

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Section 12(3) of Securities and Exchange Board of India Act, 1992 read with Regulation 27 (5) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008

In respect of

Sr. No.	Name of the Noticee	SEBI Registration No.
1	Sri Bheemeswara Securities Private Limited	INB231118135; and INF231118136

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1. Present proceedings are emanating from the Enquiry Report dated December 21, 2018 (hereinafter referred to as the "**Enquiry Report**") submitted in terms of Regulation 26 of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (hereinafter referred to as "**the Intermediaries Regulations**"), wherein the Designated Authority (hereinafter referred to as "**DA**"), based on the factual findings so recorded in the said Enquiry Report, has recommended that the registration of Sri Bheemeswara Securities Private Limited (hereinafter referred to as "**Noticee/SBSPL**"), as a Stock-broker of National Stock Exchange of India Limited (NSE) be cancelled.
 2. In order to adjudicate the issues involved in the present matter, it may be necessary to cull out the facts from the records relevant for the purpose, which are highlighted herein below:
 - I. The *Noticee* a member of NSE was registered as a Stock-broker with SEBI vide Registration nos. INB231118135 and INF231118136.

- II. The *Notice* made an application dated February 25, 2015 to NSE for change in control in terms of the Regulation 9(c) of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as “**Broker Regulations**”) and the particulars of such application were as follows:

The current and proposed equity shareholding of M/s Sri Bheemeswara Securities (P) Ltd.:

Sr. No.	Current Dominant Promoter Group as on February 9, 2015			Proposed Dominant Promoter Group as on February 9, 2015		
	Name of the shareholder	No. of Shares	% holding	Name of the shareholder	No. of Shares	% holding
1.	Mr. Rudraraju Appalaraju *	738500	40.20	Mr. Shreyas Manjunath*	918500	50.00
2.	Mr. Guthey Ramkrishna	768500	41.83	Mr. Annapurna MV*	918500	50.00
3.	Mr. Rudraraju Hemakumari*	180000	9.80	-	-	-
4.	Ms. Gythey Jyothi*	150000	8.17	-	-	-
	Total DPG	1837000	100	Total DPG	1837000	100

*Dominant Promoter

Current and proposed list of Directors of M/s Shri Bheemeswara Securities (P) Limited

Sr. No.	Current Directors details as on February 9, 2015		Proposed Directors details as on February 9, 2015	
	Name of Director	Qualification	Name of Director	Qualification
1.	Mr. Rudraraju Appalaraju*	Graduate	Mr. Shreyas Manjunath*	B.E.
2.	Mr. Guthey Ramkrishna*	Graduate	Mr. Annapurna MV	B.A.
3.	Mr. Rudraraju Hemakumari*	Graduate	-	-
4.	Ms. Gythey Jyothi*	Graduate	-	-

***Designated Directors**

- III. In pursuance of the aforesaid application of the *Noticee*, NSE extended its No Objection, vide letter dated May 12, 2015.
- IV. Further, vide its letter dated November 02, 2015, SEBI communicated to NSE, its prior approval for the proposed change of control of *Noticee*.
- V. The aforesaid letter of SEBI had *inter alia* stipulated that the said prior approval is valid for a period of six months and an application for change in control and correction of registration in favour of the *Noticee* (with new shareholders) needs to be submitted to SEBI, within a period of six months from the date of the said letter.
- VI. The *Noticee*, however, did not furnish the requisite documents within the specified period of six months.
- VII. The *Noticee* did not seek an extension of the approval granted by SEBI for the proposed change in control and shareholding.
- VIII. Vide its letter dated July 01, 2016, NSE had informed the *Noticee* that as it did not apply for registration (with new shareholders) and the validity of the prior approval letter dated November 02, 2015 issued by SEBI, expired on May 02, 2016 and accordingly, if the *Noticee* wishes to carry out the changes, was required to apply afresh to NSE as well as to SEBI for prior approval.

- IX. The trading rights of the *Noticee* were withdrawn by NSE, with effect from August 29, 2016.
- X. The *Noticee* continued to act as a Stock Broker even after the expiry of the approval by SEBI, i.e., till August 29, 2016.
3. As the aforesaid facts that emerged in the present matter *prima facie* indicated violation of Clause 2(B) of SEBI Circular No. MIRSD/MSS/Cir-30/13289/03 dated July 09, 2003 and Clause 3(iv) of SEBI Circular No. CIR/MIRSD/14/2011 dated August 02, 2011, a Designated Authority (hereinafter referred to as the “DA”) was appointed to enquire into such alleged violations by the *Noticee*. Based on the material available on record, a show cause dated May 28, 2018 came to be issued by the DA under the Intermediaries Regulations, calling upon the *Noticee* to show cause as to why appropriate action be not recommended and taken against it in terms of Section 12 (3) of the SEBI Act, 1992 read with Regulation 23 and Regulation 27 of the Intermediaries (Regulations), 2008, as it stood at the relevant point of time till amendment has been carried out vide SEBI (Intermediaries) (Amendment) Regulations, 2021 w.e.f. January 21, 2021.
4. The aforesaid show cause notice was served upon the *Noticee* through email as well as through affixation on the last known address of the *Noticee*. However, no reply whatsoever has been filed by the *Noticee* in response to the allegations levelled in the said Show Cause Notice.
5. The DA, after considering all the material on record, has in the Enquiry Report, *inter alia* observed that the acts and omissions on the part of the *Noticee*, wherein it did not apply for fresh registration within the period of six months from the approval granted by SEBI, and the act of continuation as a Stock-broker even after the expiry of the SEBI’s approval, are in violation of the Clause 2(B) of SEBI Circular No. MIRSD/MSS/Cir-30/13289/03 dated July 09, 2003 and Clause 3(iv) of SEBI Circular No. CIR/MIRSD/14/2011 dated August 02, 2011. The DA has observed in the Enquiry Report that such conduct on the part of the *Noticee* has rendered it liable for action under Section 12 (3) of the SEBI Act, 1992 read with Regulation 23

of Regulation 27 of the Intermediaries Regulations read with Regulation 25 (ii) of the Brokers Regulations. Finally, the DA has recommended that the registration of the *Noticee* as a Stock Broker of NSE needs to be cancelled.

6. It is noted from the records that pursuant to the submission of the Enquiry Report, a post enquiry Show Cause Notice dated January 29, 2019 has been issued to the *Noticee* (hereinafter referred to as the "**SCN**"). The SCN has called upon the *Noticee* to show cause as to why the action as recommended against it by the DA or any other action be not imposed on it, in terms of the Intermediaries Regulations. It is noted that the SCN issued to the *Noticee* returned undelivered and was thus served through affixation at the last known address of the *Noticee*. It is noted from the records that the personal hearing in the matter was first scheduled for May 10, 2022. The hearing notice pertaining to the said date of hearing could not be delivered to the *Noticee* through speed post and further, attempts to serve the hearing notice through affixation were also not successful as some other entity was occupying the premises, which as per records of the SEBI were the last known address of the *Noticee*. Thereafter, in compliance with the principles of natural justice, another opportunity for a personal hearing was granted to the *Noticee* on July 26, 2022, and the hearing notice was served to the *Noticee* through the substituted mode of newspaper publication, by publishing the hearing notice in Times of India Bangalore Edition on July 07, 2022. It is also noticed that in addition to the above, steps were also taken to serve the *Noticee* through email as available on record with SEBI. However, despite the service of the hearing notice, no one turned up for the personal hearing so scheduled in the matter.
7. In view of the above, I find that sufficient opportunities have been accorded to the *Noticee* to respond to the show cause issued to it. No further opportunity is required to be afforded and the matter can be proceeded with for consideration. However, before adverting to the merits of the present case, it is deemed appropriate to glance through the provisions of law relevant to adjudicate the issues involved in the instant matter and the same are being reproduced herein below:

SEBI Act, 1992

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

12 (3) The Board may, by order, suspend or cancel a certificate of registration in such manner as may be determined by regulations:

Provided that no order under this sub-section shall be made unless the person concerned has been given a reasonable opportunity of being heard.

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

Conditions of registration.

9 (c) where the stock broker proposes change in control, he shall obtain prior approval of the Board for continuing to act as such after the change

SEBI Circular no. MIRSD/MSS/Cir-30/13289/03 dated July 09, 2003

2. The following table enumerates the circumstances which would mean change in status and constitution under Rule (4) of the SEBI (Stock Brokers and Sub Brokers) Rules, 1992 and hence would require prior approval of SEBI

<i>Sl. No</i>	<i>Type of Change in Status and Constitution</i>	<i>Remarks</i>
<i>B</i>	<i>Change in control: Control would have same meaning as defined in the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997</i>	<i>Full fees along with interest, if any, as on the date of application for approval needs to be paid. These prior approvals would have a validity of six months from the date of issue, i.e applications for fresh registration wherever required, shall be made to SEBI within six months.</i>

SEBI Circular no. CIR/MIRSD/14/2011 dated August 02, 2011

(3) With a view to expedite the process of granting prior approval, it has been decided to adopt a 'single window clearance at SEBI' for the above intermediaries in case of their having multiple registration with SEBI. Accordingly, in consultation with the major stock exchanges and market participants, it has been decided to adopt the following procedure:

....

(iv) The prior approval granted by SEBI shall be valid for a period of 180 days from the date of communication.

8. I have carefully perused the materials available on record, which include the Show Cause Notice, annexures in form of the communication of NSE, SEBI's approval letter, and I have also gone through the statutory provisions relevant for the adjudication of the present case.
9. In my view, the issue that requires adjudication is whether the acts and omissions on the part of the *Noticee*, as observed in the Enquiry Report, are in violation of the provisions alleged in the SCN; and if the same is answered in affirmative, what action against the *Noticee* would be commensurate for such violations.
10. It is an undisputed fact that the *Noticee*, on its own volition, had made an application dated February 25, 2015 to NSE for change in control. It is also undisputed that NSE had issued its No Objection vide communication dated May 12, 2015. Further, in pursuance of the said application, SEBI vide its letter dated November 02, 2015, intimated NSE about according of approval, considering the request so made by the *Noticee*. A perusal of the said letter dated November 02, 2015 shows that the prior approval granted by SEBI for the proposed change in control of the *Noticee*, was subject to the condition that the application for change in registration in favour of the *Noticee* as a Stock- broker (with new shareholders) must be submitted to SEBI within a period of six months from the date of communication of letter granting prior approval. Further, the letter granting prior approval also stipulated that the said letter is valid only for a period of 6 months.

11. I observe that the period of 6 months as granted by the aforesaid letter expired on May 02, 2016, however, no steps were taken by the *Noticee* to carry out the proposed action for which the approval was granted to it. In this respect, it is also noticed from the records that NSE, vide its letter dated July 01, 2016, categorically informed the *Noticee* that the Exchange has not received the documents from it (*Noticee*) within the period of 6 months, and further informed it that the validity of the prior approval granted by SEBI has expired on May 02, 2016. It is noted that the said letter further asked the *Noticee* to apply afresh to the Exchange and SEBI for approval as the approval granted earlier stood terminated by efflux of the time period mentioned in the said letter which stipulated unambiguously that the approval accorded under the said letter was valid for a period of six months only.
12. The perusal of the Enquiry report indicates that the *Noticee* had not sought an extension of approval even after the expiry of the approval granted by SEBI and has not filed any fresh application seeking the processing of its proposal of change in control. Under the circumstances, NSE withdrew the trading rights of the *Noticee* and it continued to act as a Stock-broker even after the expiry of such prior approval, till August 29, 2016. I find it pertinent to highlight that in its communication, the *Noticee* had sought approval to carry out the proposed changes (as per its letter) w.e.f February 09, 2015, however, surprisingly enough, the records of the *Noticee* Company held with Ministry of Corporate indicate that the two Directors viz., Mr. Shreyas Manjunath and Mr. Annapurna MV, who were proposed to be appointed on the Board of the *Noticee* from the aforesaid date, were already appointed on its Board on December 26, 2014.
13. One thing that clearly emerges from the aforesaid factual details is that the *Noticee*, who despite being a registered intermediary, has given scant regard to the regulatory framework with respect to the change in control. From the narration of the facts, it can be clearly noted that after applying to NSE for the change in control in its constitution, the *Noticee* remained conspicuously absent from any kind of interaction with NSE. It is a blatant display of non-compliant attitude displayed by the *Noticee* when it is seen that the change in control that was proposed in its communication

was indeed carried out, and the subsequent regulatory obligations that emanated from such change in control, were not at all adhered to by the *Noticee*. Thus, the compliance exhibited by the *Noticee* to seek no objection from NSE for change in control was merely ephemeral. Strangely, even after the withdrawal of the trading right, no action or representation has been filed by it before any forum. Therefore, given the facts of the matter, I observe that in terms of Regulation 9 (c) of the Broker Regulation, one of the mandatory conditions of the registration of a stock broker is that in case a stock broker proposes a change in control, it shall obtain prior approval of SEBI for continuing to act as such, after the change. The said regulation is further supported by the Circular dated July 09, 2003 and the Circular dated August 02, 2011, which lay down the procedure to be followed in case of any change in control.

14. I further observe that Stock-brokers being the broad interface between the investing public and the stock exchange platform are the essential pillar for the whole ecosystem of the securities market. The sensitivity of Stock-broker as an intermediary can be gauged from the fact that stringent conditions in terms of net-worth, infrastructure, certification etc., have been cast as eligibility norms for obtaining registration as a Stock-broker. Further, it is noted from the Circular dated August 02, 2011 that the requirement for taking prior approval in case of change in control, has been dispensed with for other intermediaries like Merchant Bankers, Depository Participants etc., except for Stock-brokers, which further compounds the fact that the constitution of a Stock-broker or changes thereto, is a critical concern for the regulator. At the same time, it is noted that in order to provide a conducive environment for a Stock-broker undergoing change in control, a window of 6 months is granted to such Stock-broker to execute the proposed change in control and apply afresh to SEBI for registration.
15. In the present case, I observe that the *Noticee* has not only shown a lackadaisical attitude by not filing the documents within the window of 6 months of the validity of prior approval, but it also did not participate in the present proceedings, either before the DA or before me. It has been brought on record that the last known address of the *Noticee* as available in SEBI's record is also being occupied by some

third party. I observe that such callous conduct on the part of the *Noticee* speaks volume about its ill intention to act in the regulatory framework of securities laws. I am constrained to observe that presence of such an entity in the ecosystem of securities market is completely unwarranted, and if such an entity continues to act as a registered intermediary, it may be detrimental for the interest of investors.

16. In view of the foregoing discussion, I observe that the charges of violation of provisions of Clause 2(B) of SEBI Circular No. MIRSD/MSS/Cir-30/13289/03 dated July 09, 2003 and Clause 3(iv) of SEBI Circular No. CIR/MIRSD/14/2011 dated August 02, 2011, as levelled in the Show Cause Notice dated May 28, 2018 stand proved.

Order

17. In view of the above, in exercise of powers conferred on me under Section 12 (3) of the SEBI Act, 1992 read with Regulation 27 of the SEBI (Intermediaries) Regulations, 2008, and upon consideration of the facts and circumstances as narrated above, I hereby cancel the registration granted to the *Noticee*, **Sri Bheemeswara Securities Private Limited (SEBI Registration numbers INB231118135 and INF231118136).**
18. This Order shall come into force with immediate effect.
19. A copy of this Order shall be served on the *Noticee* and upon all recognized Stock Exchanges and Depositories.

-Sd-

DATE: OCTOBER 03rd, 2022

S. K. MOHANTY

PLACE: MUMBAI

WHOLE TIME MEMBER