

March 7, 2024

BSE Limited  
Department of Corporate Services  
1<sup>st</sup> Floor, New Trading Ring  
Rotunda Building, P J Towers  
Dalal Street, Fort,  
Mumbai – 400 001

National Stock Exchange of India Limited  
Exchange Plaza  
Plot No.C-1, G Block  
Bandra-Kurla Complex  
Bandra (East)  
Mumbai – 400 051

Security Code: **523405**

Symbol: **JMFINANCIL**

Dear Sirs,

**Sub: Intimation under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the “Listing Regulations”)**

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the Listing Regulations, kindly note that the Securities and Exchange Board of India (the “SEBI”) has issued an Interim Ex Parte Order (the “Order”) on March 7, 2024 barring the Company from taking any new mandate for acting as a lead manager for any public issue of debt securities. SEBI has further stated that the Company can continue to act as a lead manager for public issue of debt securities with respect to the existing mandates for a period of 60 days from the date of the said Order. A copy of the said Order issued by the SEBI in this regard is enclosed for your information.

SEBI shall undertake an investigation into the issues covered under the said Order and complete the same within a period of six months from the date of the said Order. The Company shall fully cooperate with SEBI in this investigation.

The required disclosure pursuant to Regulation 30 read with Schedule III of the Listing Regulations is enclosed and marked as *Annexure A* hereto.

We request you to kindly take the aforesaid disclosure on your record.

Thank you.

Yours truly,  
For **JM Financial Limited**

**Dimple Mehta**  
Company Secretary & Compliance Officer

Encl: As above

**Annexure A**

Detailed disclosure under Regulation 30 read with Schedule III of the Listing Regulations.

| <b>Sr. No</b> | <b>Particulars</b>                                                                                                               | <b>Remarks</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.            | Name of the Authority                                                                                                            | Securities and Exchange Board of India (“SEBI”)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 2.            | Nature and details of the action(s) taken, initiated or order(s) passed                                                          | <p>SEBI has issued Ex Parte Interim Order barring the Company from taking any new mandate for acting as a lead manager for any public issue of debt securities.</p> <p>As regards the existing mandates, the Company can continue to act as a lead manager for public issue of debt securities for a period of 60 days from the date of the said Order.</p> <p>SEBI shall undertake an investigation into the issues covered under the said Order and complete the same within a period of six months from the date of the Order.</p> |
| 3.            | Date of receipt of direction or order, including any ad-interim or interim orders, or any other communication from the authority | Interim Ex Parte Order dated March 7, 2024.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 4.            | Details of the violation(s)/contravention(s) committed or alleged to be committed                                                | As highlighted in the said Order.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 5.            | Impact on financial, operation or other activities of the listed entity, quantifiable in monetary terms to the extent possible   | The quantifiable financial impact on the Company cannot be ascertained at this point in time.                                                                                                                                                                                                                                                                                                                                                                                                                                         |



MANAGER  
DEPARTMENT OF DEBT AND HYBRID SECURITIES  
Email: [manoic@sebi.gov.in](mailto:manoic@sebi.gov.in)

SEBI/HO/DDHS/DDHS-POD-1/P/OW/2024/9923/1  
March 07, 2024

Managing Director  
JM Financial Limited  
7<sup>th</sup> Floor, Cnergy  
Appasaheb Marathe Marg, Prabhadevi,  
Mumbai – 400 025

Dear Sir/Madam,

**Sub: Certified true copy of order in the matter of public issue of certain debt securities**

1. Securities and Exchange Board of India (SEBI) has passed an order on March 07, 2024 under Sections 11(1), 11(4) and 11B of the SEBI Act, 1992 in the matter of public issue of certain debt securities.
2. A certified true copy of the above mentioned order is being sent to you for your reference. You are advised to comply with the directions issued in the order.

Yours faithfully,

  
Manoj Kumar Reddy

Enclosure: As above

## 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 the Noticee  | Registration No. |
|----------------------|------------------|
| JM Financial Limited | INM000010361     |

**In the matter of public of issue of certain debt securities**

1. The Securities and Exchange Board of India (SEBI) undertook a routine examination of the public issues of Non-Convertible Debentures (NCD) during the year 2023.
2. It was observed during the examination that in a particular issue, a significant number of individual investors sold the securities allotted to them on the day of listing itself. The holding pattern of the securities showed that a very large percentage of securities issued changed hands on the day of listing as result of which retail ownership came down sharply. This was unusual.
3. A.K. Captial Services Ltd., JM Financial Limited (JMFL-MB/Noticee), Nuvama Wealth Management Limited and Trust Investment Advisors Private Limited were the Lead Managers to the issue.
4. On further examination of the transactions on the day of listing of the said issue, it was observed that JM Financial Products Limited (JMFPL-NBFC), a Non-Banking Finance Company (NBFC) and a subsidiary of the Noticee, acted as counterparty to the trades of these individual investors and had also provided the funds deployed by these investors for subscribing to the issue. JMFPL-NBFC, subsequently, on the very same day, offloaded at a loss, a significant portion of the securities that it had acquired from these investors to corporate investors. The examination also revealed that these investors had submitted



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their applications in the public issue through the stock broker JM Financial Services Ltd (JMFSL-Broker), another subsidiary of the Noticee JMFL-MB.

5. JM Financial Limited, the Lead Manager, JM Financial Services Limited, the stockbroker, and JM Financial Products Limited, the NBFC, are part of the JM Financial Group<sup>1</sup>. The details of these entities are given in the Table below:

| SR. No. | NAME OF THE ENTITY                           | OWNERSHIP DETAILS                                                        | DESCRIPTION                                                                                                                                                      |
|---------|----------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1       | JM FINANCIAL LIMITED (JMFL-MB- MB)           | PARENT ENTITY/ HOLDING COMPANY                                           | SEBI-REGISTERED MERCHANT BANKER GOVERNED BY SEBI (MERCHANT BANKERS) REGULATIONS, 1992 INCLUDING CODE OF CONDUCT AS SPECIFIED IN SCHEDULE III OF THE REGULATIONS. |
| 2       | JM FINANCIAL SERVICES LIMITED (JMFSL-BROKER) | WHOLLY OWNED SUBSIDIARY (100%) OF JMFL-MB-MB                             | SEBI-REGISTERED BROKER GOVERNED BY SEBI (STOCK BROKERS) REGULATIONS 1992 INCLUDING CODE OF CONDUCT AS SPECIFIED IN SCHEDULE II OF THE REGULATIONS.               |
| 3       | JM FINANCIAL PRODUCTS LIMITED (JMFP-LNBFC)   | SUBSIDIARY OF JMFL-MB-MB (99.71% OF THE OWNERSHIP IS HELD BY JMFL-MB-MB) | RBI-REGISTERED NBFC.                                                                                                                                             |

6. To understand the nature of these transactions, SEBI vide letters dated January 19, 2024, and February 02, 2024, sought information from JMFL-MB on these transactions. The Noticee submitted replies vide letters January 31, 2024, February 09, 2024, and February 14, 2024.
7. However, before moving ahead to consider the reply furnished by JMFL-MB, it would be instructive to provide the details of the issue under question, the

<https://www.jmfinancialservices.in/about-us>



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bidding and allotment data, and the trading pattern that was observed on the day of listing.

8. The issue, which was the first tranche of NCDs issued under a shelf prospectus dated October 16, 2023, had a base issue size of Rs. 200 Crore with a green shoe option of Rs. 800 Crore. The key details of the issue are given in the Table below:

| ISSUE SIZE              | BASE ISSUE- Rs.200 CR                                                  |
|-------------------------|------------------------------------------------------------------------|
|                         | GREEN SHOE OPTION – Rs.800 CR.                                         |
| FINAL AMOUNT RAISED     | Rs. 533 CR.                                                            |
| CREDIT RATING           | AA                                                                     |
| NO. OF ISINS ISSUED     | 4                                                                      |
| TENOR/COUPON            | 2 YEARS [9%]<br>3 YEARS [9.05%]<br>5 YEARS [9.20%]<br>10 YEARS [9.35%] |
| ISSUE PERIOD            | OCTOBER 19, 2023 – OCTOBER 30, 2023                                    |
| ALLOTMENT DATE          | NOVEMBER 03, 2023                                                      |
| DATE OF LISTING         | NOVEMBER 07, 2023                                                      |
| FACE VALUE /ISSUE PRICE | Rs.1000/- PER NCD                                                      |

9. The issuer raised Rs. 533 Crore through the issue. The allocation ratio, disclosed in the Tranche I Prospectus (Prospectus), along with the actual allocation to the different categories of investors is given in the Table below:

| SR.NO | CATEGORY OF THE INVESTOR      | PROPOSED ALLOCATION (IN Rs. CR.) | ACTUAL ALLOCATION (IN Rs. CR) | % OF ACTUAL ALLOCATION TO THE TOTAL |
|-------|-------------------------------|----------------------------------|-------------------------------|-------------------------------------|
| 1     | RETAIL INDIVIDUAL INVESTORS*  | 300                              | 256                           | 48%                                 |
| 2     | HNIS                          | 300                              | 146                           | 27%                                 |
| 3     | NON-INSTITUTIONAL INVESTORS   | 200                              | 131                           | 25%                                 |
| 4     | INSTITUTIONAL INVESTORS(QIBs) | 200                              | 0                             | 0%                                  |
|       | <b>TOTAL</b>                  | <b>1000</b>                      | <b>533</b>                    | <b>100%</b>                         |

10. The issue saw participation from 8,820 unique applicants across four ISINs out of which 8602 applications were from retail individual investors. The issue, as can be noted from the Table above, was dominated by retail investors and saw no participation from institutional investors (QIBs) and limited participation from



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non-individual investors. Seventy Five percent of the net allotments were made to individual investors including HNIs. The details of tenor-wise allotment in the issue is given in the Table below:

| TENOR    | NO. OF ALLOTTEES* | RATIO OF ALLOTTEES | ISIN WISE SUBSCRIPTION (RS. IN CR) | ISIN WISE SUBSCRIPTION (%) |
|----------|-------------------|--------------------|------------------------------------|----------------------------|
| 2 YEARS  | 4006              | 42%                | 273                                | 51%                        |
| 3 YEARS  | 2547              | 27%                | 131                                | 25%                        |
| 5 YEARS  | 1909              | 20%                | 73                                 | 14%                        |
| 10 YEARS | 1054              | 11%                | 56                                 | 10%                        |
|          | <b>9516</b>       | <b>100%</b>        | <b>533</b>                         | <b>100%</b>                |

\*certain investors have bid for multiple ISINs

11. As per the information received from BSE, a total of 54 Brokers participated in the public issue of debt securities. JMFSL-Broker, A.K. Stockmart Pvt. Ltd. and Nuvama Wealth and Investment Ltd. were noted to be the brokers who garnered the maximum number of applications for the issue. The details of the applications received through these brokers is given in the Table below:

| SR. NO | NAME OF THE BROKER                | TOTAL                                        |                  | RETAIL INDIVIDUAL INVESTORS                  |                  |
|--------|-----------------------------------|----------------------------------------------|------------------|----------------------------------------------|------------------|
|        |                                   | NO. OF APPLICATIONS RECEIVED (COUNT OF PANS) | BID AMT (RS. CR) | NO. OF APPLICATIONS RECEIVED (COUNT OF PANS) | BID AMT (RS. CR) |
| 1      | JM FINANCIAL SERVICES LIMITED     | 1748                                         | 199.46           | 1699                                         | 118.42           |
| 2      | A.K.STOCKMART PVT.LTD.            | 1658                                         | 65.53            | 1611                                         | 37.07            |
| 3      | NUVAMA WEALTH AND INVESTMENT LTD. | 1120                                         | 64.40            | 1091                                         | 24.35            |

12. It was noted that a large number of retail individuals who had been allotted securities had exited on the listing day itself. A significant change in the holding pattern was witnessed where the holding of the retail investors came down and the corporate holding went up by a corresponding number on the listing day. When trades by individual investors who had exited on the listing day itself was examined, it was noted that the overwhelming majority of the investors who had exited on the listing day had applied though JMFSL-Broker. A table showing



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the holding pattern of investors, category wise, on the allotment and listing date is given in the Table below:

| CATEGORY OF INVESTORS | ON ALLOTMENT     |               | ON LISTING DAY   |               | CHANGE              |                           |
|-----------------------|------------------|---------------|------------------|---------------|---------------------|---------------------------|
|                       | NO. OF INVESTORS | AMT (RS. CR.) | NO. OF INVESTORS | AMT (RS. CR.) | IN NO. OF INVESTORS | PER CENT CHANGE IN AMOUNT |
| INDIVIDUAL            | 9121             | 375           | 8196             | 227           | (10%)               | -40%                      |
| HUF                   | 354              | 28            | 281              | 19            | (21%)               | -30%                      |
| CORPORATE             | 35               | 96            | 45               | 228           | 29%                 | 137%                      |
| BANK                  | 3                | 33            | 4                | 58            | 33%                 | 73%                       |
| TRUST                 | 3                | 0*            | 3                | 0             | NO CHANGE           |                           |
| <b>GRAND TOTAL</b>    | <b>9516</b>      | <b>533</b>    | <b>8529</b>      | <b>533</b>    |                     |                           |

(Source: Depositories)

\*amount collected from Trusts was Rs. 30 Lakh

13. Subsequently, the trade data on listing day was called for from the depositories and analyzed. It was noted that substantial reduction witnessed in the holding by individual investors was due to the acquisition of securities from 1016 individual investors by JMFPL-NBFC. It was noted that all of these allottees had applied through JMFSL-Broker. The applications of these investors and their trade details on listing date was examined and a distinct pattern in their applications and subsequent exit was noted which is elaborated in the following paragraphs.

#### Applications received through JMFSL-Broker

14. As a significant number of individual investors who had exited on listing day had applied through JMFSL-Broker, the applications submitted through the Broker were examined. It was noted that bank account linked to 920 out of the 1748 applicants who had applied through JMFSL-Broker was held at the Free Press Journal Branch, Nariman Point of ICICI Bank. Sample bank statements of 90 out of these 920 applicants were examined and it was observed that



JMFPL-NBFC had transferred funds to these bank accounts on November 01, 2023, which was utilized for subscribing to the NCDs in the debt issue.

15. In this context, clarification was sought from JMFL-MB regarding the fund transfers from JMFPL-NBFC to these applicants. It was submitted by JMFL-MB that JMFPL-NBFC had provided funding in the form of loans to a total of 1016 applicants, amounting to Rs.121.40 Crore, to subscribe to the issue. The details of funding provided to these 1016 applicants is given in the Table below:

| TYPE OF INVESTOR | NO. OF APPLICANTS FUNDED BY JMFPL-NBFC | AMOUNT DISBURSED PER APPLICANT | UPFRONT MARGIN PER APPLICANT* | INTEREST CHARGED               | TOTAL AMOUNT DISBURSED (IN RS. CR) |
|------------------|----------------------------------------|--------------------------------|-------------------------------|--------------------------------|------------------------------------|
| RETAIL           | 994                                    | 9,80,000                       | 20,000                        | 10% OR Rs. 1,611 (FOR 6 DAYS)  | 99.4                               |
| HNI              | 22                                     | 98,00,000                      | 2,00,000                      | 10% OR Rs. 16,110 (FOR 6 DAYS) | 22                                 |
| <b>TOTAL</b>     | <b>1016</b>                            |                                |                               |                                | <b>121.4</b>                       |

(Source: JMFL-MB and ICICI Bank)

\*JMFL-NBFC stated that for 238 applicants, upfront margin was collected through ledger credit. Notably, for 26 applicants, loans were disbursed without collecting margin. In certain instances, the margin was higher than Rs. 20,000.



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16. Another pattern was noted in the application process of these 1016 investors who were funded by JMFPL-NBFC. It was noted that the overwhelming majority of these applications were received on two days – 773 applications on October 19, 2023 and 240 applications on October 25, 2023. The data pertaining to the applications made by these 1016 individual investors is given in the Table below:

| S. No. | DATE AND TIME OF BIDDING | TOTAL NO. OF BIDDING APPLICATIONS RECEIVED (COUNT OF PANS) | AMT OF BID (RS. CR) | NO. OF BIDDING APPLICATIONS FUNDED BY JMFPL-NBFC (COUNT OF PANS) | AMT OF BID (RS. CR) |
|--------|--------------------------|------------------------------------------------------------|---------------------|------------------------------------------------------------------|---------------------|
| 1      | <b>19-10-2023</b>        | <b>1006</b>                                                | <b>126.50</b>       | <b>773</b>                                                       | <b>101.10</b>       |
|        | 16:33:23                 |                                                            |                     | 1                                                                | 5.00                |
|        | 16:34:43                 |                                                            |                     | 1                                                                | 5                   |
|        | 16:36:03                 |                                                            |                     | 1                                                                | 10                  |
|        | 16:57:35                 |                                                            |                     | 772                                                              | 97.10               |
| 2      | <b>20-10-2023</b>        | <b>110</b>                                                 | <b>5.97</b>         | <b>1</b>                                                         | <b>0.10</b>         |
|        | 16:30:23                 |                                                            |                     | 1                                                                | 0.10                |
| 3      | <b>23-10-2023</b>        | <b>164</b>                                                 | <b>4.31</b>         | <b>0</b>                                                         | <b>0</b>            |
| 4      | <b>25-10-2023</b>        | <b>306</b>                                                 | <b>25.19</b>        | <b>240</b>                                                       | <b>24.00</b>        |
|        | 16:01:48                 |                                                            |                     | 240                                                              | 24.00               |
| 5      | <b>26-10-2023</b>        | <b>46</b>                                                  | <b>0.96</b>         | <b>1</b>                                                         | <b>0.10</b>         |
|        | 16:51:40                 |                                                            |                     | 1                                                                | 0.10                |
| 6      | <b>27-10-2023</b>        | <b>40</b>                                                  | <b>2.10</b>         | <b>0</b>                                                         | <b>0</b>            |
| 7      | <b>30-10-2023</b>        | <b>76</b>                                                  | <b>34.41</b>        | <b>1</b>                                                         | <b>0.10</b>         |
|        | 16:01:44                 |                                                            |                     | 1                                                                | 0.10                |
|        | <b>GRAND TOTAL</b>       | <b>1748</b>                                                | <b>199.46</b>       | <b>1016</b>                                                      | <b>141.40</b>       |

(Source: BSE)

17. It can be seen from the above table that out of the 1006 applicants who had applied though JMFSL-Broker on October 19, 2023, 773 applicants were funded by JMFPL-NBFC. Out of these 773 applicants, 772 applications for Rs. 97.10 Crore were made at 16:57:35 hrs. Similarly, on October 25, 2023, the bidding time for all the 240 JMFPL-NBFC funded applicants was 16:01:48 hrs. It was also noted that the bidding time of 732 individual applicants who had applied through JMFPL-NBFC but not availed funding from JMFSL-Broker was widely distributed. The issue was subscribed to the extent of 50% of the base issue size on the first day of bidding by investors funded by JMEPL-NBFC.





### Trading Pattern on listing day

18. The examination of data received from Clearing Corporations pertaining to settled trades in all the four ISINs covered under this public issue showed that around Rs. 336 Crores of the newly listed debt securities were traded on the listing date (i.e. November 07, 2023). JMFPL-NBFC, it was noted, transacted in 3 out of the 4 ISINs (i.e. only in those ISINs in which the 1016 applicants had invested). It may be noted that JMFPL-NBFC had not funded any applications in the five-year tenor NCDs. JMFPL-NBFC accounted for over half of the transaction volume on the listing day. Unlike equity markets where all trade transactions on the exchange have a single counterparty which is the exchange and there is anonymity in the trading, in the debt markets the transactions are mostly bilateral and done over the counter and reported to the exchanges after the deal has been completed. In the extant case, JMFPL-NBFC was able to purchase all bonds from investors it had funded. All this would have been decided in advance. The transactions were settled on T+0 basis i.e. on the very day the transaction occurred.
19. JMFPL-NBFC, acting as a buyer, acquired from these 1016 applicants securities worth Rs. 142 Crores (calculated at the traded price plus accrued interest), on the listing date i.e. November 07, 2023.
20. Of the 1016 applicants, JMFPL-NBFC, acquired around Rs. 100 Crore worth of debt securities from 993 applicants at an average price of approximately Rs. 1002.5 within two hours of listing. Subsequently, within an hour of acquisition, JMFPL-NBFC sold debt securities worth of Rs. 80 Crore to two corporates and a broker at an average price of around Rs. 994. This resulted in a loss of 0.8% of the purchased price to JMFPL-NBFC. Thereafter, JMFPL-NBFC again acquired NCDs worth Rs. 14.1 Crore from 15 applicants at a weighted average price of approximately Rs. 1002. The remaining 8 applicants sold approximately Rs. 8 Crore worth of debt securities at a weighted average price of approximately Rs. 991 to JMFPL-NBFC.



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21. The detailed breakdown of trades executed by JMFPL-NBFC is outlined below:

**Maturity -2 Years- Issued at Rs. 1,000, coupon 9%**

| S. No. | TRADE TIME           | NAME OF THE BUYER                | NAME/NO. OF SELLERS    | TRADED AMT (IN Rs. CR) | PRICE (IN Rs.) | AVG. YIELD (IN %) |
|--------|----------------------|----------------------------------|------------------------|------------------------|----------------|-------------------|
| 1      | 9:06 AM TO 9:33 AM   | JMFPL-NBFC                       | 499 INDIVIDUAL SELLERS | 50                     | 1002.5         | 8.84              |
| 2      | 10:13:00             | CYIENT LIMITED                   | JMFPL-NBFC             | 15                     | 995            | 9.27              |
| 3      | 10:55 AM TO 11:00 AM | OM SCRIP TRADING PRIVATE LIMITED | JMFPL-NBFC             | 24.4                   | 995.3          | 9.25              |

**Maturity – 3 years – issued at Rs. 1000, coupon 9.05%**

| S. No. | TRADE TIME      | NAME OF THE BUYER                  | NAME/NO. OF SELLERS                | TRADED AMOUNT(IN Rs. CR) | PRICE (IN Rs.) | AVG. YIELD (IN %) |
|--------|-----------------|------------------------------------|------------------------------------|--------------------------|----------------|-------------------|
| 1      | 9: 48 TO 9: 58  | JMFPL-NBFC                         | 300 SELLERS - INDIVIDUAL INVESTORS | 30.11                    | 1002.62        | 8.94              |
| 2      | 10:10 AND 10:13 | JMFPL-NBFC                         | 162 SELLERS - INDIVIDUAL INVESTORS | 16.26                    | 1002.62        | 8.94              |
| 3      | 10:16:08        | CYIENT LIMITED                     | JMFPL-NBFC                         | 14.89                    | 992.5          | 9.34              |
| 4      | 10:18 AND 10:22 | JMFPL-NBFC                         | 32 SELLERS - INDIVIDUAL INVESTORS  | 3.21                     | 1002.22        | 8.95              |
| 5      | 10:43:00        | CHAITANYA INDIA FIN CREDIT PVT LTD | JMFPL-NBFC                         | 25                       | 992.5          | 9.34              |
| 6      | 11:07:44        | JMFPL-NBFC                         | VIRAJ AMAR PATEL                   | 19.87                    | 992.48         | 9.34              |
| 7      | 13:42:59        | JMFPL-NBFC                         | BHAGIRATH SINGH RAJESHBHAI RATHOD  | 0.1                      | 1002.62        | 8.94              |



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**Maturity- 5 years – issued at Rs. 1000, coupon 9.20%**

| S. NO. | TRADE TIME | NAME OF THE BUYER | NAME/NO. OF SELLERS | TRADED AMOUNT(IN Rs. CR) | PRICE (IN Rs.) | AVG. YIELD (IN %) |
|--------|------------|-------------------|---------------------|--------------------------|----------------|-------------------|
| 1      |            |                   | NIL                 |                          |                |                   |

**Maturity- 10 years – issued at Rs. 1000, coupon 9.35%**

| S. NO. | TRADE TIME           | NAME OF THE BUYER | NAME/NO. OF SELLERS   | TRADED AMOUNT(IN Rs. CR) | PRICE (IN Rs.) | AVG. YIELD (IN %) |
|--------|----------------------|-------------------|-----------------------|--------------------------|----------------|-------------------|
| 1      | 9 AM TO 9:45 AM      | JMFPL-NBFC        | 15 INDIVIDUAL SELLERS | 14.5                     | 1002           | 9.3               |
| 2      | 11:21 AM TO 13:02 PM | JMFPL-NBFC        | 8 INDIVIDUAL SELLERS  | 7.9                      | 986.6          | 9.55              |

22. Of particular interest in the above Tables is the timing of transactions. The appeared to have been done in a pre-determined fashion. A total of 499 customers of JMFPL-NBFC who purchased NCDs with a tenor of two years sold the securities between 9:06 and 9:33 a.m. at a price of Rs. 1002.50. Similarly, investors holding three-year maturity NCDs sold subsequently between 9:48 and 10:22 a.m. at a price of between Rs. 1002.22 and Rs. 1002.62. In between these purchase transactions by JMFPL-NBFC it entered into sale transactions of the same securities in the two/three-year tenor NCDs at prices ranging from Rs. 992.50 and Rs. 995.30. These transactions for its own borrowers and selected buyers appear to be pre-determined and done in a synchronized manner.
23. It can therefore be noted that JMFPL-NBFC not only funded these investors, but acquired the entire allotment from the investors funded by them and subsequently offloaded a significant portion of the securities that it had acquire from these investors on the very same day at a loss.
24. The exit provided to investors by JMFPL-NBFC, across the maturity profile of the NCDs is also strange given that the price at which transactions were closed. Almost all the transactions were dealt at a price of above Rs.1002. Given bond dynamics and the modified duration of the instrument many of the investors



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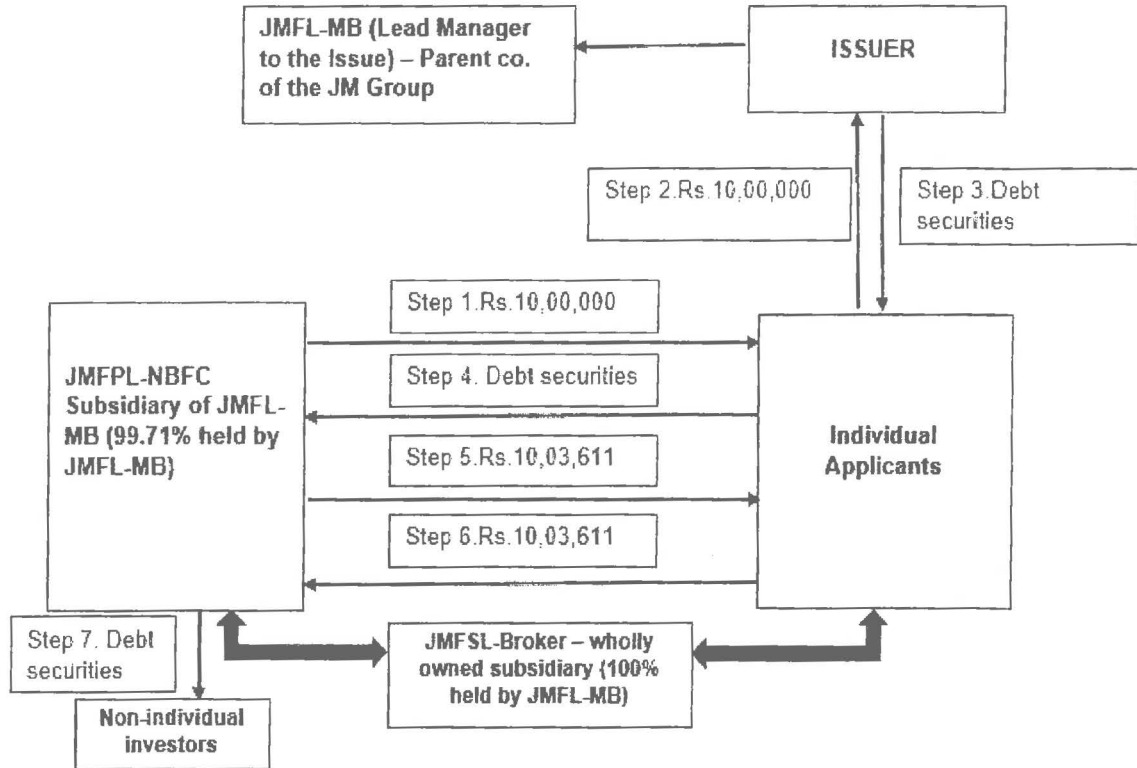
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who purchased from JMFPL-NBFC at a discount would have gained differently depending on maturity and the modified duration of the NCD.

25. The sequence of transactions is depicted pictorially below:



26. Given that JMFPL-NBFC had provided an 'exit' to all the applicants who had availed funding from it, the loan applications of some of these investors were called for and examined, and the observations thereon are given below:

a. **Loans extended Disproportionate to declared income:**

It was noted 47 applicants who had declared an annual income less than Rs. 5 lakh were sanctioned loans of Rs. 9,80,000 and another 10 investors falling in the same category (less than Rs. 5 lakh) were granted loans of Rs. 98,00,000.



b. **Date mismatch:**

It was noted that in certain loan documents there was reference to master loan agreement with future dates which raised concerns about the validity and authenticity of the documentation involved in the loan approval process.

c. **Lack of receipt of upfront margin from certain applicants:**

While an upfront margin of 2% on the loan disbursement amount appeared to have been collected from a majority of the applicants, no margin was collected from 26 applicants.

d. **Negative Carry:**

The said 1016 applicants availed of loans at an interest rate of 10% to invest in the issue of debt securities which provided a yield of 9% and above depending on the tenor of the NCDs they had applied for. The maximum coupon on the bonds was 9.35% for the NCD with 10 year maturity. This resulted in a negative carry to the investor.

27. As JMFPL-NBFC is an NBFC registered with the Reserve Bank of India (RBI), the observations from the preliminary examination by SEBI were also shared with RBI. In this regard it is noted that on March 05, 2024, RBI has directed JMFPL-NBFC *“to cease and desist, with immediate effect, from doing any form of financing against shares and debentures, including sanction and disbursal of loans against Initial Public Offering (IPO) of shares as well as against subscription to debentures.”*
28. The press release put out by RBI further stated that *“[d]uring the limited review it was observed, inter alia, that the company repeatedly helped a group of its customers to bid for various IPO and NCD offerings by using loaned funds. The credit underwriting was found to be perfunctory, and financing was done against meagre margins. The application for subscription, the demat accounts and the bank accounts, all were operated by the company using a Power of Attorney (POA) and a Master Agreement obtained from these customers without their involvement, whatsoever, in the subsequent operations. Consequently, the*



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company was able to effectively act as both lender as well as borrower. The company also acted as the arranger of bank account opening as well as operator of the said bank accounts using the POA. Apart from being in violation of regulatory guidelines, there are serious concerns on governance issues in the company, which in our assessment are detrimental to the interest of the customers. Regulatory violations and deficiencies, if any, on the part of the bank(s) in this regard is being examined separately.”

29. SEBI examination also noted that on the listing day, i.e. November 07, 2023, the 1016 applicants who had availed funding from JMFPL-NBFC not only sold the securities back to JMFPL-NBFC, but also transferred the entire amount including the principal amount, accrued interest and trading gains to JMFPL-NBFC. To illustrate the nature of these transactions, the flow of funds between an applicant who subscribed to debt securities worth Rs.10,00,000 and sold the security at price of Rs.1002.60 the issuer and JMFPL-NBFC is shown in the Table below:

| STEP | DATE         | FROM ACCOUNT | TO ACCOUNT | AMOUNT (IN Rs.) | DESCRIPTION                                                            |
|------|--------------|--------------|------------|-----------------|------------------------------------------------------------------------|
| 1    | OCT 20, 2023 | APPLICANT    | JMFPL-NBFC | 20,000          | UPFRONT-MARGIN MONEY FOR AVAILING THE LOAN                             |
| 2    | Nov 1, 2023  | JMFPL-NBFC   | APPLICANT  | 9,80,000        | LOAN DISBURSEMENT @ INT. RATE OF 10% P.A. OR FLAT Rs. 1,611 FOR 6 DAYS |
| 3    | NOV 03, 2023 | APPLICANT    | ISSUER     | 10,00,000       | TRANSFER OF FUNDS TO THE ISSUER FOR ALLOTMENT OF DEBT SECURITIES       |
| 4    | NOV 07, 2023 | JMFPL-NBFC   | APPLICANT  | 10,03,611       | TRANSFER OF SALE CONSIDERATION TO APPLICANT PURSUANT TO SALE OF DEBT   |



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| STEP | DATE         | FROM ACCOUNT | TO ACCOUNT | AMOUNT (IN Rs.) | DESCRIPTION                                       |
|------|--------------|--------------|------------|-----------------|---------------------------------------------------|
|      |              |              |            |                 | SECURITIES TO JMFPL-NBFC                          |
| 5    | NOV 07, 2023 | APPLICANT    | JMFPL-NBFC | 10,03,611       | TRANSFER OF SALE CONSIDERATION BACK TO JMFPL-NBFC |

30. Given the pattern of allotment and trading on the date of listing, where the involvement of JM Group entities were observed at multiple instances starting with JMFL-MB acting as the lead manager to the issue and ending with JMFPL-NBFC playing the role of an 'exit provider', the response of JMFL-MB was sought on the prima facie findings recorded in the preceding paragraphs.
31. In respect of the funding provided to the investors who had applied through JMFSL-Broker, it was submitted by JMFL-MB that whenever a client of JMFSL-Broker required funding for subscribing to securities in a public issue, such clients were referred to JMFPL-NBFC. The decision on whether to fund such a client, it was submitted, was independently taken by JMFPL-NBFC. Noticee JMFL-MB also submitted that in the issue under question, JMFSL-Broker had mobilized an aggregate amount of Rs. 146.02 Crore from 2,937 applicants in the retail category. Out of these 2,937 applicants, only 994 retail applicants had availed funding aggregating to Rs. 99.4 Crore, from JMFPL-NBFC. Noticee further submitted that funding was also provided to 22 High Networth Individuals (HNIs) aggregating to Rs. 22 Crore. The total funding provided by JMFPL-NBFC, it was submitted, amounted to Rs. 121.4 Crore. The data provided by the JFML does not match the data obtained by SEBI from the Exchanges.
32. In respect of the sale by a significant number of individual investors on the date of listing itself, it was submitted that investors who subscribe to NCDs in public issues by availing funding are looking to make trading gains and may therefore sell the securities allotted to them on the listing date itself so as to repay the loan that had been availed. With respect to the query raised by SEBI as to whether the decision of 994 applicants to exit on the listing date was predetermined or market-driven, it was submitted that all 1016 applicants



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funded by JMFPL-NBFC, including 994 retail investors, decided to exit on the day of listing and the same was market-driven. It has to be noted in this regard that JMFPL-NBFC was the counterparty or the 'exit provider' for all these 1016 investors.

33. Noticee submitted that JMFPL-NBFC purchases NCDs from investors irrespective of whether the IPO funding is provided by JMFPL-NBFC to such clients. In the case of the issue under question, it was submitted that JMFPL-NBFC purchased NCDs worth Rs. 22.4 Crore from investors who were not funded by it. With regard to the observation that JMFPL-NBFC purchased certain NCDs and sold them at a loss on the same day, it was submitted that the decision of JMFPL-NBFC to sell part of the inventory (at a discount) was to match offers from competitors who provided exit, coupled with a potential of further weakening of spreads.
34. In respect to the query regarding the 'exit' provided by JMFPL-NBFC, it was submitted that JMFPL-NBFC is "*constantly looking at debt papers in the market to do active market making for the purpose of creating liquidity in such debt instruments. Accordingly, JMFPL-NBFC bought the NCDs ... from the investors, who wanted to exit to avail other opportunities. The price at which JMFPL-NBFC bought these NCDs ranged from Rs. 100.21 to 100.27 per NCD. For your information, JMFPL-NBFC has been able to sell a part of the NCDs ... bought by it, while it is holding the balance quantity in its books. Typically, the trading desk at JMFPL-NBFC, like in any other trading call, makes decision irrespective of the trading loss or gain depending on the intensity of competition and its allowable risk appetite.*" It was stated that JMFPL-NBFC continued to hold the securities of the issuer to date.
35. In this regard, it is noted that the purchase transaction undertaken by JMFPL-NBFC mentioned at Sl. No. 6 in the Table above capturing details of the trades in NCDs having 3 year tenor, was with an investor who was not funded by JMFPL-NBFC, and said transaction was undertaken at a loss to the investor (Rs. 992.48). Another trade of the same security was done at Rs. 1002.62 which indicates that trades during the day did not follow any pattern. It can, therefore, be noted that the trades of JMFPL were with a clear inclination towards providing exits of higher price to investors funded by it.





36. In response to the clarification sought by SEBI regarding the transfer of the entire amount including the trading gain to JMFPL-MB by the investors, it was stated that the applicants remitted back to JMFPL-NBFC an amount equivalent to the outstanding principal and interest on the loan. It was, however, noted from the bank statements that the entire amount including the trading gains were transferred back to JMFPL-MB.
37. Having considered the replies furnished by JMFL-MB, I note that the decision taken by JMFPL-NBFC to sell the very same securities that it had acquired from the investors funded by it, on the very same day, within a couple of hours after the initial purchase, cannot easily be explained and seem devoid of any commercial considerations. The reply furnished by JMFL-MB, after taking the inputs of JMFPL-NBFC, in this regard is equally perplexing. It is difficult to make sense of the statement that the trading decisions were made at JMFPL-NBFC without regard for the trading loss or gain. In this respect, the details of the fees earned by JM Group entities for the aforesaid transactions may offer clues regarding the considerations underlying these transactions.

| PARTICULARS OF THE INCOME/FEE/COMMISSION | AMOUNT (IN INR LAKH) | INCOME EARNED FROM          |
|------------------------------------------|----------------------|-----------------------------|
| <b>JMFL-MB</b>                           |                      |                             |
| LEAD MANAGER FEES FOR TRANCHE I NCD      | 30.00                | ISSUER                      |
| PERFORMANCE INCENTIVE FOR TRANCHE I NCD* | 64.33                | ISSUER                      |
| <b>JMFSL-BROKER</b>                      |                      |                             |
| BROKERAGE RECEIVED#                      | 243.11               | ISSUER                      |
| <b>JMFPL-NBFC</b>                        |                      |                             |
| GROSS INTEREST INCOME ON FUNDING         | 19.56                | 1,016 APPLICANTS            |
| INTEREST ACCRUED/EARNED ON NCDs          | 48.48                | INTEREST INCOME FROM ISSUER |
| (LOSS) ON SALE OF NCDs                   | (89.50)              | NA                          |

\*on overall issue success

#In respect of the 1,016 applicants, the brokerage income earned by JMFSL-Broker amounts to Rs. 137.75 Lakh.

38. JMFSL-Broker incurred a trading loss of close to Rs. 90 Lakh in the process of buying the securities from investors at a premium, the overwhelming majority of which were funded by them. Thereafter, the securities purchased were sold

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to corporates at a discount (much higher yield). The loss amount is significantly higher than the interest income earned by it. The explanation furnished for undertaking these transactions, which has been reproduced in the preceding paragraphs, is not convincing. It does not make commercial sense for a company driven by profit motive to enter into transactions which resulted in consistent losses.

### Conclusion

39. The scheme, it is prima facie noted, involved getting individual investors, who would otherwise not have participated in the issue, to make applications not just by providing funds to them but also by assuring them an exit at a profit on the listing day. An investor seeking funding to apply in a public issue of securities is looking to make trading gains by virtue of the movement in the price of the security post-listing. However, given the interest charged by the lender on such loans, there needs to be a jump in the price of the security post-listing for such trades to be profitable.
40. This is the reason why such trades are more prevalent in equity markets, especially in IPOs where there is large investor appetite and there is active trading in the scrip on listing. However, in a debt issue where the initial issue including the green shoe option itself was not fully subscribed, the possibility of a significant 'pop' in price of the security on the listing day is remote. In the debt segment of capital markets, an investment in NCDs by retail investors is akin to a fixed deposit of a bank. The major difference in the two instruments is that interest rates and thus the return in fixed deposits does not change during the tenor of the deposit while an investment in NCDs may involve some capital appreciation/depreciation depending on interest rate movements. For the common investor both instruments are to earn interest/coupon and not trade on the instrument. The majority of investors in NCDs, like in fixed deposits, typically hold the instrument to maturity. To expect such volatility in the price of NCDs on day of listing is unusual.
41. Further, more than the expected increase in price post-listing, the critical requirement for such investors is the assurance of a liquid market. The ability of the investors to sell such a security is of utmost importance in the case of



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funded/leveraged investments. In the case of equity markets, given the large number of investors, it may not be a concern. However, in case of debt issues, with the limited trades that are generally observed, investors typically would not make leveraged bets unless they are assured of exiting their positions immediately on listing day.

42. The arguments raised by JMFL-MB, on behalf of itself and the other two group companies, has been an attempt to contend that the companies –individually – have complied with the letter of the law. However, once their actions are aggregated, what comes out is a complete disregard for restrictions imposed by SEBI on providing incentives to investors for subscribing to debt securities. The attempt has been to wrap their actions with the cloak of formal legality.
43. In this regard, it is noted that Regulation 31 of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, prohibits payment of any incentive for making an application in any issue of securities. The text of the provision is extracted below:

***“Prohibition on payment of incentives***

*31. Any person connected with the issue shall not offer any incentive, whether direct or indirect, in any manner, whether in cash or kind or services or otherwise to any person for making an application in the issue, except for fees or commission for services rendered in relation to the issue”*

44. In the instant matter, the Noticee along with its connected group entities were prima facie noted to have given an assured exit to certain investors at a profit thereby incentivising them to apply in the public issue in contravention of the regulatory mandates.
45. The manner in which subscriptions have been managed in this public issue of debt instrument is shocking. The transactions at every stage of this public issue appear to have been done in a pre-determined and pre-meditated manner; and executed clinically to ensure subscription and success.
46. In the process, market integrity and fair price discovery has been compromised. While we have examined modus-operandi in one case, the bank statements of the investors, operated through PoA by the JM Group entities, suggest that this practice is followed in most public issues. The pattern of transactions seen in the bank statements suggest that this is not an isolated incident.



47. From the data and information on record, everything appears to have been done in a synchronized manner. The applications of investors were punched on the same day, the loans were disbursed on the same day (November 01, 2023), the exits were provided on the first day of listing, the exit price for most of their customers were common and the counter party in all the transactions of funded investors was a JM Group company itself. Such synchronization cannot happen by serendipity. The series of transactions appear to have been planned and executed meticulously. Most of their customers, the 994 who had taken loans of Rs. 9.8/10.00 Lakh each, ended up making profits of Rs. 2000/1800/1500. All of them were not charged brokerage by JMFSL-Broker. All settlements happened on T+0 basis. Counterparty was the same in all the transactions; JMFPL-NBFC. These common links are difficult to ignore.
48. Reserve Bank of India in its Press Release dated 5th March, 2024, while taking action against JM Financial Products Limited stated that *"The credit underwriting was found to be perfunctory, and financing was done against meagre margins. The application for subscription, the demat accounts and the bank accounts, all were operated by the company using a Power of Attorney (POA) and a Master Agreement obtained from these customers without their involvement, whatsoever, in the subsequent operations."*
49. In this context, we can also conclude from the data with us that JMFPL-NBFC was the seller, buyer and then a re-seller of the NCDs of which JM Financial Limited was the Merchant Banker. They were able to seamlessly pull this off because they were the PoA holders for many of the investors in question.
50. The Noticee, as a Merchant Banker, entered into the transaction confident in the knowledge that it had all the levers at its command and control to ensure success of the public issue. It had an army of investors ready to invest (through the POAs it held in its favour) on day one; the key firepower and ammunition to build a book. Transactions were cross-subsidized within the JM entities to ensure success. Some transactions were done for free and others at a loss. However, the issue was a win-win for its ecosystem; its related entities and its investors.
51. Investors, on the other hand, would have been given assured exits at a price that ensured profits. Otherwise, how do you explain identical profits in the range





- of Rs. 1500 to Rs. 2000 to all investors who had borrowed upto Rs. 10 Lakh to subscribe in the issue.
52. Markets can throw peculiar outcomes to you. In this case, what looks unique is that it would appear that all participants that were part of the JM chain have gained; the JM Group itself, its investors and corporates who purchased from JM entities on the day of listing. But break the full transaction and we will get different outcomes.
53. To explain, would these retail investors have independently purchased the bonds; would institutions have purchased the same instruments at Rs.1000 and would any entity in its right mind have sold at a loss a security that it purchased a few minutes back at a much higher price and would a broker have done a transaction on gratis. Certainly something is amiss here.
54. The actions of JMFL-MB appears to be an unfair trade practice and get covered under regulation 4(1) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulation, 2003, which states as under
- “4. Prohibition of manipulative, fraudulent and unfair trade practices***
- (1)Without prejudice to the provisions of regulation 3, no person shall indulge in a manipulative, fraudulent or an unfair trade practice in securities markets.”*
55. These actions are also prima facie noted to be in contravention of Clauses 2, 3, 9, 19 and 32 specified in Schedule III of the SEBI (Merchant Bankers) Regulations, 1992, as reproduced below:-

***“Code of conduct – Merchant Banker Regulations:***

- 2. A merchant banker shall maintain high standards of integrity, dignity and fairness in the conduct of its business.*
- 3. A merchant banker shall fulfill its obligations in a prompt, ethical, and professional manner.*
- 9. A merchant banker shall not discriminate amongst its clients, save and except on ethical and commercial considerations.*
- 19. A merchant banker shall have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its*



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*operations, its clients, investors and other registered entities from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions.*

*32. A merchant banker shall not be a party to or instrument for—*

- a. (a)creation of false market;*
- b. (b)price rigging or manipulation; or*
- c. (c)passing of unpublished price sensitive information in respect of securities which are listed and proposed to be listed in any stock exchange to any person or intermediary in the securities market.”*

56. SEBI is also separately examining an issue in the SME segment of NSE wherein it was observed that certain entities placed huge bids under HNI category and subsequently also placed bids under retail category. This resulted in the issue being oversubscribed but the bids were rejected as multiple applications were made from the same PAN. The bids in this case also originated from accounts held at the same Branch of ICICI Bank and PoA even in this case was executed in favour of entities forming part of JM Group. This matter has also been referred to RBI.

#### **Need for interim directions.**

57. It is noted from the reply furnished by JMFL-MB that the actions detailed in this Order were considered by it to be part of its ordinary course of business. It was also stated that a similar approach has been adopted in many of the other issues where it was the lead manager. Such practices as explained earlier have detrimental effect on the orderly functioning of the market and harm the interest of the ordinary investors. They also distort the functioning of price discovery mechanism in the securities market. Given the same, there is an urgent need for the regulator to step in and pass interim directions, pending investigation, to prevent any further erosion in market integrity by virtue of such practices.



## DIRECTIONS

58. Keeping in view the prima facie observations and findings recorded in the preceding paragraphs and in order to protect the integrity of the securities market, I, in exercise of the powers conferred upon me under Sections 11(1), 11(4) and 11B read with Section 19 of the SEBI Act, 1992, hereby issue the following interim directions which shall be in force until further orders:-
- The Noticee is barred from taking any new mandate for acting as a lead manager for any public issue of debt securities.
  - In respect of any existing mandates, the Noticee may continue to act as a lead manager for public issue of debt securities for a period of 60 days from the date of this Order.
59. SEBI shall undertake an investigation into the issues covered under this Order. The investigation so undertaken shall be completed within a period of six months from the date of this Order.
60. The foregoing *prima facie* observations contained in this Order, are made on the basis of the material available on record. The Noticee may, within 21 days from the date of receipt of this Order, file its reply/objections, if any, to this Order and may also indicate whether it desires to avail an opportunity of personal hearing on a date and time to be fixed in that regard.
61. A copy of this order shall be served upon Noticee for necessary action and compliance with the above directions.

DATE: MARCH 07, 2024

PLACE: MUMBAI



  
ASHWANI BHATIA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA

**CERTIFIED TO BE TRUE COPY**



DATE OF CERTIFICATION: March 07, 2024  
TOTAL NUMBER OF PAGES CERTIFIED: 22

