BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OFINDIA

ADJUDICATION ORDER NO. EAD-7/BJD/NJMR/2019-20/4227-4239

UNDER SECTION15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT,1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES,1995

In respect of

1. **Inventure Growth & Securities Ltd.,** *(PAN: AAAIC2044K)* Corporate & Registered Office 201, Viraj Towers, 2nd Floor Near Land Mark, Western Express Highway, Andheri (East) Mumbai – 400093.	2. **Nagji Keshavji Rita** *(PAN: AADPR7934H)* Flat No 11, Anand Kunj Daftary Road, Malad (East) Mumbai- 400097
3. **Virendra Dudhnath Singh** *(PAN: AAVPS0709B)* 1605, Grandeur Tower Vasant Marvel Complex Western Express Highway Borivali (E), Mumbai – 400066.	4. **Kanji Bhachubhai Rita** *(PAN: AABPR6131J)* 1601, Laburnam Towers Mahindra Gardens, S.V. Road Goregaon (W), Mumbai, 400062
5. **Vinod Kanji Shah** *(PAN: AAEPS7502F)* Vijaya Bhuvan, First Floor Bajaj Road, Vile Parle (West) Mumbai, 400056	6. **Pravin Nanji Gala** *(PAN: AACPG2087R)* 1502,Laburnum Tower Mahindra Gardens, S.V.Road Goregaon (W), Mumbai, 400062.
7. **Arun Narayan Joshi** *(PAN: AAFPJ6710M)* 201, Viraj Tower, 2nd Floor Western Express Highway Andheri (East) Mumbai– 400069.	8. **Jambunathan Srinivasa Iyer** *(PAN: AAAPI3724P)* 201, Viraj Tower, 2nd Floor Western Express Highway Andheri (East) Mumbai– 400069.
9. **Harshavardhan Marotrao Gajbhiye** *(PAN: AABPG8423A)* 201, Viraj Tower, 2nd Floor Western Express Highway Andheri (East) Mumbai– 400069.	10. **Ajay Khera** *(PAN: AJAPK7458D)* 61C, Pocket-B Mayur Vihar Phase – II New Delhi – 110091.
11. **Deepak M Vaishnav** *(PAN: AABPV3392D)* B/301, Oberoi Woods CHS Ltd., Near Western Express Highway Goregaon (E), Mumbai–400063.	12. **Arvind Jethalal Gala** *(PAN: ACSPG7022Q)* Flat No.2, 2nd Floor, Plot No.36 Pushpa Park, Daftary Road Opp: St. Josheph's High School Malad (E), Mumbai – 400097.

13. **Bhavi Rahul Gandhi**
(PAN: APGPG9247J)
C-405,Gokul Garden
Thakur Complex, Kandivali (E)
Mumbai 400 101

(*The aforesaid entities are hereinafter referred to by their respective names/serial numbers or collectively as "the Noticees")*

In the matter of Inventure Growth & Securities Ltd.,

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted an investigation in the Initial Public Offering (IPO) of equity shares by Inventure Growth & Securities Ltd., (herein after referred to as "IGSL") to ascertain any possible violation of the provisions of SEBI Act and various Rules and Regulations made thereunder during the period August 4, 2011 and August 11, 2011 (hereinafter referred to as "Investigation Period").

2. The IPO by IGSL was through 100% book building route in the price band of ₹ 100-117 per share for 70 Lakh equity shares constituting 33.33% of post issue paid up capital. The share allotment was made at ₹ 117 aggregating ₹ 81.90 Crores. The shares of IGSL were listed on August 04, 2011 on BSE and NSE. The total shares traded on the listing day to shares offered through the IPO were 6.72 times on Bombay Stock Exchange (BSE) and 8.40 times on National Stock Exchange (NSE). The IPO was graded by Fitch Ratings India Private Limited and ICRA and both the agencies have graded the IPO with a rating of "2" indicating below average fundamentals.

3. The key dates with regard to IPO are tabulated below:

Date	**Particulars**
Red Herring Prospectus (RHP)	July 12, 2011
Issue open date	July 20, 2011
Issue close date	July 22, 2011
Prospectus	July 27, 2011
Listing date	August 04, 2011

4. The investigation revealed that IGSL failed to utilize the IPO proceeds for the purpose as stated in the Prospectus, made false statements with regard to raising bridge loans and failed to make disclosures regarding acceptance of deposits under Section 58A of the Companies Act, 1956 and Companies (Acceptance of Deposits) Rules, 1975, in its RHP and Prospectus. Further, the investigation also brought out that the Signatories to the Prospectus made untrue statement regarding availing of bridge loans and acceptance of deposits by IGSL. Therefore, it was alleged that IGSL (Noticee 1) and signatories to the Prospectus viz., Nagji K Rita (Notice 2), Virendra Dudhnath Singh (Noticee 3), Kanji B Rita (Noticee 4), Vinod Kanji Shah (Noticee 5), Pravin N Gala (Noticee 6), Arun N Joshi (Noticee 7), Jambunathan Srinivasa Iyer (Noticee 8), Harshavardhan Marotrao Gajbhiye (Noticee 9), Ajay Khera (Noticee 10), Deepak M Vaishnav (Noticee 11), Arvind Gala (Noticee 12) and Bhavi Rahul Gandhi (Noticee 13) had violated the provisions of Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 *(hereinafter referred to as "SEBI (ICDR) Regulations"),* Section 12 A (a),(b),(c) of SEBI Act,1992 and Regulations 3 (b),(c),(d), 4(1) and 4(2)(f), (k) and (r) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 *(hereinafter referred to as "SEBI (PFUTP) Regulations").*

APPOINTMENT OF ADJUDICATING OFFICER

5. Pursuant to investigation, SEBI initiated Adjudication Proceedings against the Noticee and appointed Shri Prasad Jagdale as the Adjudicating Officer vide Order dated May 13, 2016 under Section 15I of the SEBI Act and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as "SEBI Adjudication Rules") to inquire into and adjudge under Section 15HA and 15HB of the SEBI Act for the alleged violation of the provisions SEBI Act, SEBI (ICDR) Regulations and SEBI (PFUTP) Regulations. Pursuant to internal restructuring, the undersigned has been appointed as the Adjudicating Officer vide Order dated May 18, 2017 to inquire into and adjudge the alleged violations committed by the Noticees.

SHOW CAUSE NOTICE, REPLY AND HEARING

6. A common Show Cause Notice (hereinafter referred to as **"SCN"**) bearing ref. no. EAD/BJD/BKM/27622/2017 dated October 31, 2017 was issued to all the Noticees under Rule 4 of SEBI Adjudication Rules to show cause as to why an inquiry be not held against them in terms of Rule 4 of SEBI Adjudication Rules and penalty be not imposed under section 15HA and 15HB of SEBI Act, 1992 for the violations alleged to have been committed by them.

7. The following were alleged in the SCN:

a) As per the prospectus dated July 27, 2011 issued by IGSL, the objects of the Issue along with allocation for each objective from the fund raised was as follows:

Sl. No.	Objects of the Issue	Allocation (₹ Crores)
1	Investment in subsidiary i.e., Inventure Finance Pvt., Ltd., (IFPL)	30.00
2	Augmenting Long Term Working Capital Requirement	20.00
3	General corporate purposes	27.65
4	Public issue expenses	4.25
Total		**81.90**

b) As per the prospectus, IFPL was into advancing money solely against shares/ securities and only to the clients of IGSL and this activity is sought to be expanded by way of deploying the proceeds of the IPO. The activity does not cover advancing loan for the other sectors viz., gold loan, loan against equipment, unsecured loans for real estate/ construction activities etc., and for entities other than the customers of IGSL.

c) Details with regard to utilization of funds by IFPL was sought from IGSL and the same is tabulated below:

Sl. No.	Details of Money advanced	As on 31.03.2011	As on 30.09.2011	As on 31.03.2012
1	Secured against Shares	37,05,10,904	46,96,52,024	26,33,07,089
2	Less: Amount borrowed against shares	34,41,12,654	33,98,17,133	22,26,91,810
3	Net amount lent against shares	**2,63,98,250**	**12,98,34,891**	**4,06,15,279**
4	Secured against equipment	-	88,31,007	2,37,44,825

5	Secured against gold	-	-	7,30,000
6	Unsecured loans	3,51,85,939	47,54,76,785	40,21,43,430
7	Sub-total (4+5+6)	**3,51,85,939**	**48,43,07,792**	**42,66,18,255**

d) From the table above, it is observed that post receipt of IPO money, the same was majorly utilized towards advancing unsecured loans, loans against equipment and gold loans. Further, it was noted that the majority of amount of unsecured loans were granted after July 13, 2011 i.e., the date from which IFPL/IGSL started receiving bridge loans which were later repaid upon receipt of IPO proceeds. It is observed that a net amount of only ₹ 10.34 crores was additionally deployed towards advancing loans against shares as on September 30, 2011 and the same was reduced to ₹ 4.06 crores as on March 31, 2012. Therefore, it is alleged that the balance amount i.e., ₹ 25.94 Crores (₹ 30.00 crores - ₹ 4.06 crores) has been utilized for purposes other than for which it was raised.

e) As per the Prospectus, IGSL stated that to augment long term working capital requirement *(towards increasing the amount of collateral and towards funding clients' receivables)* an amount of ₹ 20 crores is proposed to be utilized from the IPO proceeds. IGSL vide letter dated January 15, 2016 submitted the following details of utilization of proceeds from IPO towards long term working capital requirements:

Statement of utilization of IPO Proceed for Long Term Working Capital			
PARTICULARS	*Balance Sheet Position As on audited financial in ₹*		*Change in Working Capital (₹)*
	30/09/2011	*31/03/2011*	
Change in long term working capital due to:			
NSE Capital Market Segment Margin	*2,67,31,074*	*1,95,08,860*	*72,22,214*
NSE F&O segment - proprietary Trading Margin	*1,51,81,648*	*18,68,439*	*1,33,13,209*
Amount Due from Clients	*84,22,42,715*	*63,19,89,015*	*21,02,53,701*
Amount Due to Clients	*-32,16,49,389*	*-20,89,15,454*	*-11,27,33,934*
Arbitrage - Proprietary trading (stock in hand)	*7,86,15,257*	*2,08,145*	*7,84,07,112*
Balance in current account	*1,37,58,964*	*65,98,841*	*71,60,123*
Increase in Long Term Working Capital			***20,36,22,425***
Less: Utilisation from IPO proceed			*20,00,00,000*
Balance out of Internal Accruals			*36,22,425*

f) It is noted from the above table that an amount of ₹ 7.84 crores intended to be deployed for working capital was invested for stock in hand held for

arbitrage, though the Prospectus had stated that the amount under this head would be used for the purpose of increasing the amount of collateral with the Stock Exchanges and to fund client receivables.

g) It is also observed from the above table with regard to the balances due to and from clients, the net amount of receivables has increased from ₹ 42.31 Crores to ₹ 52.06 Crores i.e., an increase of ₹ 9.75 Crores. Given that there was no money deployed towards increasing the collaterals with the Clearing Corporations and the clients' receivables has increased only by ₹ 9.75 Crores, it was alleged that the remaining amount to be utilized under this head i.e., ₹ 10.25 Crores (₹ 20 crores – ₹ 9.75 crores), has not been utilized for the purpose for which it has been raised.

h) Further, on perusal of list of shares held by IGSL bought out of IPO money, it was observed that majority of the value was towards two scrips i.e., Bedmutha Industries Limited and P.G Electorplast Limited. A total of 3,00,000 shares of Bedmutha Industries Limited were bought on market on August 19, 2011. Trading in the scrip of Bedmutha Industries Limited was limited and no trading in the nature of arbitrage was observed. Further, it was observed that IGSL was allotted shares of P.G Electroplast Limited in the IPO. Therefore, it is alleged that IGSL invested ₹ 8.59 crores out of the IPO proceeds in equity shares and failed to utilize it for working capital as disclosed in the prospectus.

i) IGSL in its Prospectus made a statement that it has not raised any bridge loan. However, it was observed that there were certain transactions entered into by the Company, which were found to be in the nature of bridge loans.

j) Since IGSL is a stock broker, it is required to maintain separate bank accounts for dealing with clients' money. In this regard, it was observed that certain transactions in the company's bank account titled as 'BSE client account' maintained with HDFC bank (account number 00600340016840) were noted which did not appear to be in the normal

course of business. An entity wise brief of the transactions along with the submission made by the Company vide its letter dated January 22, 2016 is provided below:

(i) **K.R. Shoppers Private Limited ('KRSPL')** – It was found that KRSPL transferred a sum of ₹ 3.00 crores on July 19, 2011 to IGSL, which was repaid by IGSL from its BSE client account to KRSPL on August 3, 2011. In response to the queries raised on the transactions to the company, it has submitted the following:

"We were received temporary amount from one of our director's company to meet working capital requirements and paid back, when we had surplus/ sufficient fund."

(ii) **Bikaner Wooltex Private Limited ('Bikaner')** – It was found that Bikaner transferred a sum of a sum of ₹ 2.85 Crores on July 13, 2011 and a further sum of ₹ 0.15 Crores on July 14, 2011 to IGSL. The total amount of ₹ 3.00 Crores was paid by IGSL from its BSE Client account to Bikaner on August 03, 2011. In response to the queries raised on the transactions to the company, it has submitted the following:
"Bikaner was willing to do business of shares & securities with our company IGSL and deposit for purchase of shares in BSE segment, but due to dispute on brokerage, the business could not take place and refunded money back from our BSE Client Account."

(iii) **TPL Finance Limited ('TPL')** - It was found that TPL transferred a sum of ₹ 2.00 Crores on July 16, 2011, ₹ 3.50 Crores on July 18, 2011, ₹ 2.00 Crores on July 19, 2011 and a further sum of ₹ 1.00 Crores on July 20, 2011. The total amount of ₹ 8.00 Crores was repaid by IGSL from its BSE Client account to TPL on August 03, 2011. In response to the queries raised on the transactions to the company, it has submitted the following:

"TPL was willing to open trading account with our company, IGSL and deposit some amount for purchase of shares in BSE segment, but due to dispute on brokerage, the business could not take place and refunded money back from our BSE Client Account."

(iv) **Deepmala Infra Private Limited ('Deepmala')** - It was found that Deepmala transferred a sum of ₹ 3.00 Crores each on July 18, 2011 and July 19, 2011. The total amount of ₹ 6.00 Crores was repaid by

IGSL from its BSE Client account to Deepmala on August 03, 2011. In response to the queries raised on the transactions to the company, it has submitted the following:
"We were not received proper KYC documents in time from Deepmala Infrastructure Pvt. Ltd. hence business could not take place and we refunded money in due course."

k) Vide letter dated February 1, 2016 to SEBI, the Company stated the following:

"TPL Finance, Deepmala Infra and Bikaner Wooltex was willing to do business with our company and deposited money in our BSE client account but due to dispute on brokerage with TPL Finance and Bikaner Wooltex and lack of KYC Document in case of Deepmala Infra we could not go ahead for any transaction/ trading business. We had registered them as our client and also provided client code as on respective date, but due to dispute we did not registered them on stock exchanges and refund their money, for further reference of your honour we tabularised the detail of registration as below:

Name of Client	***Client Code***	***Date of Registration***
TPL Finance Limtied	*8088*	*16/07/2011*
Deepmala Infra Pvt Ltd	*4849*	*18/07/2011*
Bikaner Wooltex Pvt Ltd	*4489*	*13/07/2011*

l) A summary of the transactions under consideration with the four entities are tabulated below:

Date	**Transferor**	**Amount in ₹ Crores**
Amounts received by IGSL		
July 13, 2011	Bikaner	2.85
July 14, 2011		0.15
July 16, 2011	TPL	2.00
July 18, 2011		3.50
July 19, 2011		2.00
July 20, 2011		1.00
July 18, 2011	Deepmala	3.00
July 19, 2011		3.00
July 19, 2011	KRSPL	3.00
Total		**20.50**

m) From the above, it was observed that the funds received from the four entities were in the nature of bridge loan against the issue proceeds which were repaid immediately upon receipt of IPO proceeds on August 3, 2011. Therefore, by stating that the Company has not raised any bridge loan in the prospectus, the Company and the signatories to the prospectus were

alleged to have made a false statement in the prospectus. It was thus found that the Company and the signatories to the prospectus failed to make material disclosures in the prospectus which are true and adequate so as to enable the investors / applicants to take informed investment decision.

n) From the bank statements of the Company, it was observed that a sum of ₹ 7.51 crores each was paid to Mrs. Hina Sanjay Shah and Mrs. Ushal Atul Shah. It is also observed that two entities are wives of two brother i.e., Sanjay Shah and Atul Shah. Ms. Usha Atul Shah has been a shareholder of IGSL. Vide letter dated January 22, 2016, the company mentioned that the money was received in September 2010 as Security Deposit/ Advances and refunded back in August 2011. When further details were sought on the said transactions, vide letter dated February 01, 2016, the company submitted as follows:

> *"We clarify that money was deposited by them in advance to explore their future opportunities in bullish/bearish market in share/ securities business but they did not enter into any transaction and money was refunded back when they demanded. These monies had been received approximately a year prior to IPO money realisation for doing securities transaction, but they could not order any type of buying or selling of securities in their family name and further the same have been refunded, when they had put up such request to company."*

o) However, it was observed that the money was received in the own account of the broker company and not in the account designated for receiving money from clients. Further, the amount of balance was shown as Security Deposit from others in the accounts. Further, from the difference in replies filed by the Company and the fact that the amount of ₹ 15.02 was repaid to the two entities after a period of one year, it was alleged that the said amounts were actually in the nature of deposits and the same were repaid immediately upon receipt of IPO funds. The fact that these amounts were in the nature of Security Deposit from others and not from clients has been confirmed by Company vide its letter dated February 09, 2016 since the amounts received from the two entities have been shown under the head "Security deposit from Others" and not the other heads available in the

account statement i.e., Margin from clients/ Security Deposit, Security Deposits from Rent". It is observed from the reply of IGSL that it had accepted several deposits and an amount of ₹ 6.39 crores as on March 31, 2010 and ₹ 20.65 crores as on March 31, 2011 remained payable to non-corporate entities which were in the nature of deposits.

p) Given that the amount of deposits outstanding as on March 31, 2011 was ₹ 20.65 Crores which is more than 25% of the issue proceeds and considering the seriousness of the provisions of Section 58A of the Companies Act, the fact of such non-compliance ought to have been disclosed by the Company in its prospectus to the investors/ applicant so as to enable the investors/ applicants to take informed investment decision. However, it is observed that the Company did not disclose it in the prospectus and therefore it is alleged that the company had failed to make complete disclosures to the public thereby depriving the investors from making an informed decision. Therefore, it is alleged that the Company and signatories to the prospectus failed to make material disclosures in the prospectus which are true and adequate, which mislead investors / applicants into dealing in the scrip.

8. From the findings of investigation, which are brought out in SCN, it was alleged that the Company had mis-utilized IPO proceeds to the extent of ₹ 36.19 crores (₹ 25.94 crores under the head investment in subsidiary and ₹ 10.25 crore under long term working capital). It was also alleged that that the Company had failed to make disclosures regarding acceptance of deposits in violation of Section 58A of Companies Act, 1956 and Companies (acceptance of deposit) Rules, 1975 and also made an untrue statement in the prospectus regarding availing bridge loans. Further, it was alleged that the Noticees 2 to 13, being the signatories to the prospectus failed to disclose material facts in the prospects regarding violation of Section 58A of Companies Act, 1956 and also made untrue statement regarding availing bridge loans.

9. Therefore, it was alleged that the Noticees have violated the provisions of Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations, 2009*,* Section 12 A (a),(b),(c) of SEBI Act,1992 and Regulations 3 (b),(c),(d), 4(1) and 4(2)(f), (k) and (r) of the SEBI (PFUTP*)* Regulations, 2003.

10. I note that the SCN was duly served on all the Noticees. On behalf of the Noticees 1, 2, 4 to 7 and 9 to 13, Prakash Shah & Advocates (Authorised Representative) vide letter dated November 23, 2017 requested to keep the Adjudication proceedings in abeyance till disposal of the proceedings pending before the Hon'ble Whole Time Member, SEBI on the same subject matter. I note that no reply was filed by the Noticees 3 and 8. In this connection, I note that the instant Adjudication proceedings are independent and thus could not be kept in abeyance pending the outcome of the Order of the Hon'ble Whole Time Member, SEBI. Therefore, in the interest of natural justice and in terms of Rule 4 (3) of SEBI Adjudication Rules, vide letter dated February 9, 2018, all the Noticees were given an opportunity to file their reply to the charges alleged in the SCN and also to avail personal hearing on February 21, 2018.

11. The Noticee 1 vide letter dated February 16, 2018 once again reiterated the submissions which were made vide letter dated November 23, 2017. Similar submissions were made by the Noticees 4, 7, 12 and 13. I note that no reply was received from other Noticees.

12. In the meanwhile, on behalf of the Noticees, the Authorised Representative vide letter dated September 3, 2018 submitted that the Noticees desired to file an application for settlement of the instant Adjudication proceedings. Vide email dated September 24, 2018, the Authorised Representative was required to update the status of settlement application filed by the Noticees latest by October 4, 2018, failing which the Noticees may appear for personal hearing on October 5, 2018. Pursuant to a requested made by the Authorised Representative vide email dated October 3, 2018, the personal hearing was rescheduled to October 25, 2018.

13. On behalf of the Noticees 1, 2, 4 to 7 and 9 to 13, vide letter dated October 3, 2018, the Authorised Representative submitted that the Noticees have preferred an Appeal before the Hon'ble Securities Appellate Tribunal (SAT) against the Order dated August 6, 2018 passed by the Hon'ble Whole Time Member, SEBI on the same subject matter of the instant proceedings. Accordingly, the Authorised Representative requested for rescheduling personal hearing to any date in the month of November 2018, so by that time an application for settlement would have been filed by the aforesaid Noticees.

14. Vide letter dated October 24, 2018, the Authorised Representative submitted that an application for settlement of the proceedings is being filed by the Noticees 4, 6, 7, 9, 10, 11, 12 and 13. The Authorised Representative submitted that in respect of the Noticee 1 and the Noticee 8, the application will be filed by November 15, 2018 and within 10 days, respectively. The Authorised Representative further submitted that in respect of the Noticees 2, 3 and 5, there was no response from them either with regard to filing of an application for settlement or for personal hearing.

15. Pursuant to filing of an application for settlement by the Noticees 4, 6, 7, 8, 9, 10, 11, 12 and 13, the proceedings initiated against them vide the SCN dated October 31, 2017 were kept in abeyance. I note that there was no reply filed by other Noticees.

16. The Noticee 1 i.e., IGSL filed an application for settlement of the instant Adjudication proceedings under the provisions of SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 *(hereinafter referred to as "Settlement Regulations")*. It was observed that the Noticee had earlier obtained a settlement order dated June 7, 2010 in the matter of G G Automotive Gears Ltd., whereas the alleged default in the instant proceedings was from August 4, 2011 to August 11, 2011. Therefore, the application filed by the Noticee 1 was rejected by a Panel of Whole Time Members, SEBI in view of applicability of Regulation 5 (1) of Settlement Regulations, which does not provide for filing of an application for settlement, if the alleged default was

committed within a period of 24 calendar months from the date of the last settlement order, where the applicant was a party.

17. Accordingly, the Noticee 1 was given an opportunity of personal hearing on February 1, 2019, which was communicated vide email dated January 23, 2019. Since, the Noticee 1 did not avail the opportunity of personal hearing, one more opportunity of personal hearing was provided to the Noticee 1 on March 15, 2019, which was communicated vide email dated March 1, 2019. The Noticee 1 vide letter dated March 8, 2019 stated that the subject matter of the present SCN is also a subject matter of proceedings before the Hon'ble Whole Time Member, SEBI. The Whole Time Member of SEBI has passed an Order dated August 6, 2018, which is challenged before the Hon'ble SAT and the hearings are in progress. Therefore, the Noticee 1 requested to keep the instant proceedings in abeyance or adjourn the matter for some time.

18. Further, pursuant to a request received from the Noticee 1 vide email dated March 14, 2019, the personal hearing was adjourned to March 25, 2019, which was communicated vide email dated March 14, 2019. The Noticee 1 vide letter dated March 22, 2019 authorised Mr. Pesi Modi, Senior Counsel and others to appear on its behalf, which was taken on record.

19. I note that on the scheduled date of hearing i.e., March 25, 2019, Mr. Pesi Modi, Senior Counsel along with Mr. Kunal Katariya, Mr. Prakash Shah, Mr. Meit Shah, Mr. Kanji Rita, Mr. Arvind Gala, Ms. Bhavi Gandhi, Mr. Reet Rita and Mr. Rushikesh Parikh appeared before me and submitted the reply of the Noticee 1 dated March 18, 2019. The submissions made by the Noticee 1 vide its letter dated March 18, 2019 were reiterated during the hearing. The Noticee 1 during the hearing sought 10 days to make additional submissions, if any.

20. I note that the settlement application filed by the Noticees 5, 6, 7, 8, 9, 10, 11, 12 and 13 on October 25, 2018 were subsequently withdrawn by them vide letter dated April 12, 2019. It is also observed that the Noticees 2, 3 and 4 have not filed their reply so far to the charges alleged in the SCN. Therefore, all the Noticees vide notice dated May 3, 2019 were given an opportunity to file their

reply if any to the charges alleged in the SCN by May 21, 2019, besides being provided with an opportunity of personal hearing on May 24, 2019.

21. On behalf of the Noticees 2, 4, 5, 7, 8, 9, 10, 11, 12 and 13, the Authorised Representative vide letter dated May 20, 2019 submitted that since the appeal filed before the Hon'ble SAT against the Order dated August 6, 2018 passed by the Hon'ble Whole Time Member, SEBI on the same subject matter, is listed for final hearing and disposal on June 21, 2019, the instant Adjudication proceedings may be kept in abeyance. Further, in view of the non-availability of the Legal Counsel, the Noticees expressed inability to attend the personal hearing scheduled on May 24, 2019.

22. Vide email dated May 23, 2019, the Authorised Representative was informed that since there was no bar / stay on the instant Adjudication proceedings initiated against the Noticees vide SCN dated October 31, 2017, the proceedings cannot be kept in abeyance pending the outcome of the appeal filed in the Hon'ble SAT against the Order dated August 6, 2018. Therefore, the Noticees through the Authorised Representative were given one more opportunity to file their replies if any, by June 3, 2019.

23. On behalf of the Noticees 5 & 6 viz., Vinod Kanji Shah and Pravin Nanji Gala, Ms. Rinku Valanju and Ms. Hiral Parag Shah, Advocates from R V Legal, appeared before me on May 24, 2019, which was taken on record. The replies of the Noticees 5 & 6 were submitted during the hearing, which was reiterated. The Noticees 5 & 6, through their Authorised Representative undertook to make additional submissions by June 1, 2019.

24. The Noticee 2 i.e., Nagji K Rita appeared in person on May 24, 2019 and undertook to furnish his reply by June 3, 2019.

25. The Noticee e i.e., Virendra D Singh appeared in person on May 24, 2019 and reiterated the submissions made by him vide his reply dated April 22, 2019.

26. On behalf of the Noticees 2, 4, 7, 8, 9, 10, 11, 12 and 13, the Authorised Representative vide email dated May 31, 2019 once again sought extension of

time for filing reply on behalf of the Noticees, which was not acceded to. Accordingly, the Authorised Representative was granted final opportunity of personal hearing on June 12, 2019, which was communicated vide email dated June 3, 2019.

27. The Authorised Representative appeared on behalf of the Noticees, 2, 4, 7, 8, 9, 10, 11, 12 and 13 besides the Noticees 2, 8 & 9 themselves, before me on June 12, 2019 and made oral submissions. The Authorised Representative undertook to make written reply to the charges alleged in the SCN by June 21, 2019. The replies filed by the Noticees are summarized hereunder:

28. **Reply of Noticee-1(Inventure Growth & Securities Ltd.,) – Dated March 18, 2019**

(a) It is submitted that the contents and the charges of the above SCN are similar to another SCN dated June 30, 2016 issued by the Ld. Whole Time Member of SEBI, pursuant to which an Order dated August 6, 2018 was passed by the Ld. Whole Time Member (WTM Order). The said WTM Order is currently under challenge before the Hon'ble SAT by our Appeal No. 361/2018 and the matter is now coming up for hearing on March 28, 2019. The Appellant has been granted certain interim reliefs which are being continued from time to time. The pleadings in the matter are now complete and the matter is likely to be taken up for final hearing subject to the convenience of the Hon'ble Tribunal on the next date of hearing.

(b) In the prospectus at page no., 68 & 69 under the heading "Objects of the Issue", it was inter-alia disclosed that IGSL would invest ₹ 30 crores into its subsidiary "Inventure Finance Private Ltd., (IFPL) by way of equity or loans and that such investment was for the growth in the business of IFPL (not IGSL) by improving IFPL's working capital. That IFPL's lending business includes providing loans against shares to customers of IFPL. That IGSL therefore had two revenue verticals, firstly from the lending business of IFPL and secondly from the brokerage business of IGSL. That IGSL would earn dividend income or interest from the investment in IFPL.

(c) In the prospectus at Page 99 under the caption "Inventure Finance Private Ltd., (IFPL)", it was clearly stated that IFPL provides loan against shares to various clients including our broking clients. Therefore, it can never be suggested that it was alleged in the prospectus that IFPL gives loans only to clients of IGSL. IFPL gives loan against shares to "various clients

including our broking clients", therefore, it was clearly not restricted solely to IGSL clients.

(d) IFPL has loans "secured against shares" amounting to more than ₹46.96 crores i.e., far in excess of the ₹30 crores invested into IFPL as per the prospectus objectives. Therefore, in any event, there can be no allegation of IPO proceedings being utilized for purposes other than which it was raised.

(e) It is pertinent to note that money fungible. The SCN incorrectly reduces the amount of loans "secured against shares" by the amount "borrowed against shares" by IFPL. There is no merit or justification in doing so in relation to the assessment as to whether IPO funds were utilized by IFPL for giving loans against shares.

(f) The pre-IPO investment in loans given against shares by IFPL was out of its own funds (internal accrual or borrowed funds). The allocation of the IPO proceeds towards the existing loans against shares, would free up IFPL's own funds from such investments for utilization towards unsecured loans or other loans / purposes, or even to reduce its own borrowings if it deemed fit.

(g) Therefore, since IFPL admittedly had given loans against shares worth more than ₹46.96 crores post the IPO, the allocation of ₹30 crores of IPO funds for the said purpose were duly and fully accounted for, and it cannot be alleged that the same were utilized for purposes other than for which it was raised only because the same freed up IFPL's own funds for other uses as aforesaid.

(h) Further, it is incorrect to say that based upon the balances due to and from clients the net amount receivable from clients of IGSL increased post the IPO by only ₹9.75 crores and therefore the balance of ₹10.25 crores had not been utilized for the purpose for which it was raised.

(i) The SCN also incorrectly considers only the net position between "amount due from clients" and "amount due to clients", which is incorrect and untenable. The net position of the two cannot be considered in respect of the allocation, since one client's funds cannot be used for other client's margin / pay-in obligation, and therefore the "amount due from clients" cannot be reduced by the "amount due to clients". Therefore, for the purposes of the allegations in the SCN, the only relevant consideration is the "amount due from clients", which as aforesaid, post the IPO was over ₹84.22 crores, and even the increase thereof was more than ₹20 crores.

(j) Further, even if the net position is to be incorrectly taken into account as per the formula apparently adopted in the SCN, then considering the pre-IPO position as of July 31, 2011 and the post-IPO position as on August 18, 2011, the net amount due from clients increased by over ₹ 34 crores as certified by the independent internal auditors of IGSL by their certificate dated October 28, 2017, a copy of which is annexed hereto.

(k) As disclosed at page 70 of the prospectus, being stock brokers, the long term working capital allocation in the IPO was required for the brokerage business. It was clearly disclosed that the same was to be utilized for both client trading as well as proprietary trading. Further, as disclosed at page 69 of the prospectus, the working capital requirement "mainly" was to comprise of margin money requirements and for funding clients' pay-in obligation in cases where the clients' payments were delayed. Therefore, the same was not solely for such requirements as assumed in the SCN, and therefore could be utilized for all working capital requirements.

(l) Actual margin deposits and pay-ins will vary day to day. Therefore, it is incorrect to view the actual margin deposits or actual pay-in obligations on a monthly or annual basis, or only on certain specific dates as done in the SCN. What has to be assessed is the highest possible /potential liability for margin money and pay-in obligations, for which contingency, the funds have to be kept/made instantly available by all brokers. Therefore, it is incorrect to view the actual margin deposits or actual pay-in obligations, for which contingency the funds have to be kept/made instantly available by all stock brokers. It is therefore submitted that, the allegation in para 13 of the SCN that the margin deposits in April 2011 were ₹59 crores and reduced to ₹49 crores in August 2011, and that therefore no part of IPO proceeds were used for margin deposits is misconceived and incorrect.

(m)Further, even in the allegation in the SCN that the client receivables increased from ₹ 42.31 crores to ₹ 52.06 crores are misconceived. As aforesaid, the client receivables would change every single day.

(n) In any event, as aforesaid, money is fungible. Admittedly, even after the IPO, more than ₹ 20 crores were in fact deployed in margin deposits as admitted and accepted in the SCN. Therefore, it cannot be alleged that IGSL had not used the said funds for the purposes for which they had been raised.

(o) As regards the allegation that IPO funds were used for arbitraging and therefore were not used for the purpose for which the money was raised, it is submitted that the same is incorrect. It is submitted that even arbitraging requires margin deposit. Further, arbitraging normally is an intra-day square

off. It may be noted that even in the Prospectus (Page xvi-xvii and Para 11, 15), it was clearly disclosed that IGSL did undertake substantial arbitrage trading; that there were risks involved even in such arbitrage trading; that margin money was required for such arbitrage trading; and that such arbitrage trading did contribute substantially to the revenues of IGSL.

(p) The allegation in para 16 of the SCN that there is a "list" of shares held by IGSL which were allegedly bought out of IPO money is unsubstantiated. Neither IGSL has furnished any such list nor has any list been furnished by SEBI to IGSL. In any event, for the reasons as hereinabove stated, it cannot be held that IGSL purchased any shares including Bedmutha Industries Ltd., and P G Electroplast Ltd., from IPO proceeds as incorrectly alleged in the SCN.

(q) All the said four entities from whom bridge loans were allegedly availed of, were duly registered clients of IGSL and had been allotted client IDs. The said money was given by the clients for trades which they intended to execute but for various reasons (including disputes over brokerage rates, KYC non-compliance etc.,) they did not execute their intended trades and sought refund of their money, which was duly refunded to them as per their request. The funds always belonged to the respective clients and were always returned to them at their request as required by Law, Rules and Regulations. The same is also proved by the fact that even in the SCN, it is accepted that the said clients' monies were deposited into and refunded to them from the "…BSE Clients' account maintained with HDFC Bank……". As per the Rules and Bye-Laws of Stock Exchanges, clear segregation of clients' funds and the brokers own funds needs to be maintained. Clients account funds cannot be used or treated as loans by stock brokers. In view of the fact that clients' funds which were alleged to be bridge loans, were never accounted for loans by IGSL, which was deposited into the clients account and refunded from the clients account, no board resolution for taking any loans from these parties, no loan agreement executed with any of these parties and most importantly, no interest was claimed or paid to any of these parties, it cannot be alleged to be "bridge loans" by the clients to IGSL. Further, IPO proceeds were deposited into IGSL's own bank account, whereas, the amounts received from these clients was deposited in the client account and repaid from the clients' account. Therefore, in any event, it cannot be alleged that the IPO funds were used to repay the said amounts to the said clients or that the said funds were "bridge loans".

(r) The aforesaid submissions are further proved and substantiated by the fact that as regards one of the said clients viz., "KRSPL, while the amounts referred to at page 16 para 18 (a) of the SCN were in fact only client advances / security for intended trading as aforesaid, and while reiterating

that consequently the same were correctly never accounted for or treated as loans by KGSL. In fact, other amounts were received from KRSLP as loans which had even been repaid to them and the same is even disclosed at page 195 of the prospectus. The same therefore proves that the said amounts referred to in the SCN were not bridge loans at all. IGSL had admitted that the amount was received from KRSPL for a short period of time and that the same had been treated as working capital. However, as also certified by the Independent Internal Auditor, all amounts lying in clients' accounts are correctly accounted for as current assets / liabilities and therefore constitute part of the working capital of IGSL. The same do not amount to loans as incorrectly assumed in the SCN.

(s) *As regards the alleged violation of Section 58A of the Companies Act 1956 and/or the Companies (Acceptance of Deposits) Rules, 1975, is not within the jurisdiction of SEBI and has been expressly excluded from the jurisdiction of SEBI as per the provisions of Section 55A of Companies Act, 1956. The same is only within the jurisdiction of the Central Government. In fact, SEBI had made a reference on this same issue / allegation to the Ministry of Corporate Affairs, Government of India by its letter dated 3.5.2016, pursuant to which the Ministry of Corporate Affairs had even issued a SCN dated 25.5.2016 to IGSL, which was duly responded to by IGSL vie a letter dated 29.6.2016, after which, no hearing has been fixed by the Ministry of Corporate Affairs and no action has taken by the Ministry of Corporate Affairs.*

(t) *In any event, the said amounts were "security deposits" and were accounted for as such. Security deposits and advances received against sale of goods or rendering of (which would include the sale of shares &/or the services given by a broker to his clients for trading in stock exchanges) are expressly exempted from the definition of "deposit" vide Rule 2 (b) (vi) of the said Companies (Acceptance of Deposits) Rules, 1975. Mrs. Hina Sanjay Shah and Mrs. Usha Atul Shah were admittedly duly registered trading clients of IGSL since 2008 and are the wives of Mr. Sanjay Shah and Mr. Atul Shah respectively. They were operating their wives' trading accounts as well as the trading accounts of their companies- Bishaka Diamonds Pvt. Ltd. & Anchor Leasing Pvt., Ltd., In fact, Hina Shah and Usha Sah are now Directors of the said Companies also. All the said accounts were treated as a group account as authorized by them vide the relevant authorization document forming part of the MCA, copies of which are annexed hereto. There were also debit balances in the said 2 companies' accounts from time to time. The said payments were made by Mr. Sanjay Shah and Mr. Atul Shah into their said wives' accounts to satisfy IGSL's apprehensions about outstanding dues, since IGSL could have adjusted the same towards the said companies' dues. Later, the said advances / security deposits were*

refunded to them as per their respective husband's request, but the actual payment to them was released only after the said companies' dues were fully paid off. No interest was paid to them as incorrectly assumed in the SCN, and the same has been certified by the Independent Internal Auditors of IGSL.

29. The Noticees 2 to 13 while replying to the charges alleged in the SCN, largely relied on the submissions made by the Noticee 1. Besides the submissions of the Noticee 1 as mentioned above, the additional submissions made by the Noticees 2 to 13 are summarized hereunder:

30. **Replies of Noticee-2 (Nagji Keshavji Rita) – Dated June 19, 2019 and Noticee -4 (Kanji B Rita) – Dated June 18, 2019**

(a) It is pertinent to mention that IGSL as a Stock Broker cannot involve themselves into the financing activities of IFPL more particularly for their dealings with the clients and therefore utilisation of funds deployed with IFPL has to be at the sole discretion of only IFPL.

(b) It is respectfully submitted that there is no iota of evidence bought on record to show as to how and in what manner, we had misled / induced investors into investing in the IPO. Thus, we state that the said allegation is merely made on assumption and presumptions and purely on surmises and conjunctures. Be that as it may, I respectfully submit that the IPO of IGSL was underwritten so the question of misleading / inducing investors into investing in the IPO by us do not arise as the underwriters had agreed to underwrite the whole IPO i.e., 70 lakh shares.

(c) Section 27 of SEBI Act, 1992 stipulates that the person should not be held liable for any punishment under SEBI Act, 1992 if he / she proves that the offence was committed without his / her knowledge or he / she had exercised all due diligence to prevent the commission of such offence.

(d) I vehemently deny all the alleged violations mentioned in the SCN. As regards strict proof required for a serious charge of 'fraud', I would like to place reliance on certain case laws viz., Hon'ble Supreme Court Order dated February 23, 2016 in the matter of SEBI Vs Kishore R Ajmera (C A No. 2818 of 2008), Hon'ble SAT Orders in the matters of R K Global Vs SEBI (Appeal No. 158/2008) decided on September 16, 2010, Narendra Gantara Vs SEBI (Appeal No. 47 of 2011) decided on July 29, 2011, Sterlite Industries (India) Ltd., Vs SEBI (2001) 34 SCL 485 and Parsoli Corporation Vs SEBI (Appeal No. 146/2011) decided on August 12, 2011. Further, as regards compelling

evidence required to charge someone fraud, I would like to rely on the Hon'ble Supreme Court Order in the matter of Ram Sharan Yadav Vs Thakur Muneshwar Nath Singh [(1984) 4 SCC 649 (AIR 1985 SC 24)]. As regards the instant proceedings, I would like to place reliance on the Order dated March 29, 2019 passed by the Hon'ble SAT in the matter of Corporate Strategic Alliance Ltd., Vs SEBI (Appeal No. 130 of 2017).

31. **Reply of Noticee-3 (Virendra Dudhnath Singh) – Dated April 22, 2019 and June 15, 2019**

(a) I would like to bring to your kind notice that I have already resigned as Director of the Company on August 10, 2016, also I was not a whole time paid employee of the Company. During the period of incidence quoted in the SCN, I was looking after the Inventure Commodities Ltd., which was a subsidiary of IGSL. I was a Director on the Board of NAFED (National Agriculture Co-operative Market Federation) and NCCF (National Consumer Co-operative Federation). I was not very much involved in the day to day financial activities and investments of the Company IGSL. But, I would like to assure you that no violation has been done by the Company as our Board was a very competent. I would also like to inform you that no money of the Company has been misused by any of the Directors.

(b) Due to my education background and past experience with other Government of India Undertakings, I was never involved in the financial function of the Company or any stock broking function of the Noticee 1. As is customary and even supported by Law, we were involved in matters that were put up to the Board of the Company and not involved with the day to day operations of the Company or its affairs or any of its Departments nor do they have control over of knowledge of the day to day working and operations of the affairs of the Company nor were they in-charge of or responsible to the Company for the conduct of its day to day business and operations in any manner and as such, I cannot therefore be held liable / vicariously liable.

(c) The issues raised in the SCN are technical in nature and in relation to compliances, which were being taken care of by the Company and its Secretarial Department and the entire Board cannot be held liable for any alleged omission in that respect.

(d) Proceedings cannot be initiated against a person / a person cannot be held liable as a Director merely because he is a Director in the Company. There is no evidence to show any act was committed by me, from which a reasonable inference can be drawn implicating me for the alleged

contraventions in any manner whatsoever, it needs to be shown that the person sought to be made liable was in charge of and responsible for the conduct of the Company's business.

(e) The SCN incorrectly alleges that even the Directors of the Company are liable to be punished / penalised for the alleged violations, despite the specific provisions of Section 149 (12) of the Companies Act, 2013.

32. **Replies of Noticee-5 (Vinod Kanji Shah) – Dated May 23 & 31, 2019 and Noticee -6 (Pravin N Gala) – Dated May 17 & 31, 2019**

(a) The SCN suffers from great delay and latches. The delay is not even explained which is against the principles of natural justice and has caused great prejudice to the Noticee. In this regard, the Noticees would like to place reliance on the Hon'ble SAT's judgment in the matter of H B Stockholdings Ltd., Vs SEBI (Appeal No. 114 of 2012). In view of the said judgment, the Noticees requests SEBI to consider this unexplained delay.

(b) The Noticees states that they are subjected to multiple enforcement actions in sequence for the same cause of alleged violation, which has caused great prejudice to the Noticees. The Noticees states that Hon'ble WTM vide Order dated August 6, 2018 debarred the Noticees from accessing the securities market to buy / sell or otherwise deal in the securities market, either directly or indirectly for a period of 4 years from the date of the Order and also directed them not to associate themselves with any listed company or any company proposing to list or any registered intermediary, in the capacity of the Director, a key managerial personnel or partner (in the case of partnership firm) for a period of 4 years with effect from January 1, 2019.

(c) The Noticees states the they were non-executive directors of IGSL and not in the whole time employment of the Company. The Noticees were not involved in day to day activities, affairs or operations of the Company.

(d) The Noticees craves leave to refer to and rely upon the Pooja Ravinder Devidasani Vs State of Maharashtra 2014 16 SCC 1 and Hon'ble Bombay High Court's judgment dated February 2004 in the matter of Chaitan M Maniar Vs State of Maharashtra with regard to liability of non-executive directors of the Company.

(e) The Noticees refers to Section 149 (12) (ii) of the Companies Act 2013, which distinguishes the liabilities of a non-executive director and requests to take into consideration the legal provisions contained therein.

(f) The Noticees cannot be held for the wrong doing by a professional Chartered Accountant viz., Mr. D V Vakharia (since deceased). In this regard, the Noticees draw reference to the observations made by the Ld., Adjudicating Officer in his Order dated July 12, 2018 passed in the instant matter against the Chartered Accountant.

(g) The Noticees were not a relative of CMD or Whole Time Director of the Company and had no access to books of accounts and other records of the Company. The day to day, indoor and operations and financial management of the Company was handled by the CMD, the Whole Time Director and his team of executives.

(h) The Noticees had no role, involvement and participation in the purported bridge loan transactions between the Company and Bikaner, TPL, Deepmala and KRSPL and purported deposits by Ms. Heena Atul Shah and Ms. Usha Atul Shah which are considered as objectionable and for which accountability if sought to be fastened on the Noticees.

(i) The Noticees relied on the Auditor's Report on Standalone Financial Information of IGSL and Auditor's Report on Consolidated Financial Information of IGSL, confirming that the IPO proceeds were utilized as per the objects mentioned in the prospectus and there were no deviations.

(j) The Noticees relies on Circular 1/2011 dated July 29, 2011 issued by Ministry of Corporate Affairs, which clarifies that no Director shall be held liable for any violation by the Company or by any other Officer of the Company, if the violation occurred without his or her knowledge and without his or her consent or connivance or where he or she has acted diligently. The Noticees being an independent additional director having no knowledge about the financial matters of the Company should not have been held liable for the same.

(k) The Noticees stated the they were non-executive director of IGSL and was never part of any committees of the Company. It is further submitted that there is not even a whisper in the SCN regarding the role and involvement of the Noticee in the alleged mis-utilisation of IPO proceeds, non-disclosure / incorrect disclosure in the Prospectus.

(l) In support of the above submissions, the Noticees seeks to draw attention to the Order of Hon'ble WTM in the matter of Home Trade Ltd., Hon'ble Supreme Court Order in the matter of State of Haryana Vs Bril Lal Mittal (1998) 5 SCC 343.

(m)Further, it is submitted that the agenda regarding utilization of IPO proceeds were never put forth for the consideration of the Board and therefore the Noticees were not aware about the same.

33. **Replies of Noticee- 7 (Arun Narayan Joshi) dated June 19, 2019, Noticee - 8 (Jambunathan Srinivasa Iyer) dated June 18, 2019, Noticee-9 (Harshvardhan M Gajbhiye) dated June 18, 2019, Noticee – 10 (Ajay Khera) dated June 18, 2019 and Noticee – 11 (Deepak M Vaishnav) dated June 18, 2019**

(a) We have been informed by Mr. Nagji K Rita (Noticee 2), who was the then CMD of the Company at the relevant time that he has also filed written submissions before your Honour. I humbly request that his submissions as may be relevant to the due diligence carried out by the Board of Directors of IGSL with regard to disclosure requirements in the Prospectus of the Company may also be considered as my defence also since at the relevant time, we were Independent Director and had not been involved in day to day affairs of the Company.

(b) The Noticees refers to Section 149 (12) (ii) of the Companies Act 2013, which distinguishes the liabilities of a non-executive director and requests to take into consideration the legal provisions contained therein.

(c) We state that we were Independent Directors of the Company at the relevant time. We had no role in the day to day business activities of IGSL.

(d) The Noticees would like to place reliance on the Order dated May 27, 2019 passed by the Hon'ble WTM, SEBI in the case of Jaydev Raja in the matter of Adani Exports Ltd., and Hon'ble SAT Order dated February 14, 2019 in the matter of Pritha Bag Vs SEBI (Appeal No. 291 of 2017).

34. **Reply of Noticee 12 (Arvind Jethalal Gala) dated June 19, 2019**

(i) I understand that the proceedings are initiated against me because at the relevant time, I was designated as a Chief Financial Officer (CFO) of the Company and was required to sign the Prospectus as required by the Merchant Banker.
(ii) Being CFO of the Company, I do not have much involvement in the day to day operations of the Company.

(iii) With regard to the alleged bridge loan, at the outset, I state that the said amount was received for the share trading operations of the Company and therefore had been under the management and control of the Senior President of the Company, under whose charge, the broking operations were assigned.

(iv) I had nothing to do with any of the alleged activities or allegations which are the subject matter of the SCN, which were never brought before me by any Departmental Head; consequently, I did not have any knowledge of the alleged contraventions.

(v) I was not holding the position of the CFO of the Company immediately after the public issue by the Company. I was on a minimum notice pay of six months as per my contract of employment and my resignation was accepted by the Board in its Board meeting held on December 8, 2011.

(vi) I submit that the SCN incorrectly alleges that even the employees of the Company are liable to be punished / penalised for the alleged violations, despite the specific provisions of Companies Act, 2013 and /or the principles reflected thereby and/or other applicable provisions / principles of Law, merely because I had signed the prospectus and thereby certified that the disclosures therein were true and correct. The SCN is ex-facie incorrect and untenable that all the signatories to the Prospectus are liable for any alleged incorrect statements in the Prospectus.

(vii) I would like to place reliance on the Hon'ble SAT order dated March 29, 2019 in the case of Corporate Strategic Alliance Ltd., Vs SEBI (Appeal No. 130 of 2017).

35. **Reply of Noticee 13 (Bhavi Rahul Gandhi) dated June 19, 2019**

(a) I joined IGSL on and around April 25, 2011 as Company Secretary and Compliance Officer for the purpose of Statutory Compliance requirement as Stock Broker only, since at the relevant time IGSL was not a listed company.

(b) I further stated that, after joining I came to know that IGSL had initiated process of IPO and in that regard draft prospectus was already filed on February 8, 2010.

(c) Further, I would like to mention that, during the process of IPO, my job was limited to procedural requirements such as redressal of complaints, if any, that may be filed by the investors pertaining to the IPO.

(d) I was reporting to Mr. Virendra Singh (Noticee 4), who was the Whole Time Director of the Company at the relevant time and I was not holding any position or having any authority to take decision in financial matters concerning IGSL.

(e) I rely on the submissions made by the Noticee 2, which may be treated as part and parcel of my present submissions.

(f) The Noticee would like to place reliance on the Order dated May 27, 2019 passed by the Hon'ble WTM, SEBI in the case of Jaydev Raja in the matter of Adani Exports Ltd., and Hon'ble SAT Order dated February 14, 2019 in the matter of Pritha Bag Vs SEBI (Appeal No. 291 of 2017).

CONSIDERATION OF ISSUES

36. I have taken into consideration the facts and material available on record. I observe that the allegations levelled against the Noticees are as under:

Allegations against Noticee-1:

(a) Did not utilize the IPO proceeds for the purpose as stated in the Prospectus and instead utilized it for other purposes, **(b)** failed to make disclosure regarding acceptance of deposits in violation of Section 58A of the Companies Act, 1956 and Companies (Acceptance of Deposit) Rules, 1975 and **(c)** made untrue statement regarding availing bridge loans, in the Prospectus.

Allegations against Noticees 2 to 13:

(a) Being signatories to the Prospectus, failed to disclose material facts in the Prospectus regarding acceptance of deposits in violation of Section 58A of Companies Act, 1956 and **(b)** also made untrue statement regarding availing bridge loans.

Accordingly, it was alleged that the Noticees have violated the provisions of Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations),

Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations.

After perusal of the material available on record, I have the following issues for consideration, viz.,

ISSUE 1: Whether the Noticees have violated the provisions of Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations), Section 12 A (a), (b), (c) of SEBI Act and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations?

ISSUE 2: *Does the violation, if any, attract monetary penalty under Section 15HA and 15HB of SEBI Act.?*

ISSUE 3: *If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act?*

ISSUE 1: Whether the Noticee has violated the provisions of Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations), Section 12 A (a), (b), (c) of SEBI Act and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations?

37. Before moving forward, it is pertinent to refer to the alleged relevant provisions of SEBI (ICDR) Regulations, SEBI Act and SEBI (PFUTP) Regulations.

Regulation 57 (1) of ICDR Regulations:

The offer document shall contain all material disclosures which are true and adequate so as to enable the applicants to take an informed investment decision.

Regulation 57 (2) of ICDR Regulations:

Without prejudice to the generality of sub-regulation (1):
(a)the red-herring prospectus, shelf prospectus and prospectus shall contain:

(i)the disclosures specified in Schedule II of the Companies Act, 1956; and
(ii)the disclosures specified in Part A of Schedule VIII, subject to the provisions of Parts B and C thereof.
(b)the letter of offer shall contain disclosures as specified in Part E of Schedule VIII by SEBI (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2012

Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII of the SEBI (ICDR) Regulations),

Clause 2 (VII) (G): *The means and source of financing, including details of bridge loan or other financial arrangement, which may be repaid from the proceeds of the issue.*

Clause (XVI)(B)(2) Declaration*:*
The signatories shall further certify that all disclosures made in the offer document are true and correct

Regulation 60(4) of SEBI (ICDR) Regulations

The issuer shall make prompt, true and fair disclosure of all material developments which take place during the following period mentioned in this sub-regulation, relating to its business and securities and also relating to the business and securities of its subsidiaries, group companies, etc., which may have a material effect on the issuer, by issuing public notices in all the newspapers in which the issuer had issued pre-issue advertisement under regulation 47 or regulation 55, as the case may be:(a)in case of public issue, between the date of registering final prospectus or the red herring prospectus, as the case may be, with the Registrar of Companies, and the date of allotment of specified securities;(b)in case of a rights issue, between the date of filing the letter of offer with the designated stock exchange and the date of allotment of the specified securities

Section 12 (A) (a) (b) (c) of SEBI Act

No person shall directly or indirectly
(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;
(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;

Regulation 3 of PFUTP Regulations

3. No person shall directly or indirectly—

(b) *use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made thereunder;*

(c) *employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;*

(d) *engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made thereunder.*

Regulation 4 of PFUTP Regulations

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

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:

(f) publishing or causing to publish or reporting or causing to report by a person dealing in securities any information which is not true or which he does not believe to be true prior to or in the course of dealing in securities;

(k) an advertisement that is misleading or that contains information in a distorted manner and which may influence the decision of the investors;

(r) planting false or misleading news which may induce sale or purchase of securities.

38. Before I go into the merits of the case, I would like to first deal with the contentions raised by the Noticees regarding the delay in initiation of the instant Adjudication proceedings and the multiple enforcement actions which they are subjected to, for the same cause of violations.

39. The Noticees 5 (Vinod Kanji Shah) and 4 (Pravin Nanji Gala) in their submissions stated that there is a great delay in issuance of SCN for the alleged violations which is not explained and has caused great prejudice to them. I note that SEBI conducted an investigation in the year 2016 into the company's affairs in relation to the IPO of equity shares by IGSL in the year 2011. I note that soon after conclusion of investigation and approval of proposed action, SCN was issued in October 2017. Accordingly, I find that there is no delay in issuance of SCN.

40. In this connection, I deem it appropriate to refer to the observations made by Hon'ble SAT in the matter of Vaman Madhav Apte & Ors. Vs. SEBI vide Order dated March 04, 2016, which reads as follows

"Argument of the appellants that the proceedings initiated against the appellants suffer from gross delay and laches and, therefore, the impugned order is liable to be quashed and set aside is without any merit, because firstly, neither the SEBI Act nor the regulations framed thereunder prescribe any time limit for initiating proceedings against the persons who have violated the securities laws. Secondly, neither the SEBI Act nor the regulations framed thereunder provide that if there is delay in initiating proceedings, no action can be taken against the person who has committed violations of the securities laws."

41. It is no doubt true that no period of limitation is prescribed in the Act or the Regulations for issuance of a show cause notice or for completion of the Adjudication Proceedings. The Hon'ble Supreme Court in Government of India vs, Citedal Fine Pharmaceuticals, Madras and Others, [AIR (1989) SC 1771] held that in the absence of any period of limitation, the authority is required to exercise its powers within a reasonable period. What would be the reasonable period would depend on the facts of each case and that no hard and fast rule can be laid down in this regard as the determination of this question would depend on the facts of each case. This proposition of law has been consistently reiterated by the Hon'ble Supreme Court in Bhavnagar University

v.Palitana Sugar Mill (2004) Vol.12 SCC 670, State of Punjab vs. Bhatinda District Coop. Milk P. Union Ltd (2007) Vol.11 SCC 363 and Joint Collector Ranga Reddy Dist. & Anr. vs. D. Narsing Rao & Ors. (2015) Vol. 3 SCC 695. The Hon'ble Supreme Court recently in the case of Adjudicating Officer, SEBI vs. Bhavesh Pabari (2019) SCC Online SC 294 held:

"*There are judgments which hold that when the period of limitation is not prescribed, such power must be exercised within a reasonable time. What would be reasonable time, would depend upon the facts and circumstances of the case, nature of the default/statute, prejudice caused, whether the third-party rights had been created etc."*

42. In the light of the aforesaid observations of the Hon'ble Supreme Court and Hon'ble SAT, considering filing and disposal of consent applications by the Noticees and repeated requests to keep the current proceedings in abeyance citing appeal pending before the Hon'ble SAT against the Order dated August 6, 2018, I am of the view that matter has been disposed within reasonable period after complying with the principle of natural justice by giving all the Noticees sufficient opportunities to file their replies and also to avail opportunity of personal hearing before me. Accordingly, I conclude that no prejudice has been caused to any of the Noticees.

43. The Noticees in their submissions stated that they are subjected to multiple enforcement actions under Section 11 (1), 11 (4) & 11 B of SEBI Act besides the instant Adjudication proceedings for the same cause of alleged violations. In this regard, I deem it appropriate to mention the Hon'ble SAT's observations in the matter of Sunita Gupta Vs. SEBI in the Appeal No. 193 of 2016 decided on April 21, 2017, which reads as under:

"Where a person violates the provisions contained in the SEBI Act and the regulations made thereunder, then, SEBI is empowered to initiate penalty proceedings against that person under Chapter VIA of SEBI Act and also issue directions in the interests of investors or securities market as it deems fit under Chapter IV of SEBI Act. Thus, the powers conferred on the Board under

Chapter IV are independent from the powers to impose penalty under Chapter VIA of SEBI Act. Accordingly, in the present case, since the appellant had indulged in synchronized/ circular trades in gross violation of SEBI Act/ PFUTP Regulations and the same was detrimental to the interests of the investors and securities market, the Board deemed it fit to issue direction under Chapter IV in addition to the penalty imposed under Chapter VIA of SEBI Act. Therefore, in the facts of present case, initiation of proceedings under Chapter IV even after initiating proceedings under Chapter VIA cannot be faulted.

44. Therefore, in light of the above, the principle of double jeopardy does not apply to the present proceedings, as the proceedings under Chapter VIA of SEBI Act and Chapter IV of SEBI Act are independent and accordingly I find no merit in the argument put forth by the Noticees.

45. Considering that directions issued under Section 11B of SEBI Act and Adjudication proceedings are independent and separate as mentioned in above para, I see no reason to keep the instant proceedings in abeyance merely on the ground that Appeal filed by the Noticees against the Order passed by the Hon'ble WTM for the same set of alleged violations, is pending before the Hon'ble SAT. Further, I note that there is no stay on the instant Adjudication proceedings. Accordingly, I am proceeding to dispose of the matter on merits.

Dealing with charges in the SCN.

46. I note that the main business of IGSL is equity broking, depository activities, insurance advisory services, commodity broking, debt market and wealth Management. I note that the Noticee 2 is a Promoter of the Company, Noticees 2 to 11 were Directors, the Noticee 12 was CFO and the Noticee 13 was Company Secretary & Compliance Officer.

47. I note that IGSL came out with an IPO through book building route in the price band of ₹ 100-117 per share for 70 Lakh equity shares constituting 33.33% of post issue paid up capital. The share allotment was made at ₹ 117 aggregating

₹ 81.90 Crores. The shares of IGSL were listed on August 04, 2011 on BSE and NSE. As per the Prospectus dated July 27, 2011 issued by IGSL, the objects of the issue along with allocation for each objective is reproduced as under:

Sl. No.	Objects of the Issue	Allocation (₹ Crores)
1	Investment in subsidiary i.e., Inventure Finance Pvt., Ltd., (IFPL)	30.00
2	Augmenting Long Term Working Capital Requirement	20.00
3	General corporate purposes	27.65
4	Public issue expenses	4.25
Total		**81.90**

48. I note that there are three allegations levelled against the Noticee Company and two allegations levelled against the Noticees 2 to 13. The primary allegation against the Noticee Company was that it did not utilize the IPO proceeds for the purpose as stated in the Prospectus, instead utilized it for other purposes. I note that against the Noticees 1 to 13, it was alleged that the Noticee Company and the Noticees 2 to 13, being signatories to the Prospectus, failed to make disclosure regarding acceptance of deposits and also made untrue statement regarding availing of bridge loans.

49. Now, I record my findings on the allegations levelled against the Noticees, which are as under:

ALLEGED VIOLATION -1(a):

MIS-UTILISATION OF PUBLIC ISSUE PROCEEDS – Loans advanced for other purposes

50. IGSL stated in its Prospectus under the head “objects of the issue with allocation for each objective”, that an amount of ₹ 30 crores proposed to be allocated for investment in its subsidiary i.e., IFPL from the IPO proceeds to be raised from the public. IGSL, in its reply submitted that in the Prospectus at page 30, 332, 93 & 94, under the headings “Summary of Business” and “Our Business”, it was disclosed that IFPL is an NBFC and a subsidiary of IGSL, and that its line of business included (“Illustrated”) giving loans against

shares and IPO funding. The Noticee 1 also submitted that in the Prospectus at page 68 & 69, under the heading “Objects of the Issue”, it was inter-alia disclosed that IGSL would invest ₹ 30 crores into its subsidiary IFPL by way of equity or loans and that such investment was for the growth in the business of IFPL (not IGSL) by improving IFPL’s working capital. Thus, the Noticee submitted that necessary disclosures regarding details of IFPL and its business model and proposed utilisation of IPO funds were mentioned at various places in prospectus as indicated above and therefore the allegation of mis-utilization is misplaced.

51. In the process of IPO, I consider Prospectus as a vital document which contains all relevant information relating to general and financial matters of the Issuer Company and also states the purpose and objects for raising money from public. Therefore, it is necessary to ensure that all information stated in the Prospectus are complete, true, fair and transparent on the principle of maximum disclosure in order to facilitate investors to take informed decisions. I am of the view that any indirect reference made at different places in Prospectus cannot be a ground to justify that investors are aware and informed as the principle of fairness and transparency does not provide for “reading between the lines” approach as in such cases there could be multiple interpretations by various investors, which may defeat the very purpose of disclosure.

52. I note that IGSL in its submission and also at para 102 of prospectus stated that IGSL stated that it had decided to focus on NBFC activities as they foresee major growth in the sector. Accordingly, in order to cater to the increasing needs of clients of IGSL, it was planned to invest ₹ 30 crores in IFPL. Upon plain reading of the object, lay investor would believe that money invested by them would be used to cater to future needs of IFSL as NBFC business would grow and such growth will result in higher revenues to IFSL/ IGSL. I am of the view that the term “*investment*” concerns the outlay of some asset today (time, money, effort, etc.) in hopes of a greater payoff in the future than what was originally put in. Investment is oriented toward future returns and thus entails some degree of risk and uncertainty.

53. I have examined the prospectus of IGSL with respect to the charges alleged in the SCN. Firstly, I note the Noticee 1 is a registered intermediary as stock broker (Member in BSE and NSE) providing broking services to its clients and earns brokerage on such services. At page 99 of prospectus, it has been stated that IFPL, subsidiary of IGSL, is an NBFC which provides loan against share and securities to various clients including clients of IGSL. Further, at para 102 of said prospectus, it was stated that concentration of NBFC activities has two revenue verticals, which are interest income and also generates brokerage from trading of shares. The brokerage income is earned by IGSL and interest income is credited in IFPL. As there has been growth in NBFC activities in terms of clients as well as revenues, IGSL, decided to focus on NBFC activities as they foresee major growth in the sector. Accordingly, in order to cater to the increasing needs of clients of IGSL, it was planned to invest Rs 3,000 lakhs IFPL. For further details on this investment refer to chapter titled "Objects of the issue" on page 68 of the Prospectus.

54. Details with regard to utilization of funds by IFPL is tabulated below:

Sl. No.	Details of Money advanced	As on 31.03.2011	As on 30.09.2011	As on 31.03.2012
1	Secured against Shares	37,05,10,904	46,96,52,024	26,33,07,089
2	Less: Amount borrowed against shares	34,41,12,654	33,98,17,133	22,26,91,810
3	Net amount lent against shares	**2,63,98,250**	**12,98,34,891**	**4,06,15,279**
4	Secured against equipment	-	88,31,007	2,37,44,825
5	Secured against gold	-	-	7,30,000
6	Unsecured loans	3,51,85,939	47,54,76,785	40,21,43,430
7	Sub-total (4+5+6)	**3,51,85,939**	**48,43,07,792**	**42,66,18,255**

55. From the table above, it is observed that post receipt of IPO money, the same was majorly utilized towards advancing unsecured loans, loans against equipment and gold loans. Further, it was noted that the majority of amount of unsecured loans were granted after July 13, 2011 i.e., the date from which IFPL/IGSL started receiving bridge loans which were later repaid upon receipt of IPO proceeds. It is observed that a net amount of only ₹ 10.34 crores was additionally deployed towards advancing loans against shares as on

September 30, 2011 and the same was reduced to ₹ 4.06 crores as on March 31, 2012.

56. The representation made in the prospectus was to the effect that investing monies raised in the IPO in IFPL would be beneficial to IGSL's investors since IFPL's business was complementary to that of IGSL. The prospectus further supported this argument by stating that risk management measures would be adhered to while lending against shares and explained how lending would be available only against select types of securities. It is highly doubtful that investors would have been interested in subscribing to IGSL's shares had it been disclosed that IFPL's real intent was to substantially increase unsecured lending, which is inherently highly risky. The source of such unsecured loans lent are obviously therefore suspect and supports the prima facie view that monies raised in the IPO on the pretext of the subsidiary's business of lending against shares were actually directed for the purpose of unsecured loans.

57. I consider it relevant to examine the facts of the case in order to ascertain whether Noticee was reasonably certain at the time of disclosure in the prospectus or during the IPO process that IPO proceeds would be utilised for purposes other than stated in Object clause in prospectus.

58. I note that there are two set of transactions which took place at the end of IFSL and IGSL, around the same time (pre-IPO, IPO and post IPO). I consider it necessary to examine them in order to have holistic view and also to arrive at any conclusion on whether Noticee was aware of the IPO funds that would be utilised for purposes other than stated in objects clause.

59. As per records, IFSL registered following client's immediately after filing Red Herring Prospectus and before Opening date of Issue.

Name of Client	***Client Code***	***Date of Registration***
TPL Finance Limtied	*8088*	*16/07/2011*
Deepmala Infra Pvt Ltd	*4849*	*18/07/2011*
Bikaner Wooltex Pvt Ltd	*4489*	*13/07/2011*
KRSPL	*Exiting client*	

60. The details of funds received from aforesaid clients on various dates are mentioned in the table below.

Date	**Transferor**	**Amount in ₹ Crores**
Amounts received by IGSL		
July 13, 2011	Bikaner	2.85
July 14, 2011		0.15
July 16, 2011	TPL	2.00
July 18, 2011		3.50
July 19, 2011		2.00
July 20, 2011		1.00
July 18, 2011	Deepmala	3.00
July 19, 2011		3.00
July 19, 2011	KRSPL	3.00
Total		**20.50**

61. On August 4, 2011, the money received were transferred back to aforesaid clients. I note that the reasons for refund of above monies by IGSL was due to disputes regarding brokerage and incomplete KYC. It is surprising to note that IGSL being a registered broker had generated client code even before completing KYC and agreement on brokerage. Further, payments running into crores received from them even before completion of KYC. This fact read in conjunction with the timing of such payment and repayment around IPO, goes to prove beyond reasonable doubt that it was not only irregular transaction with a manipulative and deceptive intent but also hints at close connection of IGSL with such entities. Even if we consider the reasons given by IGSL, it could have refunded the monies the very next day whereas it waited till the completion of IPO and receipt of IPO proceeds to refund. Such pattern of transactions goes to prove the close proximity and accommodative nature of transactions which were deliberately entered one day after red hearing prospectus to avoid any scrutiny by any authorities and to give false and misleading picture that they were trading clients. To that extend, I considered that investors were misled.

62. I also note that IFSL had unsecured loans of ₹ 44 crores to various entities. The details of entities to whom such unsecured loans were given and their connection with the clients of IGSL are not available on record as details of such clients are available only with IFSL which is not before me. However, it

is evident from the disclosure made in the prospectus that IFSL is a NBFC wherein risk management measures would be adhered to while lending against shares and explained how lending would be available only against select types of securities. In my view, the practice of extending unsecured loans of ₹ 44 crores certainly are not prudent risk management practice which investors are not aware also contrary to what was stated in the prospectus.

63. Firstly, I note that IFSL and IGSL are two separate companies and into different business activities. Considering that timing of transactions relating to unsecured loans at the end of IFSL and receipt of funds of IGSL happened at around the same time i.e., in the month of July 2011 and the fact that IPO funds were used for making payments, I cannot ignore such transactions and required to be read in conjunctions.

64. After giving detailed disclosures, wherein repeated references were made regarding IFPL's intent to use monies raised in the IPO for giving loans against shares, making business decisions completely at odds with the representation made to potential investors clearly constitute mis-utilisation of IPO proceeds. This is not to state that a business entity cannot change its business objectives due to change in business conditions. The Companies Act, 1956 and Companies Act, 2013 permit change in end-use of IPO proceeds only after obtaining shareholder approval for the same. In any case, the fungible nature of money ensures that companies with other sources of funds may use existing funds for purposes not stated in the prospectus. Also, a proposed line of business activity may not be feasible given certain adverse market conditions. However, all of these justifications do not appear to apply in the case of the Noticee Company for the reasons already elaborated earlier. In any case, the company never approached the shareholders for alternative utilisation of IPO proceeds. The representation made in the prospectus was to the effect that investing monies raised in the IPO in IFPL would be beneficial to IGSL's investors since IFPL's business was complementary to that of IGSL. The prospectus further supported this argument by stating that risk management measures would be adhered to while lending against shares and explained how lending would be available only against select types of

securities. It is highly doubtful that investors would have been interested in subscribing to IGSL's shares had it been disclosed that IFPL's real intent was to substantially increase unsecured lending, which is inherently highly risky. The source of such unsecured loans lent are obviously therefore suspect and supports the prima facie view that monies raised in the IPO on the pretext of the subsidiary's business of lending against shares were actually directed for the purpose of unsecured loans.

65. The Noticee 1 in its submissions stated that, after the IPO money was received, IFPL has loans “secured against shares” amounting to more than ₹ 46.96 crores, which is in excess of ₹ 30 crores invested into IFPL as per the Objectives mentioned in the Prospectus. I note that the contention raised by the Noticee Company in this regard is completely misplaced as it has not taken into account the amount borrowed against shares which was ₹ 33.98 crores. Pursuant to taking into account the amount borrowed against shares, the net amount lent against shares was ₹ 12.98 crores only. Further, the Noticee Company submitted that the pre-IPO investment in loans given against shares by IFPL was out of its own funds *(internal accrual or borrowed funds)* and the allocation of the IPO proceeds towards the existing loans against shares, would free up IFPL’s own funds from such investments for utilization towards unsecured loans or other loans / purposes, or even to reduce its own borrowings if it deemed fit. In this connection, I note that IGSL in its Prospectus did not state in its objectives of raising money from public “to cover up its past investment with the funds raised from the public in its IPO”. Had this been clearly stated in its Prospectus by IGSL, the investors would have taken an informed decision in investing in its IPO. Therefore, I find no merit in the contention raised by the Noticee that its investment in loans given against shares of IFPL in the past was covered up with the IPO funds.

66. After considering the submission of Noticees and transactions mentioned above, I conclude that Noticee was reasonably certain at the time of filing in the prospectus that IPO proceeds would be utilised for purposes other than stated in Object clause in prospectus.

67. The documents on record and even explanations to the charges given by the Noticees would show that the investor public was misled by suppressing the material facts or transactions which occurred prior to RHP, post RHP and before issue of shares.

68. Thus, I note that the Noticee Company had not utilized 86.47% of the funds for the objects disclosed in the RHP and Prospectus. I find that the wrong disclosures were made by the Noticee Company in RHP and prospectus, which had affected the process of informed decision to be taken by the investors.

69. In view of the above, I conclude that the Noticee 1 IGSL did not utilize IPO proceeds of ₹ 25.94 crores for the purpose as stated in Prospectus and instead utilized it for other purposes including for advancing unsecured loans and accordingly has violated Regulation 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations), Section 12 A (a), (b), (c) of SEBI Act and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations

ALLEGED VIOLATION -1(b):

MIS-UTILISATION OF PUBLIC ISSUE PROCEEDS - Augmentation of working capital

70. As per the prospectus of IGSL, one of the main objects of the public issue was augmenting the long term working capital requirement of IGSL. Page 69 of IGSL's prospectus inter alia reads as follows:

"The working capital requirement mainly comprises of margin money to be placed with stock exchanges on the basis of trading volumes, market volatility and the extent of outstanding positions in respect of equity index/stock futures & options. Such margin capital requirements also include initial margin and additional margin deposited for entering into the contracts for equity index/ stock futures and options. Further, equity index/stock futures & options are marked-to-market on a daily basis in which case "Mark-to-Market Margin" is also required to be provided till the final settlement of the contracts. In addition to this, our Company has to place stipulated margin in the cash segment with the stock exchanges for T+2 days. The stock exchanges also increase margin

requirement in terms of percentage due to volatility in the markets. This gives rise to margin requirement even though the business may remain constant".

Our Company's working capital requirements also arise on account of the time gap in realization of cheques received from clients and amount to be paid to the exchanges towards pay-in on the settlement dates. With growing business, this gap is widening, thus creating additional requirement for the working capital. ... The margin requirements to be maintained with the stock exchanges would be used for clients as well as for proprietary trading. The working capital requirement of cash segment is mainly due to client business. However, in respect of derivatives segment, the margin requirements to be maintained with the stock exchanges would be used for proprietary trading only. Over and above the margin actually utilised, our Company is also required to deposit additional capital/margin with the stock exchanges to smoothly undertake its additional business activities."

71. The prospectus further stated that working capital requirements were expected to rise because of increase in margins due to volatility or on account of the time gap in realisation of cheques received from clients and amount to be paid to the exchanges towards pay-in on the settlement dates. This working capital requirement was expected to rise further in tandem with the growth in financial markets. The prospectus also stated at page 68 thereof that the allocation for the objective of "Augmenting Long Term Working Capital Requirement" is ₹ 20 crore. In its letter to SEBI, dated January 15, 2016, IGSL had submitted that the increase in working capital post the IPO was ₹ 20,36,22,425 (Twenty Crore Thirty-Six Lakh Twenty-two thousand four hundred twenty-five rupees only). However, the SCN alleged that on an analysis of information received from the clearing corporations, it was noted that there was a reduction in margins in the post-IPO period as compared to the pre-IPO period, thereby implying that IPO proceeds intended to be used for working capital purpose had actually been diverted elsewhere.

72. The Noticee 1 submitted that since money is fungible, the allocation of funds for the disclosed objective of meeting the shortfall between the collection of dues from the clients and the margin/pay-in obligation would free up IGSL's other funds. It was also contended that net position of "Amount Due from clients" and "Amount Due to Clients" cannot be considered, since one client's

funds cannot be used for other client's margin/pay-in obligation. Also, as regards the allegation that a major part of the amount to be deployed for working capital was invested for stock in hand held for arbitrage, it was contended that even arbitraging requires margin deposit and that funds used for arbitraging are effectively only by way of margins. It was also adequately disclosed that IGSL undertook substantial arbitrage and trading and that margin money is required for such arbitrage and trading.

73. I have considered the submissions made by the Notice 1 and note that it was clearly disclosed that working capital requirements mainly comprised of margin monies, which would be used for both client and proprietary trading and which would be used for arbitrage strategies as well. In Para 14 of the SCN, the specific allegation made is that the amount of margin is higher in the pre-IPO period and there was no increase in the post-IPO period i.e. from the month of August 2011. This allegation is based on the table in para 14 of the SCN, which is reproduced hereunder:

Month	**Amount**	**Month**	**Amount in ₹ Crores**
Apr-11	59.25	Oct-11	48.75
May-11	58.70	Nov-11	49.06
Jun-11	50.31	Dec-11	50.12
Jul-11	48.65	Jan-12	47.84
Aug-11	49.12	Feb-12	49.79
Sep-11	48.80	Mar-12	51.31

74. Upon perusal of the above table, I note that it provides an average of daily closing balances for each month based on data available with 3 clearing corporations i.e. NSCCL, ICCL and MCX-SX CCL. From the said table, I note that average collateral placed by IGSL in April 2011 was ₹ 59.25 crore which gradually reduced to ₹ 48.65 crore in July 2011, but then again increased over the next couple of months to eventually reach ₹ 51.31 crore in March 2012. Therefore, I do not agree with the view expressed in the SCN that there was no increase in margins in the post-IPO period at least based on the table in

para 13 of the SCN. Also, I have taken note of the table at para 12 that the difference between amount due from clients as on 31.03.2011 and 30.09.2011 is ₹ 21,02,53,701 clearly justifying the allocation of ₹ 20 crore towards working capital. I also do not find merit in the SCN's assumption that amounts due from clients must be reduced from amounts due to clients in order to arrive at the net working capital. In this regard, I agree with the submissions made by the Noticee that one client's funds cannot be used for other client's margins and therefore it would be incorrect to reduce 'Amounts due to clients' from 'Amounts due from clients'. Based on the net figure as calculated above, it would not be reasonable to conclude that the amount allocated towards margins/working capital has been mis-utilized. Mere reduction in margin/collateral placed by the company (in a few months subsequent to receipt of IPO proceeds) with the clearing corporation does not tantamount to mis-utilisation of IPO proceeds contrary to the stated purpose of raising funds for augmentation of working capital. Consequently, the allegation in the SCN that IGSL had mis-utilized proceeds intended for working capital and invested the same in equity does not stand scrutiny for the purposes of this Order.

75. As regards the allegation that IPO funds used for arbitraging, I take into considerations the submissions made by the Noticee that even arbitraging requires margin deposit and find merit in its submissions. I also note that arbitraging normally is an intra-day square off. I note that even in the Prospectus (Page xvi-xvii and Para 11, 15), IGSL disclosed that it did undertake substantial arbitrage trading; that there were risks involved even in such arbitrage trading; that margin money was required for such arbitrage trading; and that such arbitrage trading did contribute substantially to the revenues of IGSL. In view of the same, the allegation against the Noticee Company that it had mis-utilized IPO funds for arbitrage does not stand established.

76. Further, as regards the alleged violation of utilisation of IPO money for purchase of shares in the scrips of Bedmutha Industries Ltd., and P G Electrosplast Ltd., I find that the Noticee Company had utilised the IPO funds, allocated for augmenting the working capital requirements of ₹ 20 crores, in

line with the Objects of issue. Therefore, the purchase of shares as alleged in the SCN cannot be construed as mis-utlisation of funds and accordingly I do not hold charge against the Noticees in this regard.

ALLEGED VIOLATION 2: Non-Disclosure of Bridge Loans

77. I note that the Noticee Company in its Prospectus had made a statement that it had not raised any bridge loan against the Issue Proceeds. However, it was observed that during the period July 13 and July 20 of 2011 amounts totalling to more than ₹ 20 crore was received by IGSL from 4 entities and on August 03, 2011 i.e. the day when IPO proceeds were received by IGSL, the whole amount was repaid to the said entities.

78. IGSL's contention, with respect to three entities i.e. Bikaner Wooltex Ltd ("Bikaner"), TPL Finance ("TPL") and Deepmala Infra Pvt. Ltd. ("Deepmala"), is that they were prospective clients of IGSL and monies were received from them towards the proposed broker-client relationship. However, since the relationships did not fructify, the monies collected from them were returned. For the same reason though internal client codes were recorded, the client names were not uploaded to the stock exchange for allotment of Unique Client Codes (UCCs). Also, IGSL relied on the statement in the SCN to state that monies were refunded from BSE Client Account which therefore points to the fact that the said entities were clients of IGSL and the repayment was only towards client money. IGSL has argued that in the absence of any other information, it must therefore be presumed that SEBI itself has recognised the said entities to be its clients. With respect to the alleged loan from the other entity - K.R. Shoppers Pvt. Ltd. ("KR Shoppers"), IGSL has contended that the amount advanced to it by K R Shoppers were in fact only client / advances / security for intended trading as aforesaid, which were correctly never account for or treated as loans by IGSL. KR Shoppers had extended temporary funds to IGSL on earlier occasions also, which was properly disclosed at page 195 of the Prospectus. Therefore, according to IGSL, the impugned financing was not in the nature of bridge loan but in the nature of a loan from director's entity.

79. Before going into the merits of the submissions made by the Noticees to the allegation, I would like to dwell upon the significance of client registration by a stock broker and the necessary steps to be taken by a stock broker governing the transaction between clients and stock brokers. I note that SEBI had issued various circulars from time to time with regard to regulation of transaction between clients and members, client registration, uniform documentary requirements for trading and obligations under Prevention of Money Laundering (PMLA) etc., I note that as regards the client registration, It is the responsibility of the stock broker to satisfactorily identify his clients and execute various documents viz., client registration form, member clients agreements, model tripartite agreement between Stock Broker, Sub-broker and Clients and uniform risk disclosure documents. Upon satisfying with the antecedents of the clients, the stock broker is required to allot Unique Client Code (UCC) and upload the same to the Stock Exchanges, before commence of the trading by clients.

80. In the instant case, I note that the three entities viz., Bikaner, TPL and Deepmala were stated to have been registered as clients by the Noticee Company. I note that Bikaner was registered as client by IGSL on July 16, 2011, whereas IGSL received an amount of ₹ 3 crores from Bikaner on July 13 & 14, 2011 i.e., before the date of registration as client by IGSL. Further, I note TPL stated to have been registered as client by IGSL on July 16, 2011 had lent an amount of ₹ 2 crores on the same date. Apart from that, I also note that from July 18 to 20, 2011, TPL had transferred an amount of ₹ 6.50 crores to IGSL. Likewise, Deepmala transferred an amount of ₹ 3 crores on the date of registration i.e., July 18, 2011 and another ₹ 3 crores on July 19, 2011 to IGSL. Going by the timing of the purported registration of clients and the funds transferred by these three companies, it is highly unlikely for any entity to transfer such huge funds for the purpose of trading without being registered as a client in the case of Bikaner. I am of the view that no entity would transfer such huge funds running in crores to any entity, unless they have a prior understanding of lending. I also note that there are no documents submitted by the Noticee Company to suggest that these three entities were registered as clients by IGSL. I note that the Noticee Company had filed its draft RHP

with SEBI on July 12, 2011 and the shares of IGSL were listed on the Stock Exchanges on August 4, 2011. I also note that the Noticee Company started received amounts in the range from ₹ 0.15 crores to ₹ 3.00 crores (totalling ₹ 20.50 crores) from the four entities between July 13 and July 20, 2011 i.e., during the period of filing of draft RHP with SEBI and the date of opening of issue i.e., July 20, 2011. The Company repaid the amount of ₹ 20.50 crores received from these four entities on August 3, 2011 i.e., one day prior to the list of its shares on stock exchanges. From the timing of receipt of amounts from these four entities by IGSL and repayment, it clearly indicates that the Company under the guise of *"client funds"* received the amount in the form of loan before opening of IPO and repaid the same from the IPO proceeds one day before listing.

81. Further, I would like draw reference to the SEBI Circulars governing the transactions between clients and brokers dated 18.11.1993 03.12.2009 and August 22, 2011. The said legal framework makes it clear that monies can be credited into or repaid from a client account only if the monies pertain to 'client' related transactions. SEBI Circular dated 03.12.2009 specifically lays down inter alia processes/procedures required to be complied with for client registration by a stock broker. As per the circular, mandatory documents that need to be included as part of the client registration include member client agreement, KYC form and Risk Disclosure Document. Also a mandatory document is also required that deals with policies and procedures inter-alia for temporarily suspending or closing a client's account at the clients' request or deregistering a client. I note that IGSL has not submitted any document to support in its claim that Bikaner, TPL and Deepmala were registered as clients, and if so, whether upon their de-registration the requisite procedure for deregistration had been complied with. Consequently, credit of monies received from them to the BSE Client Account itself becomes suspect and may have been used only to give a false and misleading picture that they are clients' money whereas it was only for routing of funds back and forth. Crediting amounts received from persons (whose credentials as 'clients' at the given point of time have not been proved) to the BSE Client Account does not automatically mean that the said entities can be considered as clients. In fact,

while the Noticees have not contested that KR Shoppers was repaid from the BSE Client Account, it refers to the money received from KR Shoppers as being a "client advances / security for intended trading". This therefore questions the very use of Client Account by IGSL. Consequently, repayment to Bikaner, TPL and Deepmala from the BSE Client Account, in my view does not render the transactions as being refund of client monies. In fact, use of Client Account contrary to SEBI circulars in itself constitutes a violation. Though the SCN does not explicitly make this an allegation, the obvious misuse of Client Account especially in the case of K R Shoppers adds to the circumstantial evidence of IGSL having availed bridge loans/interim financing without making suitable disclosures of the same. The bonafides of these transactions become suspect considering the timing of receipt of the monies by IGSL and its repayment (all four entities were repaid on August 03, 2011 i.e. the very next day of the receipt of IPO proceeds). As rightly stated by IGSL, a bridge loan is usually required to adhere to various processes such as board approval, scrutiny by lender, agreement for loan etc. But the absence of such processes does not change the nature of such a transaction. The SEBI (ICDR) Regulations require disclosure of interim financing arrangements including bridge loans which are to be repaid from proceeds of the IPO. Clause 2(VII)(G) of Part A, Schedule VIII to the ICDR Regulations does not restrict the requirement to disclose only to 'bridge loans' but extends to any financial arrangements which are repaid from the proceeds of the issue. The spirit behind such a requirement is that investors must be aware of the extent to which the monies invested by them will move to pre-existing obligations of the company which are extraneous to the objects of the issue. In the case of KR Shoppers, IGSL's depiction of the amounts received from the said company as being a "client advances / security for intended trading" is completely misplaces, in view of the admitted fact of the existence of interim financing arrangement from KR Shoppers earlier, which was disclosed in the Prospectus. It has not been denied that there was a failure to make disclosure of this financing arrangement in accordance with the provisions of the SEBI (ICDR) Regulations. IGSL has also not been able to satisfactorily support its contention that Bikaner, TPL and Deepmala were its clients and that money repaid to them was only in the nature of client money. Consequently, monies

received from them can only be categorised as interim financing/bridge loan, with respect to which they were required to make disclosures, since they had repaid the loans availed using the IPO proceeds. In fact, by stating the contrary, IGSL and its directors and key management personnel who signed the prospectus have misrepresented the position.

82. In view of the aforesaid findings, I note that an amount of ₹ 20 crore was raised by IGSL as bridge loans before the prospectus date as well as the date of allotment of securities. This fact also was not disclosed either in the prospectus or by issuing any public notice as required by the Regulations. On the other hand, there was positive statement in the RHP as well as in the prospectus that "our company has not raised any bridge loan against the proceeds of the present issue". I note that the bridge loan of ₹ 20 crores obtained by IGSL should have added to the total liability of the Company in the RHP and in the prospectus.

83. The Hon'ble SAT in the matter of Bharatiya Global Infomedia & Others (Appeal No. 481 of 2016), vide Order dated June 25, 2019 opined that *"The events had taken place prior to the RHP and the prospectus and before the listing date. Therefore, the appellants could have very well disclosed these facts in RHP, in the prospectus and by issuing a public notice thereby giving information to the investor public about this material act. The conclusion of the Adjudicating Officer in this regard therefore needs no interference".*

84. The circumstances and timing in which the transactions were executed and concluded substantially support the allegation that the financing was one which needed to be disclosed in terms of Clause 2(VII) (G) of Part A, Schedule VIII. In view of the aforesaid findings and the observations of Hon'ble SAT, I conclude that the Noticees had made false statements in its RHP and prospectus with respect to raising bridge loans, which had misled the investing public.

<u>ALLEGED VIOLATION 3</u>: Non-Disclosure of Acceptance of Deposits

85. The Noticees' defence with respect to the allegation of it having raised deposits without making disclosure is essentially two fold- one, that SEBI has no jurisdiction over non-compliance with section 58A of the Companies Act and two, that merely because the amounts were called 'security deposit' does not mean that they can be considered as 'deposits' for the purpose of section 58A of the Companies Act. With regard to the first point, the Noticees' contention is that section 55A of the Companies Act, 1956 restricted SEBI's jurisdiction to select provisions listed therein and this list does not include section 58A of the Companies Act. Relevant extract of section 55A is reproduced below:

"Powers of Securities and Exchange Board of India.

55A. *The provisions contained in Sections 55 to 58, 59 to 81 (including sections 68A, 77A and 80A), 108, 109, 110, 112, 113, 116, 117, 118, 119, 120, 121, 122, 206, 206A and 207, so far as they relate to issue and transfer of securities and non-payment of dividend shall, -*

(a) in case of listed public companies;
(b) in case of those public companies which intend to get their securities listed on any recognised stock exchange in India, be administered by the Securities and Exchange Board of India; and

(c) in any other case, be administered by the Central Government. ..."

86. I note that Section 58A of the Companies Act deals with the manner of acceptance and repayment of deposits by companies and is supported by rules prescribed in pursuance of the provision i.e. the Companies (Acceptance of Deposits) Rules, 1975. The said Section has elaborate provisions on the conditions to be complied with while accepting deposits, time period within which repayment must be made in the event of contravention of the rules, rights of depositors etc. The section also deals with the penalty for non-compliance with the provisions specified therein. Section 55A of the Companies Act, 1956 has delegated the responsibility of administering or enforcing the mandate of section 58 A to the Central Government. The Noticees' assertion that since SEBI had referred the matter to the Ministry of Corporate Affairs (MCA) it meant that SEBI too felt that the issue was not

within its jurisdiction, is without merit. Rather, SEBI's reference to MCA is only a matter of inter-regulatory coordination and cooperation so that MCA may take enforcement action if it deems it appropriate to do so. As admitted by the Noticees, MCA is yet to pass any orders for non-compliance of section 58A. This cannot automatically mean that MCA does not view the impugned monies as being 'deposits'.

87. Apparently, sections 55A and 58A operate in different realms. However, the law does not preclude SEBI from treating a 'deposit' under section 58A to be a 'deposit' for the purposes of disclosure. Therefore, whether SEBI has the power to regulate deposits in terms of section 58A of the Companies Act, 1956 is an irrelevant issue. As long as the elements of the definition of 'deposit' under section 58A are satisfied, SEBI is empowered to take action for failing to disclose the existence of such a deposit in terms of the ICDR Regulations

88. The next aspect of this issue is the factual question as to whether the amount maintained with IGSL did in fact constitute a 'deposit'. The Noticees' stand on this issue appears to be inconsistent as can be seen from its replies to the notices sent during the course of investigation and those after issuance of the SCN. As recorded in the SCN, the Noticee company in its reply dated February 1, 2016, had contended that money received from Ms. Hina Shah and Usha Atul Shah amounting to ₹15.02 crore was in the nature of client monies since they intended to place orders in the securities market. However, a year later those monies were returned as per their request since no transaction could fructify. On the other hand, in its replies dated March 18, 2019 to the SCN, the Noticee company narrated an elaborate explanation for the suspicious repayment of monies to Hina Shah and Usha Atul Shah one year after receiving them. IGSL submitted that the companies promoted by the husbands of Hina Shah and Usha Shah (Sanjay Shah and Atul Shah, respectively) had debit balances with IGSL and therefore the credit balances of Hina Shaha and Usha Shah were used to adjust against the debit balances of companies related to them (the said related companies also being clients of IGSL). IGSL further stated that Sanjay Shah and Atul Shah had made payments into their wives' accounts to satisfy IGSL's apprehensions about

outstanding dues of the aforesaid client companies. Later, according to IGSL, the amounts were refunded to Hina Shah and Usha Shah as per their husbands' request but the actual payment was released only after the said dues of the aforesaid companies were fully paid off. IGSL also contended that no interest payment was made to the two clients. I find this elaborate narration to only be an afterthought that does not support their case, for the reasons stated below.

89. In pursuance of the Explanation to Section 58A of the Companies Act, the definition of 'deposit' has been further clarified in the Companies (Acceptance of Deposits) Rules, 1975. Rule 2(b)(vi) of the said Rules reads as follows:

"Definitions-

1. In these Rules, unless the context otherwise requires, -

…

***(b)** "deposit" means any deposit of money with, and includes any amount borrowed by, a company, but does not include-*

…

(vi) any amount received by way of security or as an advance from any purchasing agent, selling agent, or other agents in the course of or for the purposes of the business of the company or any advance received against orders for the supply of goods or properties or for the rendering of any service;"

90. I note that 'Deposit' has been defined in an inclusive manner and not a restricted manner. Consequently, its exceptions need to be read strictly. It is also an established principle of interpretation that where a definition is an inclusive definition then the court cannot interpret the same in a restrictive manner (State of Bombay vs Hospital Mazdoor Sabha AIR 1960 SC 610). In the instant case, the Noticee company's insistence that the amount received from the two clients were intended for placing trades appears to be more of an afterthought. Section 58A and the Rules prescribed thereunder are very specific in its exclusions, and clearly the instant facts do not lead one to believe that they did not fall within the definition of deposit. I note that monies received by stock brokers from clients could not have been maintained for unusually long period without accounting for it specifically. It is not clear why amounts

were kept with the company for almost a year before it was decided that the clients did not want to place any trades and therefore the monies refunded to them. The elaborate explanation given for the same, including the reference to the debit balances of the companies associated with the said two clients, and the repayment of dues by the respective husbands of the two clients, all appear to be an afterthought. The explanation provided by IGSL does not appeal to logic nor is it founded in general practice.

91. The securities market being a highly liquid one, it is highly suspect that the clients took close to a year to decide they didn't want to use the money they kept with IGSL for trades and instead took the money back. The categorisation of this money as 'Security Deposit Others' and its non-maintenance in the 'Margin from clients' funds therefore adds to the strong suspicion that these were not monies paid in the normal course of business. Merely because interest was not paid on the money does not take away from it the nature of a deposit. I note that IGSL being a registered stock broker and proposing to be a listed company, held such large amounts from a 'proposed lent' for such a long period without there being appropriate record or nomenclature or proper disclosure.

92. The subject matter of this Order however is not enforcement action for non-compliance with the provisions of Section 58A of the Companies Act, but the failure of IGSL to make suitable disclosures regarding the same. A company's obligation to make repayments to deposit holders is a matter that needs to be disclosed adequately to the public before raising of public money towards the company's IPO. This would make the company's shareholders well aware of the company's liabilities and its needs for raising public money before making a decision to participate in the company's IPO. This is particularly true when the amounts involved are substantially large. In disclosures related to public issue, it is not enough that the disclosures made are true and correct. It is also essential that the issuer discloses all relevant and material information to enable the investors to take an informed decision without any suppression. The investors in IGSL's IPO were deprived of an informed decision when IGSL failed to disclose such large amounts as being due as deposits. I therefore

find that IGSL and its Noticee directors and key management personnel who certified the prospectus failed to make material disclosures regarding acceptance of deposits by IGSL thereby violating regulation 57(1) of the ICDR Regulations.

93. The non-disclosure of the existence of bridge loans extended and deposits accepted by IGSL cannot be construed as mere lapses of disclosure. Rather given the large size of the said loans/deposits and read along with the fact that large unsecured loans were granted prior to and after receipt of IPO proceeds points to a fraudulent scheme which IGSL had adopted. If investors had been made aware of the large size of debt obligations that IGSL had incurred and the fact that IPO proceeds were intended to be used towards discharging such obligations or extending highly risky unsecured loans, it is doubtful whether the said investors would have subscribed to IGSL's public issue. Clearly therefore considering the size of such debt and the overall scheme involved, the omission to make disclosures regarding bridge loans and deposits accepted were also fraudulent in nature in as much as they sought to induce the public to make investments in the IPO of IGSL on the strength of materially false information. Such concealment of material information does not amount to true, fair and adequate disclosures by Noticees rather is fraudulent in nature depriving the investors to take an informed investment decision. I therefore find that IGSL and its Noticee directors and key management personnel who certified the prospectus have also violated the provisions of Section 12 A (a), (b) and (c) of the SEBI Act, 1992 read with regulations 3(b), (c), (d), 4 (1) and 4(2)(f), (k) and (r) of the SEBI PFUTP Regulations, 2003 as well.

94. In this connection, I would like to draw reference to the Order dated August 31, 2012 in the case of Sahara India Real Estate Corporation Limited & Ors. v. Securities and Exchange Board of India & Anr., wherein the Hon'ble Supreme Court observed that *" Prospectus is the principal medium through which the investors get information of the strength and weakness of the company, its creditworthiness, credence and confidence of promoters and the company's prospects."*

95. I also draw reference to the Hon'ble Delhi High Court's Order dated April 09, 2010, in the case of Kimsuk Krisha Sinha v. SEBI, which inter alia held as follows:

> *"While enforcing the civil liability for any loss or damage under Section 62 may be restricted to persons who subscribed for shares on the faith of the prospectus, Section 63 can be set in motion by any person including SEBI. The purpose of inserting Section 55A in the Companies Act was to empower the SEBI to take both corrective and preventive action. This is perhaps because as a regulatory body SEBI gets to see the draft prospectus preceding a public issue by a company even before the public gets to see the RHP. SEBI is enabled and empowered to examine the DRHP and insist on complete and truthful disclosure of all relevant facts therein. The very purpose of having an independent regulatory authority like SEBI, and vesting it with statutory powers of inquiry, is to enable it to take prompt action in matters relating to issue and transfer of shares. Particularly, SEBI is expected to be the sentinel, read the fine print of prospectuses keeping the investors interests in view. It has both a preventive and corrective role to perform."*

96. Further the Hon'ble Securities Appellate Tribunal in the matter of HSBC Securities and Capital Markets (India) Private Ltd. v. SEBI, SAT Appeal No. 99 of 2007 (decided on February 20, 2008) observed as follows: *"an incorrect or wrong information in a letter of offer or other similar documents issued for the benefit of investors in general could lead to serious consequences including loss of credibility for the market operators and for the regulatory system. This kind of failure has to be taken very seriously by the market regulator".*

97. In light of the above observations, I find that the acts / omissions described hereinabove, in totality show that IGSL had mis-utilized the proceeds received from the IPO by applying them towards activities not disclosed in the prospectus. IGSL also actively concealed material information, and made false and inadequate disclosures in the RHP/Prospectus. I note that the

following Noticees signed the declaration in the prospectus certifying that all the statements in the prospectus are true and correct.

Noticee Sl. No.	Name	Designation
2	Nagji K Rita	Chairman and Managing Director
3	Virendra D Singh	Whole Time Director
4	Kanji B Rita	Director
5	Vinod K Shah	Director
6	Pravin N Gala	Director
7	Arun N Joshi	Independent Director
8	Srinivasaiyer Jambunathan	Independent Director
9	Harshavardhan M Gajbhiye	Independent Director
10	Ajay Khera	Independent Director
11	Deepak M Vaishnav	Independent Director
12	Arvind Gala	Chief Financial Officer
13	Bhavi Gandhi	Company Secretary & Compliance officer

98. In view of the conclusions in this Order regarding bridge loans and acceptance of deposits by IGSL, I find that Noticee Nos. 2-13 gave a wrong certificate in the RHP / Prospectus and were also responsible for concealing material information, and making false and inadequate disclosures in the RHP/Prospectus of IGSL as described above.

99. Those among the Noticees who were ‘non-executive directors’ / 'independent directors' on the board of IGSL have relied on section 149(12) of the Companies Act, 2013 to state that being independent or non-executive and non-promoter directors, they are liable for only those acts or omissions which have occurred with their knowledge, attributable through Board processes, and with their consent or connivance or where the respective directors had not acted diligently. However, it is my considered view that this provision does not come to their aid since all of the Noticees including those who were 'independent directors' had officially certified in the prospectus that disclosures made in the prospectus were true and correct. Accordingly, I find no merit in the arguments put forth by the Independent Directors.

100. In this connection, I would like to refer and rely on the following case laws cited by which clearly bring out the role, responsibility and accountability of directors.

(a). 829 Equitable Life Assurance Society vs. Bowlye and Others Queen's Bench Division (Commercial Court) [(2003) EWHC 2263 (Comm)]

(b). Official liquidator Supreme Bank Ltd. vs. P.A. Tendolkar [AIR 1973 Supreme Court 1104].

In the case of Equitable Life Assurance Society, the 'duty of care' owed by a director has been clearly illustrated. The first is the skill and knowledge expected from a reasonably diligent person. The second is actual knowledge, skill and experience of a director. The following observations are very relevant to the issue at hand.

"Mr Milligan QC referred me to another general statement about the duties of directors which I find helpful as it both expresses what may be expected of a 'reasonably diligent' director and acknowledges the obvious qualification that what the test requires must depend on the particular circumstances before the court. The reference is in the judgment of Morritt LJ in Baker v Secretary of State for Trade and Industry [2001] BCC 273 at p.285 where the Court of Appeal approved the summary given by Jonathan Parker J at first instance in these terms:

> *'(i) Directors have, both collectively and individually, a continuing duty to acquire and maintain a sufficient knowledge and understanding of the company's business to enable them properly to discharge their duties as directors.*
>
> *(ii) Whilst directors are entitled (subject to the articles of association of the company) to delegate particular functions to those below them in the management chain, and to trust their competence and integrity to a reasonable extent, the exercise of the power of delegation does not absolve a director from the duty to supervise the discharge of the delegated functions.*

(iii) No rule of universal application can be formulated as to the duty referred to in (ii) above. The extent of the duty, and the question whether it has been discharged, must depend on the facts of each particular case, including the director's role in the management of the company."

In Tendolkar's case also the legal position has been brought out as under-

"It is certainly a question of fact, to be determined upon the evidence in each case, whether a Director, alleged to be liable for misfeasance, had acted reasonably as well as honestly and with due diligence, so that he could not be held liable for conniving at fraud and misappropriation which takes place. A Director may be shown to be so placed and to have been so closely and so long associated personally with the management of the Company that he will be deemed to be not merely cognizant of but liable for fraud in the conduct of the business of a Company even though no specific act of dishonesty is proved against him personally. He cannot shut his eyes to what must be obvious to everyone who examines the affairs of the Company even superficially. If he does so, he could be held liable for dereliction of duties undertaken by him and compelled to make good the losses incurred by the Company due to his neglect even if he is not shown to be guilty of participating in the commission of fraud. It is enough if his negligence is of such a character as to enable frauds to be committed and losses thereby incurred by the Company."

101. With the changing scenario in the corporate world the concept of corporate responsibilities is also rapidly changing day by day. The director of a company cannot confine himself to lending his name to the company but taking light responsibility for its day to day management. While functions may be delegated to professionals, the duty of care, diligence, verification of critical points by directors cannot be abdicated. The directors are expected to have a hands on approach in the running of the company and take up responsibility not only for the achievements of the company but also the failings thereto. In line with the aforesaid Case Laws, I find no merit in the submissions made by the Noticees.

102. The Noticees 2 to 13 in their submissions stated that there was no evidence brought on record to show as to how and in what manner, the investors were misled / induced into investing in the IPO. In this connection, I would like to refer the definition of "fraud" in regulation 2(1) (c) of the SEBI (PFUTP) Regulations, which is an inclusive one. It is inclusive with respect to act, expression, omission or concealment committed by any person whether in deceitful manner or not, while dealing in securities in order to induce another person. The definition is also inclusive with respect to knowing misrepresentation, concealment of material fact, suggestion to an untrue fact, active concealment of fact with knowledge, promise without intention to perform, reckless and careless representations, deceptive behaviour, false statement, etc. as listed in points (1) to (8) of regulation 2(1) (c). Further the expression 'dealing in securities' as defined in regulation 2(1)(b) includes an act of buying, selling or subscribing pursuant to any issue of securities or agreeing to buy, sell or subscribe any issue of any security.

103. In this connection, it is noteworthy to refer to the observations of Hon'ble SAT Order in the case of Shri V. Natarajan vs. Securities and Exchange Board of India, Appeal no.104 of 2011 dated June 29, 2011).

"…..we are satisfied that the provisions of Regulations 3 and 4 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 were violated. These regulations, among others, prohibit any person from employing any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on an exchange. They also prohibit persons from engaging in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities that are listed on stock exchanges. These regulations also prohibit persons from indulging in a fraudulent or unfair trade practice in securities which includes publishing any information which is not true or which he does not believe to be true. Any advertisement that is misleading or contains information in a distorted manner which may influence the decision of the investors is also an unfair trade practice in securities which is prohibited. The regulations also make it clear that planting false or misleading news which may induce the public for selling or purchasing securities would also come within the ambit of unfair trade practice in securities. It is by now well understood that unaudited

financial results that are required to be published by every listed company on a quarterly basis do form the basis for the investing public to take informed decisions. Any false information or false accounts depicting inflated revenues and profits by fictitious entries in accounts is, indeed, a very serious wrong doing which directly impacts the securities market and the investors. Since the appellant was a part of the board of directors which approved the financial results of the company which were actually false and untrue, we are satisfied that the appellant is guilty of the charges levelled against him. Having regard to the nature of the serious market violation committed by the appellant, the Board was justified in keeping him out of the market for a period of three years and not allowing him to be a director on any listed company for that period."

104. I, therefore, find that false and misleading information to investors in connection with the issue of shares would be covered within the scope of section 12A of the SEBI Act and regulation 3 and 4 of the PFUTP Regulations. Therefore, I find no merit in the submissions put forth by the Noticees 2 to 13.

105. Further, the Noticees in their submissions referred to the provisions of Section 27 of SEBI Act and sought relief from the violations, which were stated to have been committed without their knowledge. I note that the Signatories to the Prospects in their respective roles as CMD, Whole Time Director, Director, Independent Director, CFO & Company Secretary, had signed a declaration, which reads as under:

"We, the undersigned, hereby certify and declare that all relevant provisions of the Companies Act, 1956 and the guidelines issued by the Government of India and / or the regulations / guidelines issued by the SEBI, established under Section 3 of the SEBI Act, 1992, as applicable, have been compiled with and no statement made in the Prospectus is contrary to the provisions of the Companies Act, 1956, the SEBI Act 1992 each as amended or rules made there under or regulations issued, as the case may be. We further certify that all the disclosures and statements made in the Prospectus are true and correct.

Signed by the Directors, CFO and the Company Secretary & Compliance Officer of the Company."

106. It is clear from the aforesaid declaration made by the Noticees 2 to 13 that all the disclosures made in the Prospectus were true and correct, whereas the

same were found to be untrue and incorrect with regard to acceptance of deposits and availing bridge loans, which were narrated above. Therefore, I find no merit in the submissions made by the Noticees to 2 to 13.

107. Further, the relevance placed by the Noticees on various judgements of Hon'ble Supreme Court, Hon'ble High Courts and Hon'ble SAT with respect of strict proof required & compelling evidence, for a serious charge of "fraud". I have perused the judgements referred to and relied upon by the Noticees in their defence and note that the same are not in any way comes in their defence, as the instant case is totally distinguishable. I note from the findings as stated above, wherein the allegations levelled against were proven with strict proof and clinching evidence.

108. Further, the Noticees pleaded that the violations were technical in nature and tries to pass on the liability to other Departments / Directors of the Noticee Company. The very basis of the charges levelled against the Noticees are serious in nature which involved mis-utilisation of funds raised from the public and made untrue statements in the Prospectus with regard to acceptance of deposits and availing of bridge loans. I am of the considered view that the above material facts have been conveniently not mentioned in the Prospectus and the fraudulent act of the Noticee Company in mis-utilisation of funds cannot be ignored, which cannot be termed as technical in nature. Therefore, I find no rationale in the submissions put forth by the Noticees.

109. The Notice 3 i.e., Virendra Dudhnath Singh, who was the Whole Time Director of IGSL in his submissions stated that he was never involved in the financial function of the Company or any stock broking function of the Noticee. I note from the records that the Noticee 3 was in fact Whole Time Director of IGSL till August 10, 2016. A whole time director is a director employed to devote the whole of his time and attention in carrying on all the affairs of the company. The role of a whole time director is very significant and material in running day to day affairs of a company. His role and responsibility are equivalent to that of a managing director in as much as he is expected to spend his whole time in the management of the company. This implies a high level of accountability

and knowledge of the overall functioning of the company. He cannot take shelter, under the argument that he was in charge of commodities business and that financial functions were totally alien to him. As a whole time director he was duty bound to examine the financials / accounts with a critical eye as expected from a prudent person and identify irregularities which were prominent in the financials of the company. The fact that Virendra Dudhnath Singh was the whole time director and he was actively involved in the functioning of the various committees, which control the day to day management of the company, shows that his duty and responsibility were expected to be of a high order. Therefore, I find no merit in the arguments put forth by the Noticee 3.

110. I also note that the Noticees 12 and 13 viz., Arvind Gala and Bhavi Gandhi in their respective roles as CFO and Company Secretary of IGSL stated that they were unaware of the statements and material facts mentioned by IGSL in its Prospectus and thus cannot be held liable for the alleged violations. I note that Noticees 12 and 13 were very well aware of the IPO by IGSL and certified the disclosure made in the Prospectus. Now, the Noticees tries to absolve their liability by claiming innocence, which cannot go well. I note that there is greater role played by CFO and Company Secretary / Compliance Officer in an IPO to comply with the various obligations cast upon under the Statute. Be that may be, for examination of merit in their submissions, if it is assumed that the Noticees had lent their name for the purpose of IPO, name lending is a serious offence which enables manipulators to carry out their nefarious activities by masking their identity. In the instant case, there are no records to justify that the Noticees were caught unaware of scheme of things of fraudulent activity. In this regard, I take note of the observation of The Hon'ble Securities Appellate Tribunal in Rahul H. Shah Vs. SEBI (Appeal No. 83 of 2012 decided on May 11, 2012) wherein it was observed that name lending "*is a fraudulent activity and requires to be curbed for maintaining the sanctity of the securities market".* In view of the above, I find no merit in the submissions made by the Noticees 12 and 13.

111. Based on the various findings mentioned in above paras, I conclude that Noticee Company had failed to utilize the IPO proceeds for the purpose as stated in the Prospectus, accepted deposits in violation of Section 58A of the Companies Act, 1956 and Acceptance of Deposits Rules, failed to disclose material facts in the offer documents (RHP and Prospectus) with regard to the aforesaid violation and also made untrue statement regarding availing bridge loans which misled / induced investors into investing in the IPO and also subsequent dealings in the scrip. I also conclude the at the Noticees 2 to 13, being the Signatories to the RHP & Prospectus had failed to disclose material facts in the Prospectus regarding acceptance of deposits and also made untrue statement regarding availing bridge loans. Accordingly, I hold that the Noticees had violated the provisions of Regulation 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations, Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations

ISSUE 2: *Does the violation, if any, attract monetary penalty under Section 15HA and 15HB of SEBI Act.?*

112. True and fair disclosures are important in an IPO as the investors rely on the statements and disclosures made by the Issuer Company while making investment decisions. If the disclosures made by the company / promoter & director later found to be factually incorrect, it will impact the interest of investors, which in turn mislead the investors. In this connection, the observation of the Hon'ble Supreme Court in the matter of *N Nrayanan Vs. Adjudicating Officer, SEBI* in Civil Appeal Nos., 4112-4113 of 2013 (Order dated April 26, 2013) is worth mentioning, which reads as under.

"SEBI, the market regulator, has to deal sternly with companies and their Directors indulging in manipulative and deceptive devices, insider trading etc. or else they will be failing in their duty to promote orderly and healthy growth of the Securities market. Economic offence, people of this country should know, is a serious crime which, if not properly dealt with, as it should be, will

affect not only country's economic growth, but also slow the inflow of foreign investment by genuine investors and also casts a slur on India's securities market. Message should go that our country will not tolerate "market abuse" and that we are governed by the "Rule of Law". Fraud, deceit, artificiality, SEBI should ensure, have no place in the securities market of this country and „market security" is our motto. People with power and money and in management of the companies, unfortunately often command more respect in our society than the subscribers and investors in their companies. Companies are thriving with investors' contributions but they are a divided lot. SEBI has, therefore, a duty to protect investors individual and collective, against opportunistic behaviour of Directors and Insiders of the listed companies so as to safeguard market's integrity".

In view of the above, as the alleged violation against the Noticee stands established, the Noticees are liable for monetary penalty under Section 15HA and 15HB of SEBI Act. The provisions of Section 15HA and Section 15HB are reproduced hereunder:

Section 15HA of SEBI Act - Penalty for fraudulent and unfair trade practices

"If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher".

Section 15HB of SEBI Act – Penalty for contravention where no separate penalty has been provided

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

ISSUE 3: *If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act?*

113. While determining the quantum of monetary penalty under Section 15 A (b) of SEBI Act, I have considered the factors stipulated in Section 15-J of SEBI Act, which reads as under:

Section 15J - Factors to be taken into account by the Adjudicating Officer

While adjudging quantum of penalty under Section 15 - I, the Adjudicating Officer shall have due regard to the following factors, namely:

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) *the repetitive nature of the default.*

114. I note that the investigation has not quantified the profit / loss for the nature of violations committed by the Noticees and no quantifiable figures are made available on record to assess the disproportionate gain or unfair advantage and amount of loss caused to an investor or group of investors. In this context, it is relevant to quote the judgement of Hon'ble Supreme Court in the matter of SEBI Vs. Shri Ram Mutual Fund, wherein it was inter-alia held that *"once the violation of statutory regulations is established, imposition of penalty becomes sine qua non of violation and the intention of parties committing such violation becomes totally irrelevant. Once the contravention is established, then the penalty is to follow".*

115. I take into consideration the role played by the Noticees 7 to 11 in the capacity of Independent Directors of the Noticee Company, who are required to improve corporate governance standards for the protection of interest of investors. I also note that CFO (Noticee 12) and Company Secretary / Compliance Officer (Noticee 13) were only employees of the Company and works on the direction of the management of the Company. However, given

the fact that the Noticee 12 and 13 in their roles should have exercised reasonable due diligence and care in certifying the material facts and statements made in the Prospectus, which they failed to do so. I am of the view that reasonable penalty would meet the ends of the justice for the violation committed by the Noticees 7 to 13. In respect of the Noticees 1 to 6, I am of the view that Noticee 1 being a registered market intermediary before the IPO and Noticee 2 to 6 being directors, were expected to demonstrate higher standards of integrity, fairness and transparency in their respective roles, which they failed to do so. Therefore, the violations established against them deserves stricter penalty.

ORDER

116. After taking into consideration the nature and gravity of the charges established against the Noticees as discussed in the preceding paragraphs and in exercise of the powers conferred upon me under Section 15I of the SEBI Act read with Rule 5 of the SEBI Adjudication Rules, I hereby impose monetary penalty on the Noticees as under:

Sl. No.	Name of the Noticee	Penalty amount in ₹ and words	Violation of the provisions of	Penal provisions under SEBI Act
1	Inventure Growth & Securities Ltd.,	50,00,000/- (Rupees Fifty Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		25,00,000/- (Rupees Twenty Five Lakhs only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	Section 15HB
2	Nagji Keshavji Rita	10,00,000/- (Rupees Ten Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		5,00,000/- (Rupees Five Lakhs only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of	Section 15HB

			schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	
3	Virendra Dudhnath Singh	10,00,000/- (Rupees Ten Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		5,00,000/- (Rupees Five Lakhs only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	Section 15HB
4	Kanji Bhachubhai Rita	10,00,000/- (Rupees Ten Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		5,00,000/- (Rupees Five Lakhs only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	Section 15HB
5	Vinod Kanji Shah	10,00,000/- (Rupees Ten Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		5,00,000/- (Rupees Five Lakhs only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	Section 15HB
6	Pravin Nanji Gala	10,00,000/- (Rupees Ten Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		5,00,000/- (Rupees Five Lakhs only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	Section 15HB
7	Arun Narayan Joshi	3,00,000/- (Rupees Three Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		2,00,000/-	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of	Section 15HB

		(Rupees Two Lakhs only)	schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	
8	Jambunathan Srinivasaiyer	3,00,000/- (Rupees Three Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		2,00,000/- (Rupees Two Lakhs only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	Section 15HB
9	Harshavardhan M Gajbhiye	3,00,000/- (Rupees Three Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		2,00,000/- (Rupees Two Lakhs only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	Section 15HB
10	Ajay Khera	3,00,000/- (Rupees Three Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		2,00,000/- (Rupees Two Lakhs only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	Section 15HB
11	Deepak M Vaishnav	3,00,000/- (Rupees Three Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		2,00,000/- (Rupees Two Lakhs only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	Section 15HB
12	Arvind Jethlal Gala	2,00,000/- (Rupees Two Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		1,00,000/-	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G)	Section 15HB

		(Rupees One Lakh only)	and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	
13	Bhavi Rahul Gandhi	2,00,000/- (Rupees Two Lakhs only)	Section 12 A (a), (b), (c) of SEBI Act,1992 and Regulations 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations	Section 15HA
		1,00,000/- (Rupees One Lakh only)	Regulations 57 (1) and 57 (2) (a) read with Clause 2 (VII) (G) and (XVI) (B) (2) of part A of schedule VIII and 60 (4) of the SEBI (ICDR) Regulations.	Section 15HB

117. The said penalty imposed on the Noticees, as mentioned above, shall commensurate with the violation committed and acts as a deterrent factor for the Noticees and others in protecting the interest of investors.

118. The Noticees shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through online payment facility available on the SEBI website www.sebi.gov.in on the following path by clicking on the payment link.

ENFORCEMENT → Orders → Orders of AO → PAY NOW

119. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid through e-payment to the Division Chief, Enforcement Department-I, DRA-I, SEBI, in the format as given in table below:

Case Name	
Name of Payee	
Date of payment	
Amount Paid	
Transaction No	
Bank Details in which payment is made	
Payment is made for	Penalty

120. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under Section 28A of the SEBI Act for realization of the said amount of penalty along with interest

thereon, inter alia, by attachment and sale of movable and immovable properties.

121. In terms of Rule 6 of the SEBI Adjudication Rules, copies of this order are sent to the Noticees and also to SEBI.

Date: August 30, 2019 **B J DILIP**

Place: Mumbai **Adjudicating Officer**