BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/BS/LS/2025-26/31698]

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

In respect of:

Finshore Management Services Ltd

(PAN: AABCF8557F)

In the matter of Finshore Management Services Ltd

A. BACKGROUND

1. Finshore Management Services Limited (hereinafter referred to as '**Noticee'**) is registered with Securities and Exchange Board of India (hereinafter referred to as '**SEBI'**) as a Merchant Banker (hereinafter referred to as '**MB**) having registration number INM000012185.

2. SEBI had carried out comprehensive inspection of the Noticee for the period from April 01, 2021 to April 30, 2023 (herein after referred to as the "**IP**") at its registered office Anandlok, 2nd Floor, Block-A, Room No.207, 227, A.J.C Bose Road, Kolkata, West Bengal-700020, on May 25 to May 26, 2023, to assess the due diligence exercised by the MB in respect of various SME issues handled by it during the IP.

3. The findings of the said inspection were communicated to the Noticee vide letter dated August 12, 2023. In response to the findings in the inspection report, Noticee submitted a reply vide email dated August 22, 2023. The subsequent queries were

answered by the MB vide emails dated September 15, 2023, October 26, 2023, October 31, 2023 and November 03, 2023.

4. Based on the findings of the inspection of the Noticee and considering the reply of the Noticee, SEBI initiated adjudication proceedings against the Noticee for alleged violation of the following provisions:

   4.1. Regulation 245 (3) of SEBI (ICDR) Regulations, 2018.
   4.2. Regulation 13 r/w Clause 3, 4 and 6 of Code of Conduct for Merchant Bankers under Schedule III of SEBI (Merchant Bankers) Regulations, 1992.

B. APPOINTMENT OF ADJUDICATING OFFICER

5. The undersigned was appointed as the Adjudicating Officer (hereinafter referred to as "**AO**") vide Order dated February 29, 2024 under Section 19 read with Section 15I of Securities and Exchange Board of India Act 1992 (hereinafter referred to as '**SEBI Act'**) and under the Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties), 1995 (hereinafter referred to as " **Adjudication Rules**") to inquire into and adjudge under Section 15HB of the SEBI Act, 1992, in respect of the alleged violations committed by the Noticee as mentioned above.

C. SHOW CAUSE NOTICE, REPLY AND HEARING

6. Show Cause Notice (hereinafter referred to as '**SCN'**) bearing No. SEBI/EAD-1 /BS /12475 /1 /2024 dated March 28, 2024, was issued to the Noticee in terms of the provisions of Rule 4(1) of the SEBI Rules read with section 15 – I of the SEBI Act, 1992 requiring the Noticee to show cause as to why an inquiry should not be held and penalty, if any, should not be imposed upon the Noticee under section 15HB of SEBI Act for the alleged violations of Regulation 245(3) of SEBI (ICDR) Regulations, 2018, Regulation 13 read with Clause 3, 4 and 6 of Code of Conduct for Merchant Bankers under Schedule III of SEBI (Merchant Bankers) Regulations,

1992. The SCN was duly served on the Noticee and the same was acknowledged by the Noticee.

7. The Noticee was advised to submit its reply to SCN within 21 days from the date of receipt of the SCN. Subsequently, the Noticee, vide email dated April 25, 2024, inter alia, submitted the following reply to the SCN:

8. *At the outset, it is submitted that the satisfaction of the Competent Authority in issuing the sanction / order appointing the Adjudication Officer is borrowed from the Inspection Report and Post – Inspection Analysis. It is also an admitted position that the same is explicitly stated in the Show Cause Notice that based on the Inspection Report and Post – Inspection Analysis, it is alleged that the Noticee has failed to exercise due diligence, proper care and independent professional judgement etc. However, it can be clearly seen from the post inspection analysis that the Board raised several queries which were duly addressed by the Noticee. While several explanations were accepted by the board, in some instances, the Board itself recommends administrative warnings. On that score, we humbly submit that when the Board itself is of the opinion that some of its conclusions in the post inspection analysis can be rectified by administrative warnings, then the same cannot be stretch to be construed as the material on the basis of which the sanctioning authority has relied upon to initiate proceedings against the Assesse. We say that the post-inspection report is self-explanatory, and it would be severely prejudicial to market participants if the Board, being the market regulator and adjudicator exercises unfettered liberty to prosecute market intermediaries in a routine manner after the board has itself recommended issuance of administrative warnings.*

9. *The Noticee most respectfully submits that the Adjudication Proceedings before the AO is wholly governed by the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995. The scheme of the Rules mandates a two-tier system of adjudication, first, whereby a Show Cause Notice under Rule 4(1) is issued requiring the Noticee to show cause as to why Inquiry should not be initiated; and thereafter,*

upon receiving the Reply, by application of mind to the contents of the reply. record the reasons in writing as to why inquiry is necessary.

10. *It is submitted that the Rules under the SEBI Act, 1992 are framed in light of the principles of natural justice and fair play, which forms an inalienable aspect of any fair adjudication process, and therefore and mandatory in nature and cannot by avoided or bypassed. It is further pertinent to note at this stage, that the Annexure No. 1 to the Show Cause Notice dated 28" March, 2024, being the order under Rule 3 of the SEBI Adjudication Rules for the Appointment of the Adjudicating Officer has formed an opinion, inter alia stating:*

" ... the Competent Authority is prima facie of the view that there are grounds to adjudicate upon the alleged violations by the following entity ... "

11. *At the cost of repetition, it is necessary to state that the purported opinion is based on the post inspection analysis which explicitly recommends issuance of administrative warnings in lieu of the findings of the Board. It is submitted that no authority can be permitted to take inconsistent stands and change their view, as appears to be in the instance where adjudication proceedings are launched after the Board itself has recommended administrative warnings. The entire exercise is contrary to law and against the principles of natural justice and fair play.*

12. *Further reference is made to Paragraph 3 of the SCN which is reproduced as under:*

" 3. The Noticee is, therefore, called upon to show cause as to why an inquiry should not be held against it in terms of rule 4(1) of Rules read with section 151 of the SEBI Act and why penalty should not be imposed under section l 5HB of the SEBI Act, 1992 for the aforesaid alleged violations... "

13. *The Noticee most respectfully submits that the even prior to the issuance of the SCN, the Board has already formulated an adverse primafacie view, that it is necessary to adjudge and further, even before being able to consider the Noticee's reply to*

the SCN to determine whether at all, inquiry is necessary, the Adjudicating Officer has demanded that cause be shown as to why penalties should not be imposed upon the Noticee in terms of the provisions of the SEBI Act. It is most respectfully submitted that in light of the aforesaid, it is clear that forming an opinion against the Noticee even before cause can be shown not only is in express contravention of the Adjudication Rules, but also adversely affects the Noticees position to have an independent and neutral application of mind to its Reply. The very essence of the two-tier process mandated under the Adjudication Rules become vitiated, and the Noticee's reply to the Show Cause is reduced to a mere academic exercise where the Board has already formed a prejudicial prima facie view, or opinion against the Noticee even before cause 1s shown as to why inquiry is not mandated.

14. *It is most respectfully submitted that wherever a statute mandates the formation of an opinion that an inquiry is necessary, the same must necessarily be formed in light of the cause shown. Reliance is placed on the decision of the Hon'ble Supreme Court in T. Tkano v. SEBI, (2022)8*
SCC 162 wherein it was observed:

29 Now in this backdrop, Justice B. Sudarshan Reddy speaking for the two judge Bench of this Court interpreted Rule 4 as follows:

"23. The Rules do not provide and empower the Adjudicating Authority to straightaway make any inquiry into allegations of contravention against any person against whom a complaint has been received by it. Rule 4 of the Rules mandates that for the purpose of adjudication whether any person has committed any contravention, the Adjudicating Authority shall issue a notice to such person requiring him to show cause as to why an inquiry should not be held against him. It is clear from a bare reading of the rule that show cause notice to be so issued is not for the purposes of making any adjudication into alleged contravention but only for the purpose of deciding whether an inquiry should be held against him or not. Every such notice is required LO indicate the nature of contravention alleged to have been committed by the person

concerned. That after taking the cause, if any, shown by such person, the Adjudicating Authority is required to form an opinion as to whether an inquiry is required to be held into the allegations of contravention. It is only then the real and substantial inquiry into allegations of contravention begins."

The above extract clearly indicates that the show cause notice under Rule

4(1) is not for the purpose of making an adjudication into the alleged contravention but only for deciding whether an enquiry must be conducted. The stage when an enquiry is held is subsequent to the initial stage contemplated by Rule 4(1).

15. *It is submitted, that the decision of the Hon'ble Bombay High Court, in Parmeshwar Das Agarwal & Ors. v. Additional Director, SFIO & Anr., (2016) 6 AIR Bom R488, which was upheld by the Hon 'ble Apex Court on merits in Union ofIndia & Anr. V. Parmeshwar Das Agarwal in SLP (Civil) No. 38664/2017, in interpreting the phrase "is of the opinion" in respect of the appointment of SFIO to investigate into the affairs of a Company, held:*

" 40. Thus, the principle is that there has to be an opinion formed That opinion may be subjective, but the existence of circumstances relevant to the inference as to the sine qua non for action must be demonstrable. It is not reasonable to hold that the clause permits the Government to say that it has formed an opinion on circumstances, which it thinks exist. Since existence of circumstances is a condition fundamental to the making of the opinion, when questioned the existence of these circumstances have to be proved at least prim facie."

16. *However, the language of the Show Cause Notice clearly shows that a prejudicial opinion against the Noticee has been formed even before an opportunity to show cause as to why inquiry is not mandated to the point where the SCN directly calls upon the Noticee to show cause as to why penalty should not be imposed. This reduces the entire process to a routine exercise to ensure statutory compliance with a predetermined outcome which would indubitably end in imposition of*

penalties irrespective of the submissions made by the Noticee at any stage of the proceedings, be it at the stage of showing cause, or at the stage of adjudication.

17. Considering the reply received from the Noticee, it was decided to conduct an inquiry in the matter. Accordingly, vide email dated May 10, 2024, Hearing notice was issued to the Noticee to provide them with an opportunity of personal hearing in the interest of natural justice. The Noticee was advised to appear before the undersigned on May 29, 2024.

18. The Noticee appeared for the scheduled hearing through its Authorized Representative (**AR**) and Whole Time Director. The AR and Whole Time Director made oral submission on behalf of the Noticee and reiterated the submissions already made vide their earlier letter dated April 25, 2024. Further, the AR undertook to file additional reply in the said matter to SEBI.

19. Subsequently, vide email dated June 10, 2024, Noticee made additional submissions.

"…*the alleged non-disclosure of details of promoters/promoter group in the IPO of Naturo Indiabull Limited since the same could not be made available to the satisfaction of the Regulator at the time of Inspection. Please find enclosed herewith the supporting documents as relied upon by the Noticee in ascertaining and verifying true and correct disclosure regarding the details of the promoters/promoter group entities and their respective shareholdings as disclosed in the Offer Document.*

- *During our due diligence, the Noticee-MB downloaded all documents from ROC records via E-form downloader to scrutinise and prepare the shareholding details (challan attached for E-form downloader)*

- *The Noticee-MB has taken the BENPOS from RTA to cross examine and verify the shareholdings. (BENPOS dated 24/06/2022 and 05/08/2022 are attached)*

- *The Noticee-MB has taken a certificate from Company Secretary for classification of Promoters and Promoters Group in addition to the aforesaid. (Copy attached)*

- *The Noticee-MB has also taken a certificate from Company Secretary for capital build-up history of company and capital build-up of Promoters and their cost of acquisitions. (Copy attached)*

- *This scrutiny was in addition to statutory auditor having peer review certificate also certified the shareholding of promoters in their Restated Financial Statement and same has been disclosed in Offer Documents in page 138 of Prospectus.*

- *Thus, the Noticee submits that in addition to ascertaining the details of the promoter/promoter group entities from the Audited Financial Statements, the Noticee has independently exercised its due diligence to ascertain and compute the shareholdings in order to ensure true and correct disclosure. The Noticee has actively participated in determining true and fair disclosure, and has not simply relied upon the data furnished by the Issuer. Therefore, the Noticee has fully complied with its obligation as regards due diligence.*

20. Further, vide emails dated December 26, 2024 another opportunity for submitting the additional submissions in connection with conclusion of the proceedings in the matter was given to the Noticee. In this regard, the Noticee vide email dated December 30, 2024 reiterated the earlier submissions made via email dated June 10, 2024. Therefore, based on the available information, on record, the instant matter shall be proceeded for passing the final order.

D. CONSIDERATION OF ISSUES AND FINDINGS

The Noticee has raised a preliminary objection that the Adjudication Rules provides for an inquiry which is a 2 tier system. It is submitted by the Noticee that the same was not followed in the instant case as a result of which prejudice was caused to it.

In this regard it is noted from the Show Cause Notice that the Noticee is called upon to show cause as to why an inquiry should not be held against it in terms of Rule 4(1) of the Adjudication Rules. Hence, only after considering the reply submitted by the Noticee that the inquiry is proceeded with. It is pertinent to note that the hearing notice EAD1/BS/16374/1/2024 dated May 10, 2024 clearly proves that on the basis of the reply submitted by the Noticee, it was decided to conduct an enquiry in the matter. Hence no prejudice is caused to the Noticee as submitted by it.

21. Considering the allegations made out in the SCN and the submissions made by the Noticee, I find that flowing issues require consideration in the present case:

a. ISSUE I - Whether Noticee is in violation of Regulation 245(3) of SEBI (ICDR) Regulations, 2018 and Regulation 13 read with Clause 3, 4 and 6 of Code of Conduct for Merchant Bankers under Schedule III of SEBI (Merchant Bankers) Regulations, 1992?
b. ISSUE II - Do the violations, if any, attract monetary penalty under Sections 15HB of SEBI Act, 1992?
c. ISSUE III - If yes, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act 1992 read with Rule 5 (2) of the Rules?

22. Before I proceed with the matter, it is pertinent to mention the relevant legal provisions which are reproduced below:

The relevant provisions are as under:

(i) Regulation 245(3) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018(stated below):

Regulation 245(3) of SEBI (ICDR) Regulations, 2018

“The lead manager(s) shall exercise due diligence and satisfy themselves about all aspects of the issue including the veracity and adequacy of disclosure in the draft offer document and the offer document”.

(ii) Regulation 13 read with clause 3,4 and 6 of Code of Conduct for Merchant Bankers under Schedule III of SEBI (Merchant Bankers) Regulations, 1992 (stated below):

Regulation 13 of SEBI (Merchant Bankers) Regulations, 1992

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

Clause 3, 4 and 6 of Code of Conduct for Merchant Bankers

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

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

6) A merchant banker shall ensure that adequate disclosures are made to the investors in a timely manner in accordance with the applicable regulations and guidelines so as to enable them to make a balanced and informed decision"

Further, going into the factual matrix of the case the same is on account of the alleged failure on the part of the Noticee in managing 12 IPOs which was selected as samples. The findings of the inspection were communicated to the Noticee to which the Noticee filed its responses.

The post inspection analysis was also forwarded to the Noticee which was replied by it. The Noticee contends that while several of its explanations were accepted by the Board and in some instances the Board itself recommends Administration Warning. In this context, the Noticee further contended that, when the Board itself is of the opinion that some of its conclusions in the post inspection analysis can be rectified by way of Administrative warnings, then the same cannot be stretched to be construed as the material on the basis of which the sanctioning authority has relied upon to initiate proceedings.

It is an admitted fact that during the course of the inspection the Noticee has submitted its responses to the queries raised by the inspecting authority. Further, on conclusion of the inspection, the inspection report was forwarded to the Noticee. Subsequent queries raised by SEBI were answered by the Noticee vide replies dated 15th September 2023, 26th October 2023, 31st October 2023 and 3rd November 2023.

In respect of each of the public issues selected as samples, it is noted that Administrative warning issued in respect of certain violations committed by the Noticee. However, this cannot be stretched to conclude and no further action can be taken by the Board against the Noticee. The action of SEBI issuing only Administrative warning in respect of some of the violations itself is a clear indication that only in respect of violations which require Adjudication that SEBI has initiated the same. Hence, no bias as against the Noticee can be attributed in initiating Adjudication in this matter.

As regards the violation alleged in the present matter, the main provisions alleged to have been violated by the Noticee are:

- Regulation 245(3) of SEBI (ICDR) Regulations, 2018 and Regulation 13 read with Clause 3, 4 and 6 of Code of Conduct for Merchant Bankers under Schedule III of SEBI (Merchant Bankers) Regulations, 1992

In this regard Regulation 245(3) of ICDR Regulations states that, the lead manager shall exercise due diligence and satisfy themselves about all aspects of the issue including the veracity and adequacy of the disclosures in the Offer Document.
It is noted that in the SME IPO of AKI Industries Limited, the certification of the Incorporation of the Company was not available with the Merchant Banker. In the case of SME IPO of Northern Spirits Limited, photo and reports of the site verification of the company were not available with the Merchant Banker. In the open offer of Shalimar Agencies Limited, the Merchant Banker could only produce a courier bill in respect of dispatch of Letter of Offer. In the case of delisting of Ankit Commerce Limited, as well

as Hada Textile Industries Limited, the Merchant Bankers could not provide proof of dispatch of exit offer letters. Further, in respect of Mehai Technology Limited, Indong Tea Limited and QUC Export Limited, the Merchant Banker has failed to present the information in the manner required by SEBI.

On analysis of the factual background of the case leading to the Adjudication as well as the various correspondences exchanged between SEBI and the Noticee during the course of the inspection as well as subsequent to the inspection, certain lapses were observed on the mart of the Merchant Banker. However, in this regard though the inspection report as well as post inspection report were forwarded as evidence in this adjudication proceeding and are part of the show cause notice issued to the Noticee, it is observed from the terms of reference for adjudication that the same alleges lack of due diligence as well as violation of the code of conduct by the Noticee. It is the contention of the Noticee that while some of the submissions are accepted by SEBI, certain submissions of the same nature have not been accepted by SEBI.

On perusal of the terms of reference for adjudication as well as the charges as brought out from certain instances from the inspection and post inspection reports, it is noted that the allegation of due diligence and violation of the code of conduct are general in nature without clearly linking the terms of reference to the violations. The very nature of instances depicting lack of due diligence and violation of code of conduct on the part of Noticee ought to have been more specific in nature. This is necessary as the terms of reference for adjudication in the appointment do not clearly indicate the specific acts on the part of the Noticee which resulted in the violations. Though it is pertinent to mention that the inspection and post inspection report contain certain instances indicating lapses on the part of the Noticee, it is submission of the Noticee that most of it were clarified through its various correspondences with SEBI. In this regard, it is pertinent to bear in mind the observations of Hon'ble Securities Appellate Tribunal in the matter of Religare Securities Ltd. vs SEBI (Appeal No:23/2011) dated June 16, 2011and in the matter UPSE Securities vs SEBI (Appeal no. 109/2011) dated July 25, 2011 wherein the Tribunal observed that the purpose of inspection of the books of accounts and records of any intermediary including a stock exchange or its

subsidiaries is to ensure compliance with the provisions of the Act, Rules, Regulations, By-laws and circulars issued from time to time which are meant to regulate the securities market. Every little irregularity/ deficiency notice during the course of the inspection is not culpable and does not call for initiation of penalty proceedings. The purpose of the inspection in quite a few cases could be better achieved if the inspecting team at the time of the inspection were to advise the erring entity. However, if any serious lapse is discovered, it would always be open to the Board to take penal action in accordance with law. Apparently, there are no allegations of fraud as against the Noticee in the present matter.

ISSUE II - Do the violations, if any, attract monetary penalty under Sections 15HB of SEBI Act, 1992?

ISSUE III - If yes, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act 1992 read with Rule 5 (2) of the Rules?

23. The text of the above said Section 15HB of the SEBI Act is reproduced below:

SEBI Act

"15HB. 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."

Factors Considered While Imposing Penalty:

24. While determining the quantum of penalty under Section 15HB of the SEBI Act, the following factors stipulated in Section 15J of the SEBI Act have to be given due regard:

SEBI Act

"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."

The available records neither specify the disproportionate gains/unfair advantage made by Noticee nor the loss, if any, suffered by the investors due to such violations. As mentioned in the previous paragraphs, certain lapses on the part of the Noticee do indicate lack of due diligence as well as non-adherence to the code of conduct on the part of the Noticee. However, considering that the matter is arising out of inspection it is felt that lapses may not be treated as serious in nature so as to warrant imposition of monetary penalty under the provision of SEBI Act.

ORDER

1. Taking into account the aforesaid findings and in exercise of powers conferred upon me under Section 15I of the SEBI Act read with Rule 5 of the Adjudication Rules and after considering all the facts and circumstances of the case and evidence on record, I conclude that the allegations against the Noticee do not warrant any monetary penalty.
2. Accordingly, the Adjudication proceedings initiated against the Noticee vide the SCN dated March 28, 2024 is disposed of without imposition of any monetary penalty.
3. In terms of rule 6 of the Rules, copy of this order is sent to the Noticee and also to the Securities and Exchange Board of India.

Place: Mumbai **BIJU. S**

Date: September 30, 2025 **ADJUDICATING OFFICER**