



**Before the
Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051
held on November 29, 2021**

In the matter of Trading Member M/s. Mittal Securities Pvt. Ltd.

CORAM:

Mr K Narasimha Murthy - Chairman
Ms Anuradha Rao - Committee Member
Mr Ranganayakulu Jagarlamudi - Committee Member

ALSO PRESENT:

Ms Priya Subbaraman - Chief Regulatory Officer
Dr Dinesh Kumar Soni - Senior Vice President – Regulatory
Mr Suresh Nair - Vice President - Enforcement

BACKGROUND

1. **M/s Mittal Securities Private Limited** ("Noticee") is a member registered with the National Stock Exchange of India Limited ("Exchange") and enabled for trading in the Capital Market ("CM") segment since November 1994.
2. The Exchange conducted a regular inspection of the Noticee's books of accounts and records in the CM segment from November 2019 to March 2020, covering October 01, 2018, to September 30, 2019. Pursuant thereto, based on the inspection findings, the Exchange issued a Show Cause Notice ("SCN") dated June 25, 2020, to the Noticee, for the non-compliances, including a shortfall in net worth. The Noticee vide email dated August 05, 2020, replied to the SCN.
3. The matter was placed before the Committee on December 18, 2020, January 27, 2021, and March 19, 2021. In the said meetings, the Committee, after considering the Noticee's submissions, directed the Noticee to recoup the net worth and submit documentary evidence to the satisfaction of the Exchange. Since the Noticee failed to comply with the said direction, the Noticee was prohibited from onboarding new

Regd. Office : National Stock Exchange of India Limited | Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051,
India +91 22 26598100 | www.nseindia.com | CIN U67120MH1992PLC069769

This is an electronic letter which does not require a signature

Page 1 of 9

Confidential

Certified True Copy





clients. The Exchange vide emails dated December 21, 2020, January 28, 2021, and March 19, 2021, communicated the interim directions to the Noticee.

4. Thereafter, the Committee, in its meeting held on April 16, 2021, *interalia* observed that the Noticee, despite being granted multiple opportunities to recoup the net worth, not only failed to demonstrate the recoupment of networth but also failed to take constructive steps for recoupment. The Committee observed that the Noticee merely sought an extension on every occasion. The Committee observed that the Noticee failed to maintain the minimum prescribed net worth of Rs.1 crore to be in continued admittance as a Member of the Exchange.
5. Given the above, the Committee directed that the trading terminals of the Noticee be disabled in all segments with immediate effect till such time the Noticee recoups the net worth and submits evidence to the satisfaction of the Exchange. Regarding the other non-compliances mentioned in the SCN dated June 25, 2020, the Committee concluded the proceedings and levied a monetary penalty of Rs.2,12,500/-. The Exchange vide order dated April 30, 2021, communicated the decision to the Noticee. The trading terminals of the Noticee were accordingly disabled from April 30, 2021, before market hours till further notice.

CORRESPONDENCE OF NOTICEE POST MCSGFC ORDER DATED APRIL 30, 2021

6. The Noticee, vide email dated April 30, 2021, indicated that it has arranged for a Fixed Deposit ("FD") of Rs. 1 Crore from its trust viz; Mittal Charitable Trust and expressed its intention to create a lien on the said FD in favour of the Exchange. The regulatory provisions do not provide for accepting third party FDs towards capital requirements and hence the request of the Noticee was not tenable. The Exchange informed the same to the Noticee vide email dated May 3, 2021.
7. Thereafter, the Noticee, vide its letter dated May 25, 2021, submitted that one of its Directors, Mr. Badal Mittal, would submit his personal FD of Rs. 1 crore as a collateral deposit to the Exchange. The Noticee requested 3 to 4 months to recoup the net worth in its entirety. The Noticee also requested to consider enabling its trading terminals since 95% of its business is institutional and settled through custodians.
8. The above request of the Noticee was placed before the Committee, in its meeting on May 31, 2021. The Committee deliberated on the matter and noted that Rule 33

Regd. Office : National Stock Exchange of India Limited | Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051, India +91 22 26598100 | www.nseindia.com | CIN U67120MH1992PLC069769

This is an electronic letter which does not require a signature



of NSEIL Rules, on continued admittance to trading membership, mandates the maintenance of minimum net worth, failing which the trading membership shall be liable to be terminated. The Committee observed that the Noticee has failed to demonstrate any steps towards recoupment of net worth despite multiple opportunities granted by the Committee. Therefore, the Committee decided to grant another opportunity to the Noticee to recoup the net worth within 30 days. In the event of the failure of the Noticee to comply with the said direction, the Committee may consider terminating its membership with the Exchange, i.e., expel the Noticee from the membership of the Exchange in accordance with Rule 33 of NSEIL Rules. The Exchange vide email dated June 2, 2021, communicated the decision to the Noticee.

PROCEEDING BEFORE THE MSCSGFC ON SEPTEMBER 22, 2021

9. The Committee took note of the following facts of the matter-

9.1 The Noticee, vide email dated June 28, 2021, submitted the net worth of Rs.3.34 crores as of March 31, 2021. The Noticee also provided a board resolution from an entity named M/s.Wavelength Computers ("Wavelength") and themselves stating that the Noticee had assigned debtors to the tune of Rs.8.42 crores at Rs.8 crores to Wavelength.

9.2 Further, an undated document, signed (but not stamped) by the Noticee and Wavelength, was submitted, indicating the terms and conditions for the assignment and transfer of the debtors/loans to Wavelength.

9.3 The Exchange, after examining the said undated document, vide its email dated July 22, 2021, informed the Noticee as under-

- i. The proposed assignment was a transfer of all debtors from the Noticee to the Assignee, Wavelength. This indicated that the Noticee did not recover all the debtors/loans from the old entities as of September 30, 2019 and has instead transferred the debtors/loans by recording journal entries in the books of accounts.
- ii. Therefore, the debtors/loans were still outstanding for more than 90 days and hence are liable to be deducted from the net worth as per the Dr. L.C. Gupta Method of computation of net worth.
- iii. Hence, the net worth of the Noticee does not meet the minimum prescribed net worth requirement of the Exchange and is negative Rs.3.23 crores as of March 31, 2021,

This is an electronic letter which does not require a signature



- 9.4 In response, the Noticee vide email dated July 29, 2021, explained that the amount due from Wavelength was recorded on March 29, 2021, and is due for less than 90 days as of March 31, 2021. Hence, the same should not be deducted while calculating net worth as the said amount is due for less than 90 days. The Noticee also explained that the transaction is an assignment of receivables to a new entity, Wavelength. The said transaction is a purely commercial transaction, and Wavelength had already paid Rs. 90 lakhs against the assignment and will pay the balance as per the terms of the agreement every quarter. Hence, the Noticee requested to compute the net worth without excluding the amount due from Wavelength.
10. The Committee observed that the amount due from Wavelength is not new debt. In fact, these were the debts due from and due to various entities, that have been internally adjusted, and the balance has been transferred/assigned to Wavelength by recording mere journal entries. It is also to be noted that total debt of Rs.8.42 crores has been assigned to Wavelength for Rs.8 crores, against which Wavelength has paid only Rs.90 lakhs as of March 31, 2021. Therefore, the contention of the Noticee that the amount due from Wavelength is due for less than 90 days as of March 31, 2021, and hence not deductible, is not acceptable.
11. It is also pertinent to note that, as per the terms and conditions agreed upon by Wavelength and Noticee, the balance amount of Rs.7.10 crores is payable by Wavelength to the Noticee in instalments of Rs.25 lakhs every quarter. This indicates that the Noticee will recover the entire amount only after 7 years.
12. The Committee therefore concluded that by booking old debts in a new entity, the Noticee cannot claim that these debts are due for less than 90 days and not required to be deducted from the net worth.
13. Given the above, the Committee, as a final opportunity, directed the Noticee to recoup the net worth in entirety within 30 days and to submit evidence to the satisfaction of the Exchange. The Committee further decided that upon the failure of the Noticee to comply with the networth requirement within the prescribed timeline of 30 days, it may hereafter consider taking a further decision, including termination/ expulsion of membership of the Noticee from the Exchange.
14. The Exchange vide email dated September 22, 2021, communicated the decision to the Noticee. Accordingly, the Noticee was once again granted time till October

22, 2021, to comply with the requirement of Networth. However, the Noticee did not submit any response to the said direction.

REGULATORY PROVISIONS

15. At the outset, it is appropriate to refer to the relevant regulatory provisions alleged to have been violated by the Noticee, extracts whereof are reproduced below:

15.1 Rule 33 of Chapter III of the Rules of the Exchange

Continued Admittance

(33) *The relevant authority shall from time to time prescribe conditions and requirements for continued admittance to trading membership which may, inter alia, include maintenance of minimum net worth and capital adequacy, renewal of certification, if any, etc. The trading membership of any person who fails to meet these requirements shall be liable to be terminated.*

15.2 Regulation 5 (h) read with Regulation 9(h) of SEBI (Stock Brokers and Sub-brokers) Regulations, 1992, which states as under –

“Consideration of application for grant of registration.

5. The Board shall take into account for considering the grant of a certificate, all matters relating to trading, settling, or dealing in securities and in particular the following, namely, whether the applicant-

(h) satisfies the minimum net worth and deposit requirements as specified in Schedule VI for the segment for which membership or approval is sought.

Conditions of registration

(g) he shall at all times maintain the minimum net worth as specified in Schedule VI.”

Schedule VI.

APPLICABILITY, MANNER OF PAYMENT AND RECOVERY

1. The stockbroker shall have a net worth and shall deposit with the stock exchange a sum as may be specified by the Board/ Stock Exchange for the relevant segment from time to time

Explanation.- For the purposes of this Schedule, ‘net worth’ shall mean paid-up capital, free reserves, and other securities approved by the Board from time to time but shall not include fixed assets, pledged securities, value of Member’s





card, non-allowable securities (unlisted securities), bad deliveries, doubtful debts and advances (debts or advances overdue for more than three months or debts or advances given to the associate persons of the Member), prepaid expenses,

15.3 Annexure I – Exchange Circular No. NSE/COMP/42428 dated October 17, 2019

Net worth Requirement & Method of Computation

Trading Members/Clearing Members of the Exchange/NCL are required to maintain net worth as prescribed by the Exchange at all points in time as per the continuing membership norms of the Exchange.

Method of computation applicable is Dr. L. C. Gupta as prescribed by Schedule VI of Securities and Exchange Board of India (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2013.

Schedule VI of Securities and Exchange Board of India (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2013

The stock broker shall have a net worth and shall deposit with the stock exchange a sum as may be specified by the Board/Stock Exchange for the relevant segment from time to time.

Explanation.- For the purposes of this Schedule, 'net worth' shall mean paid up capital, free reserves and other securities approved by the Board from time to time but shall not include fixed assets, pledged securities, value of member's card, non-allowable securities (unlisted securities), bad deliveries, doubtful debts and advances (debts or advances overdue for more than three months or debts or advances given to the associate persons of the member), prepaid expenses, losses, intangible assets and 30% value of marketable securities.

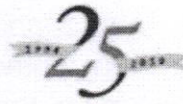
PRESENT PROCEEDINGS BEFORE MCSGFC ON NOVEMBER 29, 2021

16. The Committee noted that the Noticee failed to respond to the MCSGFC direction dated September 22, 2021, until the date of this meeting viz; November 29, 2021.



17. In view of the above, the Exchange vide email dated November 23, 2021, granted the Noticee an opportunity of personal hearing before the Committee. Mr. Gangaram Sah, Authorised Representative attended the meeting on behalf of the Noticee and made the following oral submissions-
- 17.1 In response to the query of the Committee as to when the net worth would be recouped, the said representative stated that the Noticee's Compliance Officer has left and is no longer associated with the Noticee. The representative will have to discuss the same with the Management.
- 17.2 On being asked by the Committee as to the status of compliance of the directions of the Committee, the said representative informed that he is an employee of the Noticee's group company which deals in construction, and he is unaware of the broking operations.
- 17.3 On being asked specifically whether he has any submission to make, the said representative stated that he does not have any further submissions.
18. The Committee, after taking into account the proceedings that have taken place till, as well as what transpired before the Committee during the present meeting, finds as under-
- 18.1 The net worth of the Noticee was observed to be negative Rs.9.06 crores as of September 30, 2019, by the Exchange.
- 18.2 In view of the failure of the Noticee to recoup the net worth to maintain the minimum prescribed net worth as per Rule 33 of the NSEIL Rules, despite being granted multiple opportunities. In view of the above, the trading terminals of the Noticee were disabled in all segments till such time the Noticee recoups the net worth and submits evidence to the satisfaction of the Exchange.
- 18.3 Pursuant thereto, the Noticee transferred the net debtors to a new entity, Wavelength, by recording journal voucher entries in its books. The Noticee claimed that the said debtors are due for less than 90 days as of March 31, 2021, hence not required to be deducted from the net worth, which was rejected as recorded in the preceding paragraphs.
- 18.4 Therefore, the net worth of the Noticee as of March 31, 2021, as computed by the Exchange, continued to be negative Rs.3.23 crores. (as per Dr.L.C.Gupta method).
- 18.5 Trading Members are always required to maintain the minimum prescribed net worth to be in continued admittance as a Member of the Exchange. In the instant case, the net worth of the Noticee was negative Rs.9.06 crores as of





September 30, 2019 and is negative Rs.3.23 crores as of March 31, 2021. Thus, the Noticee has failed to maintain the minimum prescribed net worth of Rs.1 crore at all times.

18.6 The Noticee has failed to recoup the net worth despite being granted multiple opportunities for more than a year.

18.7 The Noticee neither replied nor complied with the directions given by the Committee. The Noticee vide email dated November 25, 2021, had authorized Mr. Gangaram Sah and submitted the undertaking as under-

"Mr. Gangaram Sah, Authorised Representative, is fully aware of the case, and the statements made by him during the representation before the MCSGFC are binding on us"

Whereas, during the hearing before the Committee submitted, the said representative said that he was not aware of the matter.

18.8 The negative net worth of the Noticee indicates its unsound financial condition, which is likely to pose a threat not only to the clients' assets but also to the settlement system of the Exchange /Clearing Corporation.

18.9 Rule 33 under Chapter III of the NSEIL Rules on "Trading Membership" provides that for continued admittance to trading membership, it is necessary to maintain the minimum net worth and capital adequacy, as prescribed by the relevant authority of the Exchange and that upon the failure to meet those requirements, the trading membership of any person shall be liable to be terminated.

18.10 The Committee, therefore, finds that the Noticee has failed to maintain the minimum prescribed networth of Rs.1 crore, despite multiple opportunities and violated the conditions for continued membership of the Exchange. The Noticee has therefore violated the provisions of Exchange Circular No. NSE/COMP/42428 dated October 17, 2019, and is therefore not eligible to continue as a member of the Exchange.

18.11 Given the above, the trading membership of the Noticee is liable to be terminated in terms of Rule 33 under Chapter III of the NSEIL Rules.

Certified True Copy

Regd. Office : National Stock Exchange of India Limited | Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai - 400 042
India +91 22 26598100 | www.nseindia.com | CIN U67120MH1992PLC069769



This is an electronic letter which does not require a signature

DECISION

19. The membership of M/s Mittal Securities Private Limited with the Exchange be terminated under Rule 33 of Chapter III of NSEIL Rules read with Rules 1 and 2 of Chapter IV of NSEIL Rules.
20. The decision of the Committee shall be implemented after giving a prior written notice of three weeks to M/s. Mittal Securities Private Limited.

Sd/-
K Narasimha Murthy
(Chairman)

Sd/-
Anuradha Rao
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Date: February 15, 2022

Certified True Copy

