

**BEFORE THE ADJUDICATING OFFICER  
SECURITIES AND EXCHANGE BOARD OF INDIA  
ADJUDICATION ORDER NO. Order/AN/SM/2024-25/31104-31107**

---

**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.**

|                    |                       | <b>In respect of</b> |
|--------------------|-----------------------|----------------------|
| <b>Noticee No.</b> | <b>Noticee Name</b>   | <b>PAN</b>           |
| 1.                 | Karvy Capital Limited | AAACG4544N           |
| 2.                 | Mr. Ajit Bhaskaran    | AFTPB6535M           |
| 3.                 | Mr. Hitungshu Debnath | AAMPD9173H           |
| 4.                 | Mr.K.P. Jeewan        | AAMPJ9205E           |

---

**In the matter of Karvy Capital Alternative Investment Trust and KCAP Alternative Investment Fund**

---

**A. BRIEF BACKGROUND**

1. Securities and Exchange Board of India ('SEBI' in short) conducted examination inter alia in the matter of Karvy Capital Alternative Investment Trust IN/AIF3/13-14/0045 and KCAP Alternative Investment Fund IN/AIF2/19-20/0751 to ascertain satisfaction of 'fit and proper' criteria by Karvy group AIFs registered with SEBI. Pursuant to the examination in the matter certain non-compliances had been observed and accordingly SEBI inter alia initiated Adjudication Proceedings under Section 15 I of the SEBI Act, 1992 (hereinafter also referred as 'SEBI Act') in respect of Karvy Capital Limited ('Noticee 1' / 'Sponsor and Manager' / 'KCL') and Key Management Personnel viz., Ajit Bhaskaran ('Additional Director' / 'Noticee 2'), Hitungshu Debnath ('Director & COO' / 'Noticee 3'), K.P. Jeewan ('Whole Time Director' / 'Noticee 4'). Noticee 2, 3 and 4 are also collectively referred to as 'KMPs' and all the Noticees collectively referred to as 'Noticees' in the subject matter for the alleged violations of Regulation 20(1), 20(5) and Clause 2(a) of Code of Conduct of SEBI (Alternative Investment Funds) Regulations, 2012 (hereinafter also referred to as 'SEBI (AIF) Regulations, 2012' / 'AIF Regulations').

## **B. APPOINTMENT OF ADJUDICATING OFFICER**

2. Whereas, the Competent Authority was prima facie of the view that there were sufficient grounds to adjudicate upon the alleged violations by the Noticees and therefore, in exercise of the powers conferred under Section 19 read with Section 15 I of the SEBI Act, 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter also referred as “Adjudication Rules”), the Competent Authority appointed the undersigned as Adjudicating Officer (“AO”) vide order dated May 02, 2024 to inquire into and adjudicate under Section 15EA of the SEBI Act, 1992 the alleged violations by the Noticees, as stated. The said proceeding of appointment was communicated to the undersigned vide Communique dated May 7th, 2024.

## **C. SHOW CAUSE NOTICE, REPLY AND HEARING**

3. A Show Cause Notice No. SEBI/EAD5/P/OW/2024/19170/1-4 dated June 07, 2024 (hereinafter also referred to as ‘SCN’ / ‘SCN dated June 07, 2024’ in short) was issued to the Noticees in terms of Section 15-I of the SEBI Act, 1992, Rule 4 of SEBI Adjudication Rules, 1995 to inter alia show cause as to why an inquiry should not be held against them and why penalty be not imposed under Section 15EA of SEBI Act, 1992 for the aforesaid alleged violations, as stated. The SCN was duly served on the Noticees through Digitally Signed Email dated June 07, 2024 and also through Speed Post Acknowledgement Due (SPAD). In this regard, copy of the Acknowledgment card and email delivery receipt dated June 07, 2024 have been placed in file.
4. The allegations in respect of the Noticees inter alia brought out in the SCN are as under:

“ ...

With respect to Noticee 1, 2, 3, and 4

- 4.1. KCL and KMPs have failed to ensure that Karvy Capital Alternative Investment Trust and KCAP Alternative Investment Fund are in compliance with SEBI (AIF) Regulations, 2012, SEBI (Intermediaries) Regulations, 2008 and SEBI Act, 1992.
- 7.1.1 As per Regulation 4(f) of AIF Regulations, one of the eligibility conditions for grant of AIF Registration is that the applicant, Sponsor and Manager shall satisfy 'fit and proper' person criteria as specified in Schedule II of Intermediaries Regulations. Further, Clause 7 of Schedule II of Intermediaries Regulations *inter-alia* specifies that 'fit and proper person' criteria shall be applicable during the continuity of intermediary's registration and it shall ensure that persons referred in Clause 2(b) and 2(c) of Schedule II of Intermediaries Regulations also comply with 'fit and proper person' criteria.
- 7.1.2 Clause 2(c) of Schedule II of Intermediaries Regulations *inter-alia* states that in case of unlisted applicant or intermediary, 'fit and proper person' criteria shall apply on any person holding twenty percent or more voting rights irrespective of whether they hold controlling interest or exercise control. It is observed that the AIF and its Manager and Sponsor are unlisted entities.
- 7.1.3 It was observed by SEBI from shareholding details as on March 31, 2023 (Annexure B) submitted by the AIF vide email dated December 06, 2023 that Karvy Stock Broking Limited (KSBL) with 8,20,256 shares holds approx. 100% shareholding in Karvy Capital Limited (Manager and Sponsor of Karvy AIFs) and another 6 persons incl. Mr. Comandur Parthasarathy hold 1 share each in KCL.
- 7.1.4 Furthermore, KCL vide email dated March 20, 2024 (Annexure C) has submitted that voting rights of the shareholders are equivalent to the number of shares i.e. one equity share is equal to one vote. It was observed based on the above that KSBL holds approx. 100% voting rights in KCL and in view of paras 7.1.1 and 7.1.2 above, KSBL was required to satisfy 'fit and proper person' criteria specified in Schedule II of Intermediaries Regulations.
- 7.1.5 Clause 3(b)(iii) of Schedule II of Intermediaries Regulations *inter-alia* states that for the purpose of determining as to whether any person is a 'fit and proper person', SEBI may take into account an order of restraint, prohibition or debarment has been passed against such person by SEBI or any other regulatory authority or enforcement agency in any matter concerning securities laws or financial markets and such order is in force.
- 7.1.6 Following was *inter-alia* observed from SEBI Final Order dated April 28, 2023 (Annexure D) in the matter of Karvy Stock Broking Limited wherein KSBL was Noticee 1 and Mr. C. Parthasarathy was Noticee 2
- "136.2. Noticees no. 1 and 2 are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities (including units of mutual funds), directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of 7 years."*
- "136.3. Noticee no. 2 is hereby restrained from holding the post of director, or any key managerial position or associating himself in any capacity with any listed public company and any public company which intends to raise money from the public, or any intermediary registered with SEBI for a period of 10 years."*
- 7.1.7 Additionally, SEBI cancelled registration of Karvy Stock Broking Limited as a Stock Broker vide Order dated May 31, 2023 (Annexure K).
- 7.1.8 It was also observed that an order dated March 11, 2024 (Annexure L) was passed by an Adjudicating authority constituted under PMLA, 2002 *inter-alia* against KSBL and KCL under sub-section (1) of Section 5 of PMLA.
- 7.1.9 Furthermore, KCL had provided a 'fit and proper' declaration dated December 06, 2023 (Annexure E) wherein it had submitted that – *'In so far as promoter of KCL viz. Karvy Stock Broking Ltd ("KSBL"), is concerned, it may be noted that, recently several regulatory and enforcement actions have been initiated against KSBL, and it may not satisfy 'fit and proper' persons criteria'*.
- 7.1.10 Proviso to Clause 6 of Schedule II of Intermediaries Regulations *inter-alia* specifies that if any person as referred in clause 2(c) fails to satisfy 'fit and proper person' criteria, the intermediary shall ensure that such person does not exercise any voting rights and that such person divests their holding within 6 months from the date of such disqualification failing which the 'fit and proper person' criteria may be invoked against such intermediary.
- 7.1.11 KCL vide email dated January 18, 2024 (Annexure F) has submitted that – *'as per clause 2, 3 and 6 of Schedule II under SEBI (Intermediaries) Regulations, 2008 ('Intermediaries Regulations') clause, the fit and proper criteria is not satisfied. The divesting of the holding of the promoter (Karvy Stock Broking Ltd) within six months from the date of disqualification, was not possible due to regulatory proceedings against it'*.
- 7.1.12 It was observed from the above that KSBL having more than 20% voting rights in KCL (Manager and Sponsor of Karvy AIFs) was *inter-alia* restrained from being associated with the securities market in any manner, whatsoever, for a period of 7 years vide SEBI Order dated April 28, 2023 and in view of the same for KCL to continue to be a 'fit and proper person', it was required for KSBL to divest its holding within 6 months from the date of SEBI order.
- 7.1.13 However, as observed at para 7.1.11 above, KSBL has failed to divest its holding in KCL. In view of the same, Karvy AIFs and Karvy Capital Limited (Manager and Sponsor of Karvy AIFs) no longer satisfy 'fit and proper person'

criteria as specified in Schedule II of Intermediaries Regulations and Eligibility conditions specified in AIF Regulations.

- 7.1.14 KCL had submitted in its letter dated November 29, 2023 (Annexure A) that there were no active schemes and no investors in its AIFs. KCL has submitted 'no funds raised' certificate from a CA – Kamdar Desai & Patel LLP (Annexure G) and also Compliance Test Report (CTR) for FY 22-23 (Annexure H) wherein it was mentioned that no funds had been raised for the year ended March 31, 2023 and that there were no contributors as on March 31, 2023. The same was observed from the quarterly report filed by Karvy AIFs for December 2023 (Annexure I).

Copy of KCL email dated March 21, 2024 is enclosed as Annexure J.

- 7.1.15 It was observed by SEBI, although, Karvy AIFs have no investors and have not raised any funds, allowing an AIF, Manager and Sponsor who are not 'fit and proper person' to continue would leave the door open for future fund raising exercise by the entities and other possible misuse of SEBI registration. In view of the same, allowing Karvy Capital Alternative Investment Trust and KCAP Alternative Investment Fund to continue to hold their SEBI registration certificates is not in the interests of the securities market.

#### ROLE of MANAGER and KMPs

- 7.1.16 Regulation 20(5) of AIF Regulations provides that Manager shall be responsible for every decision of the AIF, including ensuring that the decisions are *inter-alia* in compliance with the provisions of AIF Regulations, fund documents and applicable laws. Further, Regulation 20(1) of AIF Regulations *inter-alia* requires manager and KMPs to abide by the Code of Conduct as specified in fourth schedule.
- 7.1.17 Clause 2(a) of Code of Conduct *inter-alia* requires manager and KMPs of an AIF to abide by the Act, Rules, Regulations, Guidelines and Circulars as applicable to Alternative Investment Funds at all times.
- 7.1.18 As observed at para 7.1.1, satisfaction of 'fit and proper person' criteria by AIF, Manager and Sponsor is one of the eligibility conditions for grant of AIF Registration and that its compliance shall be ensured during the continuity of the AIF's registration. Further as observed above, Manager and KMPs were required to *inter-alia* ensure that they shall abide by and make decisions *inter-alia* in compliance with the provisions of AIF regulations, fund documents and applicable laws.
- 7.1.19 By failing to ensure that Karvy Capital Alternative Investment Trust and KCAP Alternative Investment Fund are in compliance with SEBI (AIF) Regulations, 2012, SEBI (Intermediaries) Regulations, 2008 and SEBI Act, 1992, the Manager and KMPs are in non-compliance of Regulation 20(1), 20(5) and Clause 2(a) of Code of Conduct of SEBI (AIF) Regulations, 2012.

*In view thereof, it is alleged that Noticee 1 (KCL) and Noticee 2, 3 and 4 (KMPs) have failed to ensure that Karvy Capital Alternative Investment Trust and KCAP Alternative Investment Fund are in compliance with SEBI (AIF) Regulations, 2012, SEBI (Intermediaries) Regulations, 2008 and SEBI Act, 1992 and therefore, Noticee 1,2,3 and 4 have violated Regulation 20(1), 20(5) and Clause 2(a) of Code of Conduct of SEBI (AIF) Regulations, 2012.*

..."

5. Having regard to the principles of Natural Justice, vide Hearing Notice dated June 25, 2024, an opportunity of personal hearing was provided to the Noticees on July 04, 2024. Vide email dated June 29, 2024 Noticees through their common Authorized Representative ('AR', in short) viz., Kersi Dastoor, Advocate, sought extension of four weeks' time, to file reply to the SCN. In view of the email dated June 29, 2024, the hearing scheduled on July 04, 2024 was deferred. The Noticees common reply to the SCN was received through their AR vide email /letters dated July 16, 2024. Vide email dated July 16, 2024, Noticees were afforded opportunity of hearing on July 19, 2024.
6. Key submissions of Noticees common reply dated July 16, 2024, through

common AR, are as under:

“ ...

I represent my clients, (i) Karvy Capital Limited, (ii) Mr. Ajit Bhaskaran, (iii) Hitungshu Debnath, and (iv) Mr. K. P. Jeewan (collectively referred to as “the Noticees”); who have received separate Show Cause Notices dated 7th June 2024 bearing Ref. SEBI/EAD5/P/OW/2024/19170/1-4 issued to them, in the matter of Karvy Capital Alternative Investment Trust and KCAP Alternative Investment Fund (“Show Cause Notice”).

2. In the aforesaid Show Cause Notice, the Noticees have been called upon to show cause as to why an inquiry should not be held against them in terms of Rule 4(1) of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 read with Section 15-I of the SEBI Act, 1992, and why penalty be not imposed under Section 15EA of SEBI Act, 1992 for alleged violations committed by the Noticees as set out in the said Show Cause Notice.

3. In paragraph 7.1.15 of the Show Cause Notice, SEBI has expressed its view that allowing the Karvy Trusts to continue to hold their SEBI registration certificates is not in the interest of the securities market. It is also stated that although Karvy AIFs have no investors and have not raised any funds, allowing an AIF, Manager and Sponsor who are not ‘fit and proper’ persons to continue would leave the door open for future fund-raising exercise by the entities and other possible misuse of SEBI registration. Without admitting any allegations and/or violations set out in the Show Cause Notice, to put an end to any apprehension which SEBI may have with respect to any possible misuse in future; the Noticees state that the Board of Karvy Capital Limited and KMPs have taken a decision to surrender the AIF II and AIF III Licenses in accordance with law, and to take all necessary steps including but not limited to preparing and submitting the requisite documents and applications to SEBI for the surrender of the AIF Licenses, and for seeking necessary permissions and orders in furtherance thereof. Board Resolutions dated 12th June 2024 to this effect have been passed by Karvy Capital Limited, copies of which hereto annexed and marked as Annexures - 1 & 2, recording the aforesaid decision of Board of Karvy Capital Limited and the KMPs regarding surrendering of the AIF Licenses.

Without prejudice to the aforesaid, the Noticees deny that Karvy Capital Limited and/or any of the KMPs have failed to ensure that the Karvy AIFs are in compliance with SEBI (AIF) Regulations, 2012, SEBI (Intermediaries) Regulations, 2008 (“Intermediaries Regulations”) and SEBI Act, 1992, in any manner, as alleged or at all. On the contrary, the Noticees state that they have been vigilant, have acted prudently and made correct disclosures and reporting to SEBI at all material time. Nothing stated in the said Show Cause Notice should be deemed to be an admission of any fact or of any legal position by the Noticees, unless expressly admitted hereinafter.

#### BACKGROUND

5. Karvy Capital Limited is a part of the Karvy group of companies and a Wholly Owned Subsidiary (“WOS”) of Karvy Stock Broking Limited (“KSBL”). Karvy Capital Limited was incorporated on 31st December 1981 and carries on business from its registered office at Gujvals, 101 and 201, CST Road, Kalina, Santacruz (E), Mumbai – 400 098. Karvy Capital Limited is registered with the SEBI as a Portfolio Manager bearing Registration No – INP000004524 and registered with the Reserve Bank of India (“RBI”) as a Non-Banking Finance Company. Karvy Capital Limited is also engaged in the Retail Debt Trading Market business, acting as a facilitator for structured financial deals. Karvy Capital Limited is also a Sponsor and Manager to Karvy Capital Alternative Investment Fund (Trust) and is registered with SEBI as a Category III Alternative Investment Fund bearing Registration No. IN/AIF3/13-14/0045 and also offers Alternative Investment Fund Services for Category II as a Manager bearing Registration No. IN/AIF2/19- 20/0751 (“Karvy AIFs”).
6. Karvy AIFs have been granted licenses by SEBI to act as Category II and Category III AIFs. As disclosed earlier, neither of the said AIFs have any investors or Asset Under Management. Under AIF Category II, no scheme has been launched since closure of its Scheme “Pi”, in February 2015. Under AIF Category III, it has not raised any funds so far. The AIFs do not intend to raise any funds going forward. Besides, in view of the SEBI circular no. SEBI/HO/AFD-1/PoD/P/CIR/2022/155 dated 17th November 2022, since none of the Karvy AIFs have declared their first close on or before 17th November 2023, they cannot launch any new scheme unless they file a fresh application for the same as per applicable provisions of AIF Regulations by paying requisite fee to SEBI, and as such, there is no possibility of any misuse in the future.
7. Karvy Capital Limited is an independently managed company with its own board of directors and management team. Directors on the board of Karvy Capital Limited consist of experience professionals, who with the help of dedicated team of executives have been successfully running the PMS activities of the company, in full compliance with the applicable regulatory framework. Over the years, Karvy Capital Limited has built a formidable reputation and enjoys enormous trust and faith of its clients. The details with respect to the rich experience of the board of Karvy Capital Limited alongwith work experience of each director as on November 2023 has already been provided to SEBI and is annexed at Annexure-E to the Show Cause Notice, and forms part of the Declaration made that the AIF, Sponsor, Manager, and their KMPs, are fit and proper persons based on the criteria specified in Schedule II of the Intermediaries Regulations.
8. In so far as Mr. Hitungshu Debnath is concerned, kindly note that he was working as the Executive Director and COO in Karvy Capital Limited till 30th November 2023 and has resigned w.e.f. 1st December 2023 and is no longer part of Karvy Capital Limited. Hereto annexed and marked as Annexure - 3 is copy of the resignation letter dated 1st October 2023 issued by Mr. Hitungshu Debnath to the Board of Directors of Karvy Capital Limited, which has been duly accepted by the Board. Copy of email dated 17th December 2023 received from the Ministry of Corporate Affairs in respect of filing of his Form DIR 11 is annexed as Annexure
- 4. The aforesaid resignation of Mr. Hitungshu Debnath from the Board of Karvy Capital Limited has also been disclosed to SEBI vide its letter dated 11th December 2023 alongwith filing of Risk Disclosure Document pursuant to material change, a copy of which is hereto annexed and marked as Annexure - 5.
9. With respect to Mr. K. P. Jeewan, it is submitted that he was a Whole Time Director who has resigned from the Board of Karvy Capital Limited on 8th June 2023 and his resignation has been accepted by the Board of Directors with effect from 15th July 2023. In view of several ongoing matters in the company, Mr. K.P. Jeewan consented and continues as a Non-executive Director in Karvy Capital Limited. A copy of the Board Resolution of Karvy Capital Limited dated 10th July 2023 is annexed as Annexure - 6, and a copy of the Director Master Info available on website of the Ministry of Corporate Affairs is

annexed as Annexure - 7.

10. It is respectfully submitted that the Noticees 3 and 4 i.e. Mr. Hitungshu Debnath and Mr. K.P. Jeewan were thus no longer KMPs on the date of alleged violation i.e. on expiry of six months from the date of order dated 28th April 2023 read with corrigendum order dated 19th June 2023, and as such the said Noticees cannot be held liable or responsible for any breach that may have arisen subsequently when they were no longer KMPs in Karvy Capital Limited.
11. As per details submitted by the Karvy AIFs vide email of 6th December 2023, KSBL holds 8,20,256 shares (approximately 100% shareholding) in Karvy Capital Limited (Manager and Sponsor of Karvy AIFs) and another 6 persons hold 1 share each in Karvy Capital Limited. Details of shareholding in Karvy Capital Limited has been annexed at Annexure-B to the Show Cause Notice.
12. It is alleged in the Show Cause Notice that KSBL having more than 20% voting rights in Karvy Capital Limited (Manager and Sponsor of Karvy AIFs) was inter- alia restrained from being associated with the securities market in any manner, whatsoever, for a period of 7 years vide SEBI Order dated 28th April 2023 (Annexure D to the Show Cause Notice). That SEBI cancelled registration of KSBL as a Stock-Broker vide Order dated 31st May 2023 (Annexure K to the Show Cause Notice). That it was also observed that an Order dated 11th March 2024 (Annexure L to the Show Cause Notice) was passed by an Adjudicating Authority constituted under the PMLA Act, 2002 inter alia against KSBL and Karvy Capital Limited under sub-section (1) of Section 5 of the PMLA Act, 2002. In view of the above events, it is alleged in the Show Cause Notice that KSBL fails to satisfy the 'fit and proper person' criteria and as such was required to divest its shareholding in Karvy Capital Limited within 6 months from the date of such disqualifications, failing which 'fit and proper person' criteria may be invoked against such intermediary.
13. In this above context, the Noticees state that they have been conscious of any possible violation under 'fit and proper' guidelines of SEBI and have made all efforts to adhere to the same. Karvy Capital Limited and its KMPs have always been compliant of all SEBI laws, rules, regulations and guidelines, and any minor technical violations in the past have been promptly corrected.
14. The Noticees have informed its shareholders about the issue and have worked diligently in consultation with them to cure all of the alleged violations. The Noticees had kept SEBI informed about the possibility of there being a possible non adherence to the 'fit and proper' requirement vide its email of 6th December 2023 and subsequent email of 18th January 2024, and pointed out the difficulties faced in complying with the same within 6 months, and that the same was not possible on account of the regulatory proceedings against KSBL.
15. Admittedly, Karvy Capital Limited had itself provided a 'fit and proper' declaration dated 6th December 2023 (Annexure E to the Show Cause Notice) wherein, it had been upfront and clearly pointed out that – "In so far as promoter of KCL viz. KSBL is concerned, it may be noted that, recently several regulatory and enforcement actions have been initiated against KSBL, and it may not satisfy 'fit and proper' persons criteria", and set out material facts for SEBI's consideration.
16. Furthermore, vide its email dated 18th January 2024 (Annexure F to the Show Cause Notice) Karvy Capital Limited had itself submitted that - "... as per clause 2, 3 and 6 of Schedule II under SEBI (Intermediaries Regulations) 2008 clause, the fit and proper criteria is not satisfied. The divesting of the holding of the promoter viz. KSBL within six months from the date of disqualification, was not possible due to regulatory proceedings against it".
17. As per the SEBI guidelines, the shareholder i.e. KSBL is required to divest its shareholding in Karvy Capital Limited as KSBL being the promoter-shareholder, holding more than 20% shareholding in Karvy Capital Limited, is deemed to be not 'fit and proper'. However, there are various legal impediments for implementing this, and KSBL is unable to divest its shareholding in Karvy Capital Limited, for reasons set out hereunder:
  - (i) In view of SEBI's order dated 28th April 2023 read with the corrigendum order dated 19th June 2023; KSBL has been restrained from accessing the securities market and further prohibited from buying, selling, or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner whatsoever for a period of 7 years. Copies of SEBI's order dated 28th April 2023 and corrigendum order dated 19th June 2023 are annexed as Annexures - 8 & 9.
  - (ii) This apart, the National Company Law Tribunal, Hyderabad vide its order dated 3rd February 2022 and subsequent order dated 18th April 2023 has restrained KSBL from using its majority shareholding in its subsidiaries to take any decision for selling away the assets of KSBL (which would include shares held in Karvy Capital Limited). Copies of order dated 3rd February 2022 and order dated 18th April 2023 passed by National Company Law Tribunal, Hyderabad are annexed as Annexures - 10 & 11.
  - (iii) The assets of Karvy Capital Limited being a group company of Karvy group are also attached by the Office of the Enforcement Directorate as part of their proceedings against the holding company viz. KSBL. Copy of order dated 11th March 2024 passed by Member (Finance) in PAO 15/2022 is annexed as Annexure - 12.
  - (iv) After the legal actions taken by SEBI vide its ex-parte ad-interim order dated 22nd November 2019 and confirmatory order dated 24th November 2020, copies of which are hereto annexed as Annexures - 13 & 14. Various other orders passed by the regulators subsequently, there is no existing Board of KSBL that is functioning to take any decisions on behalf of KSBL. Thus, there is evidently a legal disability/ impediment for implementation on account of various orders passed against KSBL, in view of which, KSBL is unable to divest its shareholding in Karvy Capital Limited. The situation is clearly beyond the control of Karvy Capital Limited, its KMPs and the Noticees.
18. To overcome these legal impediments, with a view to ensure compliance with respect to the fit and proper person criteria, the Noticees made sincere attempts to transfer the business to interested buyers as a slump sale. Accordingly, Karvy Capital Limited invited offers, made efforts to look for prospective buyers, and was eventually successful in identifying a buyer for its PMS business. Karvy Capital Limited also made attempts to transfer the AIF Licenses along with the PMS business. However, the prospective buyer evinced interest only to the limited extent of the PMS part of the business and was not interested in the AIF Licenses.
19. Upon receipt of the term sheet from the prospective buyer, Karvy Capital had approached SEBI for its approval on the proposed sale of its PMS business and SEBI has accordingly given its approval for transfer of PMS business on 21st March 2024.
20. In view of the fact that despite best efforts, as there are no buyers for the AIF Licenses, the Noticees have decided to

*surrender the AIF Licenses of Karvy AIFs and the process has been already set in motion by passing of Board Resolution to this effect on 12th June 2024 and are keen to complete the process in accordance with law at the earliest. Necessary compliances/ permissions may be required for the same.*

- 21. As can be seen from the above, there is no default or failure by the Noticees in ensuring compliance of the 'fit and proper person' criteria. The difficulty in adhering to the 'fit and proper' requirement i.e. divestment by KSBL of its shareholding in Karvy Capital Limited, is only on account of the aforesaid legal disabilities/ impediments of KSBL on account of various orders and directions passed by the authorities/ regulators against KSBL. Without prejudice to the fact that there has been no violation by any of the Noticees herein, as pointed out above, Noticees 3 and 4 were no longer KMPs on the date of the alleged violation, and as such the said Noticees cannot be held liable on this ground as well. Even otherwise, the Noticees respectfully submit that it would be highly unfair and unjust, and a hyper-technical view on the matter given this factual background, to penalise the subsidiary company and its KMPs, for defaults or inability of divestment by the holding company. It is respectfully submitted that the same cannot be treated to be a failure in ensuring compliance by Karvy Capital Limited and/ or any of the KMPs.*
- 23. The Noticees state that they have been conscious of any possible violation under 'fit and proper' guidelines of SEBI and have made all efforts to adhere to the same. Karvy Capital Limited has always been compliant of all SEBI laws, rules, regulations and guidelines, and any minor technical violation which may have taken place in the past has been promptly corrected.*
- 24. In the aforesaid facts and circumstances, the Noticees respectfully submit that there is no failure by Karvy Capital Limited or any of the KMPs in ensuring that the Karvy AIFs are in compliance with SEBI (AIF) Regulations 2012, Intermediaries Regulations, and the SEBI Act, 1992. The Noticees respectfully submit that they have not violated Regulation 20 (1), 20 (5) and/ or Clause 2 (a) of the Code of Conduct of SEBI (AIF) Regulations 2012. In view of the above, the Noticees state that there should not be any inquiry held against them in terms of Rule 4 (1) of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 read with Section 15-I of the SEBI Act, 1992 and no penalty should be imposed upon any of them under Section 15EA of the SEBI Act, 1992 as there have been no violations committed by them.*
- 25. The Noticees humbly request the Learned Adjudicating Officer to not take any adverse action in the matter, and to kindly grant a personal hearing to enable them to explain and satisfy that there has been no violation of the SEBI Act, rules or regulations thereunder, before taking any decision in the matter.*  
*..."*

7. On the rescheduled date of hearing viz., July 19, 2024, Noticees appeared through their common AR, in person. During the hearing, the AR for Noticees relied upon and reiterated the submissions made by Noticees vide letter dated July 16, 2024. During the hearing, the AR for the Noticees sought time till July 26, 2024 to make further additional submissions, if any as final and complete submissions in the matter, which was allowed. However, I note that no further additional submissions were received from Noticees, in this regard.

#### **D. CONSIDERATION OF ISSUES AND FINDINGS**

8. The issues that arise for consideration in the instant matter are as under:

- |                       |                                                                                                                         |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------|
| <b>Issue No. I:</b>   | <b>Whether the Noticees had violated the provisions of SEBI (AIF) Regulations, as alleged?</b>                          |
| <b>Issue No. II:</b>  | <b>If yes, whether the Noticees are liable for imposition of monetary penalty under Section 15EA of SEBI Act, 1992?</b> |
| <b>Issue No. III:</b> | <b>If yes, what should be the monetary penalty that can be imposed</b>                                                  |

### **upon the Noticees?**

9. I now proceed to deal with the matter having regard to the facts and circumstances of the matter, material available on record and submissions of the Noticees, on merits.

### **Issue No. I: Whether the Noticees had violated the provisions of SEBI (AIF) Regulations, as alleged?**

10. In this regard considering that the violations, Noticees, submissions of the Noticees, in the instant proceedings are common, for brevity, the violations in respect of the Noticees are being dealt with conjointly accordingly.
11. In this regard, it was inter alia alleged that Noticee 1 (KCL) and Noticee 2, 3 and 4 (KMPs of Noticee 1) had failed to ensure that Karvy Capital Alternative Investment Trust and KCAP Alternative Investment Fund are in compliance with SEBI (hereinafter also referred to as AIFs / Karvy AIFs) Regulations, 2012, SEBI (Intermediaries) Regulations, 2008 and SEBI Act, 1992 and therefore, it was inter alia alleged that Noticee 1,2,3 and 4 had violated provisions of Regulation 20(1), 20(5) and Clause 2(a) of Code of Conduct of SEBI (AIF) Regulations, 2012.
12. In this regard, it was inter alia observed by SEBI that as per Regulation 4(f) of AIF Regulations, one of the eligibility conditions for grant of AIF Registration is that the applicant, Sponsor and Manager shall satisfy 'fit and proper' person criteria as specified in Schedule II of Intermediaries Regulations. Further, Clause 7 of Schedule II of Intermediaries Regulations inter-alia specifies that 'fit and proper person' criteria shall be applicable during the continuity of intermediary's registration and it shall ensure that persons referred in Clause 2(b) and 2(c) of Schedule II of Intermediaries Regulations also comply with 'fit and proper person' criteria. Clause 2(c) of Schedule II of Intermediaries Regulations inter-alia states

that in case of unlisted applicant or intermediary, 'fit and proper person' criteria shall apply on any person holding twenty percent or more voting rights irrespective of whether they hold controlling interest or exercise control.

13. In this regard, I note from material available on record that the AIF and its Manager and Sponsor were unlisted entities. Further, I note from material available on record that from shareholding details as on March 31, 2023 submitted by the AIF vide email dated December 06, 2023 SEBI had observed that Karvy Stock Broking Limited (KSBL) with 8,20,256 shares held approx. 100% shareholding in Karvy Capital Limited (KCL) (Manager and Sponsor of Karvy AIFs) and another 6 persons ... held 1 share each in KCL. Furthermore, KCL vide email dated March 20, 2024 had submitted that voting rights of the shareholders were equivalent to the number of shares i.e. one equity share was equal to one vote. It was observed based on the above that KSBL held approx. 100% voting rights in KCL and having regard to provisions of Regulation 4(f) of AIF Regulations, Clause 7 of Schedule II of Intermediaries Regulations, Clause 2(b) and 2(c) of Schedule II of Intermediaries Regulations and Clause 2(c) of Schedule II of Intermediaries Regulations as detailed above, KSBL was required to satisfy 'fit and proper person' criteria specified in Schedule II of Intermediaries Regulations.
14. Further in this regard, I note from material available on record that SEBI inter alia observed that Clause 3(b)(iii) of Schedule II of Intermediaries Regulations inter alia states that for the purpose of determining as to whether any person is a 'fit and proper person', SEBI may take into account an order of restraint, prohibition or debarment has been passed against such person by SEBI or any other regulatory authority or enforcement agency in any matter concerning securities laws or financial markets and such order is in force.
15. In this regard, I note from material available on record that following was inter alia observed from SEBI Final Order dated April 28, 2023 in the matter of Karvy Stock Broking Limited wherein KSBL is Noticee 1 and Mr. C. Parthasarathy is Noticee 2,

*“136.2. Notices no. 1 and 2 are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities (including units of mutual funds), directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of 7 years.”*

16. Further, I note from material available on record that SEBI cancelled registration of Karvy Stock Broking Limited as a Stock Broker vide Order dated May 31, 2023.
17. It was also observed that an order dated March 11, 2024 was passed by an Adjudicating authority constituted under PMLA, 2002 inter-alia against KSBL and KCL under sub-section (1) of Section 5 of PMLA.
18. Furthermore, I note from material available on record that KCL has provided a ‘fit and proper’ declaration dated December 06, 2023 wherein it has submitted that – ‘In so far as promoter of KCL viz. Karvy Stock Broking Ltd (“KSBL”), is concerned, it may be noted that, recently several regulatory and enforcement actions have been initiated against KSBL, and it may not satisfy ‘fit and proper’ persons criteria’. From material on record I note that it was further observed from the said declaration and KCL letter dated November 29, 2023 that Mr. C. Parthasarthy was not a director or Key Managerial Person in KCL.
19. I note from material on record that SEBI had inter alia observed that Proviso to Clause 6 of Schedule II of Intermediaries Regulations inter-alia specifies that if any person as referred in clause 2(c) fails to satisfy ‘fit and proper person’ criteria, the intermediary shall ensure that such person does not exercise any voting rights and that such person divests their holding within 6 months from the date of such disqualification failing which the ‘fit and proper person’ criteria may be invoked against such intermediary.
20. I note that SEBI had inter alia observed that KCL had submitted in its letter dated November 29, 2023 that there were no active schemes and no investors in its AIFs. KCL had submitted ‘no funds raised’ certificate from a CA – Kamdar Desai

& Patel LLP and also Compliance Test Report (CTR) for FY 22-23 wherein it was mentioned that no funds had been raised for the year ended March 31, 2023 and that there were no contributors as on March 31, 2023. The same was also observed by SEBI from the quarterly report filed by Karvy AIFs for December 2023.

21. The relevant text of provisions alleged to have been violated are reproduced below:

**CHAPTER IV  
GENERAL OBLIGATIONS AND RESPONSIBILITIES AND TRANSPERANCY**

**General Obligations.**

“ ...

<sup>134</sup>[20 (1) Alternative Investment Fund, key management personnel of the Alternative Investment Fund, trustee, trustee company, directors of the trustee company, designated partners or directors of the Alternative Investment Fund, as the case may be, managers and key management personnel of managers shall abide by the Code of Conduct as specified in the Fourth Schedule. Explanation.— For the purpose of this sub-regulation, ‘key management personnel’ shall have the meaning as specified by the Board from time to time.

... ”

“ ...

(5) The Manager shall be responsible for every decision of the Alternative Investment Fund, including ensuring that the decisions are in compliance with the provisions of these regulations, terms of the placement memorandum, agreements made with investors, other fund documents and applicable laws.

... ”

<sup>170</sup>**[Fourth Schedule  
SEBI (Alternative Investment Funds) Regulations, 2012  
[Regulation 20(1) and 20(9)]**

**2. Code of Conduct for the Managers of Alternative Investment Funds and key management personnel of Managers and Alternative Investment Funds**

Every Manager of Alternative Investment Funds and key management personnel of the manager and Alternative Investment Funds shall:

- (a) abide by the Act, Rules, Regulations, Guidelines and Circulars as applicable to Alternative Investment Funds at all times;

**SCHEDULE II  
SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008  
[See regulation 7]**

- (2) The ‘fit and proper person’ criteria shall apply to the following persons:

- (c) the promoters or persons holding controlling interest or persons exercising control over the applicant or intermediary, directly or indirectly:

Provided that in case of an unlisted applicant or intermediary, any person holding twenty percent or more voting rights, irrespective of whether they hold controlling interest or exercise control, shall be required to fulfill the ‘fit and proper person’ criteria.

(Note: for detailed/ complete text of the provisions, relevant Circular may please be referred.)

22. I note from material on record that it had been observed by SEBI that KCL vide email dated January 18, 2024 had submitted that 'as per clause 2, 3 and 6 of Schedule II under SEBI (Intermediaries) Regulations, 2008, the fit and proper criteria was not satisfied. The divesting of holding of the promoter (Karvy Stock Broking Limited) within six months from the date of disqualification, was not possible due to regulatory proceedings against it'.
23. In this regard, I note that Noticees as part of their submissions as reply to the SCN have inter alia contended that, "*... As per the SEBI guidelines, the shareholder i.e. KSBL is required to divest its shareholding in Karvy Capital Limited as KSBL being the promoter-shareholder, holding more than 20% shareholding in Karvy Capital Limited, is deemed to be not 'fit and proper'. However, there are various legal impediments for implementing this, and KSBL is unable to divest its shareholding in Karvy Capital Limited, for reasons set out hereunder: (i) In view of SEBI's order dated 28th April 2023 read with the corrigendum order dated 19th June 2023; KSBL has been restrained from accessing the securities market and further prohibited from buying, selling, or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner whatsoever for a period of 7 years. ... (ii) This apart, the National Company Law Tribunal, Hyderabad vide its order dated 3rd February 2022 and subsequent order dated 18th April 2023 has restrained KSBL from using its majority shareholding in its subsidiaries to take any decision for selling away the assets of KSBL (which would include shares held in Karvy Capital Limited). ... (iii) The assets of Karvy Capital Limited being a group company of Karvy group are also attached by the Office of the Enforcement Directorate as part of their proceedings against the holding company viz. KSBL. .... (iv) After the legal actions taken by SEBI vide its ex-parte ad-interim order dated 22nd November 2019 and confirmatory order dated 24th November 2020, .... Various other orders passed by the regulators subsequently, there is no existing Board of KSBL that is functioning to take any decisions on behalf of KSBL. Thus, there is evidently a legal disability/ impediment for implementation on account of various orders passed against KSBL, in view of which, KSBL is*

*unable to divest its shareholding in Karvy Capital Limited. The situation is clearly beyond the control of Karvy Capital Limited, its KMPs and the Noticees. ... ”.*

24. In this regard I also note from material available on record that SEBI had inter alia observed that, “... KCL had provided a ‘fit and proper’ declaration dated December 06, 2023 wherein it has submitted that – ‘In so far as promoter of KCL viz. Karvy Stock Broking Ltd (“KSBL”), is concerned, it may be noted that, recently several regulatory and enforcement actions have been initiated against KSBL, and it may not satisfy ‘fit and proper’ persons criteria’ ...”.
25. In view thereof, having regard to the facts and circumstances of the matter, submissions of the Noticees, in particular about the legal disability /impediment as stated and brought out under para 23 above, I find that for the allegation that Noticees had failed to ensure that Karvy Capital Alternative Investment Trust and KCAP Alternative Investment Fund were in compliance with SEBI (AIF) Regulations, 2012, SEBI (Intermediaries) Regulations, 2008 and SEBI Act, 1992, the Noticees would not be liable for violation of Regulation 20(1), 20(5) and Clause 2(a) of Code of Conduct of SEBI (Alternative Investment Funds) Regulations, 2012. Therefore I find that the allegation that Noticees had violated provisions of Regulation 20(1), 20(5) and Clause 2(a) of Code of Conduct of SEBI (Alternative Investment Funds) Regulations, 2012, does not stand established.
26. Since the alleged violation against Noticees are not established, I find that the Issue No. II and Issue No. III require no further consideration.

## **E. ORDER**

27. Accordingly, taking into account the aforesaid findings and in exercise of powers conferred upon me under Section 15-I of SEBI Act read with Rule 5 of the Adjudication Rules, the Adjudication proceedings against Noticees initiated vide SCN dated June 07, 2024, stand disposed of without imposition of any monetary penalty.

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

**PLACE: MUMBAI**  
**DATE: January 02, 2025**

**AMAR NAVLANI**  
**ADJUDICATING OFFICER**