QJA/MN/CFD/CFD-SEC-3/31760/2025-26

SECURITIES AND EXCHANGE BOARD OF INDIA

ENQUIRY ORDER

Under Section 12(3) of Securities and Exchange Board of India Act, 1992 read with Regulation 23 and Regulation 27 of Securities and Exchange Board of India (Intermediaries) Regulations, 2008 and Regulation 35 of Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992.

IN RESPECT OF:

NOTICEE	SEBI Registration No.	PAN
GRETEX CORPORATE SERVICES LIMITED	**INM000012177**	**AACCD9875F**

In the matter of Gretex Corporate Services Limited (Merchant Banker)

Background:

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") conducted an inspection of Gretex Corporate Services Limited (hereinafter referred to as "**Gretex**" / "**Noticee**" / "**Merchant Banker**" / "**MB**") for the period from April 1, 2021 to January 31, 2023. The purpose of the inspection was, *inter alia*, to examine the level of due diligence exercised by the Merchant Banker and the post-issue activities and procedures followed by it in respect of public issues handled during the inspection period.

2. Upon consideration of the inspection findings vis-à-vis the reply of the Noticee, it was observed by SEBI that the Noticee had allegedly violated the provisions of Regulation 7 and Regulation 13 read with Clauses 1, 3, 4, 7 and 20 of Schedule III of the SEBI (Merchant Bankers) Regulations, 1992 (hereinafter referred to as "**MB Regulations**").

3. Accordingly, SEBI initiated enquiry proceedings under Regulation 35 of the SEBI (Merchant Bankers) Regulations, 1992 read with Regulation 23 of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as "**Intermediaries Regulations**"), and appointed a Designated Authority (DA) vide order dated March 19, 2024 to conduct an enquiry in terms of Chapter V of the Intermediaries Regulations.

4. Thereafter, the Noticee filed *suo motu* settlement application for settling the said proceeding which was subsequently rejected by SEBI in terms of Regulation 15(1) of the SEBI (Settlement Proceedings) Regulations, 2018.

5. The DA issued a Show Cause Notice (hereinafter referred to as **"SCN"**) dated December 23, 2024 to the Noticee under Regulation 25(1) of the Intermediaries Regulations to show cause as to why appropriate recommendation should not be made against the Noticee as prescribed under Regulation 26 of the SEBI (Intermediaries) Regulations, 2008, for the alleged violations.

6. The key allegations in the SCN were:
   (a) Non-maintenance of minimum net worth as required under Regulation 7 of the MB Regulations during FY 2019–20.
   (b) Failure to exercise adequate due diligence in respect of the SME public issue of Jayant Infratech Limited, particularly concerning the object of "Payment of Security Deposit for renting of Office Space" and discrepancies in the Statement of Financial Indebtedness.

7. After taking into consideration the facts and circumstances of the case, material available on record and submissions made by the Noticee, the DA, submitted the Enquiry Report dated June 27, 2025 with the recommendation that:

   "the Noticee i.e., Gretex Corporate Services Limited, having SEBI Registration No: INM000012177, be prohibited from taking up any new assignment or contract or launching a new scheme, in so far as maybe applicable to the Noticee as a SEBI Registered Merchant Banker, for a period of one month in terms of Regulation 26(1)(iv) of SEBI (Intermediaries) Regulations, 2008."

Post Enquiry Proceedings:

8. Thereafter, a Post-Enquiry Show Cause Notice dated July 11, 2025 (hereinafter referred to as "**Post Enquiry SCN**") was issued to the Noticee enclosing a copy of the Enquiry Report dated June 27, 2025, and calling upon him to show cause in terms of Regulation 27 of the Intermediaries Regulations as to why actions as recommended by the DA or any other action should not be taken against the Noticee in terms of the said Regulations.

   I note that the said Post Enquiry SCN dated April 16, 2025 was issued and served to the Noticee through SPAD as well as through email. Authorized representative of the Noticee (hereinafter referred to as "**AR**") submitted the reply on behalf of the Noticee vide letter dated August 22, 2025.

   Thereafter, following principle of natural justice, the Noticee was granted an opportunity of personal hearing on October 14, 2025, vide hearing notice dated September 29, 2025, served to it by email. However, as the hearing could not be conducted on the said date, the same was adjourned to October 23, 2025. The AR of the Noticee along with the Managing Director and Vice President of the Noticee attended the said hearing. The Noticee made the additional submissions vide email dated October 28, 2025.

9. The summary of the replies of the Noticee dated August 22, 2025 and October 28, 2025 are as under:

   9.1. The Noticee objected to initiation of parallel proceedings, arguing that issues could have been addressed under ongoing adjudication instead of enquiry proceedings.

   9.2. The Noticee also referred to its settlement application dated July 31, 2025 under the Settlement Regulations, which was returned arbitrarily on August 8, 2025, despite para 4 of the SCN allowing such option.

   9.3. The Noticee argued that SEBI's denial of inspection documents like internal notings, communications, and file records violated principles of natural justice.

9.4. It concluded that there were no justifiable grounds to recommend any action, and the enquiry proceedings were disproportionate, excessive, and punitive for minor or technical lapses.

9.5. The Noticee denied failure to comply, asserting that the shortfall was temporary and due to unprecedented adverse economic conditions during FY 2019–20. The Noticee's revenue declined by 53.96%, from ₹3.15 crore in FY 2018–19 to ₹1.45 crore in FY 2019–20, as only two SME IPOs were completed (Misquita Engineering and Anuroop Packaging). Consequently, its net worth temporarily dipped to ₹3.57 crore, but was recouped within six months through infusion of fresh capital, reaching ₹6.32 crore as on September 30, 2020.

9.6. The Noticee submitted that it has continuously maintained net worth above ₹5 crore since September 2020. The fall in net worth was inadvertent, unintentional, and caused by market-wide slowdown, not due to any operational or wilful default.

9.7. It cited SEBI's own Annual Report to demonstrate that SME IPO activity dropped drastically during that period across India, proving that the decline was industry-wide.

9.8. The Noticee further submitted that despite the dip, it remained financially capable of meeting its underwriting obligations. Hence, the regulatory objective of maintaining capital adequacy was never compromised.

9.9. It also emphasized that Regulation 7 violations must be assessed in light of proportionality, a temporary, cured shortfall does not warrant punitive action. Inspection is corrective, not punitive.

9.10. The Noticee detailed its due diligence process as follows:

9.10.1. Collected and examined the MoU / Leave and License Agreement executed between the Issuer and BRV Leasing LLP.

9.10.2. Verified ownership documents and commercial status of the licensor's property.

9.10.3. Conducted a site visit to assess the location and progress of the project.

9.11. Submitted photographs to show that the structure of the property existed at the time of site visit.

9.12. Noticee confirmed that disclosures in the prospectus included appropriate risk factors (Clause 17, Page 28) highlighting that achievement of issue objects could be delayed. It argued that the risk factor disclosure itself reflected

transparent communication to investors. The Noticee maintained that SEBI's inference that the disclosure was a "safety valve" was untenable and one-sided.

9.13. The Merchant Banker's role, it argued, was to ensure disclosure and transparency, not to guarantee completion of the Issuer's business projects.

9.14. It contended that the due diligence was thorough, documented, and in line with standard industry practices, and no investor loss or misstatement had occurred.

9.15. Therefore, the alleged non-compliance under Regulation 13 read with Clauses 1, 3, 4, 7, and 20 of Schedule III of MB Regulations was unfounded and technical in nature.

9.16. With regards to discrepancies in the statement of financial indebtedness, Noticee has submitted that:

9.16.1. The Noticee submitted that the above discrepancies were clerical or typographical in nature, arising from variations in data supplied by the issuer during multiple rounds of document revision. It argued that:

9.16.2. The differences were minor, did not alter the substance of disclosures, and did not mislead investors.

9.16.3. The car loan was inadvertently reflected under company loans as it related to an asset used in the issuer's operations.

9.16.4. There was no investor grievance or market impact,

9.17. In a similar case of Aryaman Financial Services Ltd., SEBI took a lenient view. Since risk disclosures was included, hence, parity should be there.

10. I am of the view that multiple opportunities were granted to the Noticee for replying to the SCN and of being heard and the replies are also on record. Hence, the principles of natural justice were complied with respect to the Noticee and I shall now proceed to deal with the key issues involved in the instant matter.

Consideration and Findings:

11. Considering the factual findings from the inspection, the allegations levelled against the Noticee in the Post Enquiry SCN dated April 16, 2025 including the Enquiry Report dated March 25, 2025, and the submissions made by the Noticee through oral hearing and written replies in the matter, I find that the following issue requires consideration:

Issue A: Whether the Noticee has not maintained minimum net worth during FY 2019–20, in violation of Regulation 7 of the MB Regulations?

Issue B: Whether the Noticee failed to exercise adequate due diligence in respect of the SME public issue of Jayant Infratech Limited, particularly concerning the object of "Payment of Security Deposit for renting of Office Space" and discrepancies in the Statement of Financial Indebtedness, in violation of Regulation 13 read with Clause 1, 3, 4, 7 and 20 of Schedule III of the MB Regulations?

12. Before proceeding to deal with the aforesaid issues in the context of allegation made / charges levelled in the SCN/DA Report, I find it appropriate to deal with the preliminary objections / issues raised by the Noticee.

13. I note that the Noticee has contended that crucial documents were not provided to it for inspection. In this regard, I note that all the relevant documents in the instant matter were provided to the Noticee as part of the Annexures to the SCN as well as during the course of inspection of documents. I note that the Noticee has sought documents such as copy of Case Management System screenshot, copy of Annexure 7(2) "Format for handing over Fresh Cases" etc, which are unrelated to the merits of the present matter nor has the Noticee established how these documents are related to its defense in the present matter. Therefore, I find that no prejudice has been caused to the Noticee and I find no merit in the said contention of the Noticee.

14. I further note that the Noticee has stated that its settlement application dated July 31, 2025 was returned arbitrarily on August 8, 2025, despite para 4 of the Post Enquiry SCN allowing such option. I note the same cannot be adjudged in the instant proceedings. However, I note that the provision of settlement proceeding was erroneously mentioned in the Post Enquiry SCN and the same was deleted vide a corrigendum dated September 12, 2025 to the said Post Enquiry SCN.

15. Further, the Noticee objected to initiation of parallel proceedings, arguing that issues could have been addressed under ongoing adjudication instead of enquiry proceedings. In this regard, I note that the adjudication proceedings are for completely different violations and the current proceedings are for different violations. Further, the two proceedings i.e. the adjudication and the enquiry proceedings are distinct in nature and scope. The adjudication proceedings are meant for imposition of monetary penalty whereas the present enquiry is under the Intermediaries Regulations which may result in action specified under Regulation 26 of Intermediaries Regulations. This contention is, therefore, untenable.

16. The Noticee has also contended that the alleged non-maintenance of minimum net worth pertained to FY 2019–20, which falls outside the inspection period of April 1, 2021 to January 31, 2023, and hence should not have been examined. In this regard, I note that the allocation of an inspection period serves primarily as an internal reference framework to guide the inspection team's review and sampling. It does not restrict the validity or relevance of information or documents that come to light during the course of inspection, even if such information relates to an earlier period. The inspection process seeks to assess the overall state of regulatory compliance of an intermediary and to identify any lapses that bear relevance to its conduct and obligation under the MB Regulations.

17. In the present case, the obligation to maintain the prescribed minimum net worth under Regulation 7 is a continuing requirement, to be complied with at all times. Therefore, the discovery of a prior shortfall, though predating the inspection period, remains within the regulatory domain. The inspection team's focus cannot immunize past lapses that affect an intermediary's compliance. Accordingly, the argument that the issue lies beyond the inspection period is misconceived and cannot be accepted.

Further, the inspection report and findings were duly approved by the competent authority after consideration of all materials on record including the inspection period which essentially ratifies the scope of inspection period also. Therefore, I find no infirmity in the initiation of proceedings on this ground.

18. Before dealing with the issues framed above, it would be appropriate to refer to the relevant provisions of law alleged to have been violated in the matter, extract whereof is reproduced below:

SEBI (Merchant Bankers) Regulations, 1992

Capital Adequacy Requirement

7. The capital requirement referred to in clause (d) of Regulation 6 shall be a net worth of not less than five crore rupees

Explanation: For the purposes of this regulation, "net worth" means the sum of paid-up capital and free reserves of the applicant at the time of making application under sub-regulation (1) of regulation 3.

Code of conduct

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

SCHEDULE III
Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992
[Regulation 13]
CODE OF CONDUCT FOR MERCHANT BANKERS

1. A merchant banker shall make all efforts to protect the interests of investors.

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.

7. A merchant banker shall endeavour to ensure that the investors are provided with true and adequate information without making any misleading or exaggerated claims or any misrepresentation and are made aware of the attendant risks before taking any investment decision.

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

Issue A: Whether the Noticee has not maintained minimum net worth during FY 2019–20, in violation of Regulation 7 of the MB Regulations?

19. I note that inspection has found that Gretex failed to maintain the Net Worth of ₹5 crores during the year 2019-20 and accordingly it was alleged to have violated Regulation 7 of the MB Regulations.

20. The Noticee has not denied the same and has submitted that the shortfall was temporary and was due to unprecedented adverse economic conditions during FY 2019–20. Therefore, its revenue declined by 53.96%, from ₹3.15 crore in FY 2018–19 to ₹1.45 crore in FY 2019–20, as only two SME IPOs were completed (Misquita Engineering and Anuroop Packaging) and consequently, its net worth temporarily dipped to ₹3.57 crore. Noticee has further submitted that the said deficit was recouped within six months through infusion of fresh capital, reaching ₹6.32 crore as on September 30, 2020 and since then it has continuously maintained net worth above ₹5 crores.

21. In this regard, I note that Regulation 7 of the SEBI (Merchant Bankers) Regulations, 1992 mandates that a Merchant Banker shall maintain, at all times, a minimum net worth of ₹5 crores. The phrase “at all times” is of critical importance as it mandates the continuing nature of the requirement. This is not a one-time threshold for registration but a sustained obligation designed to ensure that intermediaries possess the financial capacity, to discharge underwriting responsibilities and absorb other risks arising in the course of issue management.

22. Financial soundness is the bedrock of investor confidence in the securities market. The Merchant Banker's ability to underwrite issues, honor commitments, and safeguard investor interest depends squarely on its capital adequacy. A lapse in maintaining the minimum net worth directly impacts the regulatory protection to investors and issuers regarding the stability of intermediaries operating under its framework.

23. Net Worth Requirement is a core regulatory condition for Merchant Bankers. The requirement to maintain a minimum net worth is not merely a technical obligation. For a merchant banker, it is central to regulatory risk management and the stability of the securities market. When the Regulations mandates that a merchant banker shall maintain a minimum net worth of ₹5 crore sat all times, the intention is not merely to prescribe a numeric threshold but to ensure that merchant banker, as intermediary entering or continuing in this domain, possesses the financial strength to absorb losses, manage risks, and discharge obligations to investors and issuers without disruption.

24. A merchant banker operates in a position of fiduciary responsibility. It performs core market functions such as due diligence, issue management, underwriting, and post-issue compliance. Each of these functions involves risk which is in the nature of commercial, reputational, and operational. If an intermediary lacks sufficient capital to withstand a financial shock, even a single failure can lead to defaults consequently in the erosion of trust in the market mechanism. Thus, the net worth requirement acts as a continuous shield, protecting investors from counterparty failure and the market from systemic contagion.

25. The failure of a merchant banker does not remain confined to that entity alone. It indirectly affects the development and credibility of the securities market itself. The smooth functioning and continued existence of fit and proper intermediaries are essential for sustaining investor trust and for the overall growth of the market.

Investors rely not only on the strength of issuers but also on the reliability of intermediaries who stand between them and the market. A financially weak intermediary introduces fragility into this structure, while a strong net worth ensures continuity, confidence, and resilience across market cycles. Therefore, maintaining adequate net worth is not merely about technical compliance, it is integral to the long-term development and stability of the securities market.

26. Accordingly, maintaining the prescribed net worth is not a one-time eligibility requirement but a continuing condition of registration. The certificate of a merchant banker to operate is inseparable from its financial capacity. Any reduction below the prescribed level indicates a weakening of that capacity and compromises the very foundation upon which registration was granted. It is not a procedural lapse but a substantive breach that strikes at the intermediary's ability to function safely within the regulatory framework. The net worth requirement is elevated as a condition of registration not merely for compliance. For an intermediary like a merchant banker, it defines both its regulatory legitimacy as well as its capacity to contribute responsibly to the integrity and stability of the securities market.

27. There is no dispute that net worth of Noticee had fallen below the prescribed minimum threshold during FY 2019-20. The required net worth was not maintained from October 2019 to July 2020. Noticee has sought to justify the shortfall in its net worth during FY 2019–20 by attributing it to adverse global and macroeconomic conditions prevailing at the time and further submitted that even at the reduced level, its capital base was adequate to meet its underwriting obligations as per the limits prescribed under the SEBI (Merchant Bankers) Regulations, 1992. Noticee, vide its reply dated October 28, 2025, also submitted the data relating to the number of IPO assignments undertaken during the period between April 01, 2018 and March 31, 2021 and the fee earned from such activity and other activities for the said period. In this regard, I note that while it is acknowledged that certain segments of the economy experienced slowdown during FY 2019–20, such business variations are intrinsic to capital market

operations and do not absolve an intermediary from maintaining capital adequacy on a continuous basis. Further, the Merchant Banker's obligation to maintain minimum net worth under Regulation 7 of the SEBI (Merchant Bankers) Regulations, 1992 is a continuing and absolute condition of registration, not one that fluctuates with market cycles or business volumes. A prudent intermediary is expected to maintain adequate capital buffers and contingency planning precisely to withstand cyclical business variations. The inability to do so reflects deficiencies in internal financial management rather than an exogenous economic shock.

28. Vide the aforementioned letter dated October 28, 2025, Noticee has also submitted data in relation to the active underwriting liabilities undertaken during the net worth- noncompliance period and argued that the reduced net worth was sufficient for required underwriting of the issue size, I note that the requirement of maintaining a minimum net worth under the SEBI (Merchant Bankers) Regulations is a structural safeguard built into the regulatory framework to ensure that an intermediary possesses the financial resilience necessary to discharge its obligations under all circumstances. The purpose of this requirement is to absorb losses arising out of unforeseen market conditions or underwriting devolvement or other operational reasons and to ensure continuity of service to issuers and investors without disturbing market stability.

29. In this background, the adequacy of a merchant banker's risk-mitigation capacity cannot be assessed on the basis of temporary factors such as the level of exposure at a particular time. For example, if at a given point the merchant banker's net worth had fallen below the prescribed threshold, but the actual underwriting exposure or devolved liability during that period happened to be small, that coincidence cannot be taken as evidence of adequate risk management. Therefore, the regulatory intent is to ensure that the intermediary always maintains sufficient capital to withstand a stress scenario.

30. If the reasoning of the Noticee were to be accepted, it would defeat the very objective of the regulation. Every intermediary could justify a shortfall in net worth by citing a temporary phase of low activity or by demonstrating that no default occurred during the period of deficiency. This would erode the predictability and prudential discipline that the net worth requirement is designed to enforce.

31. Further, the obligation to maintain net worth is an ex-ante condition of registration, not an ex-post justification after liabilities have been realised. The adequacy of capital must be assessed as a continuing state of preparedness, not as an after-the-fact validation based on outcomes. It is this continuous compliance that builds market confidence and ensures that intermediaries can meet not only underwriting devolvement but also potential liabilities arising from due diligence failures, indemnity obligations, or investor claims.

32. Accordingly, the argument that risk-mitigation measures can be evaluated based on factors such as the extent of underwriting devolvement or temporary exposure, cannot be accepted. The principle underlying the regulation is that the intermediary must always have the capacity to absorb losses, irrespective of whether such losses have yet occurred. Non-compliance, even if it coincides with a period of low exposure, undermines the fundamental assurance of financial soundness that the regulation seeks to secure.

33. However, I consider these factors relevant from the stand point of proportionality for the enforcement measures, though they are not relevant from the stand point of whether the violation of requirement of net worth has been breached.

34. I note that the Noticee has relied upon SEBI's order in the matter of Accurate Securities and Registry Private Limited (Registrar and Transfer Agent - RTA) to contend that in that case, despite the intermediary having negative net worth for

three consecutive years, SEBI had taken a lenient view and issued only a warning. In this regard, I note that the contention overlooks the material distinctions between the said case and the present proceedings. The intermediary in Accurate Securities was a RTA, confined to maintaining records and processing transactions, and does not involve financial responsibilities inherent in the functions of a Merchant Banker. In contrast, a Merchant Banker acts as a lead manager to public issues, undertakes underwriting commitments, conducts due diligence, and plays a critical gatekeeping role in protecting investor interests and ensuring market integrity. The financial soundness of a Merchant Banker is thus not a procedural or background requirement but a substantive safeguard central to its ability to discharge these obligations. Consequently, the same level of leniency afforded to an RTA cannot be extended to a Merchant Banker whose activities have direct and systemic implications for the capital market.

Hence, the factual context and functional risk profile are distinct, and the reliance on the Accurate Securities order is misplaced. The principle of proportionality requires that regulatory response be commensurate with the nature of the intermediary, the gravity of the obligation breached, and the potential risk to market integrity.

35. I therefore find that the Noticee's failure to maintain the minimum prescribed net worth during FY 2019-20 constitutes a substantive violation of Regulation 7, and cannot be treated as a venial or technical lapse. Although capital infusion at a later stage restored compliance, such post-facto rectification cannot nullify the breach of a continuing obligation. Compliance restored after the event does not eliminate the period of non-compliance, particularly when the regulation itself envisages maintenance "at all times". In view of the above, I agree with the finding of the DA and find that the Noticee has violated Regulation 7 of the MB Regulations.

Issue B: Whether the Noticee failed to exercise adequate due diligence in respect of the SME public issue of Jayant Infratech Limited, particularly concerning the object of "Payment of Security Deposit for renting of Office Space" and discrepancies in the Statement of Financial Indebtedness, in violation of Regulation 13 read with Clause 1, 3, 4, 7 and 20 of Schedule III of the MB Regulations?

36. The above issue relates to alleged deficiencies in the due diligence exercised by the Noticee while managing the SME public issue of Jayant Infratech Limited. It was observed during the inspection that one of the objects of the Issue in the Prospectus dated June 24, 2022 of Jayant Infratech Ltd. (issuer) was *'Payment of Security Deposit for renting of Office Space'* for which a MOU was executed by the issuer with BRV Leasing Andheri LLP for value of Rs.350 Lakhs. It was observed that the aforesaid site of Office space was an under construction project and the MB failed to provide the supporting documents with respect to this object and also did not clearly inform the investors about the risk involved in investing in such an object.

37. It was further observed that in Section IX of the aforesaid Prospectus, the MB failed to provide any supporting documents pertaining to the Secured Loans details of Jayant Infratech Limited as well as there were discrepancies in the Statement of financial Indebtedness.

38. In view thereof, it was alleged that Noticee had violated provisions of Regulation 13 read with Clause 1, 3, 4, 7 and 20 of Schedule Ill of SEBI (Merchant Bankers) Regulations, 1992.

39. In this regard, I note that the requirement to exercise due diligence arises from the statutory obligation under the SEBI (Merchant Bankers) Regulations, 1992. The Code of Conduct under Regulation 13 reinforces that a Merchant Banker must exercise due diligence, proper care, and independent professional judgment, and must ensure accurate and timely disclosures. Schedule V of the

SEBI (ICDR) Regulations, 2018 translates this obligation into a formal attestation through the Due Diligence Certificate, which signifies that documents have been examined and material statements verified. It specifically provides for independent verification of statements concerning the objects of the issue and mandates that adequate disclosures be made to investors. Though the regulatory requirement is not of investigative perfection or requiring the standard expected of an auditor, it contemplates reasonable and responsible diligence by a prudent, independent merchant banker.

40. The disclosure-based regime rests on a fundamental proposition that the issuers must disclose all material facts and merchant bankers must test those facts with professional diligence so that disclosures acquire credibility. The trust investors repose in the primary market exists not merely because issuers make statements, but because the law requires a regulated intermediary to verify those statements

41. In the present case, it is observed that approximately 40% of the IPO proceeds were proposed to be deployed as a security deposit for renting an office premises which, in fact, is alleged was under construction. This is not a superficial detail, but it goes to the root of the investor's decision. Investors commit funds on the premise that the stated Objects of the Issue will be achieved within a reasonable and predictable timeline. If the very premises from which the issuer intends to operate are unavailable, operational readiness and revenue generation become uncertain.

42. In the present instance, a diligent Merchant Banker was expected to ascertain, through independent verification, whether the property was complete or under construction at the time of filing, and to ensure that the inherent risks of delay, non-possession, or extended timelines were transparently reflected under the 'Objects of the Issue' and 'Risk Factors' sections of the prospectus. A merchant banker's duty is not discharged by mechanical compliance. The very purpose of due diligence is to convert representations into verified facts.

43. Further, when financing the property forms a material object of the issue, involving nearly 40% of the IPO proceeds, the standard of care expected is necessarily heightened. In this regard, Noticee has cited case laws to support that the standard to be applied for performing the due diligence should be that of a 'reasonable person' and has questioned the relevance of higher due diligence. I note that while the level of due diligence required is the standard of diligence and care taken by a reasonable person, the degree of such reasonableness necessarily varies from situation to situation. In this regard, the observation of the Hon'ble Supreme Court of India, in the matter of **Chander Kanta Bansal V. Rajinder Singh Anand (2008) 5 SCC117** is relevant. It was stated by the Hon'ble SC that:

"...According to Oxford Dictionary (Edn.2006), 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. As per Black's law Dictionary (18thEdn), "Due Diligence" means the diligence reasonably expected from, and ordinarily exercised by, a person who seeks to satisfy a legal requirement or to discharge an obligation. According to Words and Phrases by Drain-Dyspnea (Permanent Edn.13-A), "due diligence", in law, means doing everything reasonable, not everything possible. "Due Diligence" means reasonable diligence; it means such diligence as a prudent man would exercise in the conduct of his own affairs..."

44. The Hon'ble SAT in order dated 13.05.2016 in the matter **Almonds Global Securities Ltd. Vs SEBI (Appeal No.275, 276, 301 and 207 of 2015),** has observed that *"Degree of such care or diligence would, undoubtedly, differ from case to case and no straight-jacket formula can be prescribed by law."* In this regard, the observations of the Hon'ble SAT in the aforesaid matter is reproduced below:

"This takes us once again to the very principle of due diligence. The diligentia that is expected of a Merchant Banker in a given case is such care as would be taken by a reasonable person. It would be the diligence or care a reasonable person would employ in a given situation. Degree of such care or diligence would, undoubtedly, differ from case to case and no straight-jacket formula can be prescribed by law. As already noted, the principle of due diligence is, by nature, incapable of being defined in precise terms

and has, therefore, been left open or flexible to be determined in each case as per the existing facts and circumstances. Hon'ble Supreme Court in the case of Chander Kanta Bansal Vs. Rajender Singh Anand reported in 2008 (5) SCC 117 that due diligence in law means reasonable diligence and doing "everything reasonable, not everything possible"

Further, Hon'ble SAT in the matter **M/s. Keynote Corporate Services Ltd. Vs. SEBI (Appeal No.84 of 2012, Date of Decision: 19.2.2014)**, held 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….."

45. In the instant case the status of construction was a material fact. The case of the Noticee is that it was not "under construction". The Noticee has contended that it examined the Leave and License Agreement, ownership documents and commercial status of the licensor's property and also conducted site visits and has submitted that the property was 'unfurnished' but not 'under construction'. Noticee had attached photographs as proof that the structure of the building was ready at the time of the site visit. I note that the merchant banker ought to have obtained and retained proof of construction or completion, such as occupancy or completion certificates issued by the competent authority. I note that while the Merchant Banker undertook a site visit, such a visit cannot substitute for documentary verification regarding the property's readiness. The Noticee failed to obtain or examine any documentary proof of completion of construction, such as a Completion or Occupancy Certificate issued by the competent authority. This omission is not merely procedural, but it strikes at the very foundation of what constitutes 'verification' under the regulatory framework.

46. The site visit report itself reinforces this lapse. It merely records that the *"property is located at the said address"* without specifying whether the building was

complete, partially constructed, or under development. It contains no confirmation regarding the status of construction. A site visit that stops at locating the premises but fails to verify its construction status does not meet the test of reasonable professional diligence. This raises a fundamental question: why, instead of obtaining documentary evidence, the Noticee relied solely on a visual visit and failed to record the construction status in the site report.

47. Even the photographs produced by the Noticee, said to have been taken during its site visit, asserting that these demonstrate that the structure of the building was ready at the time of the visit, depict only portions of a building showing completed walls and ceilings of one or more floors, but they do not establish that the construction of the entire premises was complete or ready for occupation. The images do not identify the specific property, its address, stage of construction, or date of completion. Therefore, these photographs are at best indicative of partial structural progress and cannot substitute for documentary proof of completion, such as a completion certificate, occupancy certificate, or inspection report from the competent authority. Till date the Noticee has not produced any such documentary evidence such as completion certificate, occupancy certificate, possession letter or any confirmation from the competent authority establishing that the said property was complete and ready for occupation at the time of filing of the offer document to establish the status of construction. Therefore, Noticee has not substantiated its case that the property was not “under construction” at the relevant time. On the contrary, MahaRERA website indicates that the project’s registration has been extended up to 31.12.2026 vide extension certificate dated 17.03.2025 and the proposed date of completion is mentioned as 31.12.2026. Further, an order dated 23.07.2024 of MahaRERA in respect of the said project records that the developer had not yet obtained the full occupancy certificate.

48. Further, the disclosure dated July 15, 2023 with respect to statement of deviation under Regulation 32 of the LODR Regulations filed by Jayant Infratech Ltd. *inter alia* states under the heading 'Explanation for the Deviation / Variation, that *“...the licensor is unable to provide the property required for expansion of the company*

and would take a considerable amount of time for the property to be ready in future. Therefore, the company has varied its object….". The aforesaid facts strengthen the previous finding that Noticee has not substantiated its case that the property was not "under construction" and the project was still ongoing and had not attained completion as of those dates.

49. I note that the facts of this case warranted a commensurate degree of diligence expected of a prudent man, where one goes beyond verifying the mere existence of the property but to check the status of the property since 40% of the financing from the IPO was proposed to be invested in lease of the said property. The merchant banker was required to ascertain and verify the construction status, without which it cannot be said that any meaningful due diligence was conducted. The status of construction was clearly an information "worth finding out", as observed by the Hon'ble SAT in the Keynote Capital matter (supra).

50. The present case shows how a single omission by a merchant banker can undermine investor confidence. Nearly 40% of the IPO proceeds were proposed to be used as a deposit for renting an office premises that was, in fact, still under construction. This goes to the very root of the investor's decision-making process. Investors commit funds on the assumption that the stated objects of the issue will be realised within a predictable and reasonable timeline. If the very premises from which the issuer proposes to operate are unavailable, operational readiness and revenue projections become uncertain.

51. Accordingly, the following conclusion arises. The Merchant Banker's so-called "site visit" was perfunctory; its diligence was incomplete. The intermediary's conduct reflects a conscious disregard of its statutory and fiduciary responsibilities. The Merchant Banker not only failed to verify but also failed to inform investors that the property was still under construction. This dual failure, of verification and of disclosure, constitutes a clear breach of the due-diligence obligation and undermines the trust that SEBI's regulatory framework seeks to

uphold in the primary market. This omission deprived investors of material information necessary to assess the feasibility and timing of the issuer's proposed use of proceeds. The Merchant Banker's inaction thus had a direct bearing on investor decision-making.

52. I note that the Noticee has contended that site visit of the property is not even required or mandated under Schedule VI of the ICDR Regulations. The argument of the Noticee that the extent of due diligence expected from the merchant banker is confined only to disclosures prescribed under Schedule VI of the SEBI (ICDR) Regulations, 2018, is misconceived and legally untenable. Schedule VI merely prescribes the minimum content of disclosures in relation to the acquisition of property such as the nature of title or interest in the property proposed to be acquired, among other details. However, the due diligence obligations of a merchant banker are not confined to this narrow disclosure prescription.

Regulation 24(1) of the ICDR Regulations casts a broader requirement that all material disclosures necessary to enable investors to take an informed investment decision is to be mentioned in the draft offer document. Regulation 24(2) further clarifies that the disclosures required under Schedule VI are without prejudice to the general obligation of making all material disclosures. Thus, the Schedule VI disclosure is only illustrative and not exhaustive. The test of adequacy of disclosures is to be applied by the merchant banker as part of the due diligence across the contents of the Part A of Schedule VI. I note that the merchant banker's duty cannot be reduced to a mechanical checklist exercise limited to what is literally enumerated in the Schedule.

53. As already noted, the due diligence that is expected of a Merchant Banker in a given case is such care as would be taken by a reasonable person i.e. the diligence or care, a reasonable person would employ in a given situation. Degree of such care or diligence would, undoubtedly, differ from case to case and no straight-jacket formula can be prescribed by law. As already noted, the principle

of due diligence is, by nature, incapable of being defined in precise terms and has, therefore, been left open or flexible to be determined in each case as per the existing facts and circumstances. Therefore, in the given facts of the case, where a large portion of the IPO funds were apportioned for leasing the property, the information as to the stage of construction was material, and should have been part of the due diligence exercise.

54. The lead manager, as per Regulation 25(3) of the ICDR Regulations, is required to exercise due diligence and satisfy itself about all aspects of the issue, including the veracity and adequacy of disclosures in the draft and final offer documents. This dual test of veracity and adequacy necessarily demands that the merchant banker ensures that disclosures present a true, fair, and complete picture of material facts. When nearly 40% of the IPO proceeds are proposed to be deployed for renting a property, the construction status of that property becomes a material fact directly bearing on the feasibility and timing of the stated object of the issue. Omission of such a fact would materially mislead investors about the actual readiness of the infrastructure and deployment of funds.

55. Therefore, the argument that the merchant banker's obligation does not extend to a site visit or verification of construction status cannot be accepted. The duty of due diligence is not a formality but a substantive obligation requiring professional judgment to ensure that investors are not misled by incomplete disclosures.

56. I note that the Noticee has also placed reliance on the matter of Aryaman Financial Services Limited, wherein the Adjudicating Officer (AO) had exonerated the Merchant Banker on the ground that a specific risk factor concerning the selection of the project location was incorporated in the prospectus. From a reading of the said order, it is clear that the facts of the Aryaman case are materially different from the present one. In Aryaman, the AO observed that *"it is seen from the available records that a separate risk factor regarding selecting location had already been incorporated in the offer document…".*

57. However, in the instant matter, no such separate or specific risk factor has been included in the prospectus with regard to the under-construction status of the property forming a material object of the issue. The prospectus only carried generic cautionary statements relating to possible delays or deviations in utilization of proceeds. Such broad and non-specific warnings cannot be equated with a specific risk disclosure that directly informs investors that the property proposed to be rented was still under construction and, therefore, subject to risks of non-possession or delayed operational readiness.

58. The distinction is very important. The purpose of a "risk factor" section is to draw an investor's attention to specific, material contingencies that could affect the realization of the stated objects of the issue. A generic disclaimer merely alerts investors to the existence of uncertainty in general, but does not enable them to evaluate the nature or magnitude of a concrete risk. When nearly 40% of the issue proceeds are to be deployed towards a single object, such as a deposit for office premises, the risk associated with the readiness and availability of that premises assumes a material dimension and demands an equally explicit disclosure.

59. Therefore, I find that the Noticee's reliance on Aryaman as well as its contention regarding general risk disclosures are not acceptable.

60. Further, I note that the inspection observed following four discrepancies in the prospectus of Jayant Infratech Limited w.r.t. secured loans details in the Statement of financial indebtedness, for which the Noticee acted as the Lead Manager:

Sr. No	Details of the loan in the prospectus	Actual based on the documents submitted by the entity
1.	Bank of Baroda Term Loan dated July 17, 2015 is mentioned in the name of the issuer Jayant Infratech Ltd.	The term loan is a car loan in the name of the Promoter of the company and not of the issuer company.
2.	Bank of Baroda term loan dated November 26, 2020 : Repayment period is mentioned as 84 equated instalments	Repayment period is actually 60 Equated instalments

3.	Bank of Baroda term loan dated May 06, 2020: Rate of interest is mentioned as 6.50% p.a.	Actual rate of interest as per the document is 7.25% p.a.
4.	ICICI Overdraft Working Capital loan dated August 29, 2020: The sanction amount mentioned as Rs.50 lakhs.	The actual sanction amount as per the documents submitted is Rs.150 Lakhs

61. It was alleged that Noticee failed to exercise due diligence, ensure proper care in dealing with the drafting of the prospectus and providing correct information to the investors.

62. I note that Noticee has not disputed the aforementioned discrepancies. However, the Noticee contended that the above discrepancies were clerical or typographical in nature, arising from variations in data from multiple sources. It submitted that:

    62.1. The differences were minor, did not alter the substance of disclosures, and did not mislead investors.

    62.2. The car loan was inadvertently reflected under company loans as it related to an asset used in the issuer's operations.

    62.3. There was no investor grievance or market impact,

63. In this regard, I note that the discrepancies concern core financial disclosures *viz.* loan identity, tenure, interest rate, and sanction amount. These are verifiable factual items that a Merchant Banker is expected to cross-check directly against primary evidence such as sanction letters and account statements. The differences, though individually small, collectively demonstrate a lack of cross-verification between disclosures and source documents.

64. The disclosure of a car loan taken by a promoter in the name of the issuer company constitutes an inaccurate statement of liability. This cannot be termed typographical. It reflects a basic failure to confirm the borrowing entity. Further, the mismatch in the repayment period and interest rate (84 vs. 60 instalments; 6.50% vs. 7.25%) may appear minor but indicates that the Merchant Banker did

not compare the prospectus data with the relevant documents prior to filing. Also, the understatement of the ICICI Bank overdraft limit from ₹150 lakhs to ₹50 lakhs is a quantitative variance of 200%, which, even if inadvertent, is a significant variance.

65. These inconsistencies indicate lack of sufficient diligence in verifying factual details. Regulation 13 read with Code of Conduct in Schedule III require the Merchant Banker to ensure that all statements made in the offer document are true, fair, and adequate. The existence of factual mismatches in four secured loans details out of total six, indicates a systemic weakness in document validation.

66. I note that the Merchant Banker's certification under Schedule V of the ICDR Regulations is not a mere formality. It represents a professional attestation that each material statement in the offer document has been independently verified. The recurrence of factual mismatches, particularly where the nature of the loan and borrower identity differ, shows deficient verification procedures and lack of supervisory control in document preparation.

67. I further note that the discrepancies identified in the prospectus indicate lapses in internal review and verification mechanisms on the part of the Merchant Banker. Such repeated factual inconsistencies undermine the reliability of disclosures certified by a SEBI-registered intermediary.

68. In view of the above observations, I agree with the findings of the DA and hold that Noticee has violated Regulation 13 read with Clause 1, 3, 4, 7 and 20 of Schedule III of the MB Regulations. However, I also take into account the mitigating factors that the above discrepancies were limited in scope. I also note that the Noticee has submitted that it has strengthened its internal verification framework and implemented a maker–checker mechanism to prevent recurrence, which is a positive and corrective step.

69. I note that the Designated Authority (DA) has recommended prohibition on Noticee from taking up any new assignment or contract or launching a new scheme, in so far as maybe applicable to it as a SEBI Registered Merchant Banker, for a period of one month in terms of Regulation 26(1)(iv) of SEBI (Intermediaries) Regulations, 2008, having found violations of regulatory provisions. While I have independently examined the matter and concur with the findings of violations within the purview of the current proceedings, the import of the Intermediary Regulations is to independently consider the nature of violations and the overall facts and circumstances, before determining the appropriate measure of disciplinary action.

70. The Noticee has contended that the purpose of SEBI's inspection is corrective rather than punitive, and that the lapses noted in the inspection report should have been dealt with through guidance or advisory measures rather than enforcement proceedings. It has relied on various case laws which recognises the supervisory character of SEBI's inspection powers.

71. I note that the proposition advanced by the Noticee finds its origin in the judgment of the Hon'ble SAT in **Religare Securities Limited v. SEBI (Appeal No. 23 of 2011, decided on June 16, 2011)**, where the Tribunal held:

> *"It must be remembered that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements in regard to the maintenance of records. We also cannot lose sight of the fact that every minor discrepancy/irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant."*

72. However, the Tribunal in the same judgment added an important qualification:

> *"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."*

73. The same principle was reaffirmed in **UPSE Securities Limited v. SEBI (Appeal No. 109 of 2011)**, where the Hon'ble SAT observed:

> *"Before concluding we cannot resist observing that the object of carrying out inspection of the books of accounts and records of any intermediary is to ensure that the Stock Brokers are following the rules and regulations and complying with the statutory requirements… For serious lapses, it would always be open to SEBI to take penal action in accordance with law."*

74. From the above observations I note that when serious or substantive lapses come to light, particularly those that touch upon investor protection or core regulatory obligations, an appropriate enforcement measure needs to be deployed.

75. Having considered the above principles, I find that the present case does not fall within the category of trivial or procedural deficiencies. The inspection in the present matter revealed not merely minor clerical inconsistencies, but a substantive omission i.e. the Merchant Banker's failure to verify the completion status of a property forming nearly 40% of the IPO's object of issue and the consequent absence of disclosure that the property was still under construction. Such an omission goes to the root of the Merchant Banker's due-diligence obligation and cannot be treated as a minor irregularity in the maintenance of records or internal processes. An omission that permits a materially incomplete or misleading disclosure concerning the object of issue a serious lapse within the meaning of the caveat laid down in the above Hon'ble SAT's judgements.

76. In view of the foregoing, I am of the opinion that while the object of SEBI's inspection is primarily corrective, this principle cannot be stretched to categories of substantive failures of due diligence that have a direct nexus with investor protection and disclosure integrity.

77. I further note that the Noticee has relied on a number of past SEBI orders, twelve in total (para 95 of the reply dated 22.08.2025), to contend that, in comparable circumstances where lapses by intermediaries were found to be technical or procedural, SEBI had issued only warnings, advisories or directions to strengthen internal controls, rather than taking stricter enforcement action. The Noticee submitted that, on the principle of consistency and proportionality, a similar approach should be followed here.

78. While I have taken note of the decisions cited, the reliance placed on them is misconceived as the nature and gravity of the lapses differ materially. The present case concerns a core due-diligence failure by a Merchant Banker, namely, the omission to verify and disclose that a property forming nearly 40% of the IPO's object of issue was still under construction. Such a lapse affects the accuracy and completeness of the prospectus itself, which is central to investor decision-making. It therefore cannot be equated with procedural errors in data compilation or administrative oversight or some technical violations. The violations in the instant matter arises under Regulation 13 of the SEBI (Merchant Bankers) Regulations, 1992 and Schedule V of the SEBI (ICDR) Regulations, 2018, which impose a substantive obligation of due diligence and verification of material statements, specifically in relation to the object clause of the issue. The Merchant Banker's certification is not a mere administrative formality rather it is a statutory attestation of the truthfulness of disclosures. Failure to discharge this duty strikes at the foundation of investor confidence in the disclosure-based regime.

79. I note that the principle of proportionality does not require that all lapses, regardless of context, attract identical measures. Each regulatory proceeding must be assessed on its own factual and contextual footing, taking into account both aggravating and mitigating circumstances. Therefore, reliance on the cited matters cannot have relevance in view of the material distinction of the fact and situations involved therein.

80. In view of the above, while the principle of consistency in regulatory treatment is acknowledged, the present case stands on a distinctly different footing. The lapses established here are substantive and disclosure-centric, not merely procedural or clerical. They go to the core of a Merchant Banker's statutory duty of due diligence and therefore justify a proportionate regulatory response than in the precedents cited. The earlier cases relied upon by the Noticee do not, therefore, help the Noticee in its argument of proportionality on imposing appropriate measures under the SEBI (Intermediaries) Regulations, 2008.

81. As noted above, for determining the proportionality of measures, both mitigating and aggravating circumstances surrounding the conduct have to be weighed together. On the mitigating side, it is noted that the shortfall in net worth was later recouped, though not immediately, but after about ten months during the COVID-19 period. This restoration reflects an eventual effort to bring the intermediary back into compliance. It is also relevant that during the period of reduced net worth, the underwriting exposure actually undertaken was limited. Further, the Noticee has taken corrective steps to prevent errors and discrepancies. These factors deserve consideration while calibrating the extent of measures.

82. However, the aggravating factors in this case are far more significant. Importantly, during the due-diligence process, the Merchant Banker consciously avoided verifying the construction status of the property proposed to be taken on lease, for which approximately 40% of the IPO proceeds were to be utilized. By failing to insist on documentary proof of completion and by omitting to record in the site report that the property was still under construction, the Merchant Banker consciously permitted a materially misleading impression to persist. This omission directly affected the completeness and accuracy of disclosures and had a direct bearing on investors' assessment of the feasibility and timing of the issuer's proposed use of proceeds.

83. While the mitigating factors has to be considered, these cannot neutralize the seriousness of the conduct involving non-verification and non-disclosure of the

under-construction status of the site meant for the office site. The weight, therefore, should lie heavily on this aggravating factor, since it strikes at the core of investor protection and the integrity of the disclosure-based regime. Mitigating factors can properly influence the degree of enforcement measure but not the necessity of enforcement itself. The measures imposed must, therefore, remain proportionate, balancing the need to uphold regulatory discipline with recognition of the Noticee's corrective conduct.

84. In the SME platform, the role of the merchant banker assumes far greater importance. This is because companies accessing the SME platform are generally smaller, younger, and less established, making investor reliance on disclosures much higher. Here, the merchant banker is not merely an intermediary but the primary custodian of investor confidence. The quality of the offer document, the accuracy of disclosures, and the verification of material facts all flow from the merchant banker's diligence. In the absence of a long operating history or tested governance structure in respect of issuers in SME platform, it is the merchant banker's independent scrutiny that substitutes for the market's ability to price risk. Therefore, on the SME platform, every lapse in due diligence by the merchant banker has a direct impact to the platform's credibility, as it undermines the regulatory intent of having a separate platform for small enterprises through fair and transparent capital formation and protection of retail investors accessing the platform

85. Accordingly, while the lapses relating to net-worth reduction is reversed by latter corrective action and factual discrepancies in the prospectus are viewed as mitigated by subsequent corrective systemic measures, the failure to exercise due diligence and to ensure adequate disclosure concerning the property constitutes a substantive lapse. Keeping these factors in mind, need arises for a suitable regulatory action under Regulation 27 of the SEBI (Intermediaries) Regulations, 2008, read with Regulation 7 and Regulation 13 of the SEBI (Merchant Bankers) Regulations, 1992.

Directions:

86. In view of the foregoing, in exercise of the powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Regulation 23 and 27 of the Intermediaries Regulations, I, hereby issue the following directions to Gretex Corporate Services Limited (Merchant Banker) (PAN: AACCD9875F):

    86.1. The Noticee is prohibited from taking up any new assignment or contract or launching a new scheme, in so far as maybe applicable to it as a SEBI Registered Merchant Banker, for a period of Twenty-One (21) days.

87. This order comes into force with immediate effect. This order is also digitally signed.

88. A copy of this order shall be forwarded to the Noticee.

N. MURUGAN Digitally signed by N. MURUGAN Date: 2025.10.30 19:58:42 +05'30'

DATE: October 30, 2025 **N. MURUGAN**

PLACE: MUMBAI **CHIEF GENERAL MANAGER**

SECURITIES AND EXCHANGE BOARD OF INDIA