

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA, MUMBAI
CORAM: S. RAMAN, WHOLE TIME MEMBER

ORDER

Under Sections 11(1), 11(4), 11B and 11D of the Securities and Exchange Board of India Act, 1992 read with SEBI (Portfolio Managers) Regulations, 1993 in respect of SBS Investments (PAN: ACLFS5789F) and its Managing Partner Mr. Srinivasa Thanga Durai (PAN: BBDPS1849E) and Ms. P. Soundravalli (partner) (PAN:FLJPS3301B).

1. Securities and Exchange Board of India ("**SEBI**") received complaints against SBS Investments ("**SBS Investments**") alleging that the said entity is doing unauthorized trading and collecting Deposits from public.
2. As a matter of preliminary inquiry, SEBI officials conducted an incognito site visit of the entity on October 10, 2015 and gathered the following information/documents:
 - The managing partner of the said entity is Shri. P.Srinivasa Thanga Durai.
 - The firm is offering investment plans and collecting amounts from investors in the form of Deposits and investing them in the Stock market in the name of "SBS Investments". Fixed returns are offered to the investors @2.5% per month (i.e. 30% per annum).
 - Copy of the agreement entered into by the said entity with its investors.
 - Copy of deposits receipts issued by the entity to the investors and
 - Pamphlets and visiting cards issued by the entities.
3. Upon perusal of the abovementioned documents, it is observed that SBS Investments was *prima facie* carrying out unregistered portfolio management business. In order to examine the matter further, SEBI vide letter dated November 04, 2015 advised SBS Investments to furnish the following information, viz. –
 - a. "Details of registration obtained in the name of SBS Investments, if any, and copy of the PAN of SBS Investments.
 - b. Registered/ corporate/ Branch office addresses of the above mentioned firm alongwith telephone numbers of all the offices.
 - c. Details of past and present proprietor/partners.
 - d. Details of all the employees/retainers alongwith their qualifications and nature of services offered by them.
 - e. Copy of Audited financial statements of SBS Investments, if any, for the past three financial years.

- f. *Copy of Income tax Returns filed by SBS Investments and Shri Srinivasa Thanga Durai for the past three financial years.*
- g. *List of all activities carried on in the name of SBS Investments.*
- h. *Since when the entity is providing Portfolio Management Services?*
- i. *Modus Operandi of business carried out by SBS Investment including details regarding the following:*
 - *Solicitation of money from the investors,*
 - *Details how the money mobilized was invested,*
 - *Whether the money mobilized from the investors are invested in name of SBS Investment or in the name of investor,*
 - *Whether securities bought are transferred to the investors (if so, time period during which the transfer will happen) or held in the name of SBS Investments,*
 - *Details regarding how the profits are shared with the investors.*
- j. *Basis of offering advice alongwith the copies of few latest research reports.*
- k. *Details of the amount mobilized from investors including the name of the investor, amount of money mobilized , date of investment, details of returns / refunds provided till date, if any, etc.*
- l. *Details of Bank Accounts operated in the name of SBS Investments and Shri Srinivasa Thanga Durai.*
- m. *Copies of the bank statements for the last three financial years.*
- n. *Information about present Asset Under Management (“AUM”).*
- o. *Break-up of AUM under various asset classes.*
- p. *Details of Demat Accounts operated in the name of SBS Investments and Shri. Srinivasa Thanga Durai.*
- q. *Details of investments made from the money mobilized from the investors including Demat Transaction Statement for last three financial years.*
- r. *Demat Holding Statement with respect to securities held in the name of SBS Investment and Shri. Srinivasa Thanga Durai as on date.*
- s. *Names of brokers through whom orders for buying and selling of shares have been placed.*
- t. *Terms and conditions of the schemes through which the money was mobilized including the details regarding fees charged from investors including AMC and other fees, returns assured, minimum terms of such schemes, penalty for premature withdrawal, if any.*
- u. *Sample copies of the pamphlets circulated in the name of SBS Investments.*
- v. *Sample copies of application form entered into by investors.*
- w. *Sample copies of the agreement entered into by SBS Investments with the investors, if any.*
- x. *Sample copy of receipts issued to investors.*

4. In response thereto, SBS Investments vide email dated November 16, 2015 stated “*we have utmost respect for SEBI as it is the only agency for regulating the equity market, and we have always said to most of our investors, that we need to get license either under collective investment scheme or under Portfolio management scheme [PMS]*”.
5. Since the company did not submit any information/documents sought by SEBI, a reminder dated December 22, 2015 was issued to SBS Investments. In reply, SBS Investments vide letter dated December 23, 2015 (received on December 30, 2015) stated “*Our collected deposit is very miniscule. We wrongly were under the assumption that we fall under the control/ ambit of RBI, as we had received a letter from RBI and also due to the mis-guidance of the Auditor. Our aim is to get licensed by SEBI and we deeply regret for working without getting a license from SEBI. We are willing to convert their deposits into CIS (following the eligibility conditions required by SEBI) and also issue a draft prospectus*”.
6. Vide the aforesaid letter SBS Investments also enclosed the following documents:-
 - a. *Registration certificate*
 - b. *Copy of PAN card of SBS Investments and its partners*
 - c. *Details of activities carried out by SBS Investments,*
 - d. *Details of Bank Accounts of SBS Investments and its partners*
 - e. *Copy of the Income Tax Return for the Assessment year 2014-15*
 - f. *Copy of the profit and Loss Account and Balance Sheet for the Financial year ending on March 31, 2014*
 - g. *Copy of Investor details for the year 2013-14*
 - h. *Details of unsecured loans.*

It is noted that SBS Investments has failed to furnish the complete information sought by SEBI vide letters dated November 04, 2015 and December 22, 2015.

7. I have carefully perused the complaints received by SEBI, correspondence exchanged between SEBI and SBS Investments along with the documents contained therein, documents obtained pursuant to the physical verification of the office of SBS Investments, information obtained from the website of SBS Investments and other material available on record. On an examination of the aforementioned material/information available on record, i.e. and other information/materials available on record, it is *prima facie* observed:
 - i. SBS Investments (hereinafter referred to as “SBS Investments” or “Firm”) is registered as a Partnership Firm under Indian Partnership Act, 1932 with registration

number - 2214 of 2013 having its registered office at 135/45, M.S.P. Complex, 2nd Floor, Medavakkam Main Road, Ullagaram, Chennai -600091.

- ii. Mr.Srinivasa Thanga Durai (PAN- BBDPS1849E) is the Managing Partner of the firm holds 80% capital in the firm and Ms. P.Soundravalli (PAN-FLJPS3301B) holds 20% of the capital in the firm.
- iii. As per their Partnership Deed dated November 1, 2013, the nature of the business is to – *“to receive money in deposit at interest or otherwise for fixed period...to manage investment pools, mutual funds’, syndicates in shares, stocks and securities”*
- iv. The Firm operates a website viz., *“<http://www.sbsinvestments.in>.”* On an examination of the website, it is observed that the Firm has posted the following on its website:

- I. *“SBS Investments was started in 2003 and has been a leading Asset Management Company [AMC] for the past 12 years.*

The firm was intially involved in investing in both equities as well as commodities, but due to the heavy volatility in the commodity markets it was decided by the firm [in 2008] to discontinue trading in commodities and exclusively concentrate only in equities.

The procedures are simple and quick.

The company has been astutely led for the past 12 years by its MD and Managing partner Mr.P.Srinivasa thangadurai, who has nearly 17 years of experince in the Equity [stock] market.”

- II. *“PORTFOLIO MANAGEMENT SERVICES [PMS]*

- *PORTFOLIO MANAGEMENT SERVICES [PMS]:*

- *We [SBS INVESTMENTS] have started catering to the needs of High value customers otherwise known as High Networth Individuals. [HNIs].*
- *The minimum investment under this category is 25 Lakhs [twenty five lakhs only]. The investors will be paid annualised returns only-which varies between 40 to 60% p.a.*
- *[The returns are just a rough projection and not guaranteed-according to SEBI Guidelines].*
- *The investors can periodically go thorough the portfolio and view the current positon of shares held by the firm,though the investor cant interfere in the day to day activities*

- *i.e. buying and selling of shares by the firm.*
- *The investor can also view the audited results of the firm ,at the end of every financial year. [Pl note: SEBI approval yet to be received.]”*

III. “Our Services

SBS INVESTMENTS provides a guaranteed return of 2.5% p.m. or 30% p.a. for your investments. An agreement is entered with the customer/investor [on a 20rs stamp paper] usually for 1 year. Profits are declared at the end of every financial year [i.e:from April-March], a minimum of 10% to a maximum of 15% additional returns would be paid to the investor at the end of every financial year.

For instance if profits declared for 2013-14 is 10%,and an investor has made a deposit on Oct 2013,profits would be calculated for 6 months [OCT -MAR]and paid accordingly.

- **SHORT - TERM INVESTMENTS:**

- *Duration : 1 Year [3 months lock-in period]*
- *Minimum Investement: 25000 Rs*
- *Types of Investment:*

i. Single Premium

ii. Installments

Single Premium : The investment can be made as One-Time Payment

Installments : Investment of 25,000 can be paid as equated monthly installments [i.e.] 2500 Rs/month for 10 months. Interest will be paid at the end of every month.After 10 months, the investor can withdraw 25000 or renew the agreement for 1 year.

- **LONG - TERM INVESTMENTS:**

- *Duration : 2 - 5 Years [3 months lock-in period]*
- *Minimum Investment : 25,000 Rs*
- *Types of Investment:*
- *Single Premium*
- *Installments*
- *Fixed Deposits:*

For investments above 50,000 an F.D. FOR 20% of the invested amount would be issue to the investor. [I.E.] if an investor has made a deposit of 50,000 Rs, An F.D. certificate would be issued for 10,000 Rs to the investor[apart from the stamp paper agreement].

- *Bonds:*

The firm [SBS Investments] invests in long term bonds [6 yrs]”.

- v. SBS Investments vide their reply dated December 23, 2015 have stated as under:
- Their modus-operandi is to solicit customers through advisements in newspapers. They have employed three persons for “Equity Market Trading”.
 - They have invested the money mobilised from the investors in Equity markets.
 - Shares are bought only in the name of the “SBS investments”.
 - Once shares are bought in the name of the SBS Investments, they are held for a minimum period of 10 days to maximum of three months and the shares are sold once the market price exceeds the average price by atleast 1% to a maximum of 10%.
 - Investors are paid from the profits generated. Normally, 70% of income goes to the interest payment to investors, 15-20% of the income used for office expenses and balance saved in savings account of the Managing Partners.
 - Investors are generally passive investors as the shares are bought based on the sole advice of the managing partner of SBS Investments.
 - They execute their trades through the broking firm ICICI Direct. No fees are charged from the investors.
 - Investors are assured of a monthly return of 2.5% or 30% per annum. The minimum lock-in period for investment is 3 months.
- vi. From the details provided by the entity and also from the details collected from Depositories, it is observed that SBS Investments have a Demat Account with ICICI Bank – NSDL - DP ID- IN303028 58630821 and ICICI broking Account with number 5550000170 and another Demat Account with Angel Broking Private Limited - CDSL DP ID- 1203320008667209.
- vii. On an analysis of the bank accounts of SBS Investments (Current Accounts with ICICI Bank – A/c no. 103905002059 and Axis Bank – A/c no. 913020048973554), it appears that there are frequent deposits of money to the accounts. Further, it appears that SBS Investment made frequent trades through their broking accounts mentioned above.
- viii. From the documents obtained from the entity during the site visit and the documents provided by SBS Investments vide its reply dated December 22, 2015, it is observed that the entity is mobilising deposits from public and investing in the Stock market.
- ix. From the copy of the Pamphlets, it is observed that Rs.25,000/- is mobilised from investor on instalment basis (Rs.2,500/- per month for ten months) on the promise of interest @2.5% per month (30% per annum).

- x. From the copy of the agreement entered into by SBS Investments (“Asset Management Company (AMC)”) with one of the investors, Mr. R. Ragunath the following are noted:
- “The investor has made a deposit of Rs.10,000/- in SBS Investments (ECS through State Bank of Mysore Bank, Mylapore Branch). The Firm has also issued deposit receipts for the same*
 - The investor would be paid by the AMC a monthly interest of 2.5% (30% per annum) for the above invested amount.*
 - The firm (i.e. SBS Investments) would strictly invest the deposited amount in Equities/Bonds/Mutual Funds/ other financial instruments.*
 - The investor agrees that he would not interfere in the day to day activities of the firm (i.e. buying and selling of Shares, bonds, etc.).*
 - The invested amount has a lock-in period of 3 months. If there is a withdrawal request before 3 months, a fine of 5% will be charged on the invested amount.*
 - If there is a refund request after 3 months, no fine would be imposed.*
 - For every financial year (eg- 2014 April 2015 March) profits would be declared.*
 - If the profits declared as 10%, then the investor would be paid bonus of 10%. (i.e., for Rs. 25,000/- investment 10% bonus works out to be Rs.2500/-.)”*
- xi. From the aforesaid documents, it is observed that SBS Investments is soliciting money from the investors and investing them in securities and promises to share the profits received.
- xii. From the details provided by the entity, it is observed that between May, 2014 to November, 2015, the following are the details of the money mobilised from the investors:

Investor's name	Invested Amount in Rs.
R.Ragunath	1,75,000
V.P. Subramanian	4,00,000
S.Kavi	40,000
P.S.Rangesh	1,50,000
S.Krishnamurthy	55,000
K.S.Saravanan	1,00,000
T.K.Kasi Viswanathan	1,00,000
Keith Anthony Dvaz	1,00,000
J.Satish Kumar	40,000
B.Shobana Balan	1,00,000
P. Murugan	30,000
E.Subha	1,00,000

C.Basker & Elango	1,60,000
Jegatheesan	10,00,000
M.G.Sathish	40,000
Prem Anandh	15,000
Jagannathan	1,00,000
Naresh kumar	25,000
Vasanthi Kandan	50,000
A. Yuvaraj	5,00,000
V.Ganesan	35,000
Ebrahim Omer	1,00,000
D.Kanchana	80,000
S.Santhanaraj	1,20,000
Jeniffer	50,000
Bebeyal	25,000
Princes Charles .A	1,00,000
Aaron	2,00,000
Princes Jacob A	1,25,000
Glory	50,000
Venkat Narayanan	1,00,000
Venkatesan	5,00,000
Bhuvaneswari	1,70,000
Krishnapeertha	4,35,000
Total	Rs. 53,70,000

- xiii. Further, it is also observed that the entity has provided details regarding refund of principal made to a few investors.
8. In the light of the above analysis and examination and the documents obtained from the entity during the site visit and the documents provided by SBS Investments vide its reply dated December 22, 2015, it is observed that the entity is soliciting money from investors and investing them in securities with promise to sharing the profits generated. In view of this, it is evident that the activities of SBS Investments as discussed in the preceding paragraphs clearly indicate that they are engaged in providing Portfolio Management Services to the investors without obtaining registration from SEBI as per law.
9. In view of above, it is observed that the services offered by SBS Investments amounts to offering services of a "portfolio manager", as defined under Regulation 2(cb) of the SEBI (Portfolio Managers) Regulations, 1993 ("**PMS Regulations**").

Regulation 2(cb) of PMS Regulations defines a Portfolio Manager as:

"portfolio manager" means any person who pursuant to a contract or arrangement with a client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the funds of the client, as the case may be'.

10. As per Section 12(1) of the SEBI Act, 1992, " No stock broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, **portfolio manager**, investment adviser and such other intermediary who may be associated with securities market shall buy, sell or deal in securities except under, and in accordance with, the conditions of a certificate of registration obtained from the Board in accordance with the regulations made under this Act."
11. Regulation 3 of PMS Regulations provides "No person shall act as portfolio manager unless he holds a certificate granted by the Board under these regulations".
12. In this context, it is noted from its own admissions vide reply dated December 22, 2015 that SBS Investments is not registered with SEBI in any capacity such as broker, sub-broker, investment advisor or portfolio manager. Further, SBS Investments is also offering assured returns to its investors. The characteristics and features of the business activity carried out by SBS Investments as discussed in the preceding paragraphs *prima facie* leads to the conclusion that SBS Investments is providing services of a portfolio manager. Thus, the activities of SBS Investments are *prima facie* in violation of 12(1) of SEBI Act, 1992 read with Regulation 3 of the PMS Regulations.
13. It is noted that these activities are in violation of various provisions of PMS Regulations. As SBS Investments is offering assured returns of '2.5% p.m. or 30% p.a.' to its investors, it can put investors at great risk. Further, in case of default by SBS Investments in meeting of obligations towards his clients/investors, the normal remedies available to investors while dealing with a SEBI registered intermediary such as invoking the grievance redressal mechanisms, referring the matters to appropriate forums such as arbitration etc. are not available in this case.
14. SEBI has a statutory duty to protect the interests of investors in securities and promote the development of, and to regulate, the securities market. Section 11 of the SEBI Act has empowered it to take such measures as it deems fit for fulfilling its legislative mandate.

Therefore, steps have to be taken in the instant matter to prevent such persons from further misleading investors and prevent them from soliciting and collecting funds from investors and carrying on portfolio management services without registration from SEBI. Therefore, in order to ensure that SBS Investments do not collect any funds from the public and indulge in unauthorized portfolio management activities until full facts and materials are brought up and a final decision is taken in the matter, it becomes necessary for SEBI to take urgent preventive action. In light of the same, I find there is no other alternative but to take recourse through an ad interim ex-parte order against SBS Investments, for preventing it from collecting funds and indulging in unauthorized portfolio management services without obtaining registration from SEBI in accordance with the law.

15. In view of the foregoing, I, in exercise of the powers conferred upon me under Sections 11(1), 11(4), 11B and 11D read with Section 19 of the SEBI Act, 1992, by way of this *ad-interim ex-parte* order:

➤ *direct SBS Investments (PAN- ACLFS5789F) and its partners viz., its Managing Partner Mr. Srinivasa Thanga Durai (PAN:BBDPS1849E) and Ms. P. Soundravalli (partner) (PAN:FLJPS3301B):-*

- a. to cease and desist from acting as a portfolio manager and not to solicit or undertake such activity or any other unregistered activities in the securities market, directly or indirectly, in any matter whatsoever;*
- b. immediately withdraw and remove all advertisements, representations, literatures, brochures, materials, publications, documents, website, etc. in relation to their portfolio management activities or any unregistered activity in the securities market;*
- c. not to divert any funds raised from the investors.*
- d. to furnish all the information/ details sought by SEBI vide letters dated November 04, 2015 and December 22, 2015 within 21 days from the date of receipt of this order.*

16. The above directions shall take effect immediately and shall be in force until further orders.

17. This Order shall be treated as a show cause notice and SBS Investments (PAN- ACLFS5789F) and its partners viz., its Managing Partner Mr. Srinivasa Thanga Durai (PAN: BBDPS1849E) and Ms. P. Soundravalli, partner (PAN- FLJPS3301B) may show cause as to why appropriate directions, under the SEBI Act, 1992 and relevant SEBI

Rules/Regulations including prohibiting them from buying, selling or otherwise dealing in securities market, either directly or indirectly, in any manner whatsoever, should not be issued against them.

18. In this context, SBS Investments and its abovementioned partners may, within 21 days from the date of receipt of this Order, file their reply, if any, to this Order and may also indicate whether any of them desires to avail an opportunity of personal hearing on a date and time to be fixed on a specific request made in that regard.

Place: Mumbai
Date: July 18, 2016

S. RAMAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA