

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 15

NOTE : *Answer ALL Questions.*

1. Read the following case study and answer the questions given at the end :

Zenta Communications Ltd, more commonly known as “Zenta”, stands as India’s foremost digital ecosystem, serving both consumers and merchants. It holds the distinction of being India’s largest payment platform, with a remarkable Gross merchandise value. “Zenta”, has solidified its position as India’s most valuable payment brand, with huge brand value. Zenta has over 300 million active users and is one of the top platforms for digital payment methods and captures a large audience across all economic strata in the nation. Anandit was the start-up founder and he spearheads the Company’s strategy and vision. A strong believer in emerging technologies, Anandit has played a major role in the evolution of mobile payments in India.

Founded in 2014, Zenta started as a simple mobile recharge platform and has evolved into one of India’s leading digital payment companies. At the forefront of India’s fintech revolution, Zenta has facilitated a shift toward cashless transactions, showcasing resilience and strategic pivots in response to changing consumer needs. In this era of cashless transactions and digital wallets, Zenta has taken centre stage as one of India’s most prominent fintech companies. Its journey from inception to becoming a household name is nothing short of remarkable.

Since its establishment, Zenta has transformed into a “mobile-first” digital payments platform, empowering Indians to make cashless transactions conveniently from their mobile devices. Starting from humble beginnings with bill payments and mobile top-ups, Zenta has emerged as India’s leading payments platform, driven by its extensive consumer base, merchant network, transaction volume, and revenue.

With a focus on providing a seamless transaction experience across various methods, Zenta offers user-friendly digital products and services, along with inclusive access to financial services. Its robust two-sided ecosystem facilitates commerce and provides access to financial services, with the goal of improving consumer lives and fostering business growth among merchants through technological innovation. Revenue from payment and financial services has consistently been significant, contributing substantial portions to its overall revenue over the years. Due to increasing penetration of affordable smart mobile device in the country, shoppers are adopting digital wallets at an incredibly rapid pace, largely due to convenience and ease of use. In today’s world, Smartphone has become essential part of daily life. India will exceed 600 million Smartphone users very soon.

In the past five years, Zenta has diversified its product offerings to enhance user engagement and revenue generation. This includes providing devices and additional services to merchants, introducing various payment instruments like Zenta FASTag and Zenta Postpaid, and launching financial services such as wealth management, lending, and insurance in collaboration with financial institutions. The pace of product launches has accelerated in recent years as Zenta expanded its distribution channels. Early age seed investors were enthusiastic. Venture funds, Cat Group, Seed banks, and Werkman invested, pushing Zenta’s valuation. These investments supported further growth and diversification of services.

Company's mission was clear—"We will bring Half-a-Billion Indians to the Mainstream Economy." and Vision was to become "India's leading payments App." Zenta introduced Zenta Mall as part of a calculated effort to break into the e-commerce space. Investors provided an initial \$500 million capital infusion to Zenta Mall, which was then able to maintain steady backing from Epee Financial and Crux Global in order to strengthen the Zenta wallet.

In an attempt to counter the "Application Store's" hegemony in the digital space, Zenta launched a micro app store to assist Indian app developers and entrepreneurs. Zenta started generating revenue through a diversified set of streams, some of the prominent ones are widely-used Unified Payments Interface (UPI), Zenta makes money on its platform through selling of loans and payment devices, as well as from subscription revenue, payment processing fees and marketing services it offers to other companies via its commerce and cloud business. Co-branded credit card partnerships with banks such as DBI and DDFC generate income from upfront distribution and lifetime usage fees. Zenta serves many customers that is the reason why it is so cost driven. Company plans to reach internationally and collaborated with Tuff Bank Group and Lolu Japan to launch its e-wallet service in Japan. It also announced as the official partner of the sports league, partnered with famous coffee chain which is a PAN-India partnership for a contactless dining solution.

Most of its expenses are related to its platform and customer acquisition. It is a common expense shared by many businesses across the world, where customer acquisition cost is substantial. The money used in this process is higher than the revenue it makes in its initial purchases. The majority of its budget is invested in ramping up of its security and avoid the risk of fraud especially when it has to handle millions of customers in its platform. It includes a system that enables customers to prevent any money laundering risk.

Zenta's business model includes commissions from financial partners, convenience fees, and Merchant Discount Rates (MDR). It sponsors events using cricket as a tool for brand recognition. The promotion activities include social media advertisements and tactics like campus ambassador programs. Collaborations with businesses, has helped Zenta achieve its objectives of maintaining growth and extending its payment options. Diverse Revenue Streams and Company's strong business strategy guarantees profits from non-UPI and UPI transactions, have resulted in a steady and stable flow of income. During this growth story, Board of Zenta approved an ESOP scheme for its former and current workers. This action is a component of Zenta's continuous dedication to appreciating and thanking its employees. Employee incentives were further enhanced by granting of stock options under the ESOP scheme. Board of Directors of the Company also announced plan for Initial Public Offering (IPO) indicating its plans to become a publicly traded company. The IPO was anticipated to be one of India's largest, aiming to raise approximately \$3billion. Company's IPO proposal garnered significant interest from investors due to its prominent position in India's burgeoning digital payments market. Speculation surrounding the Company's valuation ranged from \$10-15 billion, potentially making it one of India's most valuable startups.

Finally, after navigating regulatory approvals and assessing market conditions, the Company proceeded with its IPO, which received overwhelming demand from investors. Company's stock witnessed fluctuations during its initial trading phase, reflecting uncertainties among investors and market dynamics. It also faced many challenges which includes data breach incident, Zenta Mall faced a significant data breach, compromising sensitive data of around 5 million customers, delisted from famous Application Store due to alleged violations of rules related to unlicensed gambling apps.

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Despite its market dominance, Company faced several challenges leading up to its initial offering, the evolving regulatory environment for fintech firms in India posed potential implications for Zenta's operations and growth trajectory. Zenta's strategic missteps to diversify into various financial services, such as credit, insurance, wealth management, and FASTag, did not yield the expected results. The Indian stock market and public shareholders found it challenging to understand and value this business model, further complicating Zenta's post-IPO journey. The Company was up against fierce competition from other online payment services. These competitors offered similar services, often with fewer regulatory hurdles and more straightforward business models. This increased competition further eroded Zenta's market share and profitability. Company encountered competition from both domestic and international players across its business segments, including digital payments, e-commerce, and banking. Similar to many tech startups, Company had yet to achieve profitability, raising concerns about its long-term viability and ability to deliver returns to investors.

Companies' employees allegedly burning other competitor QR codes in bulk, prompting a response from them and involving law enforcement. Zenta faced significant regulatory challenges for multiple violations, including non-compliance with KYC (Know Your Customer) norms. Regulator halted the opening of new accounts due to compliance issues. The Company was fined ₹ 5 crore for submitting false information. Despite an external audit, further lapses were found in technology and cybersecurity.

The Regulator's final crackdown on Zenta Payment Bank was severe, the bank was instructed to cease accepting deposits, top-ups, and offering certain banking services. The directive to halt new deposits and top-ups in Zenta Payment Bank disrupted its core operations. This forced the Company to shift its banking activities to other financial institutions, significantly impacting its business model and revenue streams. These persistent operational shortcomings resulted in repeated regulatory interventions, including bans on onboarding new customers and other banking activities. This constant pressure hindered Zenta's ability to function smoothly and grow. As a result of that, Company decided to implement cost-cutting measures, including a workforce reduction program resulting in the layoff of at least 1,000 employees across various departments.

RBI's decision to impose restrictions on Zenta Payments Bank was primarily due to persistent non-compliance and continued material supervisory concerns found during an audit. These non-compliances could include issues related to regulatory guidelines, governance structure, and adherence to banking regulations. Additionally, concerns about related party transactions, potential influence from the parent company, and compliance with KYC norms may have contributed to the regulatory action. Company barred from doing banking business in all manner and impacted its customer base, and was forced to work with other banks instead of shifting customers to other fintech platform. During this time, Company faced very stiff competition from fintech industry Start-ups providing digital payment platform, they offer a range of services, including UPI-based payments, bill payments, and mobile recharges, etc.

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Company's concerns raised about potential impact on margins due to higher costs as well as regulator licensing, raised red flags about related party transactions. Regulator mentioned "effective action" for non-compliance, indicating escalating regulatory pressure. Penalties imposed for flouting KYC norms, concerns about money laundering allegations. It also struggled with technological and operational issues. The Regulator identified lapses in cybersecurity and IT infrastructure, which posed significant risks to customer data and transaction security. These deficiencies undermined user trust and added to the Company's operational challenges. The broader political and economic environment also played a role.

The cumulative effect of regulatory fines, bans, and operational challenges led to a significant loss of trust among users and partners. This erosion of trust, coupled with negative media coverage and ongoing regulatory scrutiny, weakened Zenta's market position. Company faced regulatory hurdles impacting its stock value, though recent partnerships and regulatory extensions have spurred a recovery. Financial Regulator also plans to engage with fintech industry representatives to address concerns and aiming to foster better communication and address ownership structure issues. Efforts to simplify KYC norms are also underway, potentially easing operational challenges in the fintech sector. The Regulator has introduced a comprehensive framework for creating and managing self-regulatory organizations (SROs) in the Fintech sector (SRO-FT). This framework aims to encourage innovation while ensuring that Fintech companies comply with regulatory standards. Regulator enforces strict KYC (Know Your Customer) and AML (Anti-Money Laundering) guidelines. These measures ensure customer identities are verified, minimizing fraud and enhancing digital finance.

In response to regulatory pressure and better corporate compliance, Company has taken steps to sever ties with its payments bank unit, as mandated by the Regulator. This includes terminating various inter-company agreements and to simplify the shareholders' agreement to enhance governance independently of their shareholders. The Chief Executive Officer of the Company, Rahan's departure from the Board of Zenta Payments Bank and the appointment of independent directors, is described as a strategic move to facilitate a smooth transition and bolster governance structures. This move aims to separate Zenta from its payments bank unit and establish it as an autonomous entity.

Despite Regulator directive to wind down operations due to compliance issues, the Board of Zenta remains open to future financial services endeavours. This strategic shift has positively impacted Company's stock performance, with shares rebounding. The Board of the Company has unveiled Company's plans for international expansion and AI integration. The Company aims to become an AI technology leader within the financial services sector and plans to invest over ₹ 100 crore in the state-of-the-art global payment development centre.

Zenta will surely regain its position despite the competitions and hurdles. No doubt, it has been one of the successful start-ups in the fintech industry of India and scaled great heights.

Company has renewed its efforts to become a global leader in the payment ecosystem as it aims to integrate with Artificial Intelligence.

In the background of the above facts, prepare a detailed report on the following :

- (a) Outline the challenges faced by Zenta payment bank in current fintech industry scenario. Also highlight the role of Regulator in persistent non-compliances of regulations by companies.

(10 marks)

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- (b) Suggest the points which the management of Zenta shall evaluate, with the help of SWOT analysis.

(10 marks)

- (c) Discuss the business and revenue model of the Zenta in detail and also share your views what goes into starting a fintech Start-up.

(10 marks)

- (d) 'Zenta is a testament to India's fintech revolution. It's journey from inception to becoming a digital finance giant is a remarkable story of vision, innovation, and commitment to financial inclusion'. Comment.

(10 marks)

2. (a) Zulma, a famous gynaecologist and obstetrician was the Managing Director, of Zulma Hospitals and Research Centre Private Ltd. She has been engaged in various philanthropic activities and working for human rights with various organisations by offering affordable treatment and protecting patient rights. Namaste, also ran a hospital specialising in infertility care and was running a MeTube channel, on social media. He uploaded various videos regarding medical conditions related to pregnancy and treatment offered by them.

One of her patients informed Zulma about the medical advices given by Namaste on his MeTube channel. Zulma filed a case on Namaste, stating that he made certain misleading statements/misinformation about the cost of IVF and fertility treatments on his MeTube channel against hospitals offering affordable treatment for infertility care. These statements are alleged to be detrimental to a competitive market and would prejudice market players who are willing to offer quality treatment at an affordable rate. She approached the Competition Commission and sought to conduct necessary investigation and direct to remove MeTube video and to refrain from publishing inaccurate and misleading statements in social media that can either directly or indirectly affect the interest of the patients and the market adversely.

With reference to a case law, comment whether Zulma's contention is justified.

(6 marks)

- (b) Reliable Auto Ltd, is a tools and spares manufacturing company and has four wholly-owned subsidiary companies. A scheme of amalgamation was approved by the equity shareholders of the Company and its subsidiaries in their respective general meetings along with the 90% of the creditors consent. Reliable Auto Ltd. being the transferee company in the proposed amalgamation submitted an application for approval of scheme of amalgamation under Section 233(2) of the Companies Act, 2013. Relevant documents were annexed and copy was also submitted to the Official Liquidator as well as the Registrar of Companies as per the requirement of the Act.

This application was rejected by the Regional Director, citing a lack of solvency of petitioner's companies based on their balance sheet submitted, asserting that the Central Government has the authority to reject the scheme, if the companies are found to be insolvent. The directors of Reliable Auto Ltd. aggrieved by order passed by the Regional Director and were planning to file an appeal with High Court.

In the background of a judicial precedent, advise the directors of Reliable Auto Ltd.

(6 marks)

3. (a) Gajraj, a renowned businessman, wanted to establish a cloth dyeing unit for his textile business. He approached Kamai, a director of Swinla Manufacturers and Suppliers Ltd. ('Swinla') for supply of raw indigo, to be used as a basic raw material in the dyeing unit. After detailed negotiations, Gajraj and Swinla represented by Kamai, entered into an agreement for the supply of raw indigo. However, Gajraj did not make any payment for few months for the supply made by the Company. Since, it was a long-term contract having an extended credit period, Swinla, terminated the agreement. Due to this termination, commercial production at the plant especially set up for the purpose, ceased. Gajraj filed a suit against Swinla for damages towards the loss of anticipated profits and cost of the plant.

Discuss with the help of decided case law(s), whether Gajraj will succeed.

(6 marks)

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- (b) Delphi Printers Ltd., listed on a recognized stock exchange, during the period 2021-22 to 2023-24, issued redeemable preference shares amounting to ₹ 50 crore to some 500 investors. The matter came to the notice of the market regulator and on March 1, 2024, the adjudicating officer of SEBI passed an order imposing a penalty of ₹ 1 crore on the Company, under the SEBI Act, 1992 for violation of SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013. The adjudicating officer was of the opinion that since the number of investors from whom money was collected by the Company exceeded 49 in each of the three years, it is a clear violation of the aforesaid regulation and the issue made by the Company is deemed to be a public issue, which has been done without following the procedure laid down by the regulations. The Company filed an appeal against the Order, which was challenged by the adjudicating officer on the ground that the Order cannot be challenged in SAT and that SAT has no power to reduce or waive the penalty so imposed by the officer appointed under the SEBI Act, 1992.

With reference to a decided case law, evaluate whether the contention of the adjudicating officer tenable.

(6 marks)

4. (a) Kamal Nayan, is a Right to Information (RTI) activist. He is known for exposing various non-compliances in the financial sector. One of his applications under RTI, regarding certain information related to defaults in banks, was rejected by Reserve Bank of India (RBI) on the ground of economic interest, fiduciary relationship with other banks and public interest. The details sought by him are summarized as under :

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- Details of show cause notices and fines imposed by the RBI on various banks.
- In light of the failure of some cooperative banks in recent times, various inspections carried out by the apex banks as a preventive measure.
- Details of the report sent by the RBI to the Ministry of Finance with respect to FEMA violations committed by banks and various intermediaries.
- Details of loans taken by intentional defaulters and the amount due from those defaulters to each of the PSBs.

On rejection of his application, Kamal Nayan has approached you, to know the next course of action. Advise Kamal Nayan with the help of a relevant case law.

(6 marks)

- (b) The Enforcement Directorate provisionally attached a property of Aham and Swaham on December 10, 2005 under the Prevention of Money Laundering (Amendment) Act, 2005 stating that the said property was acquired through proceeds of crime. Aham and Swaham, the joint owners of the said property, argued that the allegations of making wrongful gains in violation of the provisions of the said Act were baseless, as the said property was purchased on April 1, 2005, which is a date before the enforcement of the Act, the act of the Enforcement Directorate is not tenable under the said Act.

Whether the contention of Aham and Swaham is tenable ? Justify your answer with the help of decided case law.

(6 marks)

5. (a) Pranayo Ltd, was incurring losses since last few years and its workers were not getting paid on a regular basis. The workers approached their Workers Union for relief. The Workers Union filed a writ petition in the High Court, where the High Court passed an order directing the labour commissioner to determine the dues of the workers.

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Accordingly, the labour commissioner quantified the same and certain properties of the Company were put on auction sale. Meanwhile, one financial creditor initiated corporate insolvency proceedings against the Company. NCLT admitted the same and moratorium was duly announced. The High Court ordered sale of certain properties of the Company in writ proceedings during the period of moratorium.

In the background of a case law, analyse whether the action taken by the High Court is justified.

(6 marks)

- (b) Jay is a Director in Drupadi Private Limited (“DPL”). The business of the Company was mainly divided into three units manufacturing trading and consulting. The Consulting division was being managed by Jay, who was also a relative of directors and shareholder of the Company. In the course of business, Jay thought of improving the consultancy services and reached out to various consultants, who apparently advised creation of a separate entity known as Drupadi Consultancy Services. The website also reflected the name as ‘Drupadi Consultancy Services’. The invoices raised by the consultants were paid from the funds of DPL, as advised by Jay. There were no separate transactions by the consultancy division and all the transactions were routed through DPL only. The relationship between Jay and other directors was strained and a case was filed against him under the Sections 65 and 66 of the Information Technology Act, 2000.

With reference to a case law, comment whether the case filed against Jay is justified.

(6 marks)

6. (a) Narad serves as the long-standing Chief Executive Officer (CEO) of Fantasy Industries Ltd, a company listed on the Bombay Stock Exchange. Narad recently met two institutional investors, who together held a 5% stake in the company. During these discussions, he provided an update on the Company's financial performance over recent months, profitability and business growth, as the Company's quarterly results were set to be disclosed to the market by next week. Narad also briefed these institutional shareholders on the Company's strategic direction, informing them of his plan to establish a strategy committee within the Company, comprising executive directors and key senior managers.

At a regular management meeting, Narad met with the newly-appointed Chairman of the Company, Sarad, who also happens to be his brother-in-law. A number of pressing issues were discussed during this meeting, including the upcoming retirement and re-election process for members of the Board at the forthcoming Annual General Meeting (AGM). Xula, the Company Secretary raised a concern regarding Kurup's designation as independent director, given his proximity to the Company's management. Kurup had served as an independent non-executive director for nearly nine years. Though Kurup had proven to be highly experienced and made substantial contributions during Board meetings, his independent status had come into question. Narad maintained that Kurup's independence remained intact, despite his prolonged tenure. Furthermore, Narad informed Sarad that he had organized additional training sessions for two directors on the Board, one of the non-executive directors and the Marketing Director.

On the basis of above-mentioned facts, outline the discernible weaknesses in the corporate governance practices of the Company.

(6 marks)

- (b) Bazinga Games and Sports Ltd, a start-up catering to new games and sports activities was founded by Bose. The Company was funded by well-known investors and the planning for IPO was also going on. Methra, a Company Secretary and Corporate Advisory Professional, was appointed to review the existing governance processes and suggest recommendations, if any. She was also requested to do an evaluation from risk management perspective. While Mehtra's review was underway, she spoke to Bose about the changes they need to bring in the Company's practices especially from a governance risk perspective. When Bose asked her to explain, she said that governance risks refer to significant deficiencies that can severely affect the reputation, viability, and ongoing operations of an organization. These risks arise due to the failure of the Board to properly direct and control the organization or from inappropriate practices adopted by the Board itself. In some cases, collusion between management and the Board may override critical internal controls, leading to substantial financial losses. Additionally, the inability of the Board to identify key risk factors that could threaten business continuity further exacerbates these vulnerabilities. These failures are often a result of broader corporate governance shortcomings, where Boards fail to fully grasp the risks being taken by the company—whether through careless risk-taking or inadequate risk management systems. In many instances, lack of comprehensive oversight and accountability compounds the situation, leaving the organization vulnerable to external shocks, regulatory penalties, or operational breakdowns. Therefore, robust governance and risk management frameworks are crucial for ensuring long-term organizational stability and sustainability.

In view of the above facts, highlight some of the sound practices for the Board of Directors which help to improve risk governance.

(6 marks)

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