



**BEFORE THE ADJUDICATING OFFICER  
SECURITIES AND EXCHANGE BOARD OF INDIA  
[ADJUDICATION ORDER NO. Order/SM/BK/2025-26/32022]**

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**UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA  
ACT, 1992 READ WITH RULE 5 OF THE SEBI (PROCEDURE FOR HOLDING  
INQUIRY AND IMPOSING PENALTIES) RULES, 1995**

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**In respect of:**

**Pragnya Fund II**  
**PAN: AAHCP6164A**  
**SEBI REGISTRATION NO: INMUFP056116**

**In the matter of Pragnya Fund II**

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**A. BRIEF BACKGROUND**

1. SEBI had examined the compliance of Foreign Portfolio Investor (hereinafter also referred to as "FPI") PRAGNYA FUND II (hereinafter also referred to as "Noticee") with the provisions of the SEBI (Foreign Portfolio Investors) Regulations, 2019 (hereinafter also referred to as "FPI Regulations" / "SEBI FPI Regulations, 2019"), which specifies the conditions and restrictions on Debt Investments by FPIs, pursuant to Custodian, Orbis Financial Corporation Limited ('OFCL' / 'Orbis') email dated September 26, 2024 intimating SEBI that investments by Noticee in debt securities was not in accordance with the permissible limits (related to residual maturity) for investment in Debt securities applicable for FPI.
2. Pursuant to the examination, SEBI observed violations of Regulation 20(5) of SEBI (FPI) Regulations, 2019 and Clause 9 of Part C of the Master Circular for FPIs and DDPs dated May 30, 2024 read with Reserve Bank of India(RBI)



Circular RBI/2017-18/199 dated June 15, 2018. In view thereof, SEBI initiated Adjudication Proceedings in respect of the Noticee under Section 15 I of the Securities and Exchange Board of India Act, 1992 ('SEBI Act, 1992', in short), for the violations, as stated.

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

3. Whereas, the Competent Authority was *prima facie* of the view that there were sufficient grounds to adjudicate upon the alleged violation by the Noticee, as stated above and therefore, in exercise of the powers conferred under Section 15-I of the SEBI Act, 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 read with Section 19 of the SEBI Act, 1992, the Competent Authority appointed Shri Amar Navlani, General Manager, SEBI as the Adjudicating Officer (erstwhile AO) vide communique dated March 06, 2025 to inquire into and adjudge under Section 15HB of the SEBI Act, 1992 read with regulation 43 of SEBI (FPI) Regulations, 2019 for the alleged violation by the Noticee. Subsequent to the transfer of erstwhile AO, vide communique dated September 19, 2025, the undersigned has been appointed as the Adjudicating Officer.

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

4. A Show Cause Notice bearing reference No. *SEBI/EAD5/P/OW/2025/8543/1* dated March 18, 2025 ('SCN') was duly served upon the Noticee by erstwhile AO in terms of Rule 4(1) of SEBI Adjudication Rules vide email dated March 18, 2025 and also through Speed Post Acknowledgment Due (SPAD) *inter alia* to show cause as to why inquiry should not be held and penalty, if any, be not imposed under Section 15HB of the SEBI Act, 1992 read with regulation 43 of SEBI (FPI) Regulations, 2019 for the alleged violations by the Noticee, as stated.



5. The key allegations in respect of the Noticee inter alia brought out in the SCN are as under:

“...

***Holding investment in short term debt securities exceeding the 30% prescribed limit***  
– ***Examination of compliance with the provisions of investment conditions and restrictions for FPIs making investment in Debt Securities***

5.1 *The holdings and transaction statement of the aforesaid FPI in debt securities as submitted by ORBIS Custodian vide email dated October 11, 2024 were analyzed and it was observed by SEBI that the holdings were not in any of the exempted securities. Holding of the FPI in any debt security was classified as short term if the residual maturity period of the security on a particular day is within next one year. The Demat Transaction statements, is enclosed as Annexure 3. Custodian has confirmed vide email dated February 07, 2025 that the client does not has any physical holdings and is enclosed as Annexure 7. Scrip wise analysis of holdings of these FPI was carried out and the same is enclosed as Annexure 4. Demat Transaction Statements submitted by Orbis Financial Corporation Ltd (Custodian) vide email dated January 29, 2025 is enclosed as Annexure 5.*

***Analysis of Investments by PRAGNYA FUND II ('Pragnya')***

5.2 *The FPI, PRAGNYA FUND II (INMUFP056116) is registered with SEBI as a Category I FPI with sub-category “Appropriately Regulated Fund” on March 07, 2016. The AUC of the FPI as on a September 30, 2024 is Rs. 25.5 Crores.*

5.3 *The holdings of Pragnya were analyzed and it was observed that the percentage (%) of short term investment upon the total investment made by the FPI in Corporate Bonds has continuously exceeded the prescribed limit of 30% on 2 occasions. It was observed that the FPI was holding Corporate Bonds of Hazel Realty Private Ltd and Pragnya South City Projects Pvt Limited. On the first occasion, the non-compliance continued for 624 days from June 02, 2020 till February 16, 2022 and on the second occasion, the non-compliance was for 620\* days as shown in Table 3 below.*

<b><i>Start Date</i></b>	<b><i>End Date</i></b>	<b><i>Total Investments (Rs. in Lakhs)</i></b>	<b><i>Short Term Investments (Rs. in Lakhs)</i></b>	<b><i>% of Short Term</i></b>	<b><i>No of Days</i></b>	<b><i>Total No. of Days</i></b>
02-Jun-20	18-Jan-21	8440	4650	55.09	231	624



19-Jan-21	16-Feb-22	8440	6690	79.27	393	
19-Jan-23	29-Aug-23	2550	800	31.4	223	
30-Aug-23	28-May-24	2550	2550	100	273	
29-May-24	30-Sep-24	2550	1750	68.6	124	620

**Table 3: Summary of Investments in Corporate Bonds by the FPI – Pragnya**

\*The non-compliance was not rectified till September 30, 2024 (end date of examination period).

5.4 From Table 3, it was observed that on June 02, 2020, the % of short term investments upon total investments made by the FPI is 55.09%, which increased to 79.27% in subsequent period on January 19, 2021 till February 16, 2022. From February 17, 2022, the % of short term investments upon total investments reduced to below 30%.

5.5 Further, on January 19, 2023, the % of short term investments upon total investments made by the FPI went up to 31.4%, which increased in the subsequent period and reached 100% on August 30, 2023. The percentage of short-term investments upon total investments continued to be 100% until May 28, 2024 and then it went down to 68.6% and continued to be at 68.6 % till November 29, 2024.

5.6 Hence, there was a continuous non-compliance during the period from January 19, 2023 to September 30, 2024 for a period of 620 days.

5.7 Orbis vide email dated September 18, 2023 had informed Pragnya of the non-compliance with residual maturity requirements. The FPI had reverted to Orbis vide email dated April 04, 2024 (Annexure 6) that the maturity period of one of the NCDs viz., Hazel Realty has been extended and the process for extending maturity date of the second NCD viz., Pragnya South City Projects Pvt Limited was still under progress.

5.8 The extension of the NCD viz., Hazel Realty was approved on January 24, 2024 and the same was updated on NSDL on May 29, 2024, but the FPI was still in breach of the residual maturity requirements as their investment in short term security reduced to 68.63% which is still above the 30% limit.

5.9 From the above holdings analysis, it was observed that the FPI has made investments in Debt securities only from April 27, 2018 and the same has been considered while calculating the residual maturity limit as per relevant RBI circular and the FPI was non-compliant with the Debt investment limits during the examination period, the details of which is summarized below:



**Table 5: Period of Non-compliance by Pragnya**

<b>FPI Name</b>	<b>Type of Security</b>	<b>Period of Non Compliance</b>	<b>% of short term Investment (range)</b>
PRAGNYA FUND II	Appropriately Regulated Fund	June 02, 2020 to February 16, 2022	55.1% to 79.27%
		January 19, 2023 to September 30, 2024	31.4% to 100%

*5.10In view of the above, the aforesaid FPI, by holding investment in short term debt securities exceeding the prescribed limit of 30%, has not-complied with Regulation 20(5) of SEBI (FPI) Regulations, 2019 and Clause 9 of Part C of the Master Circular read with RBI Circular RBI/2017-18/199 dated June 15, 2018.*

*In view thereof, it was alleged that Noticee has violated Regulation 20(5) of SEBI (FPI) Regulations, 2019 and Clause 9 of Part C of the Master Circular for FPIs and DDPs dated May 30, 2024 with RBI Circular RBI/2017-18/199 dated June 15, 2018 updated upto Feb 26, 2021.*

..."

6. The said SCN was delivered to the Noticee through email dated March 18, 2025 and thereafter through Speed Post Acknowledgment Due (SPAD) on March 24, 2025 with the remark "shipment delivered".
7. In the interest of natural justice, vide notice of hearing dated April 04, 2025, Noticee was granted an opportunity of being heard on April 22, 2025 and was also advised to file a reply to the SCN.
8. Vide letter dated April 02, 2025, the Noticee filed its reply to the SCN and inter-alia submitted the following:

"..."



#### *"Summary of Investment in Corporate Bonds*

*As per the Table 3 in SCN the Investment in Corporate Bonds details*

*1" Occasion: It was observed that out of total Rs. 8440 Lakhs Investment Rs.4650 lakhs was in short term for a period of 231 days (from 02 June 2020 to 18 Jan 2021) and out of total Rs. 8440 Lakhs Investment Rs.6690 lakhs was in short term for a period of 391 days (from 19 Jan 2020 to 16 Feb 2022)*

#### *The Reason for the same*

*The unprecedented operational and financial challenges during COVID-19 pandemic in Financial Years 2020-21 and 2021-22 had a bearing on the assessment of our investments. This resulted in our short-term Investments exceeding the prescribed limit of 30% in our investee companies (Hazel Realty Private Limited and Pragnya South City Projects Private limited) as the investee companies couldn't redeem our debentures as per the agreed terms.*

*Acknowledging the financial challenges faced by our investee companies on account of pandemic, we prudently decided to extend the redemption date of the debentures which were supposed to be redeemed during FY 2020-21 and 2021-22.*

*2nd Occasion: It was observed that out of total Rs. 2550 Lakhs Investment Rs.800 lakhs was in short term for a period of 223 days (from 19 Jan 2023 to 29 Aug 2023) and out of total Rs. 2550 Lakhs Investment Rs.2550 lakhs was in short term for a period of 273 days (from 30 Aug 2023 to 28 May 2024) and out of total Rs. 2550 Lakhs Investment Rs.1750 lakhs was in short term for a period of 124 days (from 20 May 2024 to 30 Sep 2024)*

#### *The Reason for the same:*

*Subsequently, during the Financial Years 2022-23 and 2023-24, the short-term investments were supposed to be redeemed by the investee companies on or before 19 January 2024 and 30 August 2024. We made several attempts to persuade the investee companies to redeem the debentures which were due in that time period. The investee companies kept delaying the redemption process citing their financial stress till the last date and finally requested for another extension of the redemption dates.*

*However, by the time we received formal request from our investee companies to grant extension of redemption date, the prescribed due time had elapsed making the investments come under "Long-term category thus creating non-compliance of the stipulated regulations. We have immediately initiated the required compliance requirements with NSDL for extension of the*



*debenture redemption dates. However, there was delay from NSDL to get the new ISIN letter due to which the completion of the extension could be fully completed only on November 30, 2024.*

*We would like to inform you that as of the current date, we have fully complied with the applicable regulations on these investments. Additionally, taking into account the challenges faced by the Investee companies, we have also extended the maturity date for our debentures in Pragnya South City Projects Private Limited and Hazel Realty Private Limited to 31" March 2029 and 31" March 2030 respectively to ensure that we remain compliant till the redemption of the debentures by the investee companies.*

*Hence, we would like to request your kind consideration to not initiate any inquiry or impose any penalty on us for our above non-compliance which occurred not on account of our wilful intention and knowledge, but due to the abovementioned reasons/circumstances. We undertake and assure you that no such instances of non-compliance will happen again in the future and that we will abide by all the applicable rules and regulations."*

9. Thereafter, vide notice of hearing dated May 08, 2025, Noticee was again given an opportunity of hearing on May 15, 2025. The Noticee acknowledged the receipt of the Hearing Notice vide email dated May 13, 2025 and sought adjournment of the scheduled hearing. Accordingly, vide email dated May 14, 2025, hearing was rescheduled to May 27, 2025.
10. On the scheduled date of hearing i.e. May 27, 2025, the Noticee availed the opportunity of hearing through its Authorised Representative (AR) viz., Mr. Nishchal Josipura. During the hearing, the ARs relied upon and reiterated the submissions made vide Noticee's letter dated April 02, 2025. The ARs sought additional time till June 04, 2025 to make further submissions as final and complete submissions in the instant proceedings, accordingly the same was allowed. In this regard, vide letter dated June 04, 2025, Noticee submitted its written submissions in furtherance of personal hearing held on May 27, 2025.
11. Vide letter dated June 04, 2025, the Noticee filed its reply to the SCN and inter-alia submitted the following:

"..."

***I. Summary of investments in corporate debt***



*"Pragnya has made long-term investments in non-convertible debentures ("NCDs") issued by two Indian real estate companies: (i) Hazel Realty Private Limited ("Hazel") and (ii) Pragnya South City Projects Private Limited ("PSCP"). The intention to invest was never in short term NCDs (less than 1 year maturity from the date of investment), and the intent was to support long-gestation real estate housing projects in India. With the intent to invest in long term tenure instruments, the investments in NCDs were originally structured with 7 year tenure, in alignment with general development and monetization cycles in the sector. Over time, the tenures for redemption were extended as per project requirements, and due to financial instability and external circumstances such as COVID-19 pandemic.*

*As per Regulation 20(5) of the SEBI (Foreign Portfolio Investors) Regulations, 2019, ("FPI Regulations") read with Clause 9 of Part C of the Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors dated May 20, 2024 ("Master Circular"), a foreign portfolio investor ("FPI") is required to comply with conditions specified by the Reserve Bank of India ("RBI") and SEBI from time to time, including the corporate debt investment limits. As per RBI Circular No. RBI/2017-18/199 dated June 15, 2018, not more than 30% (thirty percent) of a FPI's corporate bond portfolio may be invested in instruments with a residual maturity of less than one year, also referred to as short term corporate debt investments.*

*Pragnya was notified of crossing certain specified thresholds with respect to short term investments in corporate debt, pursuant to the email dated September 18, 2023 from Orbis Financial Corporation Limited. Accordingly, Pragnya and the respective investee companies have extended the maturity dates of the: (i) NCDs issued by Hazel until March 31, 2030; and (ii) NCDs issued by PSCP until March 31, 2029. Pragnya and the respective investee companies had extended the tenure and redemption dates of both the NCDs held by Pragnya in order to comply with the requirements of Regulation 20(5) of the FPI Regulations, read with Clause 9 of Part C of the Master Circular and RBI Circular No. RBI/2017-18/199 dated June 15, 2018.*

## **II. Rationale for lenient view**

### **A. Long-term nature and investment philosophy**

*Pragnya is a long-term FPI committed to India's real asset development. Such projects typically require 4-7 years for completion. Our investments were structured accordingly, beginning in 2017-2018, with original tenures of 7 years. These were further extended, reflecting our intent and commitment to long-term asset creation. Accordingly, the intention was never to invest in any short term corporate debt, with tenure of less than 1 year.*

### **B. COVID-19 impact and extension justification**

*The global COVID-19 pandemic affected the financial capabilities of the investee companies to repay Pragnya as per the original long-term tenure of the NCDs. Investee companies faced unforeseen financial distress, impacting their ability to redeem bonds. Rather than forcing premature redemption, we agreed to restructure maturity timelines in a responsible and non-*



*disruptive manner, preserving asset value and project viability. Acknowledging the financial challenges faced by the investee companies on account of the COVID-19 pandemic, Pragnya prudently decided to undertake multiple extensions of the respective tenures and redemption dates of the NCOs, and ultimately extended the redemption date of the NCDs to FY 2028-29 and FY 2029-30. These cumulative extensions reflect Pragnya's responsible investment approach and its continued efforts to remain in good faith compliance with the applicable regulatory framework.*

C. Removal of short term debt limits of 30% - RBI Circular AP. (DIR Series) Circular No. 16 dated May 9, 2025

*The RBI, vide its circular dated May 9, 2025, removed the 30 % limit on short term investments by FPIs in corporate debt. This replaced earlier restrictions under RBI Circular RBV2017-18/199 (June 15, 2018) and effectively recognized the need to allow greater flexibility in structuring and holding debt instruments across different maturities. The circular permits FPIs to invest across all residual maturities without being subject to a fixed short-term exposure limit, aligning the regulatory regime with global practices and long-term capital requirements in India. In light of the above, given the RBIs' latest position on not having any specified limits on short term debt investments, we request SEBI to take a lenient view with respect to the alleged breaches under the erstwhile regime that were outside the control of Pragnya.*

D. Rationale for regulating short term corporate debt investments

*The key reason for limiting short term corporate debt investments to 30% of the overall corporate debt portfolio of a FPI was to limit the outflow of foreign exchange from India, within a tenure of 1 year. As can be seen, Pragnya has remained invested in the projects of Hazel and PSCP, on an average for more than 3 - 5 years with a further extension of additional 4 - 5 years. Hence, by extending the tenures, Pragnya has, in spirit, complied with the RBI's objective of curtailing the outflow of foreign exchange in short term."*

..."

12. Pursuant to the transfer of erstwhile AO, the Noticee was given another opportunity of hearing on November 14, 2025 which was not availed by the Noticee. Vide email dated November 14, 2025, the Noticee and its AR were informed that another opportunity of personal hearing is being provided to the Noticee on November 20, 2025. However, vide email dated November 19, 2025, the AR requested an adjournment of the scheduled hearing to November 26, 2025. Accordingly, vide email dated November 19, 2025, the hearing was scheduled on the aforesaid date i.e. November 26, 2025. Upon conclusion of the hearing dated November 26, 2025, the AR of the Noticee



requested one weeks' time from the date of the hearing to file additional written submissions.

13. The Noticee vide letter dated December 03, 2025 inter alia submitted the following additional written submissions:

“...

#### **I. Details of Investments and Maturity Periods**

Pragnya has a long-term strategy with regard to investments in the real estate sector. As a general strategy and investment approach, Pragnya, does not undertake investments in debentures of less than one-year maturity, specifically given that real estate housing projects have a long gestation period.

Please find below the following details regarding number of debentures ("NCD"), allotment date, tenure of NCDs, original maturity date and the reasons outside the control of Pragnya for non-redemption on original maturity dates that resulted in alleged technical non-compliance as per the Show Cause Notice (refer Para 10, Table 3 of Show Cause Notice).

<b>S. No.</b>	<b>No. of NCDs</b>	<b>Amount (In INR)</b>	<b>Allotment Date</b>	<b>Tenure of NCDs</b>	<b>Original Maturity Date</b>	<b>Reason for non-redemption on Original Maturity Date</b>
<b><i>Hazel Realty Private Limited</i></b>						
1.	300	30 crores	3 <sup>rd</sup> June, 2014	3 years	2 <sup>nd</sup> June, 2017	<i>The alleged technical noncompliance (for INR 46.5 crores as per S. Nos. 1-3) occurred since these NCDs were not redeemed by Hazel</i>
2.	65	6.5 crores	20 <sup>th</sup> November, 2015	5 years	19 <sup>th</sup> November, 2020	



3.	100	10 crores	14 <sup>th</sup> July, 2016	4 years and 4 months	19 <sup>th</sup> November, 2020	<p>Realty due to the financial difficulties faced by Hazel Realty due to Covid-19 pandemic, leading up to the expiry of their respective maturity periods.</p> <p><b>Since Hazel Realty did not redeem these NCDs on the original maturity date, due to Covid-19 pandemic, all these NCDs fell under less than one (1) year <u>residual</u> maturity periods, even though all the NCDs had original maturity period between 3 to 5 years.</b></p> <p><b>Additionally, as on 4<sup>th</sup> April, 2022, the NCDs were transferred to Guna Developers Private Limited (as part of a restructuring scheme), and hence, as of today, there is no non-compliance.</b></p>
4.	124	12.4 crores	25 <sup>th</sup> August, 2017	4 years and 5 months	19 <sup>th</sup> January, 2022	<p>The alleged technical non-compliance (for INR 66.9 crores as per S. Nos. 1-6; INR 8 crores, as per S. Nos. 5 and 6, and INR 25.5 crores for S. Nos. 5-8) occurred since these NCDs were not redeemed by Hazel Realty / Pragnya South City Projects due to the financial difficulties faced by Hazel Realty / Pragnya South City Projects due to Covid-19 pandemic, leading up to the expiry of their respective maturity periods.</p> <p><b>Since Hazel Realty / Pragnya South City Projects did not redeem these NCDs on the original maturity date, due to Covid-19 pandemic, all these NCDs fell under less than one (1) year <u>residual</u> maturity periods, even though all the NCDs had original maturity period between 3 to 5 years.</b></p>
5.	16	1.6 crores	20 <sup>th</sup> January, 2017	5 years	19 <sup>th</sup> January, 2022	
6.	64	6.4 crores	25 <sup>th</sup> August, 2017	4 years and 5 months	19 <sup>th</sup> January, 2022	<p><b>Subsequently, after the expiry of the maturity period, Hazel Realty requested Pragnya for extension of the maturity terms for NCDs</b></p>



						<p><i>issued under S. Nos. 5 and 6, to 31 March, 2030, due to the financial challenges faced by them, which was extended, and hence, as of date, there is no non-compliance.</i></p>
<b><i>Pragnay South City Projects Private Limited</i></b>						
7.	149	14.9 crores	30 <sup>th</sup> August, 2017	7 years	30 <sup>th</sup> August, 2024	<p><i>The alleged technical non-compliance (for INR 17.5 crores as per S. Nos. 7-8) occurred since these NCDs were not redeemed by Pragnya South City Projects due to the financial difficulties faced by Hazel Realty due to Covid-19 pandemic, leading up to the expiry of their respective maturity periods.</i></p>
8	26	2.6 crores	3 <sup>rd</sup> October, 2017	6 years and 9 months	30 <sup>th</sup> August, 2024	<p><i>Since Pragnya South City Projects did not redeem these NCDs on the original maturity date, due to Covid-19 pandemic, all these NCDs fell under less than one (1) year <u>residual</u> maturity periods, even though all the NCDs had original maturity period between 5 to 7 years.</i></p> <p><i>Subsequently, after the expiry of the maturity period, Pragnya South City Projects requested Pragnya for extension of the maturity terms for NCDs issued under S. Nos. 7 and 8, to 31 March, 2029, due to the financial challenges faced by them, which was extended, and hence, as of date, there is no non-compliance.</i></p>

As can be seen from the above table, all the NCDs invested by Pragnya were having the tenure of NCDs ranging from at least 3 years up to 7 years, and the only reason for the residual maturity for these NCDs being less than one year was because both Hazel Realty and Pragnya South City Projects could not redeem these NCDs due to Covid-19 pandemic-triggered financial difficulties. If the repayment on these NCDs was made in a timely manner, then none of these NCDs would have been outstanding with less than one year residual maturity and hence, there would not have been any alleged technical non-compliance. Further, with the extension of the tenure of NCDs, the average maturity period for the NCDs will now range from 10-15 years, which is multiple times more than one year maturity, for which the short-term investments restriction of 30% was introduced.

II. As per Para 4(b)(ii) of RBI Circular (RBI 2017-18/199 ("RBI Circular")),

*"In terms of AP. (DIR. Series) Circular No. 71 dated February 03, 2015, FPIs were required to invest in corporate bonds with a minimum residual maturity of three years. Henceforth, FPIs are permitted to invest in corporate bonds with minimum residual maturity of above one year, subject*



*to the condition that short-term investments in corporate bonds by an FPI shall not exceed 30% of the total investment of that FPI in corporate bonds. These stipulations would not apply to investments in 'Exempted Securities' by FPIs. "*

*Based on the above, it is evident that the requirement for short-term investments in corporate bonds by an FPI shall not exceed 30% of the total investment of that FPI in corporate bonds ("30% Limit") was applicable only if at the time of investment, the FPIs had invested in corporate bonds with minimum residual maturity of above 1 (one) year. The above 30% Limit was not applicable to FPIs investing in corporate bonds where the minimum residual maturity at the time of investment was at least 3 (three) years. As mentioned in Response I above, all the NCDs subscribed by Pragnya had minimum residual maturity of three years at the time of investment, and hence, the 30% Limit did not apply to all such investments, resulting in no non-compliance of the RBI Circular.*

### **III. Exempted Securities**

*In addition to Response II above, we refer to the definition of 'Exempted Securities' provided in Clause 4(a)(iv)(c) of the RBI Circular (provided in (i) below), wherein an exemption has been provided to such securities in Para 4(b)(iii) (provided in (ii) below) of the RBI Circular*

- (i) *"Exempted Securities" shall include the following instruments....*  
*....c) Non-Convertible Debentures / corporate bonds which are under default either fully or partly in the repayment of principal on maturity..."*
- (ii) *"These stipulations would not apply to investments in 'Exempted Securities' by FPIs."*

*As mentioned above, the alleged technical non-compliance occurred on account of defaults by the investee companies to redeem the NCDs on the maturity date, and hence, all these NCDs fell within the definition of 'Exempted Securities' and 'Exempted Securities' as per above are exempt from the stipulations of 30% Limit for short-term debt securities. In light of the above, given that all NCDs should be categorized as 'Exempted Securities', we humbly submit that there is no non-compliance of the RBI Circular.*

### **IV. Conclusion and Prayer for Relief**

*In view of the above, the alleged technical non-compliance was (i) exempt, (ii) caused by extraordinary circumstances beyond Pragnya's control, (iii) unintentional, and (iv) immediately rectified upon occurrence (even to the detriment of Pragnya). Furthermore, as mentioned in our earlier submissions, RBI's updated circular renders the very basis of the alleged breach redundant going forward. Accordingly, we respectfully request that SEBI take a lenient and holistic view, and we humbly request to drop the proceedings initiated under Section 15HB of the SEB' Act, 1992 against Pragnya.*

*..."*

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

14. The issues that arise for consideration in the instant matter are:



**Issue No. I:** Whether the Noticee had violated Regulation 20(5) of SEBI (FPI) Regulations, 2019 and Clause 9 of Part C of the Master Circular for FPIs and DDPs dated May 30, 2024 read with RBI Circular RBI/2017-18/199 dated June 15, 2018?

**Issue No. II:** If yes, whether the violations on the part of the Noticee would attract monetary penalty under Sections 15HB of the SEBI Act, 1992 read with Regulation 43 of SEBI (FPI) Regulations, 2019?

**Issue No. III:** If yes, what should be the monetary penalty that can be imposed upon the Noticee?

15. Before proceeding with the matter on merits, it would be relevant to reproduce the provisions of law alleged to have been violated:

**SECURITIES AND EXCHANGE BOARD OF INDIA (FOREIGN PORTFOLIO**

**INVESTORS) REGULATIONS, 2019**

***Investment restrictions.***

“...

20. (1)

(5) *In respect of investments in the debt securities, the foreign portfolio investors shall also comply with terms, conditions or directions, specified or issued by the Board or Reserve Bank of India, from time to time, in addition to other conditions specified in these regulations.*

...

***SEBI Master Circular SEBI/HO/AFD-2/CIR/P/2022/175 dated May 30, 2024***

**PART C - Investment Conditions / Restriction on Foreign Portfolio Investors registered SEBI (Foreign Portfolio Investor) Regulations, 2019**

“....

***9. FPIs investments in debt securities***



i. With respect to FPIs investments into government (Central and State) securities, exchange traded currency and interest rate derivatives, FPIs shall be guided by directions issued by RBI from time to time.

ii. In respect of investment conditions in the corporate debt securities, the FPI shall also comply with terms, conditions or directions, specified or issued by RBI, from time to time. No separate circular(s) shall be issued by SEBI. The intermediaries may take steps required to operationalize the RBI notifications.

iii. FPIs are eligible to invest in corporate debt issues which are "to be listed" without any end-use restriction as applicable to unlisted debt securities. However, if the listing does not happen within 30 days or the issue is not meeting end use restriction, FPI shall immediately dispose such investment to either domestic investor or issuer

iv. The investments by FPIs in debt oriented mutual fund schemes shall be reckoned as investments in corporate debt.

...."

**RBI Circular RBI/2017-18/199 dated June 15, 2018**

#### *Investment by Foreign Portfolio Investors (FPI) in Debt – Review*

"..."

..."

4. Accordingly, in supercession of the directions contained in AP (DIR Series) Circular No. 24 dated April 27, 2018 and AP (DIR Series) Circular No. 26 dated May 1, 2018, the following directions are issued:

..."

"..."

##### *(b) Revision of minimum residual maturity requirement*

(i) In terms of A.P. (DIR Series) Circular No. 13 dated July 23, 2014, FPIs were required to invest in Government bonds with a minimum residual maturity of three years. Henceforth, FPIs are permitted to invest in Central Government securities (G-secs), including in Treasury Bills, and State Development Loans (SDLs) without any minimum residual maturity requirement, subject to the condition that short-term investments by an FPI under either category shall not exceed 30%<sup>4</sup> of the total investment of that FPI in that category.

(ii) In terms of A.P. (DIR Series) Circular No. 71 dated February 03, 2015, FPIs were required to invest in corporate bonds with a minimum residual maturity of three years. Henceforth, FPIs are permitted to invest in corporate bonds with minimum residual maturity of above one year, subject to the condition that short-term investments in corporate bonds by an FPI shall not exceed 30%<sup>5</sup> of the total investment of that FPI in corporate bonds. These stipulations would not apply to investments in 'Exempted Securities'<sup>6</sup> by FPIs.

(iii) The requirement that short-term investments shall not exceed 30%<sup>7</sup> of total investment by an FPI in any category applies on an end-of-day basis. At the end of any day, all investments with residual maturity of up to one year will be reckoned for the 30%<sup>8</sup> limit.



(iv) *Short-term investments by an FPI may exceed 30%<sup>9</sup> of total investments, only if the short-term investments consist entirely of investments made on or before April 27, 2018; that is, short-term investments do not include any investment made after April 27, 2018.*

..."

16. On perusal of the material available on record and having regard to the facts and circumstances of the case, I record my findings as hereunder:

**Issue No. I: Whether the Noticee had violated Regulation 20(5) of SEBI (FPI) Regulations, 2019 and Clause 9 of Part C of the Master Circular for FPIs and DDPs dated May 30, 2024 with RBI Circular RBI/2017-18/199 dated June 15, 2018**

17. In this regard, it was inter alia observed and alleged that:

- 17.1. RBI vide its Circular RBI/2017-18/199 dated June 15, 2028 has mandated that short term investments shall not exceed 30% of total investment by an FPI in any category and therefore, were required to be closely monitored and limits adhered to.
- 17.2. As per the date in the SCN, it is observed that percentage (%) of short term investment upon the total investment made by the FPI in Corporate Bonds has continuously exceeded the prescribed limit of 30% on 2 occasions. It was observed that the FPI was holding Corporate Bonds of Hazel Realty Private Ltd and Pragnya South City Projects Pvt Limited. On first occasion the non-compliance continued for 624 days from June 02, 2020 till February 16, 2022 & on second occasion the non-compliance was for 620\* days as shown in Table 3 below.

**Table 3: Summary of Investments in Corporate Bonds by the FPI – Pragnya**



Start Date	End Date	Total Investments (Rs. in Lakhs)	Short Term Investments (Rs. in Lakhs)	% of Short Term	No of Days	Total No. of Days
02-Jun-20	18-Jan-21	8440	4650	55.09	231	624
19-Jan-21	16-Feb-22	8440	6690	79.27	393	
19-Jan-23	29-Aug-23	2550	800	31.4	223	620
30-Aug-23	28-May-24	2550	2550	100	273	
29-May-24	30-Sep-24	2550	1750	68.6	124	

\*The non-compliance was not rectified till September 30, 2024 (end date of examination period)

17.3. From Table 3, it was observed that, on June 02, 2020 the % of short term investments upon total investments made by the FPI is 55.09%, which increased to 79.27% in subsequent period on January 19, 2021 till February 16, 2022. From February 17, 2022, the % of short term investments upon total investments reduced to below 30%.

17.4. Further, on January 19, 2023 the % of short term investments upon total investments made by the FPI went up to 31.4%, which increased in the subsequent period and reached 100% on August 30, 2023. The percentage of short-term investments upon total investments continued to be 100% until May 28, 2024 and then it went down to 68.6% and continued to be at 68.6 % till November 29, 2024.

17.5. Hence, there was a continuous non-compliance during the period from January 19, 2023 to September 30, 2024 for a period of 620 days.

18. Noticee has contended that its investments were made with a long term philosophy and that the intention was never to invest in short-term instruments. In this regard, during the hearing dated November 26, 2025, the AR of the Noticee was asked to explain how the Noticee has claimed in its Reply dated June 04, 2025 that all its investments were originally structured as long term when the examination findings referred in Table 3 of the SCN show repeated



breaches of the 30% short term exposure limit, which applies only when the residual maturity of securities falls below one year. The AR through additional submissions dated December 03, 2025 submitted that “*all the NCDs invested by Pragnya were having the tenure of NCDs ranging from at least 3 years up to 7 years, and the only reason for the residual maturity for these NCDs being less than one year was because both Hazel Realty and Pragnya South City Projects could not redeem these NCDs due to Covid-19 pandemic-triggered financial difficulties. If the repayment on these NCDs was made in a timely manner, then none of these NCDs would have been outstanding with less than one year residual maturity and hence, there would not have been any alleged technical non-compliance. Further, with the extension of the tenure of NCDs, the average maturity period for the NCDs will now range from 10-15 years, which is multiple times more than one year maturity, for which the short-term investments restriction of 30% was introduced.*” I note that regulatory compliance is determined on the basis of the residual maturity of the securities actually held at any point in time, irrespective of the intention at the time of acquisition. Once the residual maturity falls below one year, the investment is categorized as short-term and is subject to the prescribed exposure limit. Even though the NCDs were initially long term instruments, they became short term once the residual maturity fell below one year during 2020-2024. Therefore, the Noticee’s stated investment philosophy does not dilute its obligation to comply with the 30% short-term limit. Further, commercial difficulties of issuers, including those arising from COVID-19, do not alter or postpone the obligation to comply with the statutory short term exposure limit.

19. In addition to the above, the Noticee has also referred to the definition of ‘Exempted Securities’ provided in Clause 4(a)(iv)(c) of the RBI Circular wherein an exemption has been provided to such securities in Para 4(b)(iii) of the RBI Circular and stated:

(i) “*Exempted Securities*” shall include the following instruments



c) *Non-Convertible Debentures / corporate bonds which are under default either fully or partly in the repayment of principal on maturity..."*

(ii) *"These stipulations would not apply to investments in 'Exempted Securities' by FPIs."*

*As mentioned above, the alleged technical non-compliance occurred on account of defaults by the investee companies to redeem the NCDs on the maturity date, and hence, all these NCDs fell within the definition of 'Exempted Securities' and 'Exempted Securities' as per above are exempt from the stipulations of 30% Limit for short-term debt securities. In light of the above, given that all NCDs should be categorized as 'Exempted Securities', we humbly submit that there is no non-compliance of the RBI Circular.*

20. I note that no evidence has been produced to show that the NCDs were classified as defaulted securities or otherwise eligible as exempted securities. Extensions of maturity do not by themselves amount to default. During the examination period, the instruments were neither disclosed nor treated by the Noticee or the custodian as 'exempted securities'. Therefore, in my view, the claim that the 30% cap did not apply to such holdings is not substantiated.

21. Noticee has also contended in its Reply as well as additional submissions that the COVID-19 pandemic affected the repayment capability of the investee companies, necessitating extensions in NCD maturities and resulting in unintended short-term exposure. In this regard, I note that operational or issuer-level financial stress cannot override the mandatory regulatory limits applicable to FPIs. The short-term cap applies uniformly and is independent of commercial exigencies. The Noticee has argued that extensions of maturity were undertaken in a responsible manner and in good faith to support the financial viability of investee companies. In this regard, I note that assertions of good faith or prudence in commercial decision-making do not exempt an



intermediary from adherence to statutory limits. Hence, this contention does not aid the Noticee.

22. The Noticee has relied on the RBI Circular dated May 09, 2025, which has withdrawn the short-term investment limit for future periods. In this regard, it is noted that the said circular is prospective in nature and contains no provision indicating retrospective effect or condonation of past breaches. The Noticee's period of non-compliance pertains to 2020–2024, when the 30% limit was fully applicable. A subsequent policy relaxation cannot be invoked to negate liability for violations committed under the earlier regulatory regime. Accordingly, submission of the Noticee cannot be accepted.

23. I note that none of the submissions advanced by the Noticee address the fact that the Noticee is not in violation of Regulation 20(5) of SEBI (FPI) Regulations, 2019 and Clause 9 of Part C of the Master Circular for FPIs and DDPs dated May 30, 2024 with RBI Circular RBI/2017-18/199 dated June 15, 2018. I note that the prayer for relief in the Noticee's submission dated December 03, 2025 clearly states that the alleged technical non-compliance was "*immediately rectified upon occurrence (even to the detriment of Pragnya)..*" This submission, in fact, amounts to an acknowledgment that the short-term exposure did exceed the prescribed limit. The records and findings show that the short term exposure remained above the prescribed 30% for extended and continuous periods, including a stretch of 620 days. Therefore, the assertion that the breach was immediately rectified is not borne out from the data on record. Regulatory compliance during the examination period must be assessed strictly with reference to the quantitative thresholds then in force. The Noticee's explanations therefore do not mitigate or negate the established breach.

**Issue No. II: If yes, whether the violations on the part of the Noticee would attract monetary penalty under Sections 15HB of the SEBI Act, 1992 read with Regulation 43 of SEBI (FPI) Regulations, 2019?**



24. It has been established in the aforesaid paragraphs that Noticee has violated the provisions of law as alleged in the SCN and therefore Noticee is liable for payment of monetary penalty in terms of Section 15HB of SEBI Act read with Regulation 43 of SEBI (FPI) Regulations, 2019.

25. In this context, I would also like to refer to the order of the Hon'ble Supreme Court of India in the matter of Chairman, SEBI Vs Shriram Mutual Fund {[2006]5 SCC 361} wherein Hon'ble Supreme Court of India held that "*In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention was made by the defaulter with guilty intention or not.*'

26. *The text of Section 15HB of the SEBI Act and Regulation 43 of SEBI (FPI) Regulations, 2019 is reproduced below:*

***“Penalty for contravention where no separate penalty has been provided. 15HB. Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.”***

***“Liability for action in case of default.***

*43. A foreign portfolio investor, designated depository participant, depository or any other person who contravenes any of the provisions of these regulations shall be liable for action under the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 or the relevant provisions of the Act or the Depositories Act, 1996 and the regulations made thereunder.”*



**Issue No. III: If yes, what should be the monetary penalty that can be imposed upon the Noticee?**

27. While determining the quantum of penalty under Section 15HB of SEBI Act, 1992 it is important to consider the factors as stipulated in Section 15J of SEBI Act, 1992, which reads as under: -

**SEBI Act, 1992**

“...

***Factors to be taken into account while adjudging quantum of penalty.***

*15J. While adjudging quantum of penalty under 15- or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely:—*

- a. the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
- b. the amount of loss caused to an investor or group of investors as a result of the default;*
- c. the repetitive nature of the default.*

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

...

28. The Noticee was under a statutory obligation to abide by the provisions of the FPI Regulations, which it has failed to do. The non-compliances on the part of the Noticee as brought out in the preceding paragraphs clearly show that it had failed in its regulatory compliances for which suitable penalty needs to be levied.

29. In the instant case, I note that the material available on record does not quantify any disproportionate gain or unfair advantage or consequent loss caused to an investor or group of investors as a result of the violations committed by the Noticee. As regards the repetitive nature of the default, the default of the Noticee is repetitive in nature as the violations of not adhering to the permissible limit of investment went on for 624 days in the first instance and 620 days in the second instance.



30. While the contravention stands established, I also note that during the period when the exposure to short-term debt instruments remained above the prescribed limit, the investee companies were facing financial constraints which affected their ability to redeem the NCDs on the scheduled maturity dates. In this context, the Noticee subsequently engaged with the investee companies and initiated steps for extension of the tenure of the NCDs. This shows that the noticee did make efforts to ensure compliance with the regulatory investment limit for debt instruments as mentioned above even though such measures were undertaken at a belated stage and did not avert the non-compliance.

#### **E. ORDER**

31. After taking into consideration the facts and circumstances of the case, material available on record, submissions made by the Noticee and also the factors mentioned in the preceding paragraphs, in exercise of the powers conferred upon me under section 15-I of the SEBI Act, 1992 read with Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, I hereby impose the following penalty, as per the table below, on the Noticee, for the aforementioned violations, as discussed in this order. In my view, the said penalty will be commensurate with the violations committed by the Noticee in this case:

Noticee Name	Penalty under Section	Penalty Amount (In Rs.)
<b>Pragnya Fund II</b>	15HB of the SEBI Act, 1992	Rs. 2,00,000/- (Two Lakh Only)

32. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. [www.sebi.gov.in](http://www.sebi.gov.in) on the following path, by clicking on the payment link:



**ENFORCEMENT > Orders > Orders of AO > PAY NOW**

33. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under section 28A of the SEBI Act for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

34. In terms of the provisions of Rule 6 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

**DATE: February 04, 2026**

**SUDEEP MISHRA**

**PLACE: MUMBAI**

**ADJUDICATING OFFICER**