



In the

RESERVE BANK OF INDIA
Foreign Exchange Department
11th floor, Central Office Building
Shahid Bhagat Singh Road
Mumbai - 400 001

Present

Shekhar Bhatnagar
Chief General Manager

Date: July 17, 2017
CA No. 4326/2017

In the matter of

Janalakshmi Financial Services Limited
Rajashree Saroja Plaza, No. 34/1, Andree Road
Shanti Nagar Bangalore 560027

(Applicant)

In exercise of the powers conferred under section 15 (1) of the Foreign Exchange Management Act, 1999 and the Regulations/Rules/Notifications/ Orders made there under, I pass the following

Order

The applicant has filed a compounding application dated March 03, 2017 (received in the Reserve Bank of India on March 10, 2017) for compounding of contraventions of the provisions of the Foreign Exchange Management Act, 1999 (the FEMA) and the regulations issued there under. The contravention sought to be compounded relate to undertaking the activity of 'implement and introduce all kinds of saving scheme for the customers' that did not fall under the automatic route for Foreign Direct Investment (FDI) in contravention of Paragraph F.8.1 of Annex B of Schedule I to Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 notified vide Notification No. FEMA 20/2000-RB dated 3rd May 2000, as amended from time to time (hereinafter referred to as Notification No. FEMA 20/2000-RB).



2. The relevant facts of the case are as follows: Janalakshmi Financial Services Limited (JFSL), the applicant, was incorporated as a private limited company on July 24, 2006 under the Companies Act, 1956 (CIN U65923KA2006PLC040028) and subsequently its status was changed to public limited on August 10, 2015. JFSL has been registered as a Non-Banking Financial Company with RBI since March 2008 and is engaged in the business of providing micro finance loans, individual loans and other related financial products/services predominantly to low-income groups. In addition to its principal lending activity, JFSL also facilitated the third party products and services to its customers. During the period from March 2008 to April 2016, JFSL received Foreign Direct Investment (FDI) amounting to Rs. 1823.98 crore approximately. During the period 2010 – 2016, the applicant undertook marketing of micro insurance, pension funds and third party savings products, the details of which are as under:

Financial Year	Annual revenues (Rs.)			Total
	Marketing of micro insurance	Marketing of pension funds	Marketing of third party savings products	
2010	-	70,715	-	70,715
2011	-	47,08,505	-	47,08,505
2012	-	1,91,79,804	-	1,91,79,804
2013	-	2,89,46,375	-	2,89,46,375
2014	-	4,38,77,519	-	4,38,77,519
2015	-	2,97,97,578	6,18,320	3,04,15,898
2016	13,20,311	10,30,75,105	12,04,410	10,55,99,826
Total	13,20,311	22,96,55,601	18,22,730	23,27,98,642

FIPB, Department of Economic Affairs, Ministry of Finance, Government of India observed that the applicant was in contravention of the extant FDI Policy and Para F.8 of Annex B to Schedule 1 of FEMA 20/2000-RB as the activities of the company did not fall under the 18 NBFC activities which were permitted under the automatic route and advised JFSL vide letter F. No. 39(2016)/23(2016 dated August 11, 2016 to approach RBI for compounding within 90 days from the date of issue of the letter for not seeking an approval from the Government for carrying out activity of 'implement and introduce all



kinds of saving scheme for the customers'. RBI vide letter FED.CO.FID.No.8475/10.08.001(115)/2016-17 dated February 20, 2017 advised the applicant to file the compounding application as advised by FIPB in its letter dated August 11, 2016.

3. Whereas Paragraph F.8.1 of Annex B of Schedule 1 to FEMA 20/2000-RB clearly stipulates 18 activities in which foreign investment in NBFC is allowed under the automatic route, JFSL undertook the activity of 'implement and introduce all kinds of saving scheme for the customers' that did not fall under the automatic route thereby contravening the said FEMA Regulation.

4. The applicant was given an opportunity for personal hearing vide the Reserve Bank's letter No.FE.CO.CEFA/126/15.20.67/2016-17 dated July 06, 2017 for further submission in person and/or producing documents, if any, in support of the application. Shri C.P. Rangarajan, Executive Vice-President along with Dr. R. Mohan, Head-Legal from JFSL attended the personal hearing held on July 14, 2017. The representatives of the applicant admitted the contraventions for which compounding had been sought and requested that a lenient view may be taken in the matter. The representatives further confirmed that JFSL had since stopped the activity of marketing micro-insurance, pension funds and third party savings products. The application for compounding is, therefore, being considered on the basis of the averments made in the application as well as other documents and submissions made in this context by the applicant.

5. I have given my careful consideration to the documents on record and the submissions made by the applicant. Accordingly, I hold that the applicant has contravened the provisions of FEMA, 1999 issued in terms of Paragraph F.8.1 of Annex B of Schedule I to Notification No. FEMA 20/2000-RB as per the details given in paragraph 2 above. The amount of the contravention was Rs. 23.28 crore approximately and the duration of contravention ranges one year to seven years approximately.

6. In terms of Section 13 of the FEMA, any person contravening any provision of the Act shall be liable to a penalty up to thrice the sum involved in such contravention upon adjudication. However, taking into account the relevant facts and circumstances of the



case as stated in the foregoing paragraphs, I am persuaded to take a lenient view on the amount for which the contraventions are to be compounded and I consider that an amount of Rs.13,66,806/- (Rupees thirteen lakh sixty six thousand eight hundred and six only) will meet the ends of justice in the circumstances of the case.

7. Accordingly, I compound the admitted contravention namely, the contravention of Paragraph F.8.1 of Annex B of Schedule I to Notification No. FEMA 20/2000-RB by the applicant as stated above on the facts discussed above in terms of the Foreign Exchange (Compounding Proceedings) Rules, 2000 on payment of an amount of Rs.13,66,806/- (Rupees thirteen lakh sixty six thousand eight hundred and six only) which shall be deposited by the applicant with the Reserve Bank of India, Counter number 3, Main Building, Mumbai Regional Office, Fort, Mumbai 400001 by a demand draft drawn in favour of the "Reserve Bank of India" and payable at "Mumbai" within a period of 15 days from the date of this order. In case of failure to deposit the compounded amount within the above mentioned period, Rule 10 of the Foreign Exchange (Compounding Proceedings) Rules, 2000 dated May 3, 2000 shall apply.

The application is disposed of accordingly.

Dated this the seventeenth day of July, 2017.

Sd/-

(Shekhar Bhatnagar)
Chief General Manager