

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
(ADJUDICATION ORDER NO: Order/AK/RK/2025-26/31410)**

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

**Finshore Management Services Limited
PAN: AABCF8557F**

In the matter of Presstonic Engineering Limited

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India (“**SEBI**”) received a complaint alleging misrepresentation by Presstonic Engineering Limited (hereinafter referred to as “**PEL**”) in its Initial Public Offer (IPO) Prospectus for listing of equity shares on SME platform of National Stock Exchange (NSE). Based on the said complaint, SEBI conducted an examination in the matter in order to ascertain possible violation of the provisions of SEBI (Issue Of Capital And Disclosure Requirements) Regulations, 2018 (hereinafter referred to as the “**ICDR Regulations**”) and SEBI (Merchant Bankers) Regulations, 1992 (hereinafter referred to as the “**MB Regulations**”) by Lead Manager to the issue, Finshore Management Services Limited (hereinafter referred to as the “**FMSL/MB/ Noticee**”).
2. On examination, it was found that the Noticee allegedly failed to carry out adequate due-diligence in checking veracity & adequacy of disclosures in the offer document.

APPOINTMENT OF ADJUDICATING OFFICER

3. Upon being satisfied that there were sufficient grounds to inquire into and adjudicate upon the violations of provisions of ICDR Regulations and MB

Regulations by the Noticee, SEBI, in exercise of powers under Section 19 read with Sub-Section (1) of Section 15-I of the SEBI Act, 1992, (hereinafter referred to as “**SEBI Act**”) and Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as the “**SEBI Adjudication Rules**”) appointed undersigned as Adjudicating Officer (**AO**), vide order dated December 26, 2024, to inquire into and adjudge the alleged violations by the Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice Ref. No. SEBI/HO/EAD/EAD6/P/OW/2024/000521/1 dated January 06, 2025 (hereafter referred to as “**SCN**”) was issued to the Noticee in terms of the provisions of Rule 4(1) of the SEBI Adjudication Rules read with Section 15-I of SEBI Act requiring the Noticee to show cause as to why an inquiry should not be held against it and why penalty, if any, be not imposed on it under the provision of Section 15HB of SEBI Act for the alleged violation stated in the SCN. The said SCN was delivered to the Noticee through SPAD and digitally signed email dated January 06, 2025.
5. The brief of alleged violations by the Noticee as per the SCN is given hereunder;
 - 5.1 Noticee failed to undertake due-diligence with respect to veracity & adequacy of disclosures in the offer document/prospectus of PEL wherein it had been mentioned that there had been no criminal cases filed or investigations being undertaken with regard to alleged commission of any offense by any of its directors and no past cases in which penalties had been imposed on PEL, its Promoters, directors, Promoter Group companies, which was allegedly false.
 - 5.2 Owing to the above, Noticee was alleged to have violated Regulation 245(3) of ICDR Regulations and Regulation 13 of the MB Regulations read with Clause 4 of Schedule III of the MB Regulations.
6. Vide email dated January 20, 2025, Noticee submitted its reply in the matter. The reply of the Noticee vide its letter dated January 20, 2025 is summarized hereinbelow:

- 6.1 *That the complaint was duly brought to its attention by SEBI, vide email dated July 09, 2024 and it had promptly filed its response vide email dated July 11, 2024. In support of its submissions, it had relied upon a certification from its advocates qua the legal due diligence conducted at the time of preparing the draft offer document, along with proofs of such due diligence wherein the alleged case/judgment did not appear.*
- 6.2 *It submitted that under Section X: Legal and Other Information at Pg. 214 of the Offer Document, regarding no past penalties imposed on the directors of the issuer, that purported judgment did not provide for a penalty, rather provided for a compensation, and partly appropriated a sum of money towards cost of litigation borne by the State and further submitted that a penalty, by its very legal definition is distinct and definitive, and is completely different from the compensations contemplated under Section 357(1) of the CrPC. The very scheme of Section 357(1) is victim compensation, whereas penalty, by definition, is a punishment or penal imposition for a contravention of law, rule, or regulation.*
- 6.3 *It submitted that what is necessary to highlight is that the offer document is required to disclose all pending litigations and proceedings. However, out of abundant caution, the merchant banker independently verifies and conducts a legal search, and may disclose past litigations in the recent past and disclose any such other proceedings, albeit concluded, if it is materially relevant to the issue even if the same is not mandated by the regulations. However, proceedings which have been concluded almost a decade prior to the filing of the offer document, if at all, ought to have been pointed out by the issuer itself, and Noticee cannot be charged for alleged lapse in due diligence for not reporting a case which has been concluded and finally closed in 2015. The present Order relied upon in the Complaint to the Board pertains to 2015, and by no stretch of imagination is a penalty which is materially relevant to the issue. Further, the proceedings have been concluded in 2015 and do not fall within the scope of “pending litigation” at the time of filing of the offer document.*
- 6.4 *That it is a Category I SEBI Registered Merchant Banker operating since 2014 that has always endeavored to discharge its duties with utmost precision and commitment, and always works towards improving itself.*

7. In the interest of natural justice, an opportunity of a personal hearing was granted to the Noticee on January 29, 2025, vide hearing notice dated January 21, 2025. Noticee appeared through its Authorised Representative (hereinafter referred to as “AR”) who reiterated the submissions made vide letter dated January 20, 2025.

CONSIDERATION OF ISSUES AND FINDINGS

8. I have taken into consideration the submissions of the Noticee, facts, and material available on record. The issues that arise for consideration in the present case are as follows:

ISSUE No. I: Whether the Noticee has violated various provisions of ICDR Regulations and MB Regulations, as alleged in the SCN?

ISSUE No. II: Do the violations, if any, attract monetary penalty under Section 15HB of SEBI Act?

ISSUE No. III: If so, what should be the monetary penalty that can be imposed upon the Noticee, after taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the SEBI Adjudication Rules?

9. Before moving forward, it is pertinent to refer to the relevant provisions which are alleged to have been violated by the Noticee. The said provisions of ICDR and MB Regulations are reproduced hereunder:

Relevant Provisions Of Sebi (Merchant Bankers) Regulations, 1992

Chapter Iii General Obligations And Responsibilities

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

SCHEDULE III

Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992

Regulation 13

Code Of Conduct For Merchant Bankers

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

SEBI (Issue Of Capital And Disclosure Requirements) Regulations, 2018

PART VI: Disclosures In And Filing Of Offer Documents

Disclosures in the draft offer document and offer document

245(3) The lead manager(s) shall exercise due diligence and satisfy themselves about all aspects of the issue including the veracity and adequacy of disclosure in the draft offer document and the offer document.

FINDINGS

10. I have gone through the submissions made by the Noticee and other material on record and now proceed to deal with the issues;

Issue No. I: Whether Noticee has violated the aforesaid provisions of ICDR Regulations and MB Regulations as alleged in the SCN?

Alleged Violation: Failure to undertake due-diligence w.r.t veracity & adequacy of disclosures in the offer document/prospectus

11. I note that following disclosures were made by PEL under *Other Confirmations* section on Page 149 and *Section X : Legal And Other Information* section on Page 214 of the prospectus respectively:

-*There have been no criminal cases filed or investigations being undertaken with regard to alleged commission of any offense by any of our directors.....*
-*There are no past cases in which penalties have been imposed on our Company, the Promoters, directors, Promoter Group companies.....*

12. I note that in the said prospectus, PEL had allegedly suppressed the fact that one of its Non-Executive directors namely Ms. Kodipadi Yerkadithaya Supriya Murthy (KYSM) was criminally convicted in a Court of Law for financial fraud and an information to the contrary had been provided.

13. I note that SEBI during examination had sought comments from the Noticee, vide email dated July 09, 2024. In response, Noticee, vide letter dated July 11, 2024,

submitted that the case of financial fraud was 14 years old, pertained to cheque bouncing wherein KYSM, who was accused was directed by the court to pay Rs 65,000 as a compensation in addition to the court fees.

14. I note that it was submitted by Noticee that during the due diligence and as per the search report of legal advisor to issue, the said case was not traceable and that KYSM had submitted an undertaking on August 30, 2023 informing that there were NIL litigations against her involving criminal/civil matters. Further, vide its email dated October 22, 2024, Noticee submitted that it had relied upon the report of legal adviser and the said undertaking by KYSM.
15. Upon perusal of the screenshots shared by the legal advisor to the issue, I note that the pending and disposed of Court matters were searched only for the years 2023 and 2024.
16. In addition to the aforesaid, I note that in response to SEBI query, KYSM informed that no information in respect of the said Court matter was shared with the Noticee due to oversight as the case was too old and the case was settled by paying compensation as per Court Order in the year 2015. She further submitted that being a non-executive director and the amount being insignificant and not having any adverse impact on the Issuer Company (PEL), no disclosure in respect of the said matter was made by her.
17. I note that the disclosures as mentioned above were allegedly not true as the said disclosures mentioned that there were no past cases in which penalties had been imposed on the company, the Promoters, directors, Promoter Group, etc despite the case of financial fraud on KYSM in the past. Thus, allegedly adequate disclosure in respect of track record of the director of the Company, as required in terms of Regulation 245(3) of the ICDR Regulations, were not made by the Noticee in its disclosure in the offer document

18. From the above, it was alleged that Noticee being a lead manager to the issue of PEL neither made any independent inquiry nor advised the legal advisor to search the records for previous years so as to satisfy itself w.r.t veracity and adequacy of disclosures being made in the prospectus and relied on the aforesaid undertaking and the search report of Legal Advisor to the issue for making the disclosures in the prospectus stating that there have been no criminal cases filed or investigations being undertaken with regard to alleged commission of any offense by any of the directors of the Company and that there were no past cases in which penalties had been imposed on the Company, the Promoters, directors, Promoter Group companies.
19. In view of the foregoing, it was alleged that the Noticee has violated Regulation 245(3) of ICDR Regulations and Regulation 13 of the MB Regulations read with Clause 4 of schedule III of the MB Regulations by having failed to carry out adequate due-diligence w.r.t veracity & adequacy of disclosures in the offer document/prospectus.
20. As regards the contention of the Noticee at para 6.1 above, I note that Noticee admittedly relied upon the search report of its advocates, which shows that it didn't carry out its own independent search to ascertain the claims by the Director (KYSM) of PEL in the offer document that there were no past cases in which penalties had been imposed on PEL, its promoters, directors, Promoter Group companies. Noticee was dutybound to carry out independent due-diligence w.r.t veracity and adequacy of disclosures being made in the prospectus in terms of Regulation 245(3) of the ICDR Regulations, which states that "*The lead manager(s) shall exercise due diligence and satisfy themselves about all aspects of the issue including the veracity and adequacy of disclosure in the draft offer document and the offer document.*", instead of relying on due diligence carried out by an advocate.
21. As regards the contention of the Noticee at para 6.2 above, I note the following;
- 21.1 the default of payment on the part of PEL's Director (KYSM) culminated into a criminal proceedings against her, which fructified into an order under

Section 255(2) of Criminal Procedure Code whereby she was convicted of offence punishable under Section 138 of the Negotiable Instruments Act, 1881 and was sentenced by the Chief Metropolitan Magistrate (CMM) Court to pay fine amount of Rs 65,000/- wherein in terms of Section 357(1)(b), KYSM was directed by the court to pay Rs 63,000 towards compensation to the victim/ complainant and in terms of Section 357(1)(1), Rs 2000 was confiscated to the state.

21.2 Thus, fine of Rs 63,000 was nothing but a monetary penalty imposed by the CMM court on KYSM and the said fine amount was paid as compensation to the complainant.

Therefore, the submission of the Noticee that compensation imposed by the court on KYSM was not a penalty, is devoid of any merits.

22. As regards the contention of the Noticee at para 6.3 above, I note the following;

22.1 the disclosure made by PEL in its offer document reads under:

.....There have been no criminal cases filed or investigations being undertaken with regard to alleged commission of any offense by any of our directors.....

.....There are no past cases in which penalties have been imposed on our Company, the Promoters, directors, Promoter Group companies.....

22.2 From the above disclosure, it is conspicuous that despite a criminal case against its Director in the past, PEL made the above disclosure that no criminal cases had been filed with regard to alleged commission of any offense by any of its Directors and there were no past cases in which penalties had been imposed on it, promoters, Directors etc, which was false and required disclosure as mentioned in pre-paragraphs. Thus, the Noticee appears to have misconstrued the provisions w.r.t disclosure and therefore, its submission is devoid of merits.

22.3 As regards submission of the Noticee that the proceedings have been concluded in 2015 and did not fall within the scope of "pending litigation" at

the time of filing of the offer document, I note that Regulation 245(3) provides for an MB to exercise due diligence and satisfy themselves about all aspects of the issue including the veracity and adequacy of disclosure in the draft offer document and the offer document, and in the instant case, PEL had made a false statement in the offer document that there had been no criminal cases and no penalties had been imposed in the past upon its Directors wherein Noticee being an MB was required to ensure the authenticity of the statements mentioned by PEL in the prospectus. Further, Noticee has been alleged to have failed to carry out due-diligence w.r.t veracity & adequacy of disclosures in the offer document/prospectus and not for failure to disclose the pending litigation of PEL and therefore, there arises no question whether litigation was concluded in 2015 or not. Therefore, submission of the Noticee holds no merits.

22.4 Further, Noticee being an MB was required to ensure that the disclosure in the prospectus was correct and should have ensured the due-diligence at its end.

22.5 Hon'ble Securities Appellate Tribunal (hereinafter referred to as "SAT") in the case of *M/s. Coimbatore Flavors & Fragrances Ltd. & Ors vs SEBI* (Appeal No. 209 of 2014 order dated August 11, 2014), has held that *"Undoubtedly, the purpose of these disclosures is to bring about more transparency in the affairs of the companies. True and timely disclosures by a company or its promoters are very essential from two angles. Firstly; investors can take a more informed decision to invest or not to invest in a particular scrip secondly; the Regulator can properly monitor the transactions in the capital market to effectively regulate the same."*

23. In view of the foregoing, it stands established that the Noticee has violated Regulation 245(3) of ICDR Regulations and Regulation 13 of the MB Regulations read with Clause 4 of schedule III of the MB Regulations.

ISSUE No. II: Do the violations, if any, attract monetary penalty under Section 15HB of SEBI Act?

24. In view of the findings as given above, I am convinced that the Noticee is liable for monetary penalty under section 15HB of the SEBI Act for violations of the above established provisions of ICDR Regulations and MB Regulations.
25. The provision of Section 15HB of the SEBI Act read as under:

Penalty for contravention where no separate penalty has been provided

15HB Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

ISSUE No. III: If so, what should be the monetary penalty that should be imposed upon the Noticee, after taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the SEBI Adjudication Rules?

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

SEBI Act

“15J. Factors to be taken into account by the adjudicating officer

While adjudging quantum of penalty under Section 23-I, the adjudicating officer shall have due regard to the following factors, namely:-

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
- (b) the amount of loss caused to an investor or group of investors as a result of the default;*
- (c) the repetitive nature of the default.”*

27. I note that the material available on record does not quantify any disproportionate gains or unfair advantage, if any, made by the Noticee and the losses, if any, suffered by the investors due to such violations on the part of the Noticee. From the document available on record, I note that the Noticee had been penalized by SEBI to the tune of Rs 5 lakhs for the violations of provisions of MB Regulations, SEBI (Prohibition for Insider Trading) Regulations, 2015 and SEBI Circulars, vide order dated May 30, 2024. It is pertinent to note that the role of a Merchant Banker (MB) is crucial to the development of the securities market, especially for the company's involved/interested in raising capital from market for whom the Merchant Banker is responsible for due diligence and proper disclosures in the offer document relied upon by the investors. In this regard, the role of a MB is crucial as a facilitator to such companies in the securities market. So, it is of utmost importance that every MB abides by provisions of SEBI Regulations and various guidelines issued by SEBI/Stock Exchanges. The non-compliances on the part of the Noticee as brought out in the preceding paragraphs clearly shows that it has failed in its fiduciary duties owed to its clients.

ORDER

28. After taking into consideration the facts and circumstances of the case, in exercise of powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the SEBI Adjudication Rules, I hereby impose the penalty of Rs. 2,00,000/- (Rupees Two Lacs Only) u/s 15HB of the SEBI Act on the Noticee. I find that the said penalty is commensurate with the violations committed by the Noticee in this case.
29. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

ENFORCEMENT → ORDERS → ORDERS OF AO → PAY NOW

30. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under Section 28A of the SEBI Act for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.
31. In terms of Rule 6 of the SEBI Adjudication Rules, a copy of this order is sent to the Noticee and also to the Securities and Exchange Board of India.

Place: Mumbai

Date: May 19 , 2025

AMIT KAPOOR
ADJUDICATING OFFICER