

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

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**UNDER REGULATION 27 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008, IN RESPECT OF GROVALUE COMMODITY PRIVATE LIMITED, [SEBI REGISTRATION NO.: INZ000031334]**

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**FACTS OF THE CASE**

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**'), Multi Commodity Exchange of India Ltd. (hereinafter referred to as '**MCX**') and National Commodity and Derivative Exchange Limited (hereinafter referred to as '**NCDEX**') conducted a comprehensive joint inspection of the commodity broking operations of Grovalue Commodity Private Limited (hereinafter referred to as '**GCPL**'/'**Noticee**'/'**broker**'), which is a registered stock broker under SEBI (Stock-Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as '**Broker Regulations**') and a recognised member of MCX and NCDEX, at its offices at No. 77, V-Mall, Asha Nagar, Thakur Complex, Kandivali (East), Mumbai-400 101, Maharashtra, and 03, Enterprise Centre, Opp Hotel Airlink, Off Nehru Road, Near Domestic Airport, Nehru Rd, Vile Parle East, Vile Parle, Mumbai, Maharashtra 400099. The period covered in the inspection was from April 01, 2017 till November 19, 2018 (hereinafter referred to as '**Inspection Period**').
2. The scope of the inspection was to, *inter alia*, verify whether Noticee had complied with the Regulations and Circulars issued in respect of its following broking activities:
  - 2.1. Handling of clients' funds and securities
  - 2.2. Settlement of clients funds and securities
  - 2.3. Reporting and short collection of Margin
  - 2.4. Clients related issue

- 2.5. Financial statement analysis and Net worth verification
  - 2.6. Analysis of Enhanced Supervision data
  - 2.7. PMLA/ AML provisions
  - 2.8. Control system over sub-broker/AP
3. It was observed during the inspection that the Noticee, a recognised member of MCX and NCDEX since November 03, 2013, had carried out high value transactions in its own name, using funds from its own account, in agricultural commodities in which the Noticee had held, purchased and sold physical stock of various commodities such as celery seeds, jeera, coriander etc. in the spot market which were not part of underlying of any exchange traded commodity derivative contracts. In view of the above, it was alleged that the Noticee had violated the provisions of Rule 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957 (hereinafter referred to as '**SCRR**') read with clause 6 of SEBI circular CIR/MIRSD/4/2015 dated September 29, 2015 read with Section 12(3) of the SEBI Act.

#### **APPOINTMENT OF DESIGNATED AUTHORITY**

4. SEBI appointed Shri Prasanta Mahapatra as the Designated Authority (hereinafter referred to as the '**DA**') vide order dated January 30, 2020 under Section 19 of the SEBI Act, 1992 (hereinafter referred to as '**SEBI Act**') read with Regulation 24 of SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as '**Intermediaries Regulations**') to conduct an enquiry under Regulation 25(ii) of Broker Regulations and Section 12(3) of the SEBI Act read with Regulation 23 of the Intermediaries Regulations into the aforesaid violations alleged to have been committed by the Noticee. Thereafter, vide order dated December 04, 2020, Ms. Soma Majumder was appointed as DA in matter.
5. The DA after considering the abovementioned allegations and the material available on record, vide an Enquiry Report dated May 26, 2022, in terms of Regulation 27 of the Intermediaries Regulations, recommended cancellation of the Certificate of Registration of the Noticee.

## **SHOW CAUSE NOTICE, REPLY OF THE NOTICEE**

6. Thereafter, a Post Enquiry Show Cause Notice with reference number EFD1/MIRSD/ENQ/DRA3/24018/1/2022 dated June 09, 2022 (hereinafter referred to as “**SCN**”) enclosing therewith the Enquiry Report was sent to the Noticee advising it to show cause as to why the action as recommended by the DA or any other action including passing appropriate directions as deemed fit by the Designated member, should not be imposed on it.
7. The SCN along with the Enquiry Report states the following as main allegations against the Noticee:-

*7.1. SEBI observed from bank account statements of Noticee that a large number of high value transactions were carried out from/to the bank accounts of Noticee. On query, the Director of the broker stated that the entity dealt in spot market of commodities and these transactions pertained to the spot market in which the entity had actually purchased and sold physical stock of various commodities such as celery seeds, jeera, coriander etc. in the spot market. SEBI observed that Noticee was also holding physical stock of commodities for which it had obtained bank finance i.e. warehouse receipt financing against security of WR. Noticee was paying interest towards this warehouse receipt financing to Federal Bank, IDBI Bank and Axis Bank.*

*7.2. SEBI observed from the financial statement and bank account statements of Noticee that a substantial portion of its business comprises of physical trading of commodities. For the FY 2017-18, revenue from Brokerage and Commission amounted to a meagre 0.55% of the revenue from sale of physical stock. The following turnover (in Rs.) was noted:-*

**Table 1**

	<b>2017-18 – Revenue earned through brokerage in commodity trades</b>	<b>2017-18 Value of spot transactions of purchase and sale of commodities</b>	<b>2017-18 Total Revenues for the year</b>	<b>2016-17 Revenue earned through brokerage in commodity trades</b>	<b>2016-17 Value of spot transactions of purchase and sale of commodities</b>	<b>2016-17 Total Revenues for the year</b>
<b>Purchase</b>	-	1,437,793,127	-	-	1,585,417,345	-
<b>Sale</b>	-	1,271,017,375	-	-	1,800,736,457	-
<b>Revenues earned</b>	7,030,772	1,271,017,375	<b>1,279,629,482</b>	5,037,383	1,800,736,457	<b>1,818,614,558</b>

7.3. The following table shows details of some of the invoices taken from the broker indicating that the broker is carrying out business of a spot broker in its own name:

**Table 2**

<b>Sr. No</b>	<b>Type of transaction</b>	<b>Date of invoice</b>	<b>Invoice No.</b>	<b>Name of Counterparty</b>	<b>Amount (in Rs.)</b>
1	Sale of Castor Seed	19-Mar-2018	GUJ/17-18/365	Shubha Proteins Pvt. Ltd.	35,417,226
2	Sale of Castor Seed	17-Mar-2018	GUJ/17-18/361	Aadinath Global Pvt. Ltd.	44,807,950
3	Sale of Jeera	04-Nov-2017	GUJ/17-18/250	Arabesque Mercantile Pvt. Ltd.	23,462,938
4	Sale of Coriander	29-Mar-2017	GUJ/16-17/393	Pace Commodity Brokers Pvt. Ltd.	8,375,159
5	Purchase of Jeera	23-Mar-2018	131	Pace Commodity Brokers Pvt. Ltd.	32,246,527
6	Purchase of Red Lentils	27-Mar-2018	12912	Taj Agro Commodities Pvt. Ltd.	86,855,652
7	Purchase of Castor Seed	04-May-2017	T/51	Shubha Proteins Pvt. Ltd.	55,286,276
8	Purchase of Coriander	26-Jun-2017	GUJ/17-18/80	Pace Commodity Brokers Pvt. Ltd.	14,448,052

- 7.4. SEBI observed that Rule 8(3)(f)(i) of SCRR prohibits a stock broker registered with SEBI from dealing in any business other than that of securities or commodity derivatives. Further as per Rule 8(3)(f)(ii) of SCRR, the commodity brokers were given 3 years from the date of their recognition 'for severing their connection with any such business' which they were supposed to complete by November 3, 2018 (date of recognition by MCX and NCDEX being November 03, 2013, date of recognition by SEBI is December 24, 2015). However, SEBI observed that the major revenue stream of Noticee is from spot transactions. SEBI observed that Noticee had dealt in the commodity spot markets under the same name as registered with SEBI.
- 7.5. In this regard Noticee submitted that they were allowed to trade in physical market in terms clause 6 of SEBI circular CIR/MIRSD/4/2015 dated September 29, 2015. The aforesaid circular clarified that business in goods related to the underlying and/ or business in connection with or incidental to or consequential to trades in commodity derivatives would not disqualify a member of a commodity derivatives exchange under Rule 8(1)(f) and Rule 8(3)(f) of the SCRR.
- 7.6. Further, SEBI observed that during the period April 01, 2018 to November 19, 2018, Noticee traded in stocks which were not part of underlying of commodity derivative contracts (viz. Celery seed, Chickpeas (Bengal Gram), Masoor, Rajma, Toor Whole and Udad Whole) traded on both the exchanges and such trades amounted to Rs. 16,10,02,906.11. Detail of these trades are brought out as under:

**Table 3**

<b>Particulars</b>	<b>Opening Balance</b>	<b>Inwards</b>	<b>Outwards</b>	<b>Closing Balance</b>
	Quantity	Quantity	Quantity	Quantity
Almond	0.900 MT			0.900 MT
Celery Seed		654.706 MT		654.706 MT
Chana	0.007 MT			0.007 MT
Chickpeas (Bengal Gram)	975.270 MT		975.270 MT	

Coriander	388.248 MT	249.675 MT	534.245 MT	103.678 MT
Coriander x	16.989 MT			16.989 MT
Cotton Seed Oil Cake	17.631 MT			17.631 MT
Dry Dates	65.520 MT			65.520 MT
Guar Seeds	85.321 MT	694.100 MT	793.330 MT	-13.909 MT
Jeera	0.100 MT	128.560 MT	128.560 MT	0.100 MT
Kabuli Chana	0.540 MT	39.840 MT	39.840 MT	0.540 MT
Masoor	3551.750 MT		697.860 MT	2853.890 MT
MoongMogar Dal ( Kori )	0.260 MT			0.260 MT
Rajma		75.646 MT	75.646 MT	
Soyabean	4.222 MT	90.870 MT	88.880 MT	6.212 MT
Toor Whole	360.220 MT		360.730 MT	-0.510 MT
Udad Whole	478.844 MT		361.031 MT	117.813 MT
<b>Grand Total</b>	<b>5945.822 MT</b>	<b>1728.397 MT</b>	<b>4055.392 MT</b>	<b>3618.827 MT</b>

7.7. Therefore, it is alleged that Noticee traded in the stocks which were not part of underlying of commodity derivative contracts traded on both the exchanges and such trades amounted to Rs. 16,10,02,906.11.

7.8. Thus, it is alleged that Noticee has violated the provisions of Rule 8(3)(f) of the SCRR read with clause 6 of SEBI circular CIR/MIRSD/4/2015 dated September 29, 2015 and Section 12 of the SEBI Act.”

8. SEBI attempted to hand deliver the SCN and the Hearing Notice to the Noticee at available addresses. However, it was observed that the premises or offices of the Noticee were locked or the officials were not available at the location. Therefore, the SCNs were affixed by SEBI at the premises of the Noticee, as per their last known addresses available with SEBI on June 22, 2022. In the SCN, the Noticee was given time of twenty-one (21) days from the date of the receipt of the SCN to file its reply. However, it is noted that the Noticee did not send any reply in response to the SCN. It is pertinent to mention that the Noticee vide hearing notice dated July 05, 2022, was given an opportunity for personal hearing on September 06, 2022. The Noticee was informed that if it fails to submit its reply to the SCN on or before the scheduled date of hearing or fails to avail the opportunity of hearing, the proceedings shall be continued based on the

material/facts available on record. However, the Noticee failed to submit its reply and also failed to appear for the personal hearing on September 06, 2022. Thereafter, the Noticee vide hearing notice dated October 20, 2022 (duly served by affixture on November 02, 2022) was again given a second opportunity to appear before the undersigned on November 23, 2022. However, the Noticee neither replied to the SCN nor appeared for personal hearing before the undersigned.

The details of delivery status with respect to SCN and Hearing Notice are given below:

**Table 4**

<b>Sr. No.</b>	<b>Available Addresses</b>	<b>SCN Status</b>	<b>Hearing Notice Status</b>
1.	Grovalue Commodity Private Limited 03, Enterprise Centre, Opposite Hotel Airlink Off Nehru Road, Near Domestic Airport Nehru Road, Vile Parle East, Mumbai - 400099	Speed Post returned undelivered.  Affixture done on June 22, 2022.	Speed Post returned undelivered.  For Hearing date (i.e. September 06, 2022): Affixture done on July 13, 2022.  For Hearing date (i.e. November 23, 2022): Affixture done on November 02, 2022.
2.	Grovalue Commodity Private Limited 77, V mall, Asha Nagar, Thakur Complex, Kandivali (East), Mumbai 400101	Speed Post returned undelivered.  Affixture failed.	Speed Post returned undelivered.  Affixture failed.
3.	Grovalue Commodity Private Limited Anmol Arcade, 1 <sup>st</sup> Floor, 102 LB Road, Adyar, Chennai – 600020	Speed Post returned undelivered.	Speed Post returned undelivered.  For Hearing date (i.e. September 06, 2022): Affixture done on July 22, 2022.  For Hearing date (i.e. November 23, 2022): Affixture done on November 10, 2022.
4.	Grovalue Commodity Private Limited 806, 8 <sup>th</sup> floor of Challa Mall No.11, Sir Thyagarayar Road, T Nagar, Chennai Tamil Nadu - 600017	Speed Post returned undelivered.	Speed Post returned undelivered.  For Hearing date (i.e. September 06, 2022): Affixture done on July 22, 2022.  For Hearing date (i.e. November 23, 2022): Affixture done on November 10, 2022.

9. Therefore, I find that the SCN and the Hearing Notices have duly been served on the Noticee along with all the material which form the basis for the charges and allegations in the SCN. However, the Noticee has neither filed any reply nor availed the opportunity of personal hearing despite service of the SCN and Hearing Notices, as stated above. In this regard, it is pertinent to note that the Hon'ble Securities Appellate Tribunal ('**Hon'ble SAT**') in the matter of Sanjay Kumar Tayal & Others vs SEBI (Appeal No. 68 of 2013 decided on February 11, 2014), has also, inter alia, observed that: *"...appellants have neither filed reply to show cause notices issued to them nor availed opportunity of personal hearing offered to them in the adjudication proceedings and, therefore, appellants are presumed to have admitted the charges levelled against them in the show cause notices..."*
10. Considering that no communication has been received from the Noticee and also considering the fact that the Noticee failed to avail the opportunity of personal hearing, I am of the view that the Noticee is deliberately avoiding the communication from SEBI and has also failed to co-operate with SEBI. In view of the same, I am constrained to proceed *ex-parte* in this matter.

### **EXAMINATION OF ISSUES AND FINDINGS**

11. The relevant provisions of Rule 8(1)(f) and 8(3)(f) of the SCRR read with clause 6 of SEBI circular CIR/MIRSD/4/2015 dated September 29, 2015 and Section 12(3) of the SEBI Act are given below for the purposes of reference in the context of the allegations discussed in the SCN:

#### **Relevant provisions of SCRR:**

##### ***Qualifications for membership of a recognised stock exchange.***

*".....8. The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:*



...

**(1)** No person shall be eligible to be elected as a member if —

*(f) he is engaged as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability unless he undertakes on admission to sever his connection with such business:*

*Provided that nothing herein shall be applicable to any corporations, bodies corporate, companies or institutions referred to in clauses (a) to (n) of sub-rule (8).*

**(3)** No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if—

*(f) he engages either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability, provided that—*

*(i) the governing body may, for reasons, to be recorded in writing, permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry on business on the stock exchange either as an individual or as a partner in a firm,*

*(ii) in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for severing their connection with any such business....”*

### **Relevant extract of the provisions of the SEBI Act 1992**

**“.....12. Registration of stock brokers, sub-brokers, share transfer agents, etc.**

.....

*(3) The Board may, by order, suspend or cancel a certificate of registration in such manner as may be determined by regulations:*

*Provided that no order under this sub-section shall be made unless the person concerned has been given a reasonable opportunity of being heard....”.*

**Relevant extract from the CIRCULAR no. CIR/MIRSD/4/2015 dated September 29, 2015**

***Registration of Members of Commodity Derivatives Exchanges***

*“.....6. It is clarified that, “business in goods related to the underlying” and/ or “business in connection with or incidental to or consequential to trades in commodity derivatives”, by a member of a commodity derivatives exchange, would not be disqualified under Rule 8(1)(f) and Rule 8(3)(f) of the Securities Contract (Regulation) Rules, 1957.....”*

**Relevant extract of the provisions of the Intermediaries Regulations, 2008:**

*“..... 30A. Special procedure for action on expulsion from membership of all the stock exchange(s) or clearing corporation(s) or termination of all the depository participant agreements with depository (ies).*

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*(2) On receipt of intimation from all the stock exchange(s) or clearing corporation(s) of which the stock-broker or clearing member, as the case may be, was a member, that such stock broker or clearing member has been expelled from its membership, the Board may issue a notice to such stock broker or clearing member calling upon the noticee to make its submission(s), if any, within a period not exceeding twenty-one days from the date of service thereof, through a written reply, along with documentary evidence, as to why the certificate of registration, granted under the Act or the regulations made thereunder, should not be cancelled.*

.....

*(4) No opportunity of personal hearing may be granted while disposing of the proceedings under this regulation.*

*(5) After considering the facts and circumstances of the case, material on record and the written submissions, if any, the Board shall endeavor to pass an order within twenty days from the date of receipt of written submissions;*

*(6) The Board may, while passing such order, impose such conditions upon the person as it deems fit to protect the interest of the investors or its clients or the securities market.*

.....

**" Relevant extract of the provisions of the Stock Broker Regulations, 1992:**

***".....Conditions of registration.***

***9. Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely, -***

***(a) the stock broker holds the membership of any stock exchange; ....."***

12. I note from the SCN that the main allegation against the Noticee, a registered stock broker under Broker Regulations and a recognised member of MCX and NCDEX, is that it dealt in spot market of agricultural commodities by trading, in its own name and on its own account, in the physical stocks of such commodities which were not part of underlying of commodity derivative contracts traded on MCX and NCDEX, which was in violation of Rule 8(3)(f) of SCRR read with clause 6 of SEBI circular CIR/MIRSD/4/2015 dated September 29, 2015.
13. In this regard, I note from the SCN that the Noticee had undertaken various transactions in the commodities market including physical trades of commodities which are also known as *mandi* trades.

14. On perusal of the transactions of the Noticee w.r.t. *mandi* trades during the inspection period, I find that Noticee had transacted in sixty-six (66) transactions having a value of Rs. 1 crore. The summary of the aforesaid sixty-six trades is as under:

**Table 5**

Sr. No.	Date	Particulars of the opposite contracting party	Voucher Type	Debit (Rs)	Credit (Rs)	Commodity sold/ purchased	Voucher/Bill nos.
1	04-04-2017	Pace Commodity Broker	Receipt		16,000,000	Sale of coriander	16-17(393,94,95)
2	06-04-2017	Pace Commodity Broker	Receipt		14,600,000	sale of coriander	16-17(395,96,401,402)
3	07-04-2017	Pace Commodity Broker	Receipt		14,600,000	sale of coriander	16-17(402,403,008)
4	24-04-2017	Ambalal Lalludas Patel	Receipt		15,000,000	sale of Jeera	17-18(35-37,40-41,45-47)
5	10-07-2017	Arabesque Mercantile Pvt. Ltd.	Receipt		17,000,000	sale of Jeera	17-18(375)
6	10-10-2017	Arabesque Mercantile Pvt.Ltd.	Receipt		20,000,000	sale of jeeraguj	17-18(238,247,250)
7	03-11-2017	Arabesque Mercantile Pvt.Ltd.	Receipt		18,000,000	sale of jeeraguj	17-18(250,253,254)
8	07-11-2017	Arabesque Mercantile Pvt.Ltd.	Receipt		11,100,000	sale of jeeraguj	17-18(254,255)
9	07-11-2017	Arabesque Mercantile Pvt.Ltd.	Receipt		15,000,000	sale of jeeraguj	17-18(255,256)
10	08-11-2017	Arabesque Mercantile Pvt.Ltd.	Receipt		17,400,000	sale of jeeraguj	17-18(256,257)
11	13-11-2017	Arabesque Mercantile Pvt.Ltd.	Receipt		10,800,000	sale of jeeraguj	17-18 (261)
12	04-12-2017	Arabesque Mercantile Pvt.Ltd.	Receipt		12,000,000	sale of jeeraguj	17-18(256)
13	05-12-2017	Arabesque Mercantile Pvt.Ltd.	Receipt		13,500,000	sale of Jeera	17-18(256,257)
14	06-12-2017	Arabesque Mercantile Pvt.Ltd.	Receipt		16,500,000	sale of jeeraguj	17-18(259,261,309)
15	13-12-2017	Arabesque Mercantile Pvt.Ltd.	Receipt		17,000,000	sale of Jeera	17-18(250)

Sr. No.	Date	Particulars of the opposite contracting party	Voucher Type	Debit (Rs)	Credit (Rs)	Commodity sold/ purchased	Voucher/Bill nos.
16	03-01-2018	Arabesque Mercantile Pvt. Ltd.	Receipt		15,000,000	sale of Jeera	17-18(250,309,253)
17	05-01-2018	Arabesque Mercantile Pvt. Ltd.	Receipt		17,500,000	sale of coriander	17-18(330,320,331)
18	05-01-2018	Arabesque Mercantile Pvt. Ltd.	Receipt		12,500,000	sale of jeera	17-18(253,261,309)
19	05-01-2018	Arabesque Mercantile Pvt. Ltd.	Receipt		22,500,000	sale of coriander	17-18(261,330)
20	08-01-2018	Arabesque Mercantile Pvt. Ltd.	Receipt		25,000,000	sale of jeera	17-18(331,366)
21	09-01-2018	Arabesque Mercantile Pvt. Ltd.	Receipt		35,000,000	sale of jeera	17-18(119,667)
22	09-01-2018	Inditrade Business Consultants Ltd.	Receipt		11,332,910	sale of guar seed	17-18(0057)
23	23-02-2018	Aadinath Global Pvt Ltd	Receipt		12,500,000	sale of castorseed	17-18(352,353)
24	05-03-2018	ShubhaProtiens	Receipt		15,000,000	for sale of castorseed	17-18(1056,340)
25	15-03-2018	Aadinath Global Pvt Ltd	Receipt		19,000,000	for sale of castorseed	17-18(358,352)
26	17-03-2018	Aadinath Global Pvt Ltd	Receipt		21,000,000	for sale of castorseed	17-18(361,358)
27	17-03-2018	Arabesque Mercantile Pvt. Ltd.	Receipt		15,000,000	sale of jeera	17-18(366,368)
28	19-03-2018	Aadinath Global Pvt Ltd	Receipt		24,500,000	sale of castorseed	17-18(1097,361)
29	19-03-2018	Arabesque Mercantile Pvt. Ltd.	Receipt		12,500,000	sale of jeera	17-18(368,370)
30	20-03-2018	ShubhaProtiens	Receipt		10,600,000	sale of castorseed	17-18(365)
31	22-03-2018	Arabesque Mercantile Pvt. Ltd.	Receipt		20,000,000	sale of jeera	17-18(368)
32	05-05-2017	ShubhaProtien	Payment	38,655,885		purchase of castor seed	T-51(17-18)
33	18-05-2017	ShubhaProtien	Payment	13,700,000		purchase of castor seed	T-54(17-18)

Sr. No.	Date	Particulars of the opposite contracting party	Voucher Type	Debit (Rs)	Credit (Rs)	Commodity sold/ purchased	Voucher/Bill nos.
34	19-05-2017	ShubhaProtien	Payment	25,800,000		purchase of castor seed	T-56,57,58(17-18)
35	08-06-2017	ShubhaProtiens	Payment	27,500,000		purchase of castor seed	T-51,54,58(17-18)
36	20-06-2017	Pace Commodity Broker	Payment	11,000,000		purchase of coriander	80,81,82(17-18)
37	10-07-2017	Pace Commodity Broker	Payment	15,000,000		purchase of coriander	17-18(14,83)
38	01-08-2017	Prakash Agro Mills	Payment	12,972,737		purchase of moong dal guj	17-18(59,61-66,94-97,99)
39	08-08-2017	Shanti Corporation	Payment	14,191,942		purchase of chickpea	17-18(90)
40	29-08-2017	Prakash Agro Mills	Payment	15,000,000		purchase of moong dal guj	17-18 (66,69,72,73,75,78-81,83-85,88-89,92,108)
41	26-09-2017	Prakash Agro Mills	Payment	17,763,310		purchase of moong dal guj	17-18(101,103-104,153,155-159,161-164,172-173)
42	10-10-2017	Pace Commodity Broker	Payment	20,000,000		purchase of jeera	17-18(63)
43	11-10-2017	Prakash Agro Mills	Payment	11,100,000		purchase of moong dal guj	17-18(183-192)
44	12-10-2017	Prakash Agro Mills	Payment	10,200,000		purchase of moong dal guj	17-18(193,195-197A,198-199,201)
45	03-11-2017	Pace Commodity Broker	Payment	18,000,000		purchase of jeera	17-18(58,96)
46	07-11-2017	Pace Commodity Broker	Payment	11,100,000		purchase of jeera	17-18(58,63,64)
47	07-11-2017	Pace Commodity Broker	Payment	15,000,000		purchase of coriander	17-18(62,68,59)

Sr. No.	Date	Particulars of the opposite contracting party	Voucher Type	Debit (Rs)	Credit (Rs)	Commodity sold/ purchased	Voucher/Bill nos.
48	08-11-2017	Pace Commodity Broker	Payment	17,400,000		purchase of coriander	17-18(82,57,86,51,56,872)
49	13-11-2017	Pace Commodity Broker	Payment	10,800,000		purchase of jeera	17-18(60,64)
50	05-12-2017	Pace Commodity Broker	Payment	20,000,000		purchase of jeera	17-18(94)
51	06-12-2017	Pace Commodity Broker	Payment	13,500,000		purchase of jeera	64,67
52	06-12-2017	Pace Commodity Broker	Payment	16,500,000		purchase of jeera	65,67
53	13-12-2017	Inditrade Business Consultants Ltd.	Payment	13,000,000		purchase of jeera	17-18(4,2708)
54	19-12-2017	Market Asia Retail Pvt.Ltd.	Payment	14,134,905		purchase of chickpeas	17-18-MARPL(328)
55	22-12-2017	Market Asia Retail Pvt.Ltd.	Payment	11,650,149		purchase of masoor	17-18-MARPL(353)
56	03-01-2018	Inditrade Business Consultants Ltd.	Payment	15,000,000		purchase of jeera	17-18(174,28,79)
57	03-01-2018	Market Asia Retail Pvt.Ltd.	Payment	10,082,006		purchase of kabulichana	17-18-MARPL(354)
58	05-01-2018	Pace Commodity Broker	Payment	30,000,000		purchase of jeera	17-18(66,67)
59	05-01-2018	Pace Commodity Broker	Payment	20,000,000		purchase of jeera	17-18(69-70)
60	08-01-2018	Pace Commodity Broker	Payment	25,000,000		purchase of jeera	17-18(94)
61	09-01-2018	Inditrade Business Consultants Ltd.	Payment	35,000,000		purchase of jeera	17-18(9,30,006,89)
62	17-03-2018	Pace Commodity Broker	Payment	15,000,000		purchase of jeera	17-18(96)
63	20-03-2018	Pace Commodity Broker	Payment	20,000,000		purchase of jeera	17-18(109)
64	22-03-2018	Pace Commodity Broker	Payment	20,000,000		purchase of jeera	17-18(131)

Sr. No.	Date	Particulars of the opposite contracting party	Voucher Type	Debit (Rs)	Credit (Rs)	Commodity sold/ purchased	Voucher/Bill nos.
65	27-03-2018	Taj Agro Commodities Pvt Ltd	Payment	45,440,680		purchase of red lentil	17-18(12912)
66	29-03-2018	Taj Agro Commodities Pvt Ltd	Payment	14,400,000		purchase of red lentil	17-18(12912)

15. As per the financial statements and bank account statements of the Noticee for the Financial Year ('FY') 2017-18, the turnover of the Noticee, accruing from the aforesaid *mandi* trades and from Brokerage and Commission, was as under:

**Table 6**

	2017-18 – Revenue earned through brokerage in commodity trades (in ₹)	2017-18 Value of spot transactions of purchase and sale of commodities (in ₹) (in crores)	2017-18 Total Revenues for the year (in ₹) (in crores)	2016-17 Revenue earned through brokerage in commodity trades (in ₹)	2016-17 Value of spot transactions of purchase and sale of commodities (in ₹) (in crores)	2016-17 Total Revenues for the year (in ₹) (in crores)
<b>Purchase</b>	-	143.77	-	-	158.54	-
<b>Sale</b>	-	127.10	-	-	180.07	-
<b>Revenues earned</b>	70,30,772	127.10	<b>127.96</b>	50,37,383	180.07	<b>181.86</b>

16. It is clear from the above table that almost the entire portion of business of the Noticee comprised trading of physical stock of agricultural commodities in its own name and on its own account, whereas its revenue from Brokerage and Commission in the commodities derivatives segment amounted to a negligible 0.55% of the total revenue in the year 2017-2018. Thus, I find that spot transactions formed almost the entire revenue stream of the Noticee.
17. In this regard, on the basis of the details obtained from stock register (opening balance, purchase, sale and closing balance) and the documents related to the same including ledgers, bank transactions, bills and invoice, storage receipts, quality certificates, I observe that the Noticee was dealing in various agricultural



commodities during the inspection period. The quantum of physical stocks of agricultural commodities traded by the Noticee during the period 01-Apr-2018 to 19-Nov-2018 as available on record is as follows:

**Table 7**

<b>Particulars</b>	<b>Opening Balance</b>	<b>Inwards</b>	<b>Outwards</b>	<b>Closing Balance</b>
	Quantity	Quantity	Quantity	Quantity
Almond	0.900 MT			0.900 MT
Celery Seed		654.706 MT		654.706 MT
Chana	0.007 MT			0.007 MT
Chickpeas (Bengal Gram)	975.270 MT		975.270 MT	
Coriander	388.248 MT	249.675 MT	534.245 MT	103.678 MT
Coriander x	16.989 MT			16.989 MT
Cotton Seed Oil Cake	17.631 MT			17.631 MT
Dry Dates	65.520 MT			65.520 MT
Guar Seeds	85.321 MT	694.100 MT	793.330 MT	-13.909 MT
Jeera	0.100 MT	128.560 MT	128.560 MT	0.100 MT
Kabuli Chana	0.540 MT	39.840 MT	39.840 MT	0.540 MT
Masoor	3551.750 MT		697.860 MT	2853.890 MT
MoongMogar Dal ( Kori )	0.260 MT			0.260 MT
Rajma		75.646 MT	75.646 MT	
Soyabean	4.222 MT	90.870 MT	88.880 MT	6.212 MT
Toor Whole	360.220 MT		360.730 MT	-0.510 MT
Udad Whole	478.844 MT		361.031 MT	117.813 MT
<b>Grand Total</b>	<b>5945.822 MT</b>	<b>1728.397 MT</b>	<b>4055.392 MT</b>	<b>3618.827 MT</b>

18. I observe from the records that during the period from April 01, 2018 to November 19, 2018, out of the aforesaid stocks of agricultural commodities, the Noticee had traded in physical stocks of six commodities, viz., Celery seed, Chickpeas (Bengal Gram), Masoor, Rajma, Toor Whole and Urad Whole, which were not part of underlying commodity derivative contracts on MCX and NCDEX. The details of these transactions in terms of value are brought out as under:

**Table 8**

Sr. No.	Particular	Purchase Value (Rs.)	Sale Value (Rs.)	Total Traded Value (Rs.)
1	Celery Seed	55860403.89	0	55860403.89
2	Chickpeas (Bengal Gram)	0	41946879.83	41946879.83
3	Masoor	0	24874639.41	24874639.41
4	Rajma	4745288.9	4745288.9	9490577.8
5	Toor Whole	0	14381898.19	14381898.19
6	Urad Whole	0	14448506.99	14448506.99
			Total	<b>161002906.11</b>

19. Therefore, I find that during the inspection period, Noticee had traded in the stocks of agricultural commodities which did not form part of underlying of commodity derivative contracts traded on both the MCX and NCDEX in its own name and on its own account, and the value of such trades of the Noticee amounted to Rs. 16.10 cr for the period from April 01, 2018 to November 19, 2018.
20. I also note that, the Noticee had admitted that it was engaged in spot market trades in physical stock of agricultural commodities, in its post-inspection reply dated July 08, 2019. In this regard, I note from the inspection report that the Noticee had undertaken various transactions in the commodities market including physical trades of commodities which are also known as *mandi* trades.
21. At this juncture, I find it pertinent to peruse the legal provisions. I note that as per clause 6 of SEBI circular CIR/MIRSD/4/2015 dated September 29, 2015, “*business in goods related to the underlying*” and/or “*business in connection with or incidental to or consequential to trades in commodity derivatives*”, by a member of a commodity derivatives exchange, would not be disqualified under Rules 8(1)(f) and 8(3)(f) of the SCRR. I also note that Rule 8(1)(f) describes the eligibility criteria for applying for membership of a stock exchange and that Rule 8(3)(f)(i) of SCRR prohibits a member to continue as such in case the member carries on any business other than that of securities or commodity derivatives. However, in terms of per Rule 8(3)(f)(ii) of SCRR, any recognised member of an exchange must sever its connection with any business in spot market trading of

agricultural goods within three (3) years from the date of grant of recognition by a stock exchange, in case such member was earlier permitted under the rules in force, to engage in such business as on date of applying for membership of an exchange. On a plain and harmonious reading of the aforesaid rules and circular, I note that the Noticee was permitted to engage in the business of trading in physical stocks of such agricultural commodities which were not part of underlying of commodity derivative contracts traded on both the exchanges, for a period of three years from the date of grant of recognition by MCX and NCDEX. Further, the Noticee would be disqualified from being a member of MCX and NCDEX, unless it severed the connection with the business of spot transactions in physical stock of agricultural goods, which was unrelated to the commodity derivative contracts traded on both MCX and NCDEX, within three years from the date of grant of recognition by the aforesaid exchanges.

22. I note from the records that the Noticee was granted recognition as a member of MCX and NCDEX on November 03, 2013. I note that in terms of Rule 8(3)(f)(ii), the Noticee ought to have severed its own connection with business of spot transactions within 3 years i.e. by November 03, 2016. However, as has been established above, the Noticee had engaged in spot market trades in physical stocks of agricultural goods, unrelated to its commodity derivative contracts traded on both MCX and NCDEX, during FY 2017-18 and the period from April 01, 2018 to November 19, 2018 as described at Table 8. Therefore, I find that the Noticee has continued to engage in an unrelated business of spot transactions in the aforesaid six agricultural commodities and derived revenues from the said business of spot transactions in its own name and in its own account. In view of the foregoing, I find that the transactions of Noticee, as noted above, constitute a violation of Rule 8(3)(f)(i) & (ii) of SCRR. Hence, the allegation that the Noticee had violated Rule 8(3)(f)(i) & (ii) of SCRR read with clause 6 of SEBI circular CIR/MIRSD/4/2015 dated September 29, 2015 stands established.
23. In this regard, I find it relevant to refer to the reliance of DA on the order of Hon'ble SAT order dated October 25, 2005, in the matter of Sushilabai Rungta vs. SEBI and WTM Order dated July 18, 2011, in the matter of VCK Share and Stock Broking Services Limited which pertained to violation of Rule 8(3)(f) of SCRR:

The relevant part of the Hon'ble SAT's order dated October 25, 2005 in the matter of Sushilabai Rungta vs. SEBI relied on by the DA is as under:

*"From the perusal of the papers and the submissions we are of the opinion that it is a fact that serious irregularities were noted by the inspection team which conducted the inspection... We find that the irregularities reported by the inspection team and the Enquiry Officer in this case are of serious nature because in the other cases cited by the counsel for the appellant none of them had irregularity about receipt of deposits on fixed interest rate... a message needs to be given that such lapses do not go unpunished."*

The relevant portion of the WTM Order dated July 18, 2011, in the matter of VCK Share and Stock Broking Services Limited relied on by the DA is as under:

*"The stock broker has been charged of having accommodated its clients to the tune of Rs. 47.69 lakhs. In respect of the said allegation, the Enquiry Officer has observed the following:*

*"Firstly, the list annexed as Annexure-22 does not include the name of Paresh Ajmera. Anyhow, I am not satisfied with the explanations of the Noticee and also find that the Noticee has accepted that temporary accommodations were adjusted within the year. Therefore, I find that by providing accommodation to clients and adjusting the same against the subsequent transactions/received back on various dates, the Noticee stands in violation of the provisions of Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 which prohibits a member of a stock exchange from being engaged as principal or employee in any business other than that of securities except as a broker or agent not involving personal financial liability."*

*In its reply, the stock broker has submitted that in the report sent to it by M/s.G.P. Agarwal & Co., on September 14, 2004, the name of Paresh Ajmera appears in Annexure 25, and that in the Report sent to it by SEBI on November 8, 2004 the name of Paresh Ajmera did not appear. According to the stock broker, the same*

*was the reason it had made reference to the said individual in its reply to the Enquiry Officer. The stock broker had submitted that there are only four instances cited in the Enquiry Report wherein a lapse of such type has occurred. According to the stock broker, it had more than 14,000 registered clients with and that there is a fair and reasonable system in place to serve all such Clients with the Compliance of all rules/regulations of exchange. The stock broker has undertaken to be more vigilant, cautious and careful in all its future dealings and transactions and that it would maintain highest standard of professionalism in all its business transactions and assured that no such instance of accommodation of clients will recur again in future. It requested SEBI to condone the violation of Rule 8(1)(f) and Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957. The allegation against the stock broker is that it had accommodated its clients to the tune of Rs. 47.69 lakhs. Since the said transactions involved a personal financial liability on the stock broker, the same is not in tune with the prescriptions of Rule 8(1)(f) and 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957."*

24. I further note that in the adjudication proceeding arising out of the same inspection report, the Adjudicating officer vide order dated May 19, 2021 has imposed a penalty of Rs. 7,00,000 (Rupees seven lakhs only) on the Noticee under Section 23D of the SCRA and Sections 15F(a) & 15HB of the SEBI Act for the violation of following provision of SCRA/Regulations/Circulars:

- 24.1. Section 23D of SCRA read with Clause 1 of SEBI Circular dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular dated September 26, 2016.
- 24.2. Clause 12 of Annexure A of SEBI Circular dated December 3, 2009 read with Clause 8.1 of Annexure of SEBI Circular dated September 26, 2016 and Regulation 17 (1) (g) of Brokers Regulations.
- 24.3. Clause 3(xii) of SEBI Circular dated September 7, 2016.
- 24.4. Regulation 17 (1) (n) of Brokers Regulations.
- 24.5. Clause 2.1 of Annexure to SEBI Circular dated September 26, 2016 and Regulation 17 (1) (g) of Brokers Regulations.
- 24.6. Clause 1(d) of SEBI Circular dated August 5, 1996 and Regulation 17 (1) (g) of Brokers Regulations.

25. I also note from an order dated August 25, 2021 passed by MCX as available on its website that the Noticee was declared a defaulter and expelled from the membership of MCX, in view of the regulatory violations which were observed during inspection. Similarly, from the order dated August 26, 2021 passed by NCDEX as available on its website, I note that NCDEX had also declared the Noticee a defaulter and expelled the Noticee from the membership of NCDEX in view of the regulatory violations observed during its inspection. Therefore, I note that the Noticee is no longer holding membership of any recognized stock exchange.
26. Therefore, in view of the facts and circumstances, as brought out in the foregoing paragraphs and the violations as established above, the Noticee is liable for action under Regulation 27 of the Stock Brokers Regulations read with Section 12(3) of SEBI Act in terms of recommendation made under Regulation 23 and Regulation 26(1)(ii) of the Intermediaries Regulations (earlier contained in Regulation 27(ii) of Intermediaries Regulations), as stated below:

***Broker Regulations***

***Liability for action under the Enquiry Proceeding Regulations.***

*27. A stock broker or a sub-broker shall be liable for any action as specified in Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 including suspension or cancellation of his certificate of registration as a stock broker or a sub-broker, as the case may be, if he .....*

.....

***SEBI Act***

***Registration of stock brokers, sub-brokers, share transfer agents, etc.***

.....

*12. (3) The Board may, by order, suspend or cancel a certificate of registration in such manner as may be determined by regulations:*

*Provided that no order under this sub-section shall be made unless the person concerned has been given a reasonable opportunity of being heard.*

## **Intermediaries Regulations**

### **Cancellation or suspension of registration and other actions.**

**23.** *Where any person who has been granted a certificate of registration under the Act or regulations made thereunder, –*

*(a) fails to comply with any conditions subject to which a certificate of registration has been granted to him;*

*(b) contravenes any of the provisions of the securities laws or directions, instructions or circulars issued thereunder;*

*the Board may, without prejudice to any action under the securities laws or directions, instructions or circulars issued thereunder, by order take such action in the manner provided under these regulations.*

## **Order**

**27.(1)** *On receipt of the report containing the measures recommended by the designated authority, the competent authority shall cause to forward a copy of the report submitted by the designated authority and call upon the noticee to make its submission, in writing, as to why the measure recommended by the designated authority or any other action as contemplated in these regulations, should not be taken.*

*(2) The noticee shall submit, within a period as specified in the notice, but not exceeding twenty-one days from date of service thereof, a written submission, along with documentary evidence, if any, in support of the written submission: Provided that upon the request of the noticee, the competent authority, after recording reasons, in writing may cause to extend the time specified for submitting reply to the notice.*

*(3) After considering the submission of the noticee, the competent authority may if deemed fit, for reasons to be recorded by it in writing, remit the matter to the designated authority to enquire afresh or to further enquire and resubmit the report.*

*(4) The competent authority may grant an opportunity of personal hearing where the designated authority has recommended cancelation of certificate of*

*registration or the competent authority is of the prima facie view that it is a fit case for cancellation of certificate of registration.*

*(5) After considering the facts and circumstances of the case, material on record and the written submission, if any, the competent authority shall endeavor to pass an appropriate order within one hundred and twenty days from the date of receipt of submissions under sub-regulation (2) or the date of personal hearing, whichever is later.*

### **ORDER**

27. In view of the violations as established, facts and circumstances of the case, I find that the instant enquiry proceedings initiated vide the SCN dated June 09, 2022 against the Noticee viz. Grovalue Commodity Private Limited is a fit case for cancellation of the certificate of registration as specified under Regulation 27(5) of the Intermediaries Regulations read with Regulation 27 of the Broker Regulations and Section 12(3) of the SEBI Act, 1992.
28. In view of the foregoing, I, in exercise of powers conferred under Section 19 of the Securities and Exchange Board of India Act, 1992 Regulation 27(5) of the Intermediaries Regulations read with Regulation 27 of the Broker Regulations and Section 12(3) of the SEBI Act, 1992, hereby direct the cancellation of certificate of registration of the Noticee, i.e., Grovalue Commodity Private Limited [Registration No. INZ000031334] as a commodity derivatives broker.
29. This Order comes into force with immediate effect.
30. A copy of this order shall be served upon to the Noticee and the Recognized Stock Exchanges to ensure necessary compliance.



31. The Show cause notice dated June 09, 2022 issued to the Noticee, i.e., Grovalue Commodity Private Limited is disposed of accordingly.

**Place: Mumbai**

**Date: November 25, 2022**

**DR. ANITHA ANOOP**

**CHIEF GENERAL MANAGER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**