

SECURITIES AND EXCHANGE BOARD OF INDIA

INTERIM EX - PARTE ORDER

Under Sections 11(1), 11(4) and 11B of the Securities and Exchange Board of India Act, 1992

In respect of:

Name of Noticee	PAN
Trafiksol ITS Technologies Limited.	AAGCT6473R

In the matter of Initial Public Offer of Trafiksol ITS Technologies Limited.

Background

1. Trafiksol ITS Technologies Ltd. ("Trafiksol/Company"), a company having its registered office at 2nd Floor, B-68, Sector 63 Noida, Uttar Pradesh, is engaged in providing intelligent transportation systems and automation solutions for traffic management, toll management, etc. The Company filed a Draft Red Herring Prospectus ("DRHP") with the BSE Ltd. ("BSE") on May 31, 2024 for an Initial Public Offer ("IPO") of its equity shares which were proposed to be listed on the Small and Medium Enterprises (SME) Platform of BSE.
2. A fresh issue of 64.10 lakh shares was proposed through the aforesaid issue. Ekadrisht Capital Private Limited ("Ekadrisht/MB") having its office at 406, Summitt Business Bay, Andheri Kurla Road, Andheri East, Mumbai- 400 093, acted as the sole Book Running Lead Manager to the issue. The issue was offered to investors at a price band of Rs. 66 and Rs. 70 per share. The IPO opened for subscription on September 10, 2024, and closed on September 12, 2024. The issue was oversubscribed 345.65 times, with the retail portion being subscribed 317.66 times, non-institutional investors (NII) subscribed 699.40 times and Qualified Institutional Buyers (QIB) portion was subscribed 129.22 times. Total amount raised through the IPO at upper end of price band of ₹70 per share was Rs. 44.87 Crore.

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3. The basis of allotment was finalised on September 13, 2024 and the shares were credited to the demat accounts of the eligible applicants on September 16, 2024. It was disclosed in the DRHP that the proceeds from the Issue would be utilized for the following purposes:
 - a. Purchase of Software;
 - b. Repayment/prepayment, in part or full, of Company's borrowings;
 - c. For meeting its Working Capital Requirements; and
 - d. General Corporate Purpose.
4. In respect of the issue object "*purchase of software*", it was disclosed that the company was in need of "*an Integrated Software Control Centre (ICCC) to function as the core operational hub for smart cities*" and for this purpose the Company obtained a quotation dated May 16, 2024 from a Third Party Vendor. The quotation was for an amount of Rs. 17.70 Crore.
5. Post the closure of the issue and allotment of shares, certain complaints were received by SEBI and BSE in respect of the IPO. It was primarily alleged in the complaints that there were discrepancies in proposed use of proceeds for procuring software as the Third Party Vendor from which the Company had obtained the quote appeared incapable of executing the contract.
6. In terms of Chapter IX of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, DRHPs for SME IPOs are filed with stock exchanges. SEBI does not give observations on such offer documents. Given the same, SEBI vide email dated September 16, 2024, advised BSE to examine the allegations and take appropriate action in the interest of investors.
7. Pursuant to the same, BSE vide an email dated September 16, 2024, informed SEBI that following steps had been taken in the matter:
 - a. *The merchant banker and issuer has been advised to retain the entire issue proceeds in an escrow account.*
 - b. *The market participants were informed that the company has been advised to retain entire issue proceeds in the escrow account until the company satisfactorily explains issues raised in the complaints.*

8. Subsequently, BSE vide email dated September 17, 2024, informed SEBI that the listing of the proposed issue had been deferred and a public notice in this regard was issued. It was, *inter-alia*, stated in the public notice that *“it is hereby notified that in view of certain queries that have been raised, the listing of the scrip is postponed till queries are resolved by the issuer.”*
 9. Consequent to the deferment of the listing, SEBI started receiving complaints from investors who had been allotted shares in the IPO. The investors primarily requested for cancellation of the IPO and refund of their investments.
 10. SEBI separately called Ekadrisht for a meeting on September 17, 2024, to provide clarifications on the issues raised in the complaints. The MB, however, was unable to provide satisfactory responses. It was noted that software worth Rs. 17.70 Crore was proposed to be purchased from a Mumbai based Third Party Vendor which had not filed financial statements with Ministry of Corporate Affairs (“MCA”) for more than 3 years and had reported NIL revenue in the last year for which financials were filed.
 11. Simultaneously, BSE undertook an independent examination and sought the views of the Company and MB on the issues raised in the complaints. On completion of the examination, BSE vide email dated October 08, 2024 submitted a Report (BSE Report) to SEBI. The main findings of the BSE Report are as under:
 - a. *The financial statements of the Third Party Vendor were signed on the same date viz., September 02, 2024.*
 - b. *As per the GST Return of the Third-Party Vendor, core business activity was listed as ‘Trader – Retailer’ and ‘Retail Business’ was disclosed as the nature of the business activity.*
 - c. *Site visit inspection for the Third-Party Vendor was carried out by the stock exchange and it was found that the office was closed and there was no one available at the said address.*
 12. In respect of the course of action proposed by the Company, the BSE Report, *inter alia*, noted as under:
 - a. *The company was in process of seeking fresh quotation for appointment of new vendors for supply of software and that the company has*
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undertaken to obtain the quotation from at least 3 potential suppliers from whom the software would be procured.

- b. The company, before placing the order and releasing the payment to the approved vendor, shall seek approval of the members in a General Meeting.*
- c. The company consented to the appointment of a Monitoring Agency, , suggested by the BSE, to oversee the procurement process.*

Findings

13. I have reviewed the findings in the BSE Report and note that the issues/facts highlighted raised in the Report require further investigation for the following reasons:
- a. In response to the queries raised by BSE, the Company submitted copies of the audited financial statements of the Third Party Vendor for FY22, FY23 and FY24. It is noted that the financials for all the three years was signed by Murmuria & Associates on the same date - September 02, 2024, a week prior to the opening of the IPO.
 - b. Further, the audited financials did not have Unique Document Identification Number (**UDIN**), which is mandatory as per Institute of Chartered Accountants of India (ICAI) for financial documents/certificates attested by practicing Chartered Accountants.
 - c. The Third Party Vendor obtained GST Registration Certificate only on January 05, 2024. As per the GST Taxpayer details available on the GST website, the nature of the business of the said entity was Trade-Retailer/ Retail Business. It, therefore, *prima facie* appears that the Third Party Vendor is not a software developer.
 - d. BSE carried out a site visit on September 19, 2024 at the premise of the Third Party Vendor and found the office closed with no person available on the premises. The photos taken during the site visit are given below:



14. It is noted that the Company has now proposed to shelve the procurement of software as proposed in the DRHP. Instead, Trafiksol has submitted to BSE that it would call for fresh proposals from vendors and the contract would be awarded only after obtaining the consent of the shareholders. However, given the past conduct of the Company, I am constrained to note that the said proposal does not inspire confidence for the following reasons:
- a. The Company submitted a copy of its Purchase Policy to BSE. It is noted that the said policy prescribed an elaborate procurement process which, *inter-alia*, included consideration of factors such as vendor reputation, capability, capacity and past performance. It is, therefore, *prima facie* noted that the Company did not follow provisions of its own laid down policy while proposing purchase of high value software from the Third Party Vendor in the instant case.
 - b. The Company in its initial response, which was forwarded by the MB to BSE vide letter dated September 18, 2024, and September 19, 2024, informed the stock exchange that the Board of the Company had taken steps to call for quotation from the Third Party Vendor only after undertaking proper due diligence. In support, the Company had submitted a profile of the Third Party Vendor to buttress its claim that the Third Party Vendor was capable of supplying the software as disclosed in the DRHP. It is, therefore, noted that even after the complaints were received in the matter, the Company was of the view that the Third Party Vendor was capable of supplying the software as disclosed in the DRHP.
 - c. The MB had separately submitted to the exchange that it had conducted proper and reasonable due diligence including obtaining and verifying the profile of the Third-Party Vendor, quotation, GST Registration Certificate, etc. Given the observation noted in this Order regarding the Third Party Vendor, serious questions get raised regarding veracity of submissions made by the MB.
15. Given the above facts, it cannot be ruled out at this stage that the attempt to award the software contract to a Vendor, who *prima facie* appears to be a shell entity without any prior experience in developing a software platform of the nature disclosed by the Company in its DRHP, was an attempt to deliberately

mislead investors and divert the IPO proceeds. Therefore, in order to safeguard investor interest, I am of the considered view that issues raised in this Order require a detailed investigation.

16. At the same time, I am conscious of the fact that investments made by the individuals and entities who have been allotted shares in the IPO are in limbo/at risk. Listing of these shares will provide immediate liquidity to such investors. On the other hand, it has to be recognised that there could be a possibility of erosion of capital in the event the disclosures that have been made turns out to be misleading/faulty.
17. I, therefore, note that a balance has to be struck between these competing interests. I also note that if such IPOs are allowed to list, even in the wake of such serious concerns, it can shake the confidence of the investors in the listed SME ecosystem. SME IPOs have served as an effective avenue for small enterprises, which are in many ways the backbone of the economy, to raise capital. Therefore, action taken in such cases needs to be done with utmost care.

Order

18. In view of the above, and in exercise of the powers conferred upon me under Sections 11(1) and 11B of the Securities and Exchange Board of India Act, 1992, and Regulation 296 of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, I hereby issue the following directions:
 - a. A detailed examination shall be made by SEBI into the disclosures made by Trafiksol ITS Technologies Limited, in its DRHP filed with BSE on May 30, 2024, including the issues identified in this Order.
 - b. BSE is directed not to proceed with the listing of shares of the Company.
 - c. BSE shall take appropriate steps to ensure that the proceeds from the IPO of Trafiksol ITS Technologies Limited are placed in an interest-bearing escrow account, and no access to these funds shall be granted to Trafiksol ITS Technologies Ltd. or its affiliates until further Orders.
 - c. The investigation shall be completed within 30 days from the date of this Order.

19. Trafiksol ITS Technologies Limited and Ekadrisht Capital Private Limited is directed to fully cooperate with the examination that will be conducted by SEBI.
20. A copy of this Order shall be served on the Company, BSE, and the Merchant Banker.

DATE: OCTOBER 11, 2024

PLACE: MUMBAI

ASHWANI BHATIA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA