Analysis. Form AOC-4) along with all the documents which are required to be or attached to such financial statements under the Companies Act, 2013, duly adopted at the annual general meeting of the company, in such manner, with such fees or additional fees as may be prescribed within the time specified under section 403 of the Companies Act, 2013.

As observed above, Issuer company was in violation of provisions of section 19 of the Companies Act, 2013 as there is a bar on the subsidiary company to hold shares in its holding company. It was observed that the issuer company had not filed AOC-4, for a consolidated financial statement thereby violating section 137 of the Companies Act, read with rule 12 of the Companies (Accounts) Rules, 2014. It was further observed from the letter dated July 28, 2022, of the Noticee addressed to NSE that the issuer company was planning to merge the subsidiary company to mitigate the problem, and it was also stated that the issuer company has initiated the process for merger of the subsidiary company into holding company to mitigate the non-compliance and that will be completed in due course. Based on the aforesaid reply, the Exchange directed the Noticee to ensure rectification/ redressal of the non-compliances observed on the part of the issuer company, post which the Exchange would proceed with processing the application for IPO.

Reply of the Noticee: Noticee submitted that the aforesaid violations were identified by it during course of due diligence and were notified to the issuer. Such lapses were noted as one of the primary Risk Factors in the draft prospectus. No lack of due diligence could be attributed to it as the same have been identified and duly disclosed in the draft prospectus. Noticee submitted that the public issue of QVC Exports was subsequently withdrawn as the Issuer intended to proceed with a merger with its subsidiary in order to rectify the violation of Section 19 of the Companies Act. Therefore, notwithstanding the fact that the generic statement pertaining to the compliance of statutory provisions is merely an oversight in light of the specific disclosures as above, it is pertinent to note that the public issue of QVC Exports was eventually withdrawn, and the entire exercise automatically concludes and becomes redundant with such withdrawal. The public issue itself did not see the light of day, and therefore, any inadvertent error, which in any case does not amount to any sort of concealment or misstatement does not warrant the rigours of the alleged violations.

Findings: In terms of regulation 13 every merchant banker is required to abide by the Code of Conduct as specified in Schedule III. Further, in terms of clause 4 of the Code of Conduct given under Schedule III a merchant banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment. Further, in terms of clause 7 of the Code of Conduct given under Schedule III a merchant banker shall endeavour to ensure that the investors are provided with true and adequate information without making any misleading or exaggerated claims or any misrepresentation and are made aware of the attendant risks before taking any investment decision. Further, in terms of regulation 245 (3) of ICDR Regulations the lead manager(s) is required to 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.

I note that in terms of Clause 7 of the Code of Conduct given under Schedule III, Noticee has to ensure that the information provided in the draft offer document is true without making any misleading or exaggerated claims or any misrepresentation. I note that Noticee had declared the lapses as one of the primary Risk Factors in the draft prospectus, however, it had also made a declaration certifying that all relevant provisions of the Companies Act, 2013 and Regulations or guidelines issued by the SEBI have been complied with.

I also note that the Noticee had identified the violations of the Issuer company with respect to Companies Act, 2013, meanwhile making a generic statement on Page 196 that the Issuer Company had complied with respect to Companies Act, 2013. Further, since the violation was never committed i.e. since it never saw light of the day, I do not find the Noticee to be in violation of clause 4 and 7 of Schedule III Code of Conduct read with regulation 13 of MB Regulations and regulation 245(3) read with Schedule I of ICDR Regulations.

Issue no. 5: Whether the Noticee failed to upload Investor Charter on its website?

Allegation in the SCN:

It was alleged that no Investor Charter was found uploaded on the website of the Noticee.

Reply of the Noticee: Noticee admitted that there was a lapse in making the Investors' Charter available on its' website in a timely manner. When these lapses were notified to it, the same were promptly complied with and conveyed to the Inspection Team vide letter dated December 12, 2022. Noticee submitted that the error is inadvertent, technical, and has not prejudicially affected the Investor Grievance Redressal Mechanism already put in place by it.

Findings: SEBI had come out with Circular Ref. No. SEBI/HO/CFD/DCR2/P/CIR/2021/0661 dated November 23, 2021, with a view to provide investors an idea about the various activities pertaining to primary market issuances as well as exit options like Takeovers, Buybacks or Delistings, an Investor Charter has been developed in consultation with the Merchant Bankers. This charter is a brief document in an easy to understand language and contains different services to the investors at one single place for ease of reference. Further, all the registered Merchant Bankers are required to disclose on their website, Investor Charter for the categories given therein. Additionally, in order to bring about transparency in the Investor Grievance Redressal Mechanism, it has also been decided that all the registered Merchant Bankers shall disclose on their respective websites, the data on complaints received against them or against issues dealt by them and redressal thereof, on each of the aforesaid categories separately as well as collectively, latest by 7th of succeeding month, as per the format given therein. Further, these disclosure requirements are in addition to those already mandated by SEBI.

I note that displaying of investor charter is a mandatory requirement and the Noticee has himseld admitted that he had not displayed the Investor charter. Noticee had contended that not displaying of the investor charter is a technical violation. In this regard, I note that the violation cannot be shrugged off as a technical violation as the very purpose of the investor charter is keeping the investors informed and disseminating the information to the investors.

Thus, I find Noticee to be in violation of SEBI circular SEBI/HO/CFD/DCR2/P/CIR/2021/0661 dated November 23, 2021

Issue no. 6: Whether the Noticee failed to create and utilise a dedicated email ID for investor grievances?

Allegation in the SCN: Inspection team carried out an inspection to ascertain whether the Investor Grievances against the Noticee or the issues handled by the Noticee have been addressed satisfactorily and within the timelines prescribed and whether the Investor Grievance Redressal Policy of the Noticee is in place, etc.

It was observed with regard to the mechanism deployed for handling investor grievances that there was no dedicated email ID designated for the purpose of receipt and redressal of the investor complaints. The inspection team had suggested that the Noticee maintain a dedicated email ID for receipt and redressal of investor complaints and the same may be disclosed in all offer documents, going forward.

It was observed that pursuant to the above the Noticee had submitted that they have created a dedicated email id investors@finshoregroup.com and going forward the same will be disclosed in the offer documents.

Reply of the Noticee: Noticee submitted that it has always taken all necessary steps to address investor grievances promptly, with no allegations to the contrary. Noticee contended that the Circular does not mandate, but merely suggests that a dedicated email be maintained for grievance redressal and when these lapses were notified to the Noticee, the same were promptly complied with and conveyed to the Inspection Team vide letter dated December 12, 2022.

Findings:SEBI has come out with Circulars Ref. No. SEBI/HO/MIRSD/DoR/AV/AH/15042/2021 dated July 12, 2021, and MIRSD/DPS III//Cir-01/07 dated January 22, 2007. The said circulars were issued pursuant to the receipt of representations from various investors requesting a direct and quicker forum for enabling them to register their complaints expeditiously with the intermediaries/listed companies/ stock exchanges. It has also been observed in several cases that pursuant to registering a complaint, the investors do not have any mode for a follow-up or monitoring the processing of their complaints. In order to address the aforesaid representations, it is felt desirable to designate an exclusive e-mail ID of the grievance redressal division/compliance officer in which the investors would be able to register their complaints and also take necessary follow-up actions as necessary. Such a process would not only expedite the redressal of the complaints of the investors but also enable several investors across the country to register their complaints through a single, centralized, exclusive e-mail ID that is designated for the purpose. Accordingly, all registered intermediaries including Merchant Bankers, were advised to designate an e-mail ID of the grievance redressal division/compliance officer exclusively for the purpose of registering complaints by investors. The above entities are also advised to display the email ID and other relevant details prominently on their websites and in the various materials/pamphlets /advertisement campaigns initiated by them for creating investor awareness.

Noticee contended that the Circular does not mandate, but merely suggests that a dedicated email be maintained for grievance redressal. In this regard, I note that although the circular dated January 22, 2007, bearing reference no. MIRSD/DPS III//Cir-01/07 does only advise that a dedicated email be maintained for grievance redressal, however the circular dated July 12, 2021 bearing reference no. SEBI/HO/MIRSD/DoR/AV/AH/15042/2021, which deals with updation of information pertaining to registration on SEBI Intermediary portal, casts an obligation on MB regarding creation and utilisation of dedicated email ID for investor grievances. The relevant text of the circular dated July 12, 2021 is as follows:

"…3. *intermediaries shall update email IDs and contact details on the Sl Portal w.r.t the Compliance Officers immediately;*

6. *The updation on the Sl Portal in the manner as mentioned above is required to be updated latest by August 31, 2021 and thereafter on real time basis, without any reminder from SEBI. Failure to make updation through the Sl Portal would make the intermediary liable for any enforcement action by SEBI as deemed fit."*

From the aforesaid, I note that obligation was cast on the Noticee to update the email id latest by August 31, 2021 and it was not mere advice. I note that an exclusive e-mail ID of the grievance redressal division / compliance officer acts as a quicker and proper forum for the redressal. Creation of a dedicated email id for investor grievance is an act in furtherance of the interest of investors and by not creating the dedicated email id which the Noticee was mandated to do has violated SEBI circulars SEBI/ HO/ MIRSD/ DoR/ AV/AH/ 15042/ 2021 dated July 12, 2021 and MIRSD/DPS III//Cir-01/07 dated January 22, 2007.

Issue no. 7: Whether the Noticee used person-centric email IDs instead of general email IDs for regulatory communications?

Allegation in the SCN: It was observed that the Noticee had used person-centric email IDs for communicating with SEBI, inspection-related correspondence, filing of issue-related documents. It has further been confirmed by the Noticee that the email ID of the Compliance Officer is used for regulatory communications viz. "ramakrishna@finshoregroup.com". It was observed that the Noticee has failed to create and utilise a dedicated email ID for regulatory communication.

Reply of the Noticee: Noticee submitted that it has been using the existing email ID, ramakrishna@finshoregroup.com for regulatory correspondences. Noticee stated that albeit the same is person centric, till date, all regulatory correspondences have been done using the said email ID, and at this stage, changing the same would lead to tremendous administrative difficulties and may pose serious challenges in ensuring proper compliance and due diligence in other regulatory matters where the said ID is presently in use. Further, the Noticee submitted that it shall take steps to ensure that a non-person centric email ID is created for future use. However, owing to the fact that seamless regulatory compliance has been effected without any hindrance over years, charging it with something as harsh as regulatory non-compliance would be harsh, excessive and draconian.

Findings: It was observed from SEBI Circular Ref. No. MIRSD/DPSIII/Cir-24/08 dated July 25, 2008 that SEBI registered intermediaries including Merchant Bankers were advised to create a designated e-mail id for regulatory communications. This e-mail id shall be an exclusive e-mail id only for the above purpose and should not be a person-centric e-mail id. Further, it was required that the designated e-mail ID shall be communicated to SEBI at intermediary@sebi.gov.in as per the format prescribed therein latest by August 8, 2008.

The Circular clearly mentioned requirement of creating a designated email ID for regulatory compliances and the notice ought to have followed it. Hence I find that Noticee was in violation of SEBI Circular No. MIRSD/DPSIII/Cir-24/08 dated July 25, 2008.

Issue no. 8: Whether the information as required under SEBI Circular No. CIR/MIRSD/3/2014 dated August 28, 2014 was not displayed in the office premises of Noticee as on the date of inspection ?

Allegation in the SCN: In terms of SEBI Circular No. CIR/MIRSD/3/2014 dated August 28, 2014, all registered intermediaries (including Merchant Bankers) need to display the following information in the prescribed format in their offices:

Dear Investor,
In case of any grievance/complaint against the Intermediary:

a. Please contact Compliance Officer of the Intermediary (Name and Address)/ email-id (xxx.@email.com) and Phone No. -91-XXXXXXXXXX.
b. You may also approach CEO / Partner / Proprietor (Name)/ email-id (xxx.@email.com) and Phone No. -91-XXXXXXXXXX.
c. 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 /1800 266 7575.

During the inspection, it was observed that information with respect to points (a) and (b) had been provided on the notice board of the Noticee. However, no information with respect to point no. c was found. The Noticee had subsequently submitted that compliance with respect to point no. c had been done.

Reply of the Noticee: Noticee admitted the delay on its part in complying with the circular and the same has been wholly complied and notified to SEBI vide letter dated December 12, 2022. In light of such compliance at the stage of inspection itself, Noticee submitted that such lapse ought not be treated as a regulatory violation.

Findings: From the given facts it is clear that at the time of conducting inspection, the Noticee was not in compliance with the requirement of displaying the information on the Notice Board as mandated by the circular dated August 28, 2014 as the period of inspection was from April 01, 2021 to March 31, 2022 and the observation of the inspection were communicated on December 05, 2022. I note that the purpose of displaying the aforementioned requisite information helps the investor to redress the grievance against the MB. Thus, not displaying the said details regarding redressal with SEBI should not be taken lightly. Thus, I find the Noticee to be in violation of SEBI Circular No. CIR/MIRSD/3/2014 dated August 28, 2014.

Issue no. 9: Whether the Noticee failed to comply with the requirements under PIT Regulations (viz. Code of Conduct, maintaining list of designated persons, Structured Digital Database and deficiencies in the internal controls put in place by it, etc.)?

Allegation in the SCN: The inspection team on a sample basis sought for inspection of the following records to ascertain whether the Noticee, as an intermediary, had complied with PIT Regulations:

a. Details of Compliance Officer designated under PIT Regulations along with a certified true copy of Board Resolution passed for the same.
b. Code of Conduct under PIT Regulations (Schedule C) along with a certified true copy of the Board Resolution passed for the same.
c. List of Designated Persons (DPs), as per PIT Regulations.
d. Write up on internal controls along with an extract of Board minutes reviewing the same.
e. Walk through of Structured Digital Database (SDD) required to be maintained under PIT Regulations.

The inspection team observed as follows:

a. The Code of Conduct prescribed under PIT Regulations was not updated since its approval i.e., June 13, 2015. Further, no restrict list/ grey list is being maintained by the Compliance Officer.

b. On checking the list of Designated Persons, it was observed that only 2 persons, Mr. Srinivasan Iyengar and Mr. Amrit Nandy, have been categorized as 'Designated Persons'. The Merchant Banking Division includes other employees who have regular access to Unpublished Price Sensitive Information (hereinafter "**UPSI**") and accordingly, all such employees having any access to UPSI ought to have been included in the list of Designated Persons.

c. No SDD was found in place, which was confirmed by the Compliance Officer and the Company Secretary.

d. The internal controls put in place by the Noticee were not found to be satisfactory due to lack of SDD, no restricted list, conservative list of DPs, lack of Chinese Wall policy, etc.

Reply of the Noticee: Noticee submitted that it had always ensured a high standard of integrity in its dealings and have maintained stringent internal controls regarding access to UPSI pertaining to securities. However, there has been some delay in adopting the usage of a specific software for a SDD to maintain records of UPSI. However, it is pertinent to note that during the period of inspection when clarifications were sought from the Noticee, the Noticee vide reply dated December 12, 2022 provided a substantiated response thereby clarifying that it had already updated its Code of Conduct, and had adopted the use and implementation of the same. The Noticee further stated that it has already adopted a restricted list / grey list in furtherance of the mandate of the PIT Regulations. Thus the Noticee contended that, at the stage of inspection itself, all such lacunae in the regulatory control systems of the Noticee were addressed and rectified. Noticee stated that these regulatory lacunae have not lead to any unfair market practices which have caused prejudice to the general public investors, and the same have been remedied at the earliest.

Findings: In terms of regulation 3 of PIT Regulations, no insider shall communicate, provide, or allow access to any UPSI, relating to a company or securities listed or proposed to be listed, to any person including other insiders except where such communication is in furtherance of legitimate purposes, the performance of duties or discharge of legal obligations.

Regulation 9(1) of PIT Regulations requires that the Board of Directors of every listed company and the Board of Directors or head(s) of the organisation of every intermediary shall ensure that the Chief Executive Officer or Managing Director shall formulate a code of conduct with their approval to regulate, monitor and report trading by its designated persons and immediate relatives of designated persons towards achieving compliance with these Regulations, adopting the minimum standards set out in Schedule B (in case of a listed company) and Schedule C (in case of an intermediary) to these Regulations, without diluting the provisions of these Regulations in any manner.

In terms of regulation 9 (2) of PIT Regulations it is required that the Board of Directors or head(s) of the organisation, of every other person who is required to handle UPSI in the course of business operations shall formulate a code of conduct to regulate, monitor and report trading by their designated persons and immediate relative of designated persons towards achieving compliance with these Regulations, adopting the minimum standards set out in Schedule C to regulation 9 of PIT Regulations without diluting the provisions of these Regulations in any manner. It is further required in terms of regulation 9 (3) of PIT Regulations that every listed company, intermediary and other persons formulating a Code of Conduct shall identify and designate a compliance officer to administer the code of conduct and other requirements under these Regulations. For the purpose of sub regulation (1) and (2) of regulation 9 of PIT Regulations, the Board of Directors or such other analogous authority shall in consultation with the compliance officer specify the designated persons to be covered by the Code of Conduct on the basis of their role and function in the organisation and the access that such role and function would provide to unpublished price sensitive information in addition to seniority and professional designation.

Regulation 9A (1) of PIT Regulations mandates the Chief Executive Officer, Managing Director or such other analogous person of a listed company, intermediary or fiduciary shall put in place adequate and effective system of internal controls to ensure compliance

with the requirements given in these Regulations to prevent insider trading. Further, sub regulation 2 of regulation 9A of PIT Regulations provides the internal controls as follows:
(a) all employees who have access to unpublished price sensitive information are identified as designated person;
(b) all the unpublished price sensitive information shall be identified and its confidentiality shall be maintained as per the requirements of these Regulations;
(c) adequate restrictions shall be placed on communication or procurement of unpublished price sensitive information as required by these Regulations;
(d) lists of all employees and other persons with whom unpublished price sensitive information is shared shall be maintained and confidentiality agreements shall be signed or notice shall be served to all such employees and persons;
(e) all other relevant requirements specified under these Regulations shall be complied with;
(f) periodic process review to evaluate effectiveness of such internal controls.

Further, sub-regulation 3 of regulation 9A of PIT Regulations provides that the Board of Directors of every listed company and the Board of Directors or head(s) of the organisation of intermediaries and fiduciaries shall ensure that the Chief Executive Officer or the Managing Director or such other analogous person ensures compliance with regulation 9 and sub-regulations (1) and (2) of this regulation. Further, sub-regulation 4 of regulation 9A of PIT Regulations provides that the Audit Committee of a listed company or other analogous body for intermediary or fiduciary shall review compliance with the provisions of these Regulations at least once in a financial year and shall verify that the systems for internal control are adequate and are operating effectively.

Sub-regulation 5 of regulation 9A of PIT Regulations provides that every listed company shall formulate written policies and procedures for inquiry in case of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information, which shall be approved by board of directors of the company and accordingly initiate appropriate inquiries on becoming aware of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information and inform the Board promptly of such leaks, inquiries and results of such inquiries.

Sub-regulation 6 of regulation 9A of PIT Regulations provides that the listed company shall have a whistle-blower policy and make employees aware of such policy to enable employees to report instances of leak of unpublished price sensitive information and sub-regulation 7 of regulation 9A of PIT Regulations provides that if an inquiry has been initiated by a listed company in case of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information, the relevant intermediaries and fiduciaries shall co-operate with the listed company in connection with such inquiry conducted by listed company.

Further, schedule C given under sub-regulations (1) and (2) of regulation 9 of the PIT Regulations provides minimum standards for the Code of Conduct for intermediaries and fiduciaries to regulate, monitor, and report trading by designated persons.

I note that the objective of PIT regulation is to put stringent internal controls regarding access / dissemination and trading in possession of UPSI. As noted above the Code of Conduct was not updated since its approval i.e., June 13, 2015, no restrict list/ grey list is being maintained by the Compliance Officer, all such employees having access to UPSI were not included in the list of Designated Persons and no SDD was found in place at the time of conducting inspection. It was only after the said lacunae was brought to its notice that the Noticee acted upon it. Thus, at the time of inspection the Noticee's overall internal controls put in place in pursuance of the provisions of PIT Regulations have been found to be lacking, thereby violating the provisions of regulations 3, 9, 9A and Schedule C of the PIT Regulations.

Issue no. 10: **Whether the Noticee did not disclose the information pertaining to its group companies in the reply to the PIQ?**

Allegation in the SCN: Inspection Team observed from the information submitted in PIQ, that the Noticee had stated that it does not have any Associate or Group company. The same was verified from the Annual Report of the Noticee for the financial year ended March 31, 2022, and its website. It was observed from the Annual Report of Noticee for the financial year ended March 31, 2022, following companies were shown in the list of the related party as per note 22.3 of the Notes to Accounts.

(a) Revati Commercial Limited

(b) Finshore Commodities Private Limited

(c) Revati Holdings Private Limited

It was noted from the information submitted in PIQ that, the Noticee does not have any Associate or Group company. As detailed above, the shareholding pattern of all three companies was sought from the Noticee during the inspection, and the same is placed below:

a) Revati Commercial Limited:

Sl. No.	Shareholder Name	No of Shares Held	Percentage Shareholding
A	**Promoter**		
	Individual		
1	S. Ramakrishna Iyengar	31,20,000	24.66%
2	Kutti Venkat Bala	15,00,000	11.86%
	Total	**46,20,000**	**36.52%**
	Bodies Corporate		
3	Indowind Energy Limited	24,00,000	18.97%
4	Soura Capital Private Limited	17,25,000	13.64%
5	Indus Capital Private Limited	17,25,000	13.64%
	Total	**58,50,000**	**46.25%**
B	**Public Shareholders**		
	Other-Individual		
	Individual	20,30,000	16.07%
	Bodies Corporate		
	Finshore Management Services Limited	1,50,000	1.19%
	Total	**21,80,000**	**17.26%**
	Grand Total	**1,26,50,000**	**100%**

b) Revati Holdings Private Limited:

Sl. No.	Shareholder Name	No of Shares Held	Percentage Shareholding
1	S. Ramakrishna Iyengar	25,05,000	98.04%
2	Bhavya Ram Iyengar	50,000	1.96%
	Grand Total	**25,55,000**	**100.00%**

c) Finshore Commodities Private Limited:

Sl. No.	Shareholder Name	No of Shares Held	Percentage Shareholding
1	Lakshman Srinivasan	2,00,001	80.01%
2	Finshore Management Services Limited	49,999	19.99%
	Grand Total	**2,50,000**	**100.00%**

It was observed from the above that the promoters of the Noticee were holding the majority of shareholding in the above companies. Further, it was observed that the Noticee itself was holding 19.99% in Finshore Commodities Private Limited. Further, as per the MCA database, all three companies and the Noticee are having same registered office address. In view of the same, it was alleged that the Noticee has mis-represented the material facts before the inspection.

Reply of the Noticee: Noticee submitted that definition of "group companies" as per regulation 2(1)(t) of the ICDR Regulations which mandate the existence of related party transactions during the relevant period for a company to be classified as a group entity. Noticee submitted that the aforesaid companies were not named as group entities on account of the fact that there were no related party business transactions undertaken by the Noticee with such companies. Noticee further submitted that it has at all times made true and complete disclosures, specific details of the same have already been furnished to the Board in course of inspection and the names of all the three entities have been disclosed in the Audited Financial Statements of the Noticee as furnished with the Board, and there is no question of suppressing any material fact. Thus, such allegations of suppressing details of group companies is largely misconceived and unsustainable as they have been disclosed in the Financial Statements of the Company, and such entities are not group entities within the meaning ascribed to it under the ICDR Regulations.

Findings: The definition of “Group Companies” as per Regulation 2(1)(t) of the ICDR Regulations is as below:

"group companies", shall include such companies (other than promoter(s) and subsidiary/subsidiaries) with which there were related party transactions, during the period for which financial information is disclosed, as covered under the applicable accounting standards, and also other companies as considered material by the board of the issuer;

I note that the aforesaid 3 companies were neither promoter of the Noticee nor they were subsidiaries. Additionally though the Noticee had stated itself as related party in the Annual Report there is no allegation regarding related party transactions. Therefore, the 3 companies cannot be termed as the Group companies.

The definition of "Associate Company" as per Section 2 (6) of the Companies act, 2013 is reproduced below:

"*associate company", in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.*

[Explanation.-- For the purpose of this clause,--

(a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement;

The aforesaid definition of associate company mentions a company in which other company has a significant influence:

I note that explanation to the said definition mentions 2 parameters for significant control viz:

a) control of at least twenty per cent of total voting power; and
b) control of or participation in business decisions under an agreement

Following were the promoters and shareholders of the Noticee as on March 31, 2022:

Sr. No.	Name of Shareholder	No of shares held	% of total share capital
A	**Promoter**		
	Individual		
1	Lakshman Srinivasan	33,09,150	63.35%
2	Srinivas Ramakrishna Iyengar	12,21,960	23.39%
	Total	**45,31,110**	**86.74%**
B	**Public Shareholders**		
	Individual		
3	Sireen Sadhu	103000	1.97%
4	Bhavya Ram Iyengar	10	0.00%
5	Hema Lakshman	10	0.00%
6	Komal Daga	10	0.00%
7	Soumen Ghosh	10	0.00%
	Total	**103040**	**1.97%**
	Bodies Corporate		
8	Bekae Properties Pvt. Ltd.	74550	1.43%

Sr. No.	Name of Shareholder	No of shares held	% of total share capital
9	Indonet Global Ltd.	505000	9.67%
10	Apollo Advisory Services Pvt. Ltd.	10000	0.19%
	Total	**589550**	**11.29%**
	Grand Total	**5223700**	**100%**

I note that Finshore Commodities Limited had two promoters i.e. Mr. Lakshman Srinivasan who was holding 80.01% of shares and the Noticee, who was holding 19.99% of shares. I further note that Mr. Lakshman Srinivasan was also the promoter of Noticee holding 63.35% of the shareholding. Therefore Noticee and individual promoter of Noticee had combined holding of 100% in Finshore Commodities Limited. I note that similar issue was dealt by a final order in the matter of the Bombay Dyeing and Manufacturing Company Ltd. dated October 21, 2022, wherein the Whole Time Member had observed as below:

"26.As observed in the earlier part of this order, the shareholding in Scal was deliberately designed in such a manner that even though BDMCL directly held only 19% in the share capital of Scal, but indirectly it was able to exercise control over the entire share capital of Scal. Further, as held in the preceding paragraph, the board of Scal was not independent, it was under the influence of BDMCL/ Wadia Group. Untill FY 2017-18, Scal and BDMCL had thesame registered office addressand Scal had the same telephone no. as that of BDMCL."

In the instant case also not only Finshore Commodities Limited had same address as Noticee but other two entities also shared the same office address. From the aforesaid observation it can be said that indirectly Noticee was holding 20% of the voting power.

Further, in Revati Commercial Limited and Revati Holdings Private Limited although promoter shareholder of Noticee Mr. Srinivas Ramakrishna Iyengar holds 24.66% and 98.04% respectively, however, substantiating control of 20% of voting power seems far fetched. Thus, benefit of doubt may be given to Noticee in this regard.

Thus, I do not find the Noticee to be in violation of regulation 13 read with Clause 20 of Schedule III of MB Regulations.

Issue no. 11: Whether the Noticee did not disclose the information in reply to PIQ with respect to the Administrative Warnings and Deficiency Letters previously issued by SEBI against it?

Allegation in the SCN: It was observed by the Inspection Team that SEBI had issued Administrative Warning & Deficiency letter dated July 03, 2020, pursuant to the inspection conducted during December 30, 2019 to January 01, 2020, and January 23 and January 24, 2020. However, the Noticee has provided NIL information in PIQ Point no. 5 with respect to adverse findings as per the final action letter pursuant to the previous inspection.

Reply of the Noticee: Noticee has submitted that as far as the allegations pertaining to non-disclosure of steps taken in response to the pre-inspection questionnaire regarding the Administrative Warnings and Deficiency Letters issued for relevant date of inspections, viz. December 30, 2019 - January 01, 2020 and January 23 and January 24, 2020 the allegations are largely misconceived. All responses which were sought after, and all corrective measures which were to be enforced pursuant to the Deficiency Letter was duly complied with, and complete details pertaining to the same were furnished to the Board vide Letter dated July 14, 2020. Noticee contended that there is no question of Non-disclosure of information, and all such information sought vide the PIQ was provided to the Board, and no additional information was sought pursuant to the same.

Findings: Before moving forward, the extract of the reply by the Noticee dated September 14, 2022 with respect to the Administrative Warnings and Deficiency Letters previously issued by SEBI against it is as below:

5. **Details of Inspection & Regulatory action (enquiry, adjudication or administrative warning etc.) taken by SEBI against the entity during last 3 years.**

Period of Inspection	Adverse finding as per final action letter	Action (Admin Warning, Deficiency, Adjudication, Enquiry etc.)
April 01,2018-Nov 30,2019	NA	Refer Exhibit-I

I note that specific question was asked from the Noticee regarding regulatory action against the Noticee, to which Noticee replied as "NA" meaning 'not applicable'. The responses sought were not regarding steps taken or corrective measures, instead it was regarding the past regulatory actions against the Noticee.

In terms of regulation 13 of the MB Regulations every merchant banker shall abide by the Code of Conduct as specified in Schedule III. Further clause 20 given under Schedule III requires that the merchant banker shall not make untrue statement or suppress any material fact in any documents, reports or information furnished to the Board.

I find that Noticee by not providing the correct information is in violation of regulation 13 read with Clause 20 of Schedule III of MB Regulations.

12. Thus, I conclude that Noticee is in violation of the following Issues and therefore in violation of corresponding provisions which is as follows:

Issue No.	Issue	Violations of the provisions
1	Failure to comply with the SEBI observation letter with respect to the open offer. (Disclosure of background of the Acquirer)	**(i)** second proviso to regulation 16(4) of SAST Regulations; **(ii)** regulation 27(5) of SAST Regulations; **(iii)** clauses 6 and 7 of Schedule III Code of Conduct read with regulation 13 of MB Regulations 1992.
3	Failed to classify two entities under the promoter group of the issuer	**(i)** clause 4 and 6 of Schedule III (Code of Conduct) r/w regulation 13 of MB Regulations; **(ii)** regulation 245(3) r/w Schedule VI of ICDR Regulations.

Issue No.	Issue	Violations of the provisions
5	Failure to upload Investor Charter on website of the Noticee.	SEBI circular SEBI/HO/CFD/DCR2/P/CIR/ 2021/0661 dated November 23, 2021
6	Failure to create and utilise a dedicated email ID for investor grievances.	SEBI circulars SEBI/ HO/ MIRSD/ DoR/ AV/AH/ 15042/ 2021 dated July 12, 2021 and MIRSD/DPS III//Cir-01/07 dated January 22, 2007
7	Use of person-centric email IDs instead of general email IDs for regulatory communications.	SEBI Circular No. MIRSD/DPSIII/Cir-24/08 dated July 25, 2008
8	Information as required under SEBI Circular No. CIR/MIRSD/3/2014 dated Aug 28, 2014 not displayed in the office premises of MB as on the date of inspection.	SEBI Circular No. CIR/MIRSD/3/2014 dated Aug 28, 2014.
9	Failure to maintain list of designated persons, Structured Digital Database and deficiencies in the internal controls put in place by the MB.	regulations 3, 9, 9A and Schedule C of PIT Regulations.
11	Non-disclosure of information in reply to PIQ with respect to the Administrative Warnings and Deficiency Letters previously issued by SEBI against the MB.	regulation 13 read with Clause 20 of Schedule III of MB Regulations.

Issue no. 12: Do the violations, if any, on the part of the Noticee attract penalty under sections 15 HB and 15A(a) of the SEBI Act?

13. It has been established in foregoing paragraphs that, Noticee has violated the provisions of the SAST Regulations, ICDR Regulations, PIT Regulations, MB Regulations and circulars thereunder. The Hon'ble Supreme Court of India in the matter of SEBI vs. Shri Ram Mutual Fund[2] *interalia* held "once *the violation of statutory regulations is established, imposition of penalty becomes sine qua non of violation and the intention of parties committing such violation becomes totally irrelevant. Once the contravention is established then the penalty is to follow."*

14. Thus, I am convinced that it is a fit case for imposition of monetary penalty on Noticee under the provisions of sections 15HB and 15A(a) of the SEBI Act which reads as under:

SEBI Act:

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, —*

(a) to furnish any document, return or report to the Board, fails to furnish the same 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;

(b) ……

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. 7: If so, what would be the monetary penalty that can be imposed against the Noticee taking into consideration the factors mentioned in section 15J of the SEBI Act?

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

[2] (68 SCL 216(SC)) (Can be accessed on https://main.sci.gov.in/jonew/judis/27774.pdf)

15J. *While adjudging quantum of penalty under [15-I or section 11 or section 11B, the Board or 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.

[Explanation.— *For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section*.]

ORDER

16. Having considered the facts and circumstances of the case, the material available on record, the factors mentioned in section 15J of the SEBI Act, taking note of section 15HB and section 15 A(a) of the SEBI Act and also taking into account judgement of the Hon'ble Supreme Court in SEBI vs. Bhavesh Pabari[3]and in exercise of power conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Adjudication Rules, I hereby impose following penalty under sections 15HB and 15 A(a) of the SEBI Act on the Noticee.

Name of the Noticee	Penal provisions	Penalty
Finshore Management Services Limited	Sections 15HB of the SEBI Act	₹ 4,00,000/- (Rupees four lakh only)
	Sections 15 A(a) of the SEBI Act	₹ 1,00,000/- (Rupees one lakh only)
Total:	₹ 5,00,000/-(Rupees five lakh only)	

17. 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:

[3] (2019) 5 SCC 90 (Can be accessed on https://main.sci.gov.in/supremecourt/2013/36291/36291_2013_Judgement_28-Feb-2019.pdf)

ENFORCEMENT → Orders → Orders of AO → PAY NOW

18. 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 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

19. 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 SEBI.

Date: May 30, 2024 | **Parag Basu**

Place: Mumbai | **ADJUDICATING OFFICER**