

WTM/ AB / SEBI / MIRSD/ WRO / 12 / 2019 - 20

**SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: ANANTA BARUA, WHOLE TIME MEMBER
EX PARTE – AD - INTERIM ORDER**

UNDER SECTIONS 11(4), 11B AND 11D OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH REGULATION 35 OF SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008.

IN RESPECT OF

Noticee no.	Name of the Noticee	CIN/ DIN	PAN
1	Raghukul Shares India Private Limited	U67120RJ2009PTC029155	AAECR3716R
2	Mr. Gangaram Khandelwal	01731730	ADRPK5114D
3	Mr. Amit Sharma	02505457	AFGPS8573K
4	Ms. Seema Khandelwal	01902705	ACWPK8537E
5	Mr. Bimal Prakash Agarwal	07098265	ADNPA3293R
6	Mr. Sandesh Khandelwal	02661150	Not Available
7	Mr. Siya Ram Khandelwa	03062876	Not Available
8	Mr. Dhruvesh Patel	07712652	Not Available

(The aforesaid entities are hereinafter referred individually by their respective names/Noticee numbers and collectively as "the Noticees")

1. Pursuant to the findings of inspection received from National Stock Exchange of India Limited (hereinafter referred to as "NSE"), the Securities and Exchange Board of India (hereinafter referred to as "SEBI") has examined irregularities in the affairs of Raghukul Shares India Pvt. Ltd. (hereinafter referred to as "the broker"/"RSIPL") as a Stock Broker. RSIPL is having its registered office at H-14, Chitrangan Marg, C – Scheme, Jaipur – 302 001, is registered with SEBI with single registration number INZ000184236. It is acting as a stock brokers in Equity Segment, Currency Derivative Segment and Equity Derivative Segment of NSE (Registration number: INB/F/E0231347734), and in equity segment and Equity Derivative Segment of BSE (Registration number: INB/F011347730).

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- Raghukul Commodities India Private Limited is registered with SEBI as a commodity derivatives broker, and is a member of Multi Commodity Exchange of India Ltd. (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX).
- The details of directors of RSIPL along with their date of appointment are as under:

Sl. No.	Name	Designation	Date of appointment	Date of Cessation
1	Mr. Gangaram Khandelwal	Executive Director	June 16, 2009	-
2	Mr. Amit Sharma	Executive Director	April 08, 2016	-
3	Ms. Seema Khandelwal	Non – Executive Director	June 16, 2009	March 30, 2019*
4	Mr. Bimal Agarwal Prakash	Independent Director	October 01, 2018	March 07, 2019*
5	Mr. Sandesh Khandelwal	Executive Director	June 22, 2009	September 27, 2018
6	Mr. Siya Ram Khandelwa	Non – Executive Director	April 30, 2010	September 27, 2018
7	Mr. Dhruvesh Patel	Executive Director	May 12, 2017	September 27, 2018

*As per MCA records, no confirmation is received from RSIPL

- During April 2019, NSE is stated to have received 14 investor complaints against RSIPL for a total claim amount of Rs. 24.65 Cr (Funds Rs.8.65 Cr and securities Rs. 16 Cr (approx.)). Details of complainants and their claims are as under:-

Sr. No.	Client code	Client Name	Funds	Securities	Total Claim amount (in Rs.)
1	GB00017 \	Sahri Kahri Investments Pvt. Ltd.	4,00,00,000	-	4,00,00,000.00
2	SAB15 \	Bimal Prakash Agarwal	-	6,83,22,305	6,83,22,304.90
3	SAB91	Kavita Devi Agarwal	-	9,16,97,513	9,16,97,512.75
4	RG280	Arvind Kumar Khandelwal HUF	50,00,000	-	50,00,000.00
5	GB00019	Anushree Khandelwal	15,00,000	-	15,00,000.00
6	RG318	Hans Raj Huf Agarwal	25,00,000	-	25,00,000.00
7	RG285	Hans Raj Agarwal	1,05,00,000	-	1,05,00,000.00
8	RG219	Geeta Rani Rahariya	20,00,000	-	20,00,000.00

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9	RG327	Punam Verma	10,05,798	-	10,05,798.11
10	GB00014	Punam Verma HUF	16,96,324	-	16,96,324.10
11	SAB155	Ritu Saini	5,50,000	-	5,50,000.00
12	RG89	Radha Gupta	1,00,000	-	1,00,000.00
13	BR01330	Gopal Datt Sharma	1,55,00,000		1,55,00,000.00
14	BR01324	Prithvi Raj Meena	62,00,000		62,00,000.00
			8,65,52,122	16,00,19,818	24,65,71,939.86

5. Pursuant to receipt of the aforesaid 14 complaints against RSIPL wherein the total claim amount is Rs. 24.65 Crore, NSE conducted an inspection of RSIPL. SEBI received a reference/ email dated May 28, 2019 from NSE, whereby it forwarded a report of the inspection of RSIPL. The period of inspection by NSE was from April 01, 2018 to April 10, 2019. Despite repeated reminders and visits to RSIPL's registered office by NSE, complete data sought by NSE was not stated to have been provided till date by RSIPL. Based on the inspection conducted by NSE, it is observed that the broker has *prima facie* failed to comply with the provisions of the SEBI Act and Regulations which is as under:

a) **Non availability of funds with RSIPL**

As per RSIPL's books

(i) From the trial balance dated April 10, 2019, provided by RSIPL during onsite inspection by NSE, it was observed by NSE that RSIPL had trade payables amounting to Rs. 24.43 lakhs. It was further observed that the total funds available with the broker, RSIPL (including bank balances, funds available in with clearing member, exchange deposits) was Rs. 2.07 Crores. Hence, as per the details provided by RSIPL, NSE observed that there is excess of funds amounting to Rs. 1.82 Crores.

Table 1: Funds availability as per member's books	
Particulars (As on April 10, 2019)	Amount (in Rs.)
Value of Total end of the day balance in all Client Bank Accounts (A)	1,05,081
Value of Collateral deposited with clearing member in form of Cash and Cash Equivalents (B)	41,00,000
Value of Collateral deposited with clearing corporation/ exchange in form of Cash and Cash Equivalents (C)	1,65,00,000

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Total funds availability (D=A+B+C)	2,07,00,081
Value of Creditors as per trial balance (E)	24,43,567
Excess funds available with RSIPL	1,82,56,513

Comparison of RSIPL's books with value of claims of complainants

- (ii) Since value of creditors reflected in the books of accounts of RSIPL provided by RSIPL was not in accordance with the value of claims made by complainants, further analysis was done by NSE to ascertain actual value of funds due to the complainants and the details are as under:

Particulars	Amount (in Rs.)	Actual Amount (in Rs.)
Funds as per Trial Balance as on April 10, 2019 of complainants		0
Value of claims as per complaints for funds not settled by RSIPL	8,65,52,122	
Less: Payments made to complainants by RSIPL as verified from bank books / bank statements	5,07,34,709	
Amount due to complainants which should have been reflected in trail balance of RSIPL as per above analysis		3,58,17,413

Funds availability after analysis of complaints and books of RSIPL

- (iii) Since there were discrepancies in the amount claimed by complainant and books maintained by RSIPL, NSE further analysed payment made to top 25 clients and complainants based on credit balance as on December 31, 2018 (covering 97% of total creditors) and observed that payments entries to clients were made from ICICI client bank account number 001205030680. The bank account statement of the said ICICI bank account was not provided to NSE by RSIPL. Therefore, NSE obtained the bank details directly from ICICI Bank. On analysis of the said bank account statement, it was observed by NSE that there were no transactions in the mentioned bank account. It was prima facie observed by NSE that instances of payments of

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funds posted in bank book of RSIPL amounting to Rs. 5.84 Crores *prima facie* appear to be bogus/fake, hence, the same cannot be considered as payments to clients.

- (iv) Based on the above, the following table provides the details of shortfall as observed by NSE:

Table 3: Shortfall of Funds	
Particulars (As on April 10, 2019)	Amount (in Rs.)
Value of Total end of the day balance in all Client Bank Accounts (A)	1,05,081
Value of Collateral deposited with clearing member in form of Cash and Cash Equivalents (B)	41,00,000
Value of Collateral deposited with clearing corporation/ exchange in form of Cash and Cash Equivalents (C)	1,65,00,000
Total funds availability (D=A+B+C)	2,07,00,081
Value of Creditors as per trial balance (E)	24,43,567
Value of Creditors after analysis (F)	5,84,10,058
Total Value of Creditors after analysis (G=E+F)	6,08,53,625
Shortfall of funds (G-D)	4,01,53,544

- (v) Therefore, after considering the above analysis, revised value of trade payables to be paid by RSIPL are amounting to Rs. 6.08 Crores. Out of this, Rs. 3.29 crores pertains to 9 complainants. After considering the revised value of trade payables amounting to Rs. 6.08 Crores, it has been observed that RSIPL has only Rs. 2.07 Cr. as per its bank account statement and collaterals. Therefore, there *prima facie* appears to be a mismatch between the funds and the liabilities of the broker, RSIPL.
- (vi) In the complaints received by NSE, the complainants have stated that they have not received the funds maintained with the broker. From the mismatch of funds as seen from the books maintained by the broker and the ledgers, I note that the broker, RSIPL has acted *prima facie* in violation of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993, MIRSD/ SE /Cir-19/2009 dated December 3, 2009, SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/138 dated December 20, 2016 and, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017.



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CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017 which requires RSIPL to settle clients' account quarterly / monthly basis depending on the preference of the client. Further, RSIPL has prima facie misused clients' funds and securities and failed to segregate own and client's funds and securities as required by above Circulars.

b) Non availability of clients' securities

As per RSIPL's register of securities

- (i) On verification of Register of Securities (hereinafter referred to as "RoS") by NSE as on April 10, 2019 and its comparison with holding statement of beneficiary accounts of RSIPL, NSE observed that there is shortfall of client's securities worth Rs. 68,116 /- and the details are as under:

Particulars (As on April 10, 2019)	Amount (in Rs.)
Value of securities as per back office ROS	20,90,719
Value of securities available in beneficiary accounts	20,22,603
Non availability of securities in DP	68,116

Comparison of RSIPL's books with value of claims of complainants

- (ii) Since value of securities reflected in the books of RSIPL provided by RSIPL were not in accordance with the value of claims made by complainants to whom securities were not settled, further analysis was done by NSE to analyse actual value of securities claimed by complainants. The details of securities claimed by complainants and its availability as per Register of Securities (RoS) provided by RSIPL as on April 10, 2019 are as per table mentioned below:

Particulars	Amount (in Rs.)
Value of securities as per ROS as on April 10, 2019 of complainants	0
Value of claims as per complaints for securities not settled by RSIPL as per complainants	16,00,19,818



- (iii) On verification of transaction statement of demat account of complainants (provided by complainants) and transaction statement of beneficiary accounts of RSIPL (provided by RSIPL) by NSE, it has been observed that RSIPL has received securities from complainants and transferred them too during the period 01-Oct-2016 to April 10, 2019.

DP ID	Client Code	Client Name	Value of securities transferred to RSIPL between 01-Oct-2016 to April 10, 2019 (A) (in Rs.)	Value of securities received from RSIPL between 01-Oct-2016 to April 10, 2019 (B) (in Rs.)	Net value of securities transferred to RSIPL between 01-Oct-2016 to April 10, 2019 (C=A-B) (in Rs.)	Value of securities purchased thru RSIPL between 01-Oct-2016 to April 10, 2019 (D) (in Rs.)	Value of securities sold thru RSIPL between 01-Oct-2016 to April 10, 2019 (E) (in Rs.)	Value of securities should be with RSIPL as on April 10, 2019 (F=C+D-E) (in Rs.)
9357	SA B1 5	Bimal Prakash Agarwal	4,86,91,383	11,30,26,855	6,43,35,472	15,71,19,755	17,77,00,479	4,37,54,748
9380	SA B9 1	Kavita Devi Agarwal	12,84,96,744	3,32,75,819	9,52,20,926	43,14,173	2,42,68,564	9,09,06,753
		Total	17,71,88,127	14,63,02,673	15,95,56,397	15,28,05,583	20,19,69,043	13,46,61,501

- (iv) It has been observed by NSE on further analysis of trade data of these two complainants who have claimed securities worth Rs. 16 Crores, that the net securities amounting to Rs. 13.46 Crores should have been recorded in RoS by RSIPL as on April 10, 2019 which were not found. The details of availability of client securities are as under:

Particulars (As on April 10, 2019)	Amount (in Rs.)
Value of securities as per back office ROS (A)	20,90,719
Value of securities belonging to complainants which should have been recorded in ROS of RSIPL (B)	13,46,61,501
Total Value of Securities as on (C=A+B)	13,67,52,220
Value of securities available in beneficiary accounts (D)	20,22,603
Non availability of securities in DP (E=C-D)	13,47,29,617

- (v) Therefore, after considering the value of securities which should have been in RoS of RSIPL as on April 10, 2019 and value of securities reflected by RSIPL in its RoS dated April 10, 2019 value of securities comes to Rs. 13.67 Crores. On comparing

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this value with securities lying in member's beneficiary accounts and clearing member, it has been observed that there is a shortfall of client's securities amounting to Rs. 13.47 Crores.

- (vi) From the above, I note that there are prima facie discrepancies in the RoS/ holding statement of submitted by RSIPL with respect to the quantum of client securities. I note that as per the RoS submitted by RSIPL, securities worth Rs. 20.90 lakhs were recorded, however, on verification and analysis by NSE, the revised value of client securities are Rs. 13.47 Crores. Based on the revised value of client securities, it is observed that there is a shortfall of client securities to the extent of Rs. 13.47 Crores.
- (vii) The shortfall of client securities shows that the broker, RSIPL has prima facie misused clients' securities. RSIPL has *prima facie* not only failed to segregate clients' securities, but also failed to maintain proper records of collateral deposited by clients and to prevent misuse of client collateral which is in violation of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993, MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 and SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
- c) Misappropriation of clients' securities**
- (i) On verification of pay-in and pay-out of client securities by NSE from the stock exchange data, it has been observed that RSIPL has used securities of clients amounting to Rs. 11.62 Crores against obligation of another client SAB169-Swastik Services (Partnership firm of Mr. Amit Sharma (Noticee no. 3) who is also Designated Director in Raghukul Shares India Pvt Ltd and Mr. Manoj Sharma) during the period June 01, 2017 to March 31, 2019.
- (ii) NSE on further analysis, observed that payout received after selling these securities amounting to Rs. 10.74 Crores has been further transferred to its group associate-Swastik services during July 01, 2017 to March 31, 2019.



- (iii) The client code SAB169-Swastik Services was opened as on June 12, 2017 as per NSE's records. On verification of transaction statement of beneficiary account of RSIPL, it has been observed that these aforesaid securities were neither transferred by the client SAB169-Swastik Services to the RSIPL nor the same were purchased through the RSIPL during the period June 12, 2017 to April 10, 2019.
- (iv) NSE on verification of transaction statement of client beneficiary accounts for the period April 01, 2018 to March 31, 2019 observed that RSIPL has transferred securities of clients to some other clients to whom these securities did not belong. Securities amounting to Rs. 72 lakhs were transferred to 9 such unconnected clients. These securities were recorded in the books of RSIPL as opening balance, however these clients have neither purchased these securities nor transferred them to RSIPL from the time of their client registration till date. These clients have been registered with the broker between May 2016 and January 2018 but have not done any trade in cash market of NSE.
- (v) From the above, I note that the pay-in obligation of one client Swatik Services (related entity) amounting to Rs. 11.62 Crores was met by utilizing the securities of other clients. The Pay-out of funds received was also subsequently transferred to the said related client. I also note that transfer of securities worth Rs. 72 lakhs from client beneficiary account to clients who did not possess the said securities as the broker's records.
- (vi) Therefore, RSIPL has prima facie misused clients' securities. Further, RSIPL prima facie failed to segregate clients' securities, and RSIPL has acted prima facie in violation of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

d) Non-Settlement of client funds & securities

- (i) On verification of securities holding file of clients as on December 31, 2018 and trial balance as on December 31, 2018, it was observed that RSIPL has not settled funds

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securities of clients. Total value of funds and securities not settled is Rs. 13, 38, 11, 566 /- belonging to 80 clients and the details are as under:

Table 8	
Particulars	Instances / Amount in Rs.
No. of clients	80
Total Instances	324
% of irregularity	24.69 %
Value of funds not settled as on Dec. 31, 2018	8,67,15,017 /-
Value of Securities not settled as on Dec. 31, 2018	4,70,96,549 /-
Total value not settled as on Dec. 31, 2018	13,38,11,566 /-

- (ii) RSIPL has prima facie failed to settle clients' accounts on quarterly / monthly basis depending on the preference of the client. In view of the above, I note that the broker, RSIPL has acted prima facie in violation of SEBI Circular MIRSD/ SE /Cir-19/2009 dated December 3, 2009 and SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

I note that the proceedings under this order are in the nature of interim order cum show cause notice for taking preventive/ remedial/ prohibitory action against the broker for violation of SEBI (Stock Broker) Regulations. Any observations regarding shortfall/ misuse/ non-settlement of funds and securities may not form the basis, by itself, for claims/ counter claims by any entity/ client. Such claim/ counter claim may be dealt with by the appropriate forum such as arbitration or civil court, as the case may be. These proceedings are only in respect of the conduct of Noticee no. 1, RSIPL as a broker.

e) Misrepresentation of Data submitted to Exchange

- (i) On verification of bank books provided by RSIPL vide email dated April 10, 2019 and its comparison with bank account statement received directly from ICICI Bank vide email dated May 07, 2019 for the same period, it has been observed that there have been variations, hence, the broker has misrepresented data to NSE.



- (ii) On verification of bank book of client bank account no. 0012050380 maintained with ICICI bank by RSIPL and its verification with details received from ICICI bank directly, it has been observed that RSIPL has posted regular entries in its bank book during the period April 01, 2018 to April 10, 2019, however as per data received from ICICI Bank Limited directly, it was observed that there is no entry at all during the relevant period.
- (iii) As per bank book of RSIPL, total 583 entries have been posted showing receipts of funds amounting to Rs. 14.99 Crores and payment of funds amounting to Rs. 21.55 Crores during the inspection period. Prima facie, it appears that RSIPL has posted bogus entries in the system and misrepresented data submitted to NSE.
- (iv) On verification of bank statement of client bank account no. 0012050380 maintained with ICICI bank provided by RSIPL vide email dated September 11, 2018 for the period April 01, 2018 to June 30, 2018 and its comparison with data received directly from ICICI Bank vide email dated May 07, 2019 for the same period, it has been observed that member has misrepresented data to NSE.
- (v) RSIPL has provided copy of bank book which shows entries on regular basis, however, bank account statements shared by ICICI bank directly shows that there is no entry at all in the mentioned bank account of RSIPL. Prima facie, it appears that RSIPL has misrepresented data submitted to NSE.
- (vi) On verification of financial ledgers of clients, bank book of ICICI client bank account 001205030680 (provided by RSIPL) and bank statements obtained from ICICI bank directly, it has been observed by NSE that RSIPL has posted entries pertaining to payment of funds made to clients which are not reflected in bank statements. It appears that RSIPL has reduced their fund liabilities by posting fake/ bogus entries in their books. Entries relating to 25 clients including complainants amounting to Rs. 5.84 Crores were not supported by corresponding entries in the bank statement. Out of these instances, payments worth Rs. 3.29 Crores pertains to 9 complainants.



- (vii) On verification of register of securities, it was observed that RSIPL has recorded receipt of securities from demat account of client (Client code SAB91-Kavita Devi Aggarwal) as securities of client code SAB169-Swastik Services (Partnership firm of Mr. Amit Sharma-Designated Director in RSIPL and Mr. Manoj Sharma). Securities amounting to Rs. 5.19 Crores have been posted as received and securities amounting to Rs. 2.89 Crores have been posted as transferred to both the clients in ROS of client code SAB169-Swastik Services.

Table 7				
DP ID	Belongs to Client Code	Belongs to Client Name	Value of receipt of securities recorded in RoS of Swastik Services during July 01, 2017 to April 10, 2019 (in Rs.)	Value of transfer of securities recorded in RoS of Swastik Services during July 01, 2017 to April 10, 2019 (in Rs.)
9357	SAB15	Bimal Prakash Agarwal	NIL	1,30,720
9380	SAB91	Kavita Devi Aggarwal	5,19,74,379	2,87,81,141
TOTAL			5,19,74,379	2,89,11,861

- (viii) From the above, I note that there is a mismatch between the entries posted in bank book, submitted by RSIPL to NSE during inspection and the entries in the bank account statement. Further, discrepancies were observed between entries in bank statements submitted by RSIPL and during inspection by NSE and bank statements obtained directly from RSIPL's banker. Entries in client financial ledgers and bank book relating to payment made to clients were not reflecting in bank statements. I also note that recording of receipt and delivery of securities from/to two (2) clients observed to be recorded in the RoS of one of its client namely, Swastik Services which is a related entity, and not in the name of the respective beneficial owners.
- (ix) RSIPL has prima facie failed to maintain and preserve Books of account and other documents. RSIPL has prima facie failed to maintain high standards of integrity, promptitude and fairness in the conduct of all his business. Also, RSIPL has prima facie failed to abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him. In view of the above, I note that the broker, RSIPL has acted prima facie in violation of Rule 15 of the Securities Contract (Regulation) Rules, 1957,



Regulation 17 and Clause A (1) and (5) of the Code of Conduct prescribed for the Stock brokers under the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.

f) Discrepancy in computation of Net worth

- (i) On verification of computation of the net worth as on September 30, 2018 of RSIPL it has been observed that RSIPL has not deducted debit balance amount not recovered within 3 months from its net worth. As on September 30, 2018, net worth reported by RSIPL to NSE is Rs. 1.66 Crores. Value of debtors not recovered for more than 90 days as per trial balance is Rs. 0.24 Crores. Revised net worth after considering actual value of debtors will be Rs 1.41 Crores.
- (ii) RSIPL has prima facie failed to maintain Networth and deposit requirements as required for stock brokers / clearing members / self- clearing members. In view of the above, I note that the broker, RSIPL has acted prima facie in violation of Schedule VI of SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.

g) Fixed return offered to registered clients

- (i) On verification of financial ledger and bank statement of RSIPL, it appears that RSIPL has made fixed payment/ return to clients on regular interval. RSIPL has made payments worth Rs. 1.29 Cr to 24 clients during the period April 01, 2018 to April 10, 2019. These 24 clients also includes one of the complainant to whom interest payments have been made by member amounting to Rs. 7.13 lakhs. I note that a broker is not supposed to promise any fixed return to its clients.
- (ii) In view of the above, I note that the broker, RSIPL has acted prima facie in violation of Clause A (1) and (5) of the Code of Conduct prescribed for the Stock brokers under the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.



h) RSIPL failed to obtain prior approval for change in control (Dominant Promoter Group) and appointment of Director from exchange

- (i) During inspection, Mr. Gangaram Khandelwal (Dominant Promoter and past director) has submitted an agreement wherein they have transferred their shareholding and management control to Mr. Amit Sharma and their associates. However, no prior approval has been sought from exchange for the same.
- (ii) Further, on verification of records of Ministry of Corporate Affairs (MCA), NSE observed that RSIPL has appointed Mr. Bimal Prakash Aggarwal as director on October 01, 2018, however no prior approval / intimation was obtained from exchange in this regard.
- (iii) In view of the above, I note that the broker, RSIPL has acted prima facie in violation of SEBI Circular CIR/MIRSD/14/2011 dated August 2, 2011 and CIR/MIRSD/2/2011 dated June 3, 2011.

i) Wrong monthly data submitted by RSIPL to NSE w.r.t. enhanced supervision

- (i) On verification of monthly data submitted by RSIPL viz. upload of balances of client funds and securities for the month of December 2018 and its comparison with trial balance and holding statement of clients provided by RSIPL for December 31, 2018, it has been observed that fund balances of 30 clients amounting to Rs. 7.13 Crores has not been reported by RSIPL.
- (ii) Further, details of holding of clients securities for 6 clients worth Rs. 3.94 Crores has not been reported by RSIPL to NSE. It has also been observed that RSIPL has not provided correct details of email id on 19 instances and mobile numbers on 04 instances.



- (iii) RSIPL has prima facie failed to report complete and correct data to exchange on time. In view of the above, I note that the broker, RSIPL has acted prima facie in violation of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
- j) Failure to maintain of Register of Securities, Holding Statement, Bank Book and Client Ledger in prescribed standard format and to upload holding statements**
- (i) On verification of back office records maintained by RSIPL, NSE observed that RSIPL has not maintained RoS, holding statement, Bank Books and Client Ledgers in prescribed standard format. Further, NSE has observed that RSIPL has not uploaded data w.r.t holding statement for all the dates. However, RSIPL has submitted data for 10 dates out of total 139 dates to NSE covered during the period January 01, 2019 to April 10, 2019.
- (ii) NSE vide letter dated May 31, 2019 has submitted that RSIPL failed to submit weekly data towards the monitoring of clients funds (Enhanced Supervision) since April 05, 2019, and as a result of which NSE has restricted registration of new clients of RSIPL.
- (iii) RSIPL also failed to submit complete data viz. etc. sought by NSE for sample period / dates for conducting inspection of RSIPL.
- (iv) In view of the above, I note that the broker, RSIPL has acted prima facie in violation of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. "Rule 15 of the Securities Contract (Regulation) Rules, 1957, Regulation 17 and Clause A (1) and (5) of the Code of Conduct prescribed for the Stock brokers under the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992". RSIPL failed to maintain and preserve Books of account and other documents. RSIPL failed to complete and correct data to exchange on time



6. NSE received 14 investor complaints against RSIPL for a total claim amount of Rs. 24.65 Cr. NSE conducted an inspection of RSIPL for the period from April 01, 2018 to April 10, 2019. The said inspection period was increased from April 01, 2016 to April 10, 2019 considering the time period involved in the investor complaints. On-site inspection of the broker was initiated on April 10, 2019 and regular reminders were sent to the broker by NSE on April 17, 2019, April 18, 2019, April 22, 2019 and April 23, 2019 and April 25, 2019 seeking requisite data. However, NSE has stated that the said data has not been provided by the broker to NSE till date. The data sought included bank statements, DP transaction statements, RoS, Client Registration Documents, Trial Balance, Holding Statements etc. SEBI has also received complaints dated May 14, 2019 from Mr. Bimal Kumar Agarwal and Mrs. Kavita Devi Agarwal against RSIPL wherein the complainants have made serious allegations against RSIPL, its directors and other employees. SEBI has also received 26 complaints from 19 complainants in SCORES against RSIPL in the months March – May 2019. Officials of SEBI visited the registered office of the broker, RSIPL on May 28, 2019 and found that the broker has closed its office at the aforesaid premises. The details of complaints received by NSE and pending against RSIPL are as under:

Particulars	No. of complaints
Total complaints registered from March 01, 2019 till June 12, 2019 (including complaints received from SCORES)	53
Total No. of complaints resolved till May 27, 2019	8
Complaints pending	45
No of cases where IGRP is held on May 30, 2019 where funds are insufficient	4

Particulars	Amount (In Rs.)	Amount (In Crores)
RSIPL deposits	1,25,00,000	1.25
Amount debited / Debit request raised till May 27, 2019 as mentioned above	1,22,88,631.21	1.23
Balance deposits	2,11,368.79	0.02
Deficit due to IGRP order dated May 30, 2019 as mentioned above	-19,36,43,290.21	-19.36



7. In view of the observations contained in the inspection report of NSE, it *prima facie* appears that RSIPL has violated the following:
- (a) SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993,
 - (b) SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008
 - (c) SEBI Circular MIRSD/ SE /Cir-19/2009 dated December 3, 2009,
 - (d) SEBI Circular CIR/MIRSD/14/2011 dated August 2, 2011 and CIR/MIRSD/2/2011 dated June 3, 2011,
 - (e) SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016,
 - (f) SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/138 dated December 20, 2016,
 - (g) SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017,
 - (h) SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017,
 - (i) Rule 15 of the Securities Contract (Regulation) Rules, 1957,
 - (j) Regulation 17 and Clause A (1) and (5) of the Code of Conduct prescribed for the Stock brokers under the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.
 - (k) Schedule VI of SEBI (Stock Brokers and Sub-Brokers) Regulations, and
 - (l) Section 12(1)(B) of Securities and Exchange Board of India Act, 1992 read with Regulation 3 of SEBI (Collective Investment Schemes) Regulations, 1999.
8. Any Company though a legal entity cannot act by itself, it can act only through its Directors. They are expected to exercise their power on behalf of the company with utmost care, skill and diligence. The Board of Directors of a company shall be entitled to exercise all such powers and do all such acts and things as the company is authorized to exercise and do. Therefore, the Board of Directors being responsible for the conduct of the business of a company are liable for any non-compliance of law and such liability shall be upon the individual directors also. Hon'ble Supreme court while describing what is the duty of a Director of a company held in *Official Liquidator v. P.A. Tendolkar* (1973) 1 SCC 602 that "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

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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”.

9. Noticee no. 5, Mr. Bimal Prakash Agarwal has suo moto filed a complaint with NSE and SEBI. In his complaint dated May 14, 2019 against RSIPL submitted to SEBI he has stated that he was fraudulently appointed as Director of RSIPL with effect from October 01, 2018. In this regard, he has stated that Noticee nos. 2, 3 4 and 7 viz., Mr. Gangaram Khandelwal, Mr. Amit Sharma, Ms. Seema Khandelwal and Mr. Dhruvesh Patel fraudulently obtained signatures on February 08, 2019 back dated to October 01, 2018 to become the director of RSIPL. He has stated that on coming to know of the fraudulent act carried out against him, he resigned from the company, RSIPL on March 07, 2019. The Noticee no. 5, Mr. Bimal Prakash Agarwal has also submitted that in order to save themselves from and to protect themselves from criminal and other legal action for the fraud carried out by them, Noticee no. 4, Ms. Seema Khandelwal, Noticee no. 6, Mr. Sandesh Khandelwal, Noticee no. 7, Mr. Siya Ram Khandelwal and Noticee no. 8, Mr. Dhruvesh Patel resigned from the company, RSIPL.
10. I note from the MCA records, that Mr. Bimal Prakash Agarwal had been appointed as the Non-Executive Independent Director of RSIPL on October 01, 2018. I observe from the Notice of Resignation dated March 07, 2019 to the company, RSIPL, Mr. Bimal Prakash Agarwal has stated that he is resigning from the company due to other personal assignments and some other unavoidable circumstances he is unable to devote his time to the affairs of the company, and not due to fraud committed by the company on him.
11. From the MCA records I note that Noticee no. 2, Mr. Gangaram Khandelwal was appointed as an Executive Director of RSIPL on June 16, 2009 and continues to be the director of the company. Noticee no. 3, Mr. Amit Sharma was appointed as an Executive Director of RSIPL on April 08, 2016 and continues to be the director of the company. Noticee no. 6, Mr. Sandesh Khandelwal, was appointed as an Executive Director of RSIPL on June 22, 2009 and resigned from the company with effect from September 27, 2018. Noticee no. 7,



Mr. Siya Ram Khandelwal appointed as a Non - Executive Director of RSIPL on April 30, 2010 and resigned from the company with effect from September 27, 2018. Noticee no. 8, Mr. Dhruvesh Patel was appointed an Executive Director of RSIPL on May 12, 2017 and resigned from the company with effect from September 27, 2018. The said Noticees were directors of the company during the period of inspection i.e. April 01, 2018 to April 10, 2019.

12. A person acting as a securities market intermediary is expected to protect the interest of investors in the securities market in which he operates. Such a person is required to maintain high standards of integrity, promptitude and fairness in the conduct of his business dealings, and not be motivated purely by prospects of financial gain by misappropriating client funds and securities.
13. NSE is conducting the inspection of RSIPL under the advice of SEBI to inter alia ascertain the role of RSIPL and its conduct, whether the same is in violation of SEBI Regulations and Bye Laws of Stock Exchanges. NSE may also examine the role of Board of Directors of RSIPL and exercise of due diligence by them.
14. Under the above circumstances, I, in exercise of powers conferred upon me by virtue of section 19 read with sections 11(1), 11(4), 11B and 11D of the SEBI Act, 1992, Regulation 35 of Securities And Exchange Board Of India (Intermediaries) Regulations, 2008, by way of this ex parte -ad-interim order, pending on-going inspection/ inquiry, hereby issue the following directions:
 - a) Noticee nos. 1 to 3 namely, RSIPL, Mr. Gangaram Khandelwal and Mr. Amit Sharma, are restrained from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in securities, either directly or indirectly, or being associated with the securities market in any manner whatsoever, till further directions;
 - b) Noticee nos. 1 to 3 namely, RSIPL, Mr. Gangaram Khandelwal and Mr. Amit Sharma are directed not to dispose of or alienate any assets, whether movable or immovable, or



Mr. Siya Ram Khandelwal appointed as a Non - Executive Director of RSIPL on April 30, 2010 and resigned from the company with effect from September 27, 2018. Noticee no. 8, Mr. Dhruvesh Patel was appointed an Executive Director of RSIPL on May 12, 2017 and resigned from the company with effect from September 27, 2018. The said Noticees were directors of the company during the period of inspection i.e. April 01, 2018 to April 10, 2019.

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13. NSE is conducting the inspection of RSIPL under the advice of SEBI to inter alia ascertain the role of RSIPL and its conduct, whether the same is in violation of SEBI Regulations and Bye Laws of Stock Exchanges. NSE may also examine the role of Board of Directors of RSIPL and exercise of due diligence by them.
14. Under the above circumstances, pending such inquiry, I, in exercise of powers conferred upon me by virtue of section 19 read with sections 11(1), 11(4), 11B and 11D of the SEBI Act, 1992, Regulation 35 of Securities And Exchange Board Of India (Intermediaries) Regulations, 2008, by way of this ex parte -ad-interim order, hereby issue the following directions:
 - a) Noticee nos. 1 to 3 namely, RSIPL, Mr. Gangaram Khandelwal and Mr. Amit Sharma, are restrained from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in securities, either directly or indirectly, or being associated with the securities market in any manner whatsoever, till further directions;
 - b) Noticee nos. 1 to 3 namely, RSIPL, Mr. Gangaram Khandelwal and Mr. Amit Sharma are directed not to dispose of or alienate any assets, whether movable or immovable, or



any interest or investment or charge in any of such assets including money lying in bank accounts except with the prior permission of SEBI.

- c) Noticee nos. 1 to 3 namely, RSIPL, Mr. Gangaram Khandelwal and Mr. Amit Sharma are directed to provide a full inventory of all their assets, whether movable or immovable, or any interest or investment or charge in any of such assets, including details of all their bank accounts, demat accounts and mutual fund investments immediately but not later than 5 working days from the date of receipt of these directions.
- d) Till further directions in this regard, the assets of Noticee no. 1, RSIPL shall be utilized only for the purpose of payment of money and/or delivery of securities, as the case may be, to the clients/investors under the supervision of the concerned stock exchange(s).
- e) The depositories are directed to ensure that no debits are made in the demat accounts, held jointly or severally, of Noticee no. 1, RSIPL except for the purpose mentioned in sub-para (d) after confirmation from the concerned stock exchange (s) and/ or Depositories as the case may be.
- f) The banks are directed to ensure that no debits are made in the bank accounts held jointly or severally by Noticee no. 1, RSIPL except for the purpose of payment of money to the clients/investors under the written confirmation of the concerned stock exchange(s).
- g) Noticees nos. 4 to 8 viz., Noticee no. 4, Ms. Seema Khandelwal, Noticee no. 5, Mr. Bimal Prakash Agarwal, Noticee no. 6, Mr. Sandesh Khandelwal, Noticee no. 7, Mr. Siya Ram Khandelwal and Noticee no. 8, Mr. Dhruvesh Patel are directed to file their replies along with relevant documentary evidence to show cause as to why actions mentioned in para 14 (a) to (c) should not be initiated against them for violations committed by the broker, RSIPL as shown at para 7 of this order.
- h) The above directions are without prejudice to the right of SEBI to take any other action that may be initiated in respect of aforesaid entities/persons.



15. The Noticee including Noticee nos. 4 to 8 against whom this Order is being passed may file their objections, if any, within twenty one (21) days from the date of receipt of this Order. The said Noticees are directed to submit their replies along with the supporting documents. Resolution Plan, if any, may be submitted by the Noticees along with their replies. In the event the said Noticees intend to avail an opportunity of personal hearing, they may appear before the Securities and Exchange Board of India at its Head Office at SEBI Bhavan, Plot No.C4-A, G Block, Bandra Kurla Complex, Bandra (East), Mumbai-400051 on August 09, 2019 at 02:30 PM. In the event of the Noticee nos. 1 to 3 failing to file replies within 21 days of receipt of this order or failing to appear before SEBI on the aforesaid date and time, the preliminary findings at paras 5 to 11 of this Order and directions at para 14 (a) to (f) above shall be deemed to be confirmed against the Noticee nos. 1 to 3 automatically, without any further orders.
16. This order shall come into force with immediate effect. A copy of this order shall be forwarded to all the Noticees, Stock Exchanges, the relevant banks, Depositories and Registrar and Transfer Agents of Mutual Funds to ensure that the directions given above are strictly complied with.

Place: Mumbai

Date: June 28, 2019



ANANTA BARUA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA