

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
(ADJUDICATION ORDER NO: Order/AK/RK/2025-26/31381)**

**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:**

**M/s P Babulal & Company
PAN: AAMPS3373E**

In the matter of M/s P Babulal & Company

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India (“**SEBI**”) had conducted an investigation in respect of M/s P babulal & Co (hereinafter referred to as the “**Noticee/You**”), which was registered as a Sub-Broker with NSE and BSE, bearing Registration Nos. INS019278311 and INS239608818 respectively, in the matter of alleged dematerialization and selling of shares of dormant accounts using forged documents by certain entities, to ascertain possible violation of the provisions of SEBI (Stock-Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as ‘**Brokers Regulations**’) by the Noticee.
2. During the examination, it was observed that the Noticee allegedly failed to exercise due skill, care, diligence professionalism and efficiency in the conduct of its business as a Sub-broker.

APPOINTMENT OF ADJUDICATING OFFICER

3. Upon being satisfied that there were sufficient grounds to inquire into and adjudicate the alleged violations of provisions of Brokers Regulations by the Noticee, SEBI appointed Shri Santosh Kumar Sharma as the Adjudicating Officer (**AO**), vide order

dated September 06, 2023. Subsequently, Shri Amar Navlani, Shri Biju S and Smt Asha Shetty were appointed as the AOs, vide orders dated December 08, 2023, March 14, 2024 and July 22, 2024 respectively. However pursuant to the transfer of case, undersigned was appointed as AO 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**”), vide order dated November 22, 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/EAD-1/BS/12102/1 dated March 26, 2024 (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, should not be imposed on it under the provision of Section 15HB of SEBI Act for the alleged violation stated in the SCN.
5. The brief of alleged violations by the Noticee as per the SCN is given hereunder;
 - 5.1 Noticee failed to undertake due-diligence due skill, care, diligence in the conduct of its business as a Sub-broker with respect to induction of a client, who was allegedly a non-existing bogus entity.
 - 5.2 Owing to the above, Noticee was alleged to have violated Clause A(2) of Code of Conduct as specified in Schedule II r/w Regulation 15(1)(b) of Brokers Regulations.
6. Vide letter dated June 06, 2024 and email dated June 12, 2024 respectively, Noticee and its Authorized Representative (AR) requested to be provided with the Annexures to the SCN and sought inspection of documents and cross-examination in the matter. Vide email dated June 11, 2024, SCN alongwith the Annexures were provided to the AR of the Noticee and vide email dated June 14, 2024, an opportunity to inspect the relevant and relied upon documents was provided to the Noticee on July 05, 2024. However, the same was postponed and inspection of documents was provided to the

Noticee on August 22, 2024, vide email dated August 09, 2024, which was duly availed by the AR of the Noticee. Vide email dated September 22, 2024, AR of the Noticee sought clarification w.r.t delay in the initiation of the proceedings and reliance by SEBI on the statements, made under oath by Mr. Hemant Punamiya and Mr. Arvind Babulal Goyal in the matter and requested for an opportunity to cross-examine the said individuals. The AR of the Noticee was provided an opportunity of cross-examination of Mr Hemant Sagarmalji Punamiya, on November 13, 2024, vide email dated October 25, 2024. AR of the Noticee, vide email dated October 25, 2024 requested to prepone the cross-examination to November 12, 2024. The said request of the AR was acceded to and AR of the Noticee was provided opportunity of cross-examination on November 12, 2024. However, the cross-examination in the matter could not be completed on the said date as Mr Hemant Punamiya abstained from the said proceedings. Subsequently, another opportunity of cross-examination in the matter, was granted to the Noticee on December 04, 2024, vide email dated November 21, 2024 but Mr Heman Punamiya again abstained himself on the said date and cross-examination in the matter could not be concluded.

7. Pursuant to the transfer of proceedings, vide email dated January 15, 2024, Noticee was given an opportunity to submit its reply in the matter, latest by January 22, 2025. As regards its request for cross-examination, Noticee was informed that based upon his submissions and if felt warranted, the said opportunity would be provided. AR of the Noticee, vide email dated January 15, 2025, requested to be granted an opportunity of cross-examination first and submitted that pursuant to cross-examination, the reply would be submitted. Vide email dated January 15, 2025, AR of the Noticee was informed that the request for cross-examination would be considered on merits based on its response to the SCN. AR, vide return email on the very same day, submitted that the erstwhile AO had granted him the opportunity to cross-examine, prior to filing of reply and he reiterated his request for cross-examination in the matter. Vide email dated January 15, 2025, Noticee was informed that based on merits, if request for cross examination is accepted, it would be given an opportunity to cross-examine and also to provide further response after cross examination.

8. In response to the said communication, AR of the Noticee, vide email dated January 15, 2025, requested for additional time to file reply in the matter, which was acceded to and the AR was given time till February 07, 2025 to submit its reply in the matter. Noticee submitted its reply in the matter, vide letter dated January 27, 2025 and requested for certain documents. Vide email dated February 07, 2025, Noticee was informed to provide the list of specific documents to be inspected by it and relevant to the allegations made against it, by February 10, 2025. AR of the Noticee, vide email dated February 07, 2025 provided a list of documents sought by it. Vide email dated February 11, 2025, AR of the Noticee was granted a second opportunity for inspection of documents in the matter on February 12, 2025. AR of the Noticee, vide email dated February 11, 2025 requested to reschedule the inspection of documents and hence, vide email dated February 11, 2025, inspection of documents in the matter was rescheduled to February 24, 2025. The said inspection opportunity was duly availed by the AR wherein all the relevant and relied upon documents were provided to it. The reply of the Noticee, vide its letter dated January 27, 2025 is summarized as under;

8.1 Noticee submitted that the delay in issuing the SCN has caused significant prejudice as the alleged offence occurred in 2012, investigation in the matter was completed in 2015-2016, while the SCN was only issued in 2024 and submitted that without delving into the merits of the case, the SCN should be disposed of without any adverse order, solely on the grounds of the inordinate delay. The Noticee placed reliance on various Securities Appellate Tribunal (SAT) and Supreme Court (SC) judgements to concrete its contention, viz, Ashok Shivrul Rupani & Ors Vs SEBI (Appeal No. 417/2018) (Date of Order 22-08-2019), Bharat J Patel & Ors Vs SEBI (Appeal No. 154/2020) (Date of Order 08-09-2020), Ashlesh Gunvantbhai Shah Vs SEBI (Appeal No. 169/2019) (Date of Order 31-01-2020), Mr. Rajeev Bhanot & Ors. vs SEBI (Appeal No. 396 of 2018) (Date of Order 09-07-2021), Kamleshgiri Manusukhgiri Goshwami & Ors Vs SEBI (Appeal No. 660/2022), Anilkumar Nandkumar Harchandani & Ors Vs SEBI (Appeal No. 75/2019) (Date of Order 05-12-2019)

8.2 Noticee submitted that the Investigation report (IR) has relied upon the First Information Report (FIR) and Chargesheet filed by the Economic Offences Wing (EOW) of the

Mumbai Police and based on the FIR/Chargesheet, SEBI had concluded that 26 entities were non-existent and bogus. However, neither the name of Arvind Babulal Goyal nor any reference to his involvement appears in the FIR or Chargesheet despite Police having recorded his statement during its investigation.

8.3 It submitted that EOW had identified Mr. Rakesh Somchand Dikshit and some other persons as wanted accused as the mastermind behind the scheme and in stark contrast, SEBI has surprisingly identified Arvind Babulal Goyal as the mastermind behind the creation of the bogus accounts for these 26 bogus and non-existent entities.

8.4 That the police investigation revealed that, in at least five of the accounts, the photograph of the main accused, Mr. Rakesh Somchand Dikshit for opening of bogus bank/demat/trading accounts, was used in the KYC process. Despite this critical finding, the IR failed to make any allegations against Mr. Rakesh Somchand Dikshit, which raises a significant contradiction in SEBI's findings.

8.5 It further submitted that SEBI had completely failed to investigate how shares of reputed companies such as Anuh Pharma, Arshiya International Ltd., Atco Corporation Ltd. (now known as Vaarad Ventures Ltd.), Central Provinces Railway Corporation, Chromatic India Ltd., DCW Ltd., Eicher Motors Ltd., Genesys International Ltd., GL Engineering Solutions Ltd., Jain Irrigation, Jyoti Structures Ltd., Panama Petrochem, and SML Isuzu Ltd, were allegedly stolen or counterfeited.

8.6 It added that SEBI had also failed to examine the involvement of the Registrar and Transfer Agents (RTAs), without whose assistance the commission of such a crime would have been impossible, which raises a fundamental question as to how the perpetrators had known that these shares were unclaimed, which ultimately shows that SEBI has not thoroughly investigated the case.

8.7 It submitted that the bank, demat, and trading accounts were opened in the names of entities whose shares remained unclaimed. However, SEBI had completely failed to identify the actual owners of these shares (except in one case) from the 14 companies, which had been either stolen or counterfeit and that this oversight is significant, as the failure to trace the rightful owners of these shares directly impacts the credibility and thoroughness of the investigation.

8.8 That SEBI hastily levied allegations against brokers and sub-brokers for opening trading and demat accounts but failed to investigate the role of the bank officers who facilitated

the opening of bank accounts for those 26 fictitious entities and further submitted that it is inconceivable that bank accounts could have been opened without physical presence at the bank branch.

8.9 It submitted that SEBI has failed to produce a single document to substantiate the claim that Mr. Arvind Babulal Goyal opened bank, demat, or trading accounts of the 26+2=28 bogus, non-existent entities.

8.10 Noticee submitted that the scope of the investigation was to investigate into the circumstances leading to be instances of alleged fraudulent transfers and demat of shares by the 26 individuals in the 14 scrips and to ascertain any violation of the provisions of SEBI (PFUTP) Regulations, 2003, inter alia, including violation of the provisions of SEBI (PFUTP) Regulations, 2003, by the suspected entities, including the individuals, in the alleged fraudulent transfers and demat of shares during the period 14/09/2009 to 08/03/2013 and based on the above scope, SEBI was restricted to investigating and alleging violations strictly within the purview of SEBI (PFUTP) Regulations, 2003. Therefore, SEBI has no authority to make allegations outside this prescribed scope. Despite this, SEBI has improperly alleged a violation against it under Clause A (2) of the Code of Conduct, as outlined in Schedule II of Regulation 15(b) of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992, which falls outside the ambit of the investigation period and the stated regulations. This constitutes an overreach and exceeds the SEBI's jurisdiction.

8.11 It further submitted that no reliance could be placed on the IR in question, as it is fraught with numerous gaps and inconsistencies, which undermines its credibility and reliability.

8.12 Noticee submitted that neither Noticee itself nor its employees were involved in opening any account of non-existent bogus entity.

8.13 That the relationship between Mr. Hemant Sagarmalji Punamiya and Mr. Arvind Babulal Goyal had been depicted as unusually close, whereas in reality, their relationship is characterized by several layers, and it cannot be accurately described as one of close association with Mr. Arvind Babulal Goyal and hence, cannot be considered relatives.

8.14 Noticee submitted that SEBI had placed reliance on a copy of a purported MTNL Telephone Bill in the name of Punamiya Bhushan and it was alleged in the SCN that the said Bill was submitted by Mr. Arvind Babulal Goyal to ICICI Bank in April 2006 in support of his car loan application. However, neither ICICI Bank nor SEBI possess the

original copy of the bill, and as such, reliance on a photocopy of the document is legally insufficient and cannot be deemed valid.

8.15 Noticee submitted that on personally inquiring Mr. Bhushan Punamiya about the telephone bill, he had strongly denied ownership of the MTNL bill and it was asserted that he became an Authorized Retailer for Reliance Industries Limited in 2003, providing mobile services and thus, it is inconceivable that he would have paid a bill of Rs. 6,000/- for calls, when he had both telephone and mobile connections either free of charge or at a negligible cost.

8.16 In order to support this assertion, Noticee provided the documents viz, (a) Certificate of Registration of Trade Mark issued by the Registrar of Trade Marks in the name of BTC World, which lists Mr. Bhushan Punamiya's name; (b) Appointment Order of BTC World as an Authorized Retailer of BTC World; and (c) Certificate issued by Pentafour Software and Exports Limited and (d) certificate issued by Reliance.

8.17 It further submitted that Mr. Bhushan Punamiya had visited concerned MTNL Office to find out the Opening Form for the said connection of MTNL, however, the concerned Official showed their inability as the matter pertained to year 2006.

8.18 Noticee denied that the address mentioned on the purported MTNL Telephone Bill was in any way connected with Mr. Bhushan Punamiya as on bare perusal of the address mentioned on the purported MTNL Bill, the address was mentioned as 'Goyal Villa' i.e. belonged to none other than Mr. Arvind Babulal Goyal, who was master of fabrication of forged and fictitious documents and SEBI cannot place reliance on a document which is not admissible as evidence.

8.19 Noticee submitted that a person by the name of Anil Purushottam Atre visited its office and requested to open both a trading and demat account in his name. After thoroughly explaining the necessary formalities, the individual submitted a PAN card, which bore his photograph that matched his face, along with a passport-sized photo, a cheque issued on his name by his bank, a bank passbook, and a driving license, all of which also bore his photograph matching his face.

8.20 It submitted that he had provided the originals of all these documents, which were duly verified by both its staff and the staff of the main broker, Angel and the said client had personally signed the KYC documents and provided a cheque in favor of Angel, which bore his signature, consistent with the one on the KYC documents.

- 8.21 That SEBI had completely failed to establish any wrongdoing on its part as the sub-broker in introducing Anil Purushottam Atre to Angel. The client provided all necessary documentation, including his photograph, bank cheque, passbook copy, driving license copy, and PAN card (all bearing his photograph, which matched his face), and also provided the original documents for verification. Despite this, SEBI had not demonstrated any deviation from standard procedure on Noticee's part, as all documents were submitted and duly verified as per the usual practice.
- 8.22 Noticee submitted that it had no reason to doubt the authenticity of the documents, including the driving license, PAN card, and bank passbook, and there is no evidence to suggest that these were forged or fraudulent in nature. SEBI had failed to show any actionable irregularity or misconduct in its role as the sub-broker.
- 8.23 It submitted that the focus should have been on the lack of due diligence by Angel, rather than placing undue responsibility on it for simply introducing the client, who appeared to have all the required documents in order.
- 8.24 That, had Angel verified the records properly, they would have rejected the KYC form of Anil Purushottam Atre, as Angel's main records would have flagged that multiple demat and trading accounts been opened for different individuals using the same photographs as Anil Purushottam Atre, and in one case, the same mobile number and in another, the same address.
- 8.25 Noticee submitted that as a sub-broker, it did not have access to Angel's main records and thus, was not in a position to verify such discrepancies. The main broker had the responsibility to check for such issues, and their failure to do so had led to these fraudulent activities and not its actions as a sub-broker.
- 8.26 Noticee submitted that no shares had been transferred from the demat account of Anil Purushottam Atre to any other account, which further substantiates the claim that no fraudulent activities occurred through the account.
- 8.27 That a review of the demat statement of Anil Purushottam Atre revealed that 100 shares of SML Isuzu Ltd. were dematted in his demat account on 11-01-2013, which he subsequently sold through on-market transactions on around 18-01-2013. Additionally, only 10 shares of Tata Steel were credited to his demat account on 12-06-2012, and his request for the demat of shares of Arshiya Limited was rejected. Therefore, no substantial transactions occurred in his demat account, and there was minimal trading activity in

his trading account. Further, as per the demat statement, 10 shares of Tata Steel are still lying in his demat account.

8.28 SEBI has failed to provide any documents or evidence supporting the assumption that the shares dematted in the account of Anil Purushottam Atre were stolen and/or counterfeit. SEBI has not substantiated the claim regarding the ownership of the 100 shares of SML Isuzu Ltd, particularly if these shares are indeed stolen or counterfeit and SEBI has failed to identify or establish the actual owner of these shares, leaving the allegations unsupported and speculative.

8.29 SEBI has failed to establish any connection between Mr. Atre and Mr. Arvind Babulal Goyal. Moreover, it has falsely been alleged that shares of Globe Securities were transferred from the demat account of Mr. Atre to existing entities controlled by Mr. Arvind Babulal Goyal as this assertion lacks any supporting evidence and remains speculative at best.

8.30 That no allegations have been made against it regarding the opening of accounts for any other bogus entity, except for the account of Mr. Atre.

8.31 That IA of SEBI has failed to inquire of Mr. Arvind Babulal Goyal regarding his purported relationship with the Punamiya Brothers while recording his statement on oath.

8.32 That Noticee had not been provided with the bank account statement of Mr. Atre and the findings regarding alleged fund transfers to several cheque discounting entities / ATM withdrawals / withdrawals through self-issued cheques, are not substantiated with any verifiable evidence.

8.33 That the Learned Whole Time Member (WTM) of SEBI, in his order dated 16-03-2021, had exonerated Mr. Satish R. Mandowara, despite his role as the Director of Globe Securities Limited, whose shares were allegedly stolen and/or counterfeit in significant quantities. This decision raises serious concerns about the consistency, transparency, and fairness of SEBI's investigation. The fact that Mr. Mandowara had been cleared of any wrongdoing, despite the significant irregularities surrounding the shares of Globe Securities, is troubling and casts doubt on the credibility of the investigation as a whole. This discrepancy, wherein a key individual associated with the fraudulent activities has been absolved, needs to be carefully examined and explained. It is crucial to address this

inconsistency as it could potentially undermine the validity of the findings and conclusions reached by SEBI in this case.

9. In the interest of natural justice, an opportunity of a personal hearing was granted to the Noticee on March 05, 2025, vide hearing notice dated February 27, 2025. Noticee appeared through its AR who reiterated the submissions made vide letter dated January 27, 2025. During the course of hearing, AR of the Noticee was informed that the statement of Mr Hemant S Punamiya would not be relied upon in the matter and therefore, no cross-examination would be granted.

CONSIDERATION OF ISSUES AND FINDINGS

10. The charges against the Noticees, its reply and the documents/material available on record have been carefully perused. The issues to be considered are as follows:

ISSUE No. I: Whether the Noticee has violated various provisions of Brokers Regulations, as mentioned at para 5.2 above?

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 on 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?

11. 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 Brokers Regulations are reproduced hereunder:

Relevant provisions of Brokers Regulation:

General obligations and inspection.

15. (1) *The sub-broker shall—*

(a)

(b) *abide by the Code of Conduct specified in Schedule II;*

SCHEDULE II

Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992

CODE OF CONDUCT FOR STOCK BROKERS

[Regulation 9]

A. General.

(1)

(2) *Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business.*

FINDINGS

12. The undersigned would now deal with the issues on the basis of SCN issued, reply received from Noticee and material available on record.

Issue No. I: Whether Noticee has violated the aforesaid provisions of Brokers Regulations as mentioned at para 5.2 above?

13. Before I proceed to deal with the matter on merits, it is important to settle preliminary issue raised by the Noticee w.r.t to delay in issuance of SCN, as mentioned at para 8.1 above. In this regard, I note that SEBI had conducted an investigation against the Noticee, pursuant to news articles published on January 8, 2014, one in Economic Times and other in Business Standard, inter alia, alleging dematerialization and selling of shares in dormant accounts using forged documents by certain entities. The said investigation involved thorough analysis of the demat account statements, bank account statements to reach to the ultimate beneficiary of the proceeds, issuing summons to all the suspected entities, recording their statements, conducting the inspection of RTAs and DPs involved in the alleged dematerialization, etc. Further, the quantum of shares of 14 listed companies that were fraudulently acquired were to the tune of 3,56,222, valuing approximately Rs 4.60 crores, ultimately narrowing down to 26 non-existing entities. Pursuant to the conclusion of investigation in the matter, Enquiry proceedings were initiated against the Noticee, wherein the Designated Authority (DA) was appointed on March 10, 2022. Subsequently, DA had submitted the Enquiry Report (ER) dated July 29, 2022 with the recommendation for

disposing of the enquiry proceedings, since the Noticee was no longer a SEBI registered intermediary.

14. Pursuant to submission of the report by DA on July 24, 2023, action for initiation of the adjudication proceedings was approved by the competent authority against the Noticee. First AO in the matter was appointed on September 06, 2023. However, pursuant to the transfer of case, Second AO was appointed by SEBI in the matter on December 08, 2023. Reallocation of cases in the matter was exercised by SEBI wherein the matter was allocated to third AO in the matter on March 14, 2024 and SCN in the matter was issued on March 26, 2024. I note that initiation of adjudication proceedings under the appropriate provisions of SEBI Act is a regulatory prerogative of SEBI depending upon the outcome of the fact finding exercise, which was the investigation in the instant matter. However, reasonable time has to be taken to complete the investigation as the absence of any Limitation period in the SEBI Act should not put either of the parties at unequal pedestal. Given the nuanced nature of violations under the securities law, there is no straitjacket formula to determine the adequate period within which a show cause notice must be issued. The period must create a balance between the difficulties faced by market participants in producing evidence to prove their innocence after a lapse of time as well as provide sufficient time to SEBI to investigate the alleged violation and gauge sufficient evidence to initiate proceedings. There are no objective tests to determine what reasonable period is. It is always left open to say it is determinable based on facts and circumstances of each case. In the instant case, I note that while sufficient time elapsed after the occurrence of the alleged fraud, and SCN had been issued after 8/9 years, the Noticee was able to produce evidence in support of his contentions, as can be seen in subsequent paras, and hence I am not inclined to accept the submission of the Noticee w.r.t delay in issuance of SCN.
15. I now proceed to the deal with the matter on merits. I note that the SCN alleges lack of due skill, care and diligence on the part of Noticee in the conduct of its business as a sub-broker. I note the following from the SCN;

15.1 Following modus operandi of the dealings by Mr. Arvind Babulal Goyal and his associates viz. Abhay Dattatray Javlekar, Satish Radheshyam Mandowara, Yatin Vasantraai Parekh, Manish Devendra Rathi, Dharmendra Harilal Bhojak, Ramesh Dwarkadas Daga, Jignesh Rajendra Kumar Jain and Kaushik Jayendra Solanki has been observed:

3,56,222 shares of 14 listed companies were acquired in the name of 26 entities through transfer of physical shares and subsequent demat of these shares in the accounts of these 26 entities. The market value of these 3,56,222 shares was Rs. 4.60 crores. As submitted by DP Angel Broking Pvt. Ltd. post their internal investigations, these 26 entities are bogus and non-existing and in that sense were imposters with assumed names and fake identities. Further, the fact that these 26 entities are bogus and non-existing, has been confirmed by EOW. Also, summons issued by SEBI to these 26 entities have returned undelivered, which further confirms that these 26 entities are bogus and non-existing.

Since the 26 entities are bogus and non-existing, it is observed that 3,56,222 shares (amounting to Rs. 4.60 crores) of 14 listed companies acquired or transferred in the name of the 26 entities were either stolen or counterfeit and were acquired or transferred fraudulently in the name of the 26 non-existing entities. This is further evident from the inspection conducted of the 2 RTAs, Bigshare and MCS, wherein it was observed that there was lack of due care and diligence by the RTAs in the transfer of shares and issue of duplicate shares, which has been used in their advantage by the perpetrators in giving effect to their fraudulent designs.

It is, thus, observed that the physical share certificates of the 14 scrips were fraudulently acquired in the names of 26 non-existing bogus entities and were then dematted in the fraudulently opened demat accounts of these 26 non-existing entities. The accounts for these 26 entities were opened in different names with different addresses but using same or similar looking photographs through the different branches of Angel Broking Pvt. Ltd. at different points of time. In all, total of 3,56,222 shares, amounting to Rs. 4.60 crores, were acquired in such fraudulent manner. The

shares were then either sold in the market through the 26 non-existing clients or were transferred to some other existing and non-existing entities in the off-market, who later sold the shares in the market.

From the investigations into the bank account dealings, it is observed that the money thus made out of the sale of shares, the money credited into the clients' account in the payout by NSE, and BSE were used in certain ways as explained in the IR.

15.2 It was also observed that one of the 26 bogus entities, viz. Anil Purshottam Atre, was introduced to Angel Broking Limited through one of their sub-brokers, i.e. the Noticee and one Mr. Hemant Sagarmalji Punamiya, who was the Manager of the Noticee knew Arvind Babulal Goyal as they both came from the same community and also because of the fact that the families of both the persons are related with each other. Further, it was observed that brother of Hemant Sagarmalji Punamiya, Mr. Bhushan Punamiya was mentioned as introducer in the KYC form of Anil Purshottam Atre. It was also observed that Arvind Babulal Goyal had taken a car loan from ICICI Bank in April 2006 and during the processing of the loan application, he had submitted copy of a MTNL telephone bill dated February 07, 2006 (tel. no. 28775662) which was in the name of Bhushan Punamiya and the address was "Shop no. 3, Ground Floor, Goyal Villa, Plot. No. 60, Jawahar Nagar, Road no. 6, Mumbai". Even, Arvind Babulal Goyal had signed on the copy of the telephone bill as a mark of attesting the telephone bill. Thus, it was alleged that the Arvind Babulal Goyal was the chief perpetrator of fraudulent transfer of stolen shares and was connected to Mr. Hemant Sagarmalji Punamiya and Mr. Bhushan Punamiya, the two persons who were instrumental in registering and introducing a bogus non-existing entity by the name of Anil Purshottam Atre. Hemant Sagarmalji Punamiya accompanied representatives of Angel Broking Limited to SEBI office and his statement on oath was also recorded. Summary of their statements as deposed before SEBI is as under:

Shri Atre was a walk in client of Angel at our sub-broker branch located at Goregaon (W). I never met him. Account opening form and KYC was filled in and

conducted by my colleague Shri Deepak Patil. Shri Deepak Patil has also signed as witness in KYC Form. In person Shri Rashid, who did not sit in our branch and who is an employee of Angel did verification. He had done the in person verification at an office of Angel situated at Goregaon (W). I am not aware whether Shri Rashid had met Shri Atre or not....Shri Bhushan Punamiya is my brother who is mentioned in KYC Form of Shri Anil Purshottam Atre as an introducer.....Shri Bhushan Punamiya, who was at that time one of staffs of M/s P Babulal & Company, has introduced Shri Anil Purshottam Atre. He did not know Shri Atre and had introduced him in a casual manner.

15.3 From the above, it was alleged that, Anil Purshottam Atre was nothing but a non-existing bogus entity, the Noticee introduced and did KYC of Anil Purshottam Atre in a casual manner, and that nobody in the office of the Noticee met Anil Purshottam Atre before registering the entity as a client. Therefore, it was alleged that there was lack of due diligence by the Noticee while dealing with bogus entities, which were its clients and there was lack of due skill, care and diligence in the conduct of its business as a sub-broker in violation of Clause A(2) of Code of Conduct as specified in Schedule II r/w Regulation 15 (1)(b) of Brokers Regulations.

16. I note that Noticee, in its reply to the SCN submitted that SEBI had gone beyond the scope of investigation to allege the provisions of Brokers Regulations as the investigation was done to ascertain possible violations of PFUTP Regulations. In this regard, I feel scope of investigation does not restrict SEBI to ignore the apparent violations, if any, of other Regulations observed by it during the course of examination/ investigation. There's nothing which prevents SEBI to limit itself to the violations of the Regulations, basis which investigation had begun in a matter. Thus, submission of the Noticee that SEBI had gone beyond its scope is devoid of merits

17. As regards submission of the Noticee, mentioned at para 8.19 to para 8.25 above, from KYC form dated May 14, 2012 of Mr Atre, a copy of which has been submitted by the AR of Noticee alongwith its reply and also is a part of findings of investigation,

I note that Mr Deepak Patil, one of the employees of Noticee, had signed as a witness on the said KYC form. Mr Bhushan Punamiya was the introducer. The KYC documents viz, PAN card on the face of it appear to be signed by said Mr Atre, and the said copy of PAN Card mentions the same to be verified with the Income Tax website along with the stamp of Angel affixed on it mentioning “*Verified Against original*”. Further, the copy of account statement of Mr Atre, passbook and the cancelled cheque bear the same signature as on the PAN Card. Since the matter pertains to the time when no e-KYC was prevalent, it is not conspicuous whether Mr Atre actually visited the Noticee for account opening, as claimed by the Noticee, however, all the documents provided appear to be in order.

18. I further note that the Noticee and the stock broker, Angel cannot be placed on the same footing. Given the infrastructure with Angel, it should have ensured systems in place to prevent opening of such bogus accounts. The systems ought to have been in place to flag the accounts with similar photographs, mobile numbers, addresses, etc. Further, a stock broker is responsible for all the acts and omissions of sub-brokers/Auhtorized Persons under it. Therefore, a benefit of doubt can be given to the Noticee in the instant case as the material on record is not sufficient to gauge the lack of alleged due-diligence on the part of Noticee. The material available on record indicates that Noticee had done what can be expected of a sub-broker in normal course and the act of opening account of Mr Atre appears to be done in good faith by the Noticee. I note that Hon’ble Supreme Court in its judgment in the case of ***Chander Kanta Bansal v. Rajinder Singh Anand*** (2008 5 SCC 117) stated that “*‘due diligence’ in law, means doing everything reasonable, not everything possible. ...it means such diligence as a prudent man would exercise in the conduct of his own affairs*”
19. I note that the material available on record is not sufficient to prove the allegations against the Noticee that the Noticee failed to act with due skill, care and diligence expected of a sub-broker while inducting a client. Therefore, I am inclined to accept the submission of the Noticee.

20. In light of the above, I do not find that the Noticee has violated Clause A(2) of Code of Conduct as specified in Schedule II r/w Regulation 15(1)(b) of Brokers Regulations.

ORDER

21. In view of the foregoing, the Adjudication proceedings initiated against the Noticee vide the SCN dated March 26, 2024 is disposed of.

22. In terms of Rule 6 of the SEBI Adjudication Rules, a copy of this order is sent to the Noticee and also to SEBI.

Place: Mumbai
Date : April 22, 2025

AMIT KAPOOR
ADJUDICATING OFFICER