



QJA/SS/CFD/CFD-SEC-5/32324/2025-26

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 12(3) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992, REGULATION 27 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 AND REGULATION 35 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (MERCHANT BANKERS) REGULATIONS, 1992.

In respect of:

M/s AFCO Capital India Private Limited; SEBI Registration Number: INM000012555; PAN: AACCF0194M.

A. Background.

1. M/s AFCO Capital India Private Limited (hereinafter referred to as the “Noticee”/ “MB”) is a registered Merchant Banker having registration number - INM000012555.
2. SEBI conducted inspection of the Noticee on October 25, 2024, for the period from April 01, 2022 to August 31, 2024. Based on the inspection, SEBI initiated proceeding against the Noticee under Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (“Intermediaries Regulations”) and Section 12(3) of the SEBI Act read with regulation 35 of the Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992 (“Merchant Bankers Regulations”).
3. It was observed after inspection that the Noticee violated the various provisions of the Merchant Bankers Regulations, Intermediaries Regulations, SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (“PFUTP Regulations”), SEBI (Prohibition of Insider Trading) Regulations, 2015 (“PIT Regulations”), SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 and Circulars/Notifications issued thereunder.



B. Report of the Designated Authority.

4. Pursuant to the inspection, SEBI initiated proceedings under section 12(3) of the SEBI Act read with Intermediaries Regulations and a Designated Authority (“DA”) was appointed for conducting proceedings in accordance with the Intermediaries Regulations.
5. After completing the proceedings, the DA submitted a Report (“Report”) dated December 30, 2025 recommending that :- *the Noticee i.e., M/s AFCO Capital India Private Limited, SEBI Registration No: INM000012555, be prohibited from taking up any new assignment or contract, as applicable to a merchant banker, for a period of two months in terms of Regulation 26(1)(iv) of SEBI (Intermediaries) Regulations, 2008.*

C. SCN, Reply and Hearing.

6. The instant proceedings has commenced by issuance of a Show Cause Notice (“SCN”) dated February 4, 2026 pursuant to the above Report as required under the Intermediaries Regulations.
7. The Noticee replied vide letter dated February 20, 2026 and *inter alia* submitted that its reply dated June 30, 2025 and July 30, 2025 made before the DA may also be considered in the present proceedings. The Noticee availed an opportunity of personal hearing on March 12, 2026 when its Authorized Representative (“AR”) Advocate Saurabh Bacchawat appeared on its behalf and made submissions in line with its reply. The Noticee also made post-hearing written submissions on March 13, 2026.
8. The submissions of the Noticee as aforesaid, are summarized as under:
 - a. The assignment under reference was the first assignment after receipt of license as a Merchant Banker. Noticee received a meagre amount of Rs. 3,50,000/ as professional fees for the entire assignment. The assignment has not resulted in any business profit or commercial gain as such to the Noticee.
 - b. The alleged violations are technical and procedural in nature. Noticee has rectified all the alleged technical and procedural issues. The alleged violations are not fraudulent or misleading and has not resulted any fraud on any investor etc.
 - c. As a Merchant Banker, it is fully compliant as on date.



- d. Noticee had made disclosures regarding the Acquirer Company in the letter of offer which were based on the undertaking provided by the Acquirer, and had relied on these disclosures following a widely accepted methodology in good faith. Noticee hereby undertakes to take necessary additional steps to independently verify the details provided by the party.
- e. Mr. SSRK Mohan Babu was associated with its Promoter Group Companies for over 20 years in the capacity of an Advisor or a Consultant. He previously worked with one of the leading Category I Merchant Banker. During this time, he has played a vital role in various assignments, leveraging his extensive experience and deep understanding of Merchant Banking operations. Due to conflict of interest, he was not officially on Company's payroll. Considering that both the Acquirer and Mr. SSRK Mohan Babu were based in Hyderabad, his involvement was deemed essential for efficient execution of this time sensitive acquisition. However, during the relevant time, Noticee was in process of appointment of a Compliance Officer, therefore, Mr. SSRK Mohan Babu was appointed as an Authorized Signatory, as an interim measure, to sign documents, operate escrow account and to represent the Company, ensuring compliances with the regulatory deadlines and facilitating smooth progress of the transaction.
- f. Noticee had not outsourced its core activities or compliance functions. The authorization granted to Mr. SSRK Mohan Babu was for administrative purposes. The rights and the decision making authority and powers were always vested with the Key Managerial Personnel of Company. Furthermore, Mr. SSRK Mohan Babu was authorized to act as a signatory and facilitated certain processes, all critical due diligences and compliances were closely monitored and reviewed by Company. After appointment of Compliance Officer, she took over all the responsibilities.
- g. Mr. SSRK Mohan Babu was appointed as an Advisor by AFCO in the Board Meeting held on July 25, 2023, specifically for the assignment related to the open offer of Standard Shoe Sole & Mould (India) Ltd. He was authorized by the management of AFCO Limited solely to sign documents and papers related to this assignment, and to make necessary provisions in connection with it, purely for operational convenience. He was never appointed as a Director on the Board of AFCO and acted only in an advisory capacity for the purposes of this open offer.



- h. During the correspondence with all authorities involved in the process of open offer, Mr. SSRK Mohan Babu was never presented as a director of AFCO. However, he has inadvertently signed as Director. The designation mentioned in the agreement was inadvertent and unintentional and it occurred due to oversight.
- i. Noticee held board meeting on November 19, 2024, during said meeting the Company presented the draft of Code of Conduct for intermediaries, as per Schedule C of SEBI (PIT) Regulation, 2015. The Code was adopted and formally approved by its board.
- j. Noticee appointed Nikita Bansal as a Compliance Officer w.e.f October 15, 2023. Ms. Nikita Bansal has cleared the NISM Series IIIA Certification Examination on November 21, 2023 i.e. after gap of 36 days.
- k. Noticee has also procured the necessary SDD software for maintaining a Structured Digital Database (SDD) to ensure compliance with the requirements outlined under the PIT Regulations. The invoice/bills relating to the same and the copy of the bank statement evidencing payments of the said invoice is submitted.
- l. Noticee is a part of AFCO GROUP and is having same promoters and Directors. Noticee has a separate division, which is secured with lock and key arrangement. Access to division is permissible only to employees of the Merchant Banking division. As suggested by inspection team a bio-metric was also installed outside the Merchant Banking Division and the photo of which is annexed.
- m. Noticee submits that, Mr. Karan Dutt resigned as a Compliance officer with effect from August 30, 2022 and Ms. Nikita Bansal was appointed as the Compliance Officer with effect from October 15, 2023. The resignation of Mr. Karan Dutt was disclosed in the half yearly report for the period ending September 2022, submitted on December 29, 2023. Similarly, appointment of Nikita Bansal was also published in the half yearly report. However, due to absence of a knowledgeable personal, delay occurred in intimating SEBI on SI portal.
- n. The address of Hyderabad Branch office has now been updated on SI portal, and the Company is fully compliant. Furthermore, change of registered address is also updated on SI portal. Therefore, as on date, the Noticee is fully compliant.
- o. The said open offer was subscribed by only 5 investors. In the said open offer, a total of 2,100 equity shares were tendered by five investors, representing only 0.04% of the total share capital of Standard Shoe Sole and Mould (India) Limited. No investor has



suffered on account of the technical and procedural issues or alleged violations, and no monetary loss has been suffered by any investor. Also none of the allegations in any manner even suggest that the violations are detrimental to the securities market in any manner. The recommendation of DA is highly disproportionate and inappropriate and against the "*doctrine of proportionality*".

- p. A warning letter was earlier issued by SEBI and Noticee had addressed the concerns raised. As those specific instances have already been dealt with vide the warning letter, initiation of proceedings may not be considered necessary.

D. Consideration of issues on merits.

9. I have carefully considered the allegations made in the SCN, materials available on record and the replies/submissions of the Noticees. I now proceed to deal with the allegations and responses thereto in seriatim.

i. Open offer of Standard Shoe Sole and Mould (India) Limited (SSSMIL):

10. In this respect, it is alleged that :-

- (a) the Noticee failed to exercise independent professional judgement, proper due diligence and care, while making disclosures in the letter of offer, pertaining to background of the Acquirer in respect of Open offer of SSSMIL;
- (b) the Noticee had misrepresented one Mr. SSRK Mohan Babu ("Mr. Mohan Babu") as the Director of the Noticee in the Escrow Agreement executed in the open offer of SSSMIL; and
- (c) had outsourced its core activities and crucial compliance functions to Mr. Mohan Babu, who is an advisor to the Noticee's Promoter Group Company and not an employee on roll or Key Managerial Personnel ("KMP") of the Noticee.

11. Based on the above, a combined and common charge on the Noticee is that it violated the "*Fit & proper criteria*" under Clause 3(a) of Schedule II of the Intermediaries Regulations, Regulation 13 read with Clauses 2, 3, 4, 20 and 21 of Schedule III (Code of Conduct) of the Merchant Bankers Regulations, Clause 13.5 of the SEBI Master Circular for Merchant



Bankers dated September 26, 2023, Regulation 9A(1)(e) of the Merchant Bankers Regulations and Regulation 3(a), 4(1) read with 2(1)(c)(3) of the PFUTP Regulations. The provisions so charged are reproduced as under:

Merchant Bankers Regulations:

“Conditions of registration.

9A. (1) Registration granted under regulation 8 shall be subject to the following conditions, namely:—

...

(e) it shall abide by the regulations made under the Act in respect of the activities carried on by it as merchant banker.

...

Code of conduct.

13. Every merchant banker shall abide by the Code of Conduct as specified in Schedule III.

...

CODE OF CONDUCT FOR MERCHANT BANKERS

...

2. A merchant banker shall maintain high standards of integrity, dignity and fairness in the conduct of its business.

3. A merchant banker shall fulfil its obligations in a prompt, ethical, and professional manner.

4. A merchant banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment.

...

...

20. A merchant banker shall not make untrue statement or suppress any material fact in any documents, reports or information furnished to the Board.

21. A merchant banker shall maintain an appropriate level of knowledge and competence and abide by the provisions of the Act, regulations made thereunder, circulars and guidelines, which may be applicable and relevant to the activities carried on by it. The merchant banker shall also comply with the award of the Ombudsman passed under the Securities and Exchange Board of India (Ombudsman) Regulations, 2003.

...”

PFUTP Regulations:

“...

2. (1) In these regulations, unless the context otherwise requires,—

...

(c) “fraud” includes any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person with his connivance or by



his agent while dealing in securities in order to induce another person or his agent to deal in securities, whether or not there is any wrongful gain or avoidance of any loss, and shall also include—

...

(3) an active concealment of a fact by a person having knowledge or belief of the fact;

...

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

...

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a manipulative, fraudulent or an unfair trade practice in securities markets.

... ”

Intermediaries Regulations:

“ ...

(3) For the purpose of determining as to whether any person is a ‘fit and proper person’, the Board may take into account any criteria as it deems fit, including but not limited to the following:

(a) integrity, honesty, ethical behaviour, reputation, fairness and character of the person;

... ”

SEBI Master Circular for Merchant Bankers SEBI/HO/CFD/PoD-1/P/CIR/2023/157 dated September 26, 2023:

“ ...

13.5. Activities that are not to be Outsourced- The merchant bankers desirous of outsourcing their activities shall not, however, outsource their core business activities and compliance functions. In respect of Know Your Client (KYC) requirements, the merchant bankers are required to comply with the provisions of Securities and Exchange Board of India {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued thereunder from time to time.

... ”

12. Before embarking on examining the merits of the allegations it is pertinent to state briefly the scope of *Fit & proper criteria*” under Clause 3(a) of Schedule II of the Intermediaries Regulations and ambit of Regulation 3(a), 4(1) read with 2(1)(c)(3) of the PFUTP Regulations. The *‘fit and proper criteria’* goes to the root of having and continuing with the certificate of regulations. The effect of not being a *‘fit and proper person’* is losing the status as the condition for grant of certificate is not fulfilled. Thus, the allegation in



this regard is serious and need to be determined based on higher preponderance of probability rather than the technicalities as done in this case.

13. In the matter of ***U. P. Stock Exchange Brokers vs. SEBI (Civil Writ Petition 45893 of 2012)***, the Hon'ble Allahabad High Court, vide its order dated May 23, 2014, observed that: *“Financial integrity, reputation, character and honesty are matters which have a serious bearing on the objective, transparent and fair functioning of the securities market.”*

14. Hon'ble Securities Appellate Tribunal, vide its order dated September 6, 2006 in the matter of *Sterling Securities Pvt. Ltd. v. SEBI*, examined the amplitude of “fit and proper person” as under:

“Good reputation and character of the applicant is a very material consideration which must necessarily weigh in the mind of the Board (SEBI) in this regard. Reputation is what others perceive of you. In other words, it is the subjective opinion or impression of others about a person and that, according to the Regulations, has to be good. This impression or opinion is generally formed on the basis of the association he has with others and/or on the basis of his past conduct. A person is known by the company he keeps. In the very nature of things, there cannot be any direct evidence in regard to the reputation of a person whether he be an individual or a body corporate. In the case of a body corporate or a firm, the reputation of its whole time director(s) or managing partner(s) would come into focus. The Board as a regulator has been assigned a statutory duty to protect the integrity of the securities market and also interest of investors in securities apart from promoting the development of and regulating the market by such measures as it may think fit. It is in the discharge of this statutory obligation that the Board has framed the Regulations with a view to keep the market place safe for the investors to invest by keeping the undesirable elements out. The Regulations apply across to all sets of regulations and all intermediaries of the securities market including those who associate themselves with the market and they all have to satisfy the criteria of “fit and proper person” before they could be registered under any of the relevant regulations and this criterion they must continue to satisfy throughout the period of validity of their registration and throughout the period they associate with the market. The purpose of the Regulations is to achieve the aforesaid



objects and make the securities market a safe place to invest. One bad element can, not only pollute the market but can play havoc with it which could be detrimental to the interests of the innocent investors. In this background, the Board may, in a given case, be justified in keeping a doubtful character or an undesirable element out from the market rather than running the risk of allowing the market to be polluted.”

15. Briefly stated, following cardinal principles are settled for determining the “fit and proper criteria:

(a) The test for whether a person is *"fit and proper"* must be viewed from the perspective of a *"reasonable and prudent man concerned with the securities market"*.

(b) SEBI could look into *"fit and proper"* concerns even if legal proceedings are pending. It is not necessary for there to be a final conviction; before SEBI determines that an entity is not fit and proper to operate in the securities market.

(c) SEBI can take a broad view of the requirements for being a *"fit and proper person"*. This allows the regulator to consider serious allegations against an intermediary as a relevant factor, even if the proceedings have not yet concluded.

(d) SEBI must show the material on the basis of which it concluded that the entity lacked a *"good reputation in the securities market"*.

(e) A certain degree of subjective judgment by SEBI is acceptable in applying the *"fit and proper"* test.

16. Similarly, the scope of prohibitions under regulations 3 and 4 read with regulation 2(1)(c) of the PFUTP Regulations are in the context of fraudulent, unfair and manipulative practices relating to securities market and need to be applied in text and context. All incorrect information in an offer document may not be fraudulent disclosures so as to induce the investment or disinvestment decisions of investors or impacting integrity of the securities market. The scope as explained by Hon'ble Supreme Court¹ is that :- *“The emphasis in the definition in Regulation 2(c) of the 2003 Regulations is not, therefore, of whether the act, expression, omission or concealment has been committed in a deceitful*

¹ SEBI Vs Kanhaiyalal Baldevbhai Patel (CIVIL APPEAL NO. 2595 OF 2013) decided on September 20, 2017



manner but whether such act, expression, omission or concealment has/had the effect of inducing another person to deal in securities.....

“Certainly, the definition expands beyond what can be normally understood to be a 'fraudulent act' or a conduct amounting to 'fraud'. The emphasis is on the act of inducement and the scrutiny must, therefore, be on the meaning that must be attributed to the word “induce”.....to make inducement an offence the intention behind the representation or misrepresentation of facts must be dishonest whereas in the latter category of cases like the present the element of dishonesty need not be present or proved and established to be present. In the latter category of cases, a mere inference, rather than proof, that the person induced would not have acted in the manner that he did but for the inducement is sufficient.”

17. Hon'ble Supreme Court, also held that :

“To attract the rigor of Regulations 3 and 4 of the 2003 Regulations, mens rea is not an indispensable requirement and the correct test is one of preponderance of probabilities. Merely because the operation of the aforesaid two provisions of the 2003 Regulations invite penal consequences on the defaulters, proof beyond reasonable doubt as held by this Court in Securities and Exchange Board of India Vs. Kishore R. Ajmera (supra) is not an indispensable requirement. The inferential conclusion from the proved and admitted facts, so long the same are reasonable and can be legitimately arrived at on a consideration of the totality of the materials, would be permissible and legally justified.”

18. In this case, based on undertaking from the Acquirer, the following disclosures were made in the letter of offer with regard to the background of the Acquirer:

“4.14 The Acquirer confirms that currently there are no pending litigations pertaining to securities market to which it has been made a party.

4.15 The Acquirer has not been prohibited by SEBI from dealing in securities in terms of Section 11B of the SEBI Act (the “SEBI Act”).

4.16 Acquirer has confirmed that they have not been categorized as a “Wilful Defaulter” in terms of Regulation (1)(ze) of the SEBI (SAST) Regulations, 2011 nor they are



categorized as a “Fugitive Economic Offender” in terms of Regulation (1)(ja) of the SEBI (SAST) Regulations, 2011.

4.17 The Acquirer has confirmed that it is not declared as ‘Fraudulent Borrower’ by the lending banks or financial institution or consortium, in terms of RBI master circular dated July 01, 2016.”

19. It is an admitted fact that the Noticee had relied on the undertaking/affidavit submitted by the Acquirer for making the abovementioned disclosures in the letter of offer. Here reference is made to the matter of *Keynote Corporate Services Ltd. vs. SEBI*², wherein the Merchant Banker in the case had contended that it had obtained undertakings from the directors of the Company that the statements made in the prospectus were true. This contention was rejected by the Hon’ble Securities Appellate Tribunal (“SAT”) while holding that “...*Due diligence on part of Merchant Banker does not mean passively reporting whatever is reported to it but to find out everything that is worth finding out. It is about making an active effort to find out material developments that would affect interest of investors. It is on faith that intermediary has conducted due diligence with utmost sincerity that investing public goes forward and decides to invest in a particular company.*” Further, the Hon’ble Supreme Court in the matter of *Chander Kanta Bansal vs. Rajinder Singh Anand*³ has defined the term “due diligence” to mean “...*the word “diligence” means careful and persistent application or effort. “Diligent” means careful and steady in application to one’s work and duties, showing care and effort.*” I note that a Merchant Banker is responsible for adequacy and veracity of all disclosures pertaining to the acquirer in the open offer. He must exercise independent due diligence to verify the veracity and adequacy of all information rather than merely relying on the statements/undertakings of others. An onerous duty is cast on the Merchant Banker which enables subscribers to take judicious and informed decision. While it is not clear from the documents available on record as to whether the disclosures made were false/ incorrect and if so, the implication to the investors, nevertheless, the fact remains that the Noticee did not independently verify the information in the disclosures and passively relied on the

² SAT Order dated February 19, 2014.

³ (2008) 5 SCC 117



statement of the company. For this, I agree with the DA and find that the Noticee failed to exercise independent professional judgement, proper due diligence and care.

20. As regards, the second allegation, the Noticee has submitted that the Acquirer in the open offer of SSSMIL and Mr. Mohan Babu were both based in Hyderabad and his involvement was deemed essential for efficient execution of the time sensitive acquisition. During the time, the Noticee was also in the process of appointment of a Compliance Officer, therefore, Mr. Mohan Babu was appointed as an Authorized Signatory, as an interim measure, to sign documents, operate escrow account and to represent the Company, ensuring compliances with the regulatory deadlines and facilitating smooth progress of the transaction. The authorization granted to Mr. Mohan Babu was only for administrative purposes and that the rights and the decision making authority and powers were always vested with the KMP of the Noticee. All critical due diligences and compliances were closely monitored and reviewed by the Noticee. After appointment of the Compliance Officer, all responsibilities from Mr. Mohan Babu were taken over.

21. It is pertinent to mention that clause 13.5 of the SEBI Master Circular for Merchant Bankers dated September 26, 2023 does not permit outsourcing of the core business activities and compliance functions. However, in the Board Resolution dated July 25, 2023 of the Noticee Mr. Mohan Babu was authorized – *“..to do all such acts and deeds and sign all such papers and provide documents on behalf of the Manager to the issue as Merchant Bankers for the takeover assignment between Standard Shoe Sole and Mould (India) Limited with Buildox Private Limited. Further resolved Mr. SSRK Mohan Babu is also authorized to sign Escrow account for the purpose of operating Escrow bank account opened for the purpose of takeover.”*

22. I note that the Board Resolution clearly delegates the critical role and core functions of the Noticee as a Merchant Banker to Mr. Mohan Babu with respect to the impugned assignment. Admittedly, Mr. Mohan Babu was not an employee of the Noticee but its Advisor. However, by Board Resolution dated July 25, 2023, he was *inter-alia* authorized to do all acts, deeds and sign all such papers and provide documents on behalf of Managers to the Issue for the said takeover assignment and also authorized to operate the Escrow



Account for the purpose of open offer, which are core activities of a Merchant Banker. Even before such authorization, Mr. Mohan Babu had signed the letter as Authorized Signatory of the Noticee, which contains the quotation for providing services related to acquisition of Target Company as per SEBI Regulations, addressed to the Acquirer, which lists out Scope of Services of the Noticee, fees, timelines etc. With respect to instant open offer, Mr. Mohan Babu had submitted to SEBI the copy of public announcement vide letter dated August 01, 2023, he had signed and submitted to SEBI the Due Diligence Certificate dated August 17, 2023, the letter of offer vide letter dated December 07, 2023 and had also signed and submitted post issue report dated February 27, 2024. Further, the Noticee had provided to Mr. Mohan Babu, access to its Regulatory Communication email id (i.e. capital@afco group.in) to carry out email communications with SEBI while processing of the open offer. In respect of processing the said open offer, Mr. Mohan Babu was communicating with SEBI on behalf of the Noticee from the said email id.

23. The resolution dated July 25, 2023 does not specify that Mr. Mohan Babu was appointed solely for administrative purposes and that he was authorized only to act as a signatory. I note that Ms. Nikita Bansal was appointed as Compliance officer of the Noticee w.e.f. October 15, 2023, however, the due diligence certificate and draft letter of offer were signed and submitted to SEBI by Mr. Mohan Babu on August 17, 2023, i.e. much before the appointment of the Compliance officer. This signifies that prior to appointment of the Compliance Officer, Mr. Mohan Babu was solely handling the assignment and all significant filings and critical due diligences and compliances were solely handled and submitted by him on behalf of the Noticee. Thus, the contention of the Noticee that after appointment of the Compliance Officer, all responsibilities from Mr. Mohan Babu were taken over does not stand and has no merit. Accordingly, it was evident that the Noticee outsourced and delegated its core functions to Mr. Mohan Babu in offering the services to of the merchant banker to the Acquirer. He was actively doing due diligence and compliance functions for the Noticee as found by the DA.
24. In view of the above, the Noticee has violated the provision of Regulation 13 read with Clauses 3 and 4 of Schedule III (Code of Conduct) of the Merchant Bankers Regulations and Clause 13.5 of the SEBI Master Circular dated September 26, 2023.



25. As regards the allegation that the Noticee knowingly misrepresented Mr. Mohan Babu as its Director in the Escrow Agreement executed in the open offer, the DA has allowed the benefit of doubt to the Noticee. The DA has on perusal of the Escrow Agreement observed that the said Agreement does not mention any Director Identification Number (DIN) under the signature of Mr. Mohan Babu. I note that the allegation stems from the fact that there was “Director” printed under the signature of Mr. Mohan Babu in the Escrow Agreement. In the Board Resolution dated July 25, 2023, Mr. Mohan Babu was also *authorized to sign the Escrow account for the purpose of operating Escrow bank account opened for the purpose whatsoever*. Noticee has contended that Mr. Mohan Babu only signed the pre-printed Escrow Agreement as an Authorised Signatory of the Noticee and did not sign the Escrow Agreement in the capacity of the Director. The designation mentioned in the agreement was inadvertent and unintentional and it occurred due to oversight.
26. I note that the violation for the abovementioned misrepresentation is of Regulation 3(a), 4(1) read with 2(1)(c)(3) of the PFUTP Regulations. Apart from the Escrow Agreement in question there is no other material on record to show that the Noticee was representing Mr. Mohan Babu as a Director. During the correspondence with different authorities for the process of open offer, there is no documentary evidence on record to show that the Noticee or Mr. Mohan Babu presented himself as a Director. Allegation of fraud requires a higher preponderance of evidence or a "clear and convincing" standard of proof rather than a simple preponderance of probabilities. Allegation of fraud is a serious charge that cannot be proven merely on suspicion. I agree with the DA do not find that the allegation of Regulation 3(a), 4(1) read with 2(1)(c)(3) of the PFUTP Regulations stand against the Noticee. I note that an Adjudication Proceeding under Section 15 HA read with Section 15I of the SEBI Act was initiated against Mr. Mohan Babu for allegation of representing himself as the Director of the Noticee in the Escrow Agreement executed in the open offer of SSMIL. The Adjudicating Officer has vide Order dated December 30, 2025 given a benefit of doubt to Mr. Mohan Babu and disposed of the proceedings without imposition of any penalty. I agree with findings of the DA in this regard and also hold that the allegation in this regard does not meet the ingredients of ‘fraud’ are prohibitions under regulations 3 and 4 of the PFUTP Regulations. In the facts and circumstances of this case, I find that the Escrow Agreement was signed as “Authorised Signatory” as pre-printed



document where the word ‘Director’ was printed. The charge has been made mechanically and with doctrinaire approach in a pedantic manner and does not hold good. For the same reasons violations of Clauses 2, 20 and 21 of Schedule III (Code of Conduct) of the Merchant Bankers Regulations are also not made out.

27. Another aspect of this allegation is that the Noticee is not a *fit and proper* person as per criteria under Schedule II clause 3(a) of the Intermediaries Regulations. The “*fit and proper*” criteria involve considerations of reputation, ethical behaviour, and integrity. This charge stems from the charge of contravention of provisions of Regulation 3(a), 4(1) read with 2(1)(c)(3) of the PFUTP Regulations as above. Since the basis fails to meet desired standards as discussed above, the allegation falls. It is also pertinent to mention that DA’s findings and recommendations are disconnected with regard to this allegation. There is no allegation or material to show any stigmatic conduct leading to reputation and character of the Noticee. It was the only first assignment of the Noticee as a Merchant Banker. The investors tendering shares in the open offer were less in number and none of them have complained regarding any misrepresentation arising out of signing by Mr. Mohan Babu on Escrow Agreement executed in the open offer of SSMIL. I find this allegation also without any prudent basis.

ii. Non-compliance under the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations).

28. It is alleged that the Noticee failed to formulate and adopt Code of Conduct for Intermediaries as required under PIT Regulations and failed to designate a Compliance Officer to monitor compliance under PIT Regulations. The Noticee further failed to obtain a software for maintaining Structured Digital database (SDD). In view thereof, the Noticee has violated Regulations 3(5), 9(1) and 9(3) read with Schedule C of PIT Regulations, Regulation 9A(1)(e) and Regulation 13 read with Clause 21 of Schedule III of the Merchant Bankers Regulations, as under:

Merchant Bankers Regulations:

“Conditions of registration.

9A. (1) Registration granted under regulation 8 shall be subject to the following conditions, namely:—



...

(e) it shall abide by the regulations made under the Act in respect of the activities carried on by it as merchant banker.

...

Code of conduct.

13. Every merchant banker shall abide by the Code of Conduct as specified in Schedule III.

...

CODE OF CONDUCT FOR MERCHANT BANKERS

...

21. A merchant banker shall maintain an appropriate level of knowledge and competence and abide by the provisions of the Act, regulations made thereunder, circulars and guidelines, which may be applicable and relevant to the activities carried on by it. The merchant banker shall also comply with the award of the Ombudsman passed under the Securities and Exchange Board of India (Ombudsman) Regulations, 2003.”

PIT Regulations:

“Communication or procurement of unpublished price sensitive information.

3. (5) The board of directors or head(s) of the organisation of every person required to handle unpublished price sensitive information shall ensure that a structured digital database is maintained containing the nature of unpublished price sensitive information and the names of such persons who have shared the information and also the names of such persons with whom information is shared under this regulation along with the Permanent Account Number or any other identifier authorized by law where Permanent Account Number is not available. Such database shall not be outsourced and shall be maintained internally with adequate internal controls and checks such as time stamping and audit trails to ensure non-tampering of the database.

...

Code of Conduct.

9.(1)The board of directors of every listed company and the board of directors or head(s) of the organisation of every intermediary shall ensure that the chief executive officer or managing director shall formulate a code of conduct with their approval to regulate, monitor and report trading by its [designated persons and immediate relatives of designated persons] towards achieving compliance with these regulations, adopting the minimum standards set out in Schedule B (in case of a listed company) and Schedule C (in case of an intermediary)] to these regulations, without diluting the provisions of these regulations in any manner.

...

(3) Every listed company, intermediary and other persons formulating a code of conduct shall identify and designate a compliance officer to administer the code of conduct and other requirements under these regulations.

...”



29. The Noticee has submitted that in the Board Meeting held on November 19, 2024, the draft of Code of Conduct for Intermediaries, as per Schedule C of the PIT Regulations was reviewed, adopted and formally approved by the Board of the Noticee. Ms. Nikita Bansal has been appointed as the Compliance Officer. Noticee has also procured the necessary SDD software as outlined under the PIT Regulations.
30. I note that the Noticee has formulated a Code of Conduct for Intermediaries as per Schedule C of the PIT Regulations and appointed Ms. Nikita Bansal as a Compliance Officer to administer the Code of Conduct and other requirements under the PIT Regulations post the onsite inspection held on October 25, 2024. The Noticee has not disputed the above non-compliances. From the invoice dated December 30, 2024, the Noticee has procured the SDD software as outlined under the PIT Regulations and the Noticee has submitted the yearly invoice/bill dated December 30, 2024 and December 4, 2025 along with a copy of the bank statement evidencing the yearly license fee for procurement of SDD software. The Noticee has submitted that, at present, the Company is fully compliant with the provisions of PIT Regulations. However, the fact of the matter remains that the Noticee handled an entire open offer of a listed target company without maintaining a digital database to handle unpublished price sensitive information (UPSI). The SDD contains details of persons with whom UPSI is shared along with the details of those sharing such UPSI, and the nature of the shared UPSI, all of which was required to be captured in SDD database as envisaged under PIT Regulations. The Noticee ought to have been diligent and shown more care. I concur with the findings of the DA and find that the Noticee violated Regulations 3(5), 9(1) and 9(3) read with Schedule C of PIT Regulations, Regulation 9A (1) (e) and Regulation 13 read with Clause 21 of Schedule III of the Merchant Bankers Regulations.

iii. Arms' length distance between other group companies:

31. At the time of inspection, it was observed that the office premises of the Noticee located at Andheri (West), Mumbai was also shared by the following group companies of the Noticee, namely, AFCO Fincon (P) Ltd, AFCO Investments Services (P) Ltd. (SEBI registered Stock Broker), AFCO Logistics (P) Ltd, AFCO Infracon (P) Ltd and Trendwith Consultancy Ltd. (SEBI registered Stock Broker). Inspection observed that there were no



access control put in place to maintain arms' length distance between merchant banking activity and activities of other group companies. In view thereof, the Noticee has violated the provisions of Regulation 9A(1)(e) and Regulation 13 read with Clause 18 of Schedule III of the Merchant Bankers Regulations, as under:

Merchant Bankers Regulations:

“Conditions of registration.

9A. (1) Registration granted under regulation 8 shall be subject to the following conditions, namely: —

...

(e) it shall abide by the regulations made under the Act in respect of the activities carried on by it as merchant banker.

...

Code of conduct.

13. Every merchant banker shall abide by the Code of Conduct as specified in Schedule III.

...

CODE OF CONDUCT FOR MERCHANT BANKERS

...

18. A merchant banker shall maintain arm's length relationship between its merchant banking activity and any other activity.”

32. Noticee has submitted that it is part of the AFCO Group and all the companies belong to one promoter group and share the same promoters and directors. The merchant banking division is a separate division which is secured with lock and key arrangement. Access to division is permissible only to employees of the Noticee. Further, as suggested by the inspection team a bio-metric was also installed outside the merchant banking division and a photo of which was submitted as evidence.
33. The allegation is evincing interest as it seems to be based on the premise that the Noticee must have its activities like a person standing away from the body, with one's arm fully extended and avoiding intimacy or close contact. But, this is not the purport of above Clause 18 which requires a merchant banker to maintain arm's length relationship between its merchant banking activity and any other activity. The words 'arm's length relationship' have to be meant in context of business activities. It entails any two activities of the merchant banker to be independent without any controlling influence affecting its



decisions. Neither the IR nor the Report of DA bring out any material to suggest that Noticee was not maintaining arm's length relationship with any of its other activities and that there was any conflict of interest. The allegation in the instant matter is that there was no access control put in place to maintain arms' length distance between merchant banking activity and activities of other group companies. In order to maintain access control, as suggested by the inspection team, the Noticee has installed a bio-metric outside the merchant banking division and a photo of which is submitted as evidence. I therefore, find no fault on the part of the Noticee in this regard.

34. While parting with above findings, I also wish to add that Regulation 13A of the Merchant Bankers Regulation provides list of *permitted activities* that a Merchant Banker who has been granted a certificate of registration may undertake. As per Regulation 13A (2), a Merchant Banker may also undertake other activities on an *arms-length basis through separate business units of such Merchant Banker*, in such manner and subject to such other conditions as may be specified by the Board. The proviso under Regulation 13A (2) states that “...*a merchant banker that already holds a certificate of registration under these regulations shall transfer the activities referred to in this sub-regulation to separate business unit(s) within a period of six months from the date of coming into force of the Securities and Exchange Board of India (Merchant Bankers) (Amendment) Regulations, 2025 or within such time period as may be specified by the Board.*” I note that in terms of Regulation 13A(2) of the Merchant Bankers Regulation, a Merchant Banker may also undertake activities other than the permitted activities, on an arms-length basis through separate business units of such Merchant Banker. In this regard, the Board has been empowered to specify the manner and conditions, subject to which the Merchant Banker may carry out such other activities. In this regard, I note that SEBI had issued a circular no. HO/49/11/11(106)2025-CFD-RAC-DIL3/1/1796/2026 dated January 2, 2026 *inter alia* providing conditions to be complied by Merchant Bankers for carrying out activities other than permitted activities. As per clause 11.2.1 of the circular “*The MB shall undertake such activities that are not regulated by SEBI only at arms' length basis through one or more separate business units (SBU) of the MB, segregated by a Chinese Wall and ring-fenced from the SEBI regulated activities. **The segregation shall be done within a period of six months from the effective date, i.e., on or before July 03, 2026.***”



35. The other three allegations are procedural in nature and have been dealt together in the Order.

iv. Compliance Officer was not holding NISM Series IIIA certification from October 16, 2024 to November 20, 2024 (36 days):

v. Display of information with respect to grievance redressal mechanism at Noticee's office:

vi. Failure to intimate SEBI the changes through SI Portal:

36. The notification/regulations violated by the Noticees are as under:

Merchant Bankers Regulations:

“Conditions of registration.

9A. (1) Registration granted under regulation 8 shall be subject to the following conditions, namely: —

...

(e) it shall abide by the regulations made under the Act in respect of the activities carried on by it as merchant banker.

...

(f) it shall intimate the Board of the details of any change in information submitted while seeking registration within seven working days of such change [;]

Code of conduct.

13. Every merchant banker shall abide by the Code of Conduct as specified in Schedule III.

...

CODE OF CONDUCT FOR MERCHANT BANKERS

...

21. A merchant banker shall maintain an appropriate level of knowledge and competence and abide by the provisions of the Act, regulations made thereunder, circulars and guidelines, which may be applicable and relevant to the activities carried on by it. The merchant banker shall also comply with the award of the Ombudsman passed under the Securities and Exchange Board of India (Ombudsman) Regulations, 2003.

...”

SEBI Master Circular for Merchant Bankers SEBI/HO/CFD/PoD-1/P/CIR/2023/157 dated September 26, 2023

“...

1. Online Registration Mechanism for Merchant Bankers



1.1. The SEBI Intermediary Portal is available at <https://siportal.sebi.gov.in> for SEBI registered intermediaries including Merchant Bankers to submit registration applications online. SEBI Intermediary Portal includes online application for registration, processing of application, grant of final registration, application for surrender/cancellation, submission of periodical reports, requests for change of name/ address/ other details, etc. The link for SEBI Intermediary Portal is also available on SEBI website –www.sebi.gov.in.

1.2. All applications for registration / surrender / other requests are required to be made through SEBI Intermediary Portal only. The applicants are separately required to submit relevant documents viz. declarations / undertakings required as a part of application forms prescribed in relevant regulations, in physical form, only for records without impacting the online processing of applications for registration.

...

11. Processing of Investor Complaints in SEBI Complaints Redress System (SCORES)

...

As an additional measure and for information of all investors who deal/ invest/ transact in the market, the offices of Merchant Bankers shall display information as provided in Annexure VIII.

SEBI Notification dated March 11, 2013

“...

- In terms of sub-regulation (1) of regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 (the Regulations), the Board may require, by notification, any category of associated persons as defined in the Regulations to obtain requisite certification(s).

Accordingly, it is notified that with effect from the date of this notification, the associated persons functioning as compliance officers of intermediaries registered with the Board as stock brokers, or depository participants, or merchant bankers, or underwriters, or bankers to the Issue, or debenture trustees or credit rating agencies, shall obtain certification from the National Institute of Securities Markets (hereinafter referred to as “NISM”) by passing the NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination (hereinafter referred to as “SICCE”) as mentioned in the NISM communiqué No. NISM/Certification/Series-III A: SIC/2013/01 dated January 7, 2013.

...”



SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007

“ ...

Obligation to obtain certificate

3. (1) *The Board may by notification in the Official Gazette require such categories of associated persons to obtain requisite certificate for engagement or employment with such classes of intermediaries and from such date as may be specified in the notification: Provided that an associated person employed or engaged by an intermediary prior to the date specified by the Board may continue to be employed or engaged by the intermediary if he obtains the certificate within two years from the said date.*

(2) *An associated person on being employed or engaged by an intermediary on or after the date specified by the Board shall obtain the certificate within one year from the date of being employed or engaged by the intermediary.*

(3) *An associated person who, as on the date specified by the Board, holds a certificate for a category as recognized by the Board shall not be required to obtain a fresh certificate for the same category during the validity of such certificate.*

(4) *The Board for the purpose of issuing notification under sub regulations (1) and (2) shall take into consideration:*

(a) *whether the associated person as part of his work or operation deals or interacts with the investors, issuers or clients of intermediaries;*

(b) *whether the associated person deals with assets or funds of investor or clients;*

(c) *whether the associated person handles redressal of investor grievances;*

(d) *whether the associated person is responsible for internal control or risk management;*

(e) *whether the associated person is responsible for compliance of any rules or regulations;*

(f) *whether the associated person is engaged in activities that have a bearing on operational risk of the intermediary.*

... ”

37. As regards the first part of allegation, that the Compliance Officer of the Noticee was not holding NISM Series IIIA certification, the Noticee has submitted that the Compliance Officer is a member of ICSI with over 10 years of experience working with listed and unlisted companies. The Noticee nor the Compliance Officer were aware of the requisite certification details of NISM Series IIIA certification. After knowledge of said certification, the Compliance Officer attained the NISM Series IIIA Certification after a gap of 36 days. As regards the second allegation of failing to display required information with respect to grievance redressal mechanism available to investors prominently in its office premises, the Noticee has submitted that it was Noticee's first assignment after obtaining the Merchant Banking license. Noticee has now duly provided the required



information as per Master Circular dated September 26, 2023. Lastly, as regards the allegation of failing to intimate to SEBI through SI Portal with respect to changes in Compliance Officer, the Branch Office located at Hyderabad and change in address of its registered office, the Noticee has admitted delay in intimating SEBI regarding the change in Compliance Officer. The Noticee has submitted that the address of Hyderabad Branch office has now been updated on SI Portal, furthermore, change of registered address is also updated on SI portal.

38. The Noticee has admitted to the above non-compliances and have submitted that they are now fully in compliant of the same. As per Regulation 9A(e) of the Merchant Bankers Regulation, one of the conditions for granting of certificate of registration is that the Merchant Banker shall abide by the regulations in respect of the activities carried on by it as a Merchant Banker. As per Regulation 13, every Merchant Banker shall abide by the Code of Conduct as specified in the Schedule. Schedule III mandates that a Merchant Banker shall maintain an appropriate level of knowledge and competence and abide by the provisions of the Act, regulations made thereunder, circulars and guidelines, which may be applicable and relevant to the activities carried on by it. Under the SEBI Master Circular for Merchant Bankers dated September 26, 2023 an Online Registration Mechanism for Merchant Bankers is provided and all SEBI registered intermediaries including Merchant Bankers are required to submit information for change of name/ address/ other details, etc. online in the portal. Further, for processing of Investor Complaints in SEBI Complaints Redress System (SCORES), as an additional measure and for information of all investors who deal/ invest/ transact in the market, the offices of the Merchant Bankers are required to display information as provided in the Master Circular. These compliances are not mere legal formality but a crucial and ongoing requirement to maintain market integrity and operational stability. Change in address(s) has the potential to disrupt the flow of critical information (such as legal notices etc). Therefore, a change in address must necessarily be communicated to SEBI to ensure that all stakeholders remain informed. Merchant Bankers are expected to strictly comply with the provisions of the relevant laws, both in letter and in spirit as they play an important role in the securities market. I find that the Noticee has defaulted in respect of certain requirements and has also admitted to these violations. The Noticee has stated that it has taken corrective steps and has demonstrated these with



submission of the copy of the NISM Series IIIA certificate, photo evidence of display of investor grievance mechanism displayed on its office premises and intimation through SI portal to SEBI.

39. I concur with the findings of the DA and find the violation of SEBI circular dated March 11, 2013 read with Regulation 3 of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007, Regulation 9A(1)(e), 13 read with Clause 21 of Schedule III of the Merchant Bankers Regulations and Clause 1.1, 1.2 and Clause 11.3 of the SEBI Master Circular for Merchant Bankers SEBI/HO/CFD/PoD-1/P/CIR/2023/157 dated September 26, 2023 is established against the Noticee.

E. Conclusion.

40. The question that now arise for consideration is the nature of direction that can be imposed against the Noticee. The Noticee has contended that for the very same allegations and violations an Adjudication Proceeding was initiated and vide an Order dated November 24, 2025 a penalty of Rs. 2 Lakh was levied which has been paid by the Noticee. I note that the Adjudication Proceeding was initiated for the failure by the Noticee to comply with the due procedure for tendering of shares and settlement through stock exchange in the open offer, delay in submission of half yearly reports, absence of compliance officer for 411 days and delay in intimation of resignation and appointment of compliance officer to SEBI. The Noticee has also submitted that a warning letter was also issued by SEBI and as the specific violations have already been dealt with vide the warning letter, initiation of proceedings may not be necessary. I find that an administrative warning letter dated September 13, 2024 was issued for separate non-compliances, as under, which is not part of these proceedings—

- a) *The MB had not published investors' charters and relevant details pertaining to investors complaints on its website in terms of Clause 9.2 and 9.3 of Chapter II of Master Circular for Merchant Bankers dated September 26, 2023; and*
- b) *The MB provided NISM Series-IX Certification Examination proof of only one KMP which was obtained on April 7, 2024. This is in violation of Regulation 3(1) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 with notification dated August 2, 2013.*



41. In this case, the Noticee had received a meager amount i.e. Rs. 3,50,000/- as professional fees for the open offer. Further, in the said open offer, a total of 2,100 equity shares were tendered by five investors, representing only 0.04% of the total share capital of SSMIL and that no investor has suffered on account of the technical and procedural issues or alleged violations, and no monetary loss has been suffered by any investor.
42. I am mindful that action has to be in proportion to the gravity of the violation. For technical/procedural violations of minor nature, which did not assume serious nature and got corrected and the fact that penalty has been imposed in the adjudication proceedings and the warning letter has been issued may be taken as a mitigating factor. It is also seen that there are violations by the Noticee which cannot be given allowance. I note that the violations in the nature of failure to exercise independent professional judgement while passively relying on the undertakings of the company, outsourcing its core business activities and core compliance functions is serious and much more than a mere negligence. No allowance can be given for the failure to take preventive actions as specified in PIT Regulations either as the Noticee has shown lethargic indifference and needless procrastination in complying with statutory requirements for sensitive matters. The passive and laid back attitude from a merchant banker as found in this case is prone to harm the investors and cannot be allowed.
43. A lenient view cannot be taken in case of such serious violations. The same view is also held by the Hon'ble SAT in its order dated June 16, 2011 in the matter of *Religare Securities Ltd.* wherein it was held that “...*This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent...*”.

F. Consideration of Recommendation.

44. It is noted that the choice in list provided in Regulation 26 of the Intermediaries Regulations has to be applied keeping in mind the text and the context both and not as a tick box approach. The recommendation of the DA is to prohibit the Noticee “*from taking up any new assignment or contract, as applicable to the merchant banker, for a period of*



two months". In my view, the action in proportion to contraventions in this case should be germane to activity of the Noticee as a Merchant Banker. I am of the view, that the prohibition from soliciting and accepting any new client for the activity as a Merchant Banker for a period of one month from the date of receipt of this Order is commensurate with contraventions as found in this case.

Order:

45. I, in exercise of the powers conferred upon me under Section 12(3) read with Section 19 of the SEBI Act read with Regulation 27 of the Intermediaries Regulations, hereby order that Noticee viz. M/s AFCO Capital India Private Limited (SEBI Registration Number: INM000012555) shall be prohibited from soliciting and accepting any new client for the activity as a Merchant Banker, for a period of one month, from the date of receipt of this Order.
46. The SCN dated February 4, 2026 is disposed of accordingly.
47. This Order shall come into force with immediate effect.
48. A copy of this Order shall be served upon the Noticee and all the recognized stock exchanges to ensure compliance.

Date: March 30, 2026

Place: Mumbai

Santosh Shukla
Quasi-Judicial Authority
Securities and Exchange Board of India