

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 12(3) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT,
1992 READ WITH REGULATION 27 OF SECURITIES AND EXCHANGE BOARD OF
INDIA (INTERMEDIARIES) REGULATIONS, 2008

In respect of –

Valuevest Services Private Limited
[SEBI Registration No. INA000011343]
PAN AAGCV1497F

In the matter of Valuevest Services Private Limited
(SEBI Registered Investment Advisor)

BACKGROUND:

1. Securities and Exchange Board of India (**'SEBI'**) had carried out an inspection of Valuevest Services Private Limited (*hereinafter also referred as 'Noticee'/'VSPL'*), registered with SEBI as an Investment Adviser since August 06, 2018 under the SEBI (Investment Advisers) Regulations, 2013 (*hereinafter also referred to as 'IA Regulations'*), bearing SEBI Registration No. INA000011343 for the period April 01, 2021 to December 31, 2022 (**'Inspection period'**).
2. Upon inspection, it was, *prima facie*, observed that as on March 31, 2022, the Networth of the Noticee was only Rs. 9,87,126/- thereby, not in compliance with the net worth requirement as specified under the IA Regulations. In view of the same, the findings of inspection were communicated to VSPL vide SEBI letter dated March 14, 2023, *inter-alia*, seeking VSPL's comments / explanation thereon. The Noticee had submitted its reply dated March 18, 2023 to the observations of SEBI.
3. Pursuant to the inspection by SEBI and based on the reply of the Noticee on the findings / observations therein, it was observed that the Noticee had not complied with net worth requirement as specified under Regulation 8 (1) of IA Regulations.

ENQUIRY BY DESIGNATED AUTHORITY

4. In view of the same, SEBI initiated enquiry proceedings under Regulation 23 of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (***“Intermediaries Regulations, 2008”***) read with Section 12(3) of the SEBI Act, 1992. The Designated Authority (***“DA”***) was appointed under Regulation 24 of the Intermediaries Regulations, 2008 vide appointment order dated January 11, 2024 to enquire and make recommendations under Regulations 25 and 26 of the Intermediaries Regulations, 2008 in respect of the alleged violation of the abovementioned provision of law by the Noticee. Accordingly, in terms of Regulation 25(1) of the Intermediaries Regulations, 2008, the DA issued an Enquiry Show Cause Notice dated February 05, 2024 (***“Enquiry SCN”***) to the Noticee to show cause as to why appropriate recommendations be not made against it for the alleged violations.
5. The said Enquiry SCN issued to the Noticee was duly delivered through digitally signed email at email ids nikhil@piggy.co.in / angad@piggy.co.in. Vide letter dated February 21, 2024, the Noticee submitted its reply to the Enquiry SCN. Thereafter, in the interest of natural justice, an opportunity of hearing was granted and availed by the Noticee on February 28, 2024 before the DA.
6. Thereafter, upon completion of the enquiry, an Enquiry Report dated March 20, 2024 (***“Enquiry Report”***) was submitted by the DA to the Competent Authority having the following recommendation:

“In view of the facts and circumstances of the case and after considering material available on record and the reply of the Noticee to the SCN, I recommend that the certificate of registration of the Noticee, i.e., Valuevest Services Private Limited, SEBI Registration No. INA000011343, as an Investment Adviser be cancelled.”

POST ENQUIRY PROCEEDINGS BY COMPETENT AUTHORITY

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING-

7. A post-enquiry Show Cause Notice dated March 28, 2024 (*hereinafter referred to as “Post Enquiry SCN”*) was issued to the Noticee enclosing therewith a copy of the Enquiry Report submitted by the DA and calling upon it to show cause in terms of Regulation 27 of the Intermediaries Regulations, 2008 as to why action as recommended by the DA or any other action as contemplated under the said provision of the Intermediaries Regulations, 2008 should not be taken against the Noticee. The

said SCN was duly delivered to the Noticee at email ids nikhil@piggy.co.in and angad@piggy.co.in.

8. The Noticee, vide email dated April 15, 2024, forwarded its reply dated April 11, 2024 to the post enquiry SCN, which is summarized as under:

8.1 The Noticee, while admitting and acknowledging the allegation made by SEBI with respect to the non-compliance with Net worth requirement submitted that the shortfall was primarily due to substantial investments in technology infrastructure aimed at enhancing the advisory services. The said decisions, while impacting the financial standing of the Noticee in the short term, were made with a long-term vision to provide superior services to the clients.

8.2 Further, the period under review was notably impacted by the challenges posed by the COVID-19 pandemic, affecting the operational capabilities and financial planning of the Noticee.

8.3 The Noticee states that upon identification of the shortfall, the Noticee has taken significant steps towards restructuring the corporate framework and improving the financial health and the Noticee is committed to achieving compliance with the net worth requirement.

8.4 The Noticee states that it has initiated several corrective measures to address the highlighted issues in the SCN. The said measures include stringent financial management, operational adjustments and focused approach towards achieving a positive net worth status.

9. Thereafter, in the interest of natural justice, an opportunity of personal hearing was granted to the Noticee on May 07, 2024, vide hearing notice dated April 16, 2024. On scheduled date, the Authorized Representative (AR), Mr. Nikhil Mantha, Principal Officer and Director of the Noticee attended the hearing through WebEx and reiterated the submissions made in its reply dated April 11, 2024. The AR further submitted that as the Noticee is in non-compliance with the net-worth requirement, they have not been giving investment advisory services and have not been on-boarding new clients.

CONSIDERATION OF ISSUES AND FINDINGS

10. I have carefully examined the allegation levelled against the Noticee and its reply to the post enquiry SCN and other material available on record. The issue that arises for

consideration in the instant case is to examine whether the Noticee has violated the provisions of the IA Regulations, 2013 as alleged in paragraph no. 2 & 3 above and if yes, whether the recommendations made by the DA in the Enquiry Report may be issued in respect of the Noticee.

11. Before moving forward, I find it apposite to refer to the relevant provision of the IA Regulations alleged to be violated by the Noticee, which are reproduced as under:

IA Regulations, 2013

Networth.

8(1) *Investment advisers who are non-individuals shall have a net worth of not less than fifty lakh rupees.*

Explanation. — For the purposes of this regulation, "networth" means the aggregate value of paid up share capital plus free reserves (excluding reserves created out of revaluation) reduced by the aggregate value of accumulated losses, deferred expenditure not written off, including miscellaneous expenses not written off, and networth requirement for other services offered by the advisers in accordance with the applicable rules and regulations.

12. I note that the Noticee is a SEBI registered Investment Advisor and was granted the certificate of registration on August 06, 2018. Further, I note from the inspection report, Enquiry SCN and the Enquiry Report that the Noticee's net worth as on March 31, 2022 as per the net worth certificate dated September 23, 2022 from the auditor MDA & Co. was Rs. 9,87,126/-. Upon perusal of the Enquiry Report and the reply filed by the Noticee to the post enquiry SCN, I find that the Noticee has acknowledged and admitted to the non-compliance with respect to the requirement of the Networth as specified under the IA Regulations.
13. With respect to the submission of the Noticee that it has taken corrective steps and that the Noticee would be complying with the said requirement in due course, I find that SEBI had conducted an inspection of the Noticee for the period April 01, 2021 to December 31, 2022 during which it was found that the Noticee was in non-compliance with the requirement of net worth as specified under the IA Regulations. I find that comments of the Noticee were sought on the findings of the inspection, vide SEBI letter dated March 14, 2023. The Noticee had, in reply thereto, stated that "*The structure of the company was causing an issue to maintain the net worth requirements initially*

where major cost heads were building and maintaining Tech IP, however the company is in the midst of corporate restructuring and expects the same to be completed in the next 2-3 quarters, where the advisory company will be complying with the mentioned regulations". Thereafter, upon issuance of the Enquiry SCN i.e. dated February 05, 2024, the Noticee, while again admitting with the non-compliance, had stated that *"VSPL has undertaken a series of corrective measures aimed at rectifying the situation. These measures include working on managing our finances better, improving cost controls, and further corporate restructuring. We are in the midst of a corporate restructuring process, which we believe will significantly improve our financial health and ensure compliance with the net worth requirement. We expect this restructuring to be completed within the next 90 days, which will help us maintain adequate capital".* As mentioned at paragraph 8 above, the Noticee has made the same submission to the post enquiry SCN without committing a timeline to adhere with the said requirement under the IA Regulations.

- 14.** I note that the requirement of networth is one of the pre-conditions for the grant of certificate of registration as an Investment Advisor, compliance of which is mandatory. Further, Regulation 13 of the IA Regulations categorically states the conditions of certification and mentions that the certificate granted under Regulation 9 shall be subject to the investment adviser abiding by the provisions of the Act and the IA Regulations. Therefore, it can be seen that the provisions contained in the IA Regulations have to be complied with by the registered Investment Adviser at all times, including maintaining the networth in terms of Regulation 8 and the same is a continuing requirements to be complied with by the intermediary. Thus, non-maintenance of the same by a registered Investment Adviser may pose risk and /or compromise with the orderly functioning of the securities market and ought to be dealt with accordingly. In the instant case, it is noteworthy that despite lapse of more than one year from the receipt of findings of inspection, the Noticee has not been able to show any efforts / steps taken or any increase or compliance with the said requirement, which shows a very casual and careless approach by the Noticee which cannot be ignored. In view of the same, the submission of the Noticee that it has been taking corrective steps to comply with the said requirement lacks merit and therefore, cannot be taken into consideration. Further, it is pertinent to note that the requirement to have

a net worth of Fifty Lakh Rupees under Regulation 8(1) has been substituted by the SEBI (Investment Advisers) (Amendment) Regulations, 2020, w.e.f. September 30, 2020. Even prior to the said amendment, the requirement of net worth for body corporates was of Rupees Twenty-Five Lakhs. Therefore, I find that the Noticee, by having a net worth of Rs. 9,87,126/- as on March 31, 2022, was non-compliant with the IA Regulations as they stood before September 30, 2020 which further increases the period of non-compliance on the part of the Noticee.

15. From the foregoing and in the light of the admission on the part of the Noticee of the non-compliance with the requirement of maintaining net worth of Rupees Fifty Lakhs (in case of non-individuals), I do not find any hesitation to conclude that the Noticee is in violation of Regulation 8(1) of the IA Regulations, 2013. Further, despite initiation of the present proceedings against the Noticee, I find that no steps have been taken by it and / or no documentary evidence has been produced by the Noticee to show efforts taken by it to comply with the said requirement. As the requirement of maintenance of networth is a continuing requirement for a registered Investment Advisor, I am of the opinion that the recommendation made by the DA of cancellation of the certificate of registration of the Noticee seems to be appropriate.

ORDER AND DIRECTIONS

16. In view of the above, I, in exercise of the powers conferred upon me in terms of Section 12(3) and Section 19 of the SEBI Act, 1992 read with Regulation 27(5) of the Intermediaries Regulations, 2008, hereby direct that the Certificate of Registration granted to the Noticee viz. Valuevest Services Private Limited (*SEBI Registration No. INA000011343*) is cancelled.
17. The above direction shall come into force with immediate effect.
18. A copy of this Order shall be served on the Noticee, BSE Administration and Supervision Limited, all the recognized Stock Exchanges and Depositories.

Date: May 09, 2024

Place: Mumbai

Dr. ANITHA ANOOP
CHIEF GENERAL MANAGER
SECURITIES AND EXCHANGE BOARD OF INDIA