

Sebi penalises Kotak AMC in 2019 default case; bars it from launching new FMPs

By Shivani Bazaz, ET Online Last Updated: Aug 27, 2021, 07:43 PM IST

Synopsis

Securities and Exchange Board of India, today barred the Kotak Mahindra Asset Management Company (AMC) from launching any new fixed maturity plans (FMP) for the next six months.



The Securities and Exchange Board of India or Sebi today barred the Kotak Mahindra Asset Management Company (AMC) from launching any new fixed maturity plans (FMP) for the next six months. The fund house has been penalised because of delayed payments made in six FMPs in 2019. Sebi has also decided to impose a fine of Rs 50 lakh on the fund house which has to be paid in 45 days.

Kotak AMC has also been directed to refund a part of the investment management and advisory fees collected from the unitholders of the six FMP schemes.

"Securities and Exchange Board of India (hereinafter referred to as "SEBI"), noticed that the investors of certain Fixed Maturity Plans (hereinafter referred to as 'FMP'), launched by the Kotak Mahindra Mutual Fund (hereinafter referred to as 'KMMF'/'the Fund'), were not paid their full proceeds based on the declared Net Asset Value (hereinafter referred to as 'NAV') of the said schemes as on their respective maturity dates," Sebi said in the order.

Earlier in April 2019, six Kotak FMPs were due for maturity but the fund house had failed to make full redemptions to the unit holders. The fund house had attributed this to the default that happened in Essel group companies. The fund house paid the full proceeds to the investors only in September, 2019.

"Keeping in view the foregoing factual exposition about various acts of indiscipline, utter neglect of due diligence, inordinate delay in communicating with the investors, violation of the statutory sanctity of the maturity dates of the FMP schemes," the Sebi order stated. The order further stated that, "There remains no doubt in mind that the Notice has acted in gross violation of provisions of the SEBI Act, 1992, MF Regulations, 1996 as well as various circulars issued by SEBI from time to time," SEBI said.

"The order pertains to various FMP schemes that matured in April and May 2019, which held investments in Non-Convertible Debentures (NCDs) issued by Edisons Utility Works Pvt Ltd and Konti Infrapower & Multiventures Pvt Ltd, belonging to the Essel Group. These firms were facing headwinds due to company/group specific issues. In the interest of our unitholders, we decided to provide additional time to the promoters for optimal recovery, which led to partial deferment of maturity payout. This approach ensured that all dues along with interest of 11.1% were paid to our investors in September 2019. We are reviewing the SEBI order and will evaluate next steps", a Kotak Mahindra Group spokesperson said.

Mutual fund investors who are invested in any debt schemes of Kotak AMC however do not need to panic by this order. Financial planners say that it has no direct bearing on their existing investments. However, they say that this is a call for debt investors to be more cautious of their investments.

"Such events do shake the confidence of investors. Three things that investors need to go back on are: 1. Stay away from closed-ended schemes. Illiquid investments are not a good choice. 2. Always ensure that your schemes have good quality portfolios. 3. Make sure that there is less concentration risk in your debt scheme. In the Kotak FMP case, the concentration to the Essel papers that defaulted was high and hence the problem happened," says Vishal Dhawan, Founder, PlanAhead Wealth Management.