



## **SFIO says RBI could've acted faster on IL&FS**

**SFIO's chargesheet suggests the RBI should conduct internal inquiry & take 'appropriate action'.**

By Rashmi Rajput,

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Timely intervention by the Reserve Bank could have led to the crisis at the Infrastructure Leasing & Financial Services Ltd (IL&FS) being detected earlier, the Serious Fraud Investigation Office has said in its chargesheet.

Crucially, IL&FS subsidiary IL&FS Financial Services (IFIN) — the entity at the heart of the investigation — was allowed to continue operations despite adverse RBI inspection reports, as per the SFIO. The chargesheet suggests the RBI should conduct an internal probe and take “appropriate action”.

“Action at the right time may have prevented ballooning of the matter,” the SFIO said in its chargesheet on the IL&FS matter. “It is observed that RBI had repeatedly pointed out noncompliance with the group exposure norms and wrong calculations of net owned funds (NOFs) in its inspection reports for the year 2015 onwards.”

No penalties were imposed during the period and subsidiary IFIN was allowed to continue operations without any corrective measures, it said. “It was only in November 2017 (that) the classification of group companies in order to arrive at NOF and credit to risk assets ratio (CRAR) as per RBI Act was strongly conveyed to IFIN,” said the chargesheet, seen by ET.

## FINGER POINTED AT RBI'S OVERSIGHT

**Red Marks**  
SFIO suggests RBI conduct an internal inquiry into IL&FS issue

**RBI repeatedly pointed to...**

<b>Non-compliance</b> with group exposure norms	<b>Wrong calculations</b> of NOFs in its inspection reports
<b>Yet...</b>	
<b>No penalties</b> were imposed during the period by RBI	<b>IFIN allowed</b> to operate without any corrective measures
<b>First firm</b> action only in Nov 2017	

**SUGGESTED ACTION FOR RBI**

- Internal probe** into reason for delay, and appropriate action
- Suitable policy** measures to prevent such fraudulent action

The investigation arm of the Ministry of Corporate Affairs recommended that its report be shared with the central bank.

“RBI should conduct an internal investigation as to the reason for the delay and take appropriate action and also take suitable policy measures to prevent such fraudulent action,” it said. The central bank didn’t respond to queries.

This is the first time an official body has pointed a finger at the RBI’s oversight of IL&FS.

The SFIO relied on RBI inspection reports in its investigation and these form part of the chargesheet submitted last week to a special court in Mumbai against 30 individuals and entities in the IL&FS case.

The central bank had expressed reservations on loans granted to borrowers and group companies in violation of the RBI Act. Optionally Convertible Debentures (OCD) of Rs 190 crore to the Siva Group were “used to evergreen the earlier loan”, the RBI had said.

Tata Teleservices Ltd (TTSL) shares had been pledged as collateral by the Siva Group with IFIN. In its FY15 inspection, the RBI asked IFIN to make full provision against the TTSL shares of Rs 254 crore. In another loan to the Siva Group, the SFIO said the RBI had asked for full provision of Rs 190 crore against OCDs during the FY16 inspection report. Provision of Rs 108 crore was made in FY18.

## **LOANS WITHOUT SUFFICIENT COVER**

The RBI had said loans had also been given to ABG International without sufficient security cover, according to the chargesheet.

“RBI in its report for FY15 had pointed out insufficient security cover in case of exposure to ABG International Pvt Ltd, and in the year FY16-17, insufficient security cover has been pointed out on the loan to Onaway Industries Ltd,” the chargesheet said. “Whistleblower in its letter dated March 3, 2017, has pointed out the connivance of the management of IFIN and also Ravi Parthasarathy and Ramesh Bawa to release the security cover in case of ABG.”

The SFIO also cited the manner in which the IFIN board loaned money to group companies, especially IL&FS Transportation Networks Ltd (ITNL). In its November 2017 report, the RBI had observed that IFIN had loaned money to eight entities belonging to its group for onward lending to ITNL. It is pertinent to note that the IL&FS crisis first came to light in July 2018, when the road arm was facing difficulty in making repayments due on its bonds.

“RBI in its inspection report for FY16 had advised that the classification of group companies in order to arrive at NOF and CRAR needs to be done as specified in the RBI Act, listed out group companies and pointed out exposure in excess of 10% of own funds to arrive at NOF... The company should run down its exposure to group companies with no fresh lending to them,” the chargesheet said. “In a letter dated July 20, 2018, signed by Bawa (to RBI), it has been stated that IFIN has not undertaken any fresh exposure post November 2017 to IL&FS group entities.”

## **CIRCUMVENTING RBI RULES**

The SFIO probe has revealed that the accused directors, in order to circumvent RBI directions, gave loans to external parties that were then transferred to IL&FS group companies, mainly ITNL.

In his statement, accused erstwhile IFIN director Vibhav Kapoor has stated that the former IFIN board had asked the company to request the RBI to give it time till 2021.

“RBI had instructed IFIN to reduce group exposure below 10% of owned funds,” the chargesheet said. “Since many of the group companies were going through difficult conditions... the IFIN board felt that the company would need more time to meet this instruction of RBI and accordingly the board requested IFIN to request RBI to give time till 2021 to accomplish this.”

IFIN falsified financial statements and did not disclose details of NOF and CRAR observations of RBI to credit rating agencies, which continued to give it the highest rating till the latter part of 2018, the SFIO said. Investors in the NCDs (nonconvertible debentures) also relied upon this information.

The chargesheet states that IFIN did not disclose the negative NOF amount as assessed by the regulator for FY14-15, FY15-16 and FY16-17 in its financial statements. “The users of the financial statements were unaware of the critical information regarding negative NOF, negative CRAR,” it said. “This information was very critical and material for investors of NCDs.

## **IL&FS scam: SFIO zeroes in on coterie of top managers, auditors**

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Launching a massive crackdown on the perpetrators of the IL&FS scam, the Serious Fraud Investigation Office (SFIO) has charged the erstwhile top management of the group’s financial services subsidiary IL&FS Financial Services (IFIN) with forming a “coterie” with its auditors and independent directors to defraud the company while running the business as their “personal fiefdom”.

Officials also said it is just a tip of the iceberg in this massive fraud case, involving defaults of an estimated ₹90,000 crore, as the SFIO’s first chargesheet concerns just one entity, IL&FS Financial Services Ltd (IFIN), and the probe is already under way against the parent firm —

Infrastructure Leasing and Financial Services Ltd (IL&FS) — and several other subsidiaries.

The SFIO is also collecting details about all borrowings by IFIN from banks and through market instruments, as also about the role of banks and their officials and of credit rating agencies.

## **IL&FS Financial Services gross NPA at 90%: Uday Kotak**

Reuters MUMBAI |

The flagship lending unit of Infrastructure Leasing & Financial Services Ltd (IL&FS) has seen 90 per cent of its loans go sour, a company executive said on Wednesday, as the current management tries to recover dues from external agencies to pay its debt.

IL&FS Financial Services Ltd, commonly called IFIN, has seen its share of bad loans shoot up to 90 per cent as of December 2018 from 5 per cent in March 2018, said Uday Kotak, non-executive chairman of the company. This has made it difficult to recover money from its receivables to pay off bankers and other financial institutions who have lent to other arms of the company.

A series of defaults in September at the major infrastructure developer and financier triggered widespread concern of a bad debt crisis lurking in India's shadow banking sector. To stem the malaise, the government, through a court-led process in October, replaced the management with a team led by Asia's richest banker Uday Kotak. "I have heard double digits NPA but 90 per cent GNPA's (gross NPA) are very unusual by any standards. That's the challenge that we have faced," said Kotak, who is the chairman of Kotak Mahindra Bank.

Banks are struggling with a record \$150 billion of bad debt with the lion's share held by state-run banks. Even so, the total non-performing assets of the state-run banks range from 10-20 per cent. IFIN has started its recovery process and will employ legal means or go through the bankruptcy route to recover money from clients, Kaushik Modak,

executive director of IFIN said. He said the company has so far recovered Rs 831 crore since the process began six months back.

IFIN has a total exposure of Rs 18,800 crore, out of which Rs 10,700 crore is to external agencies while the remainder is with group companies, N Sivaraman, chief operating officer of IL&FS Group said. Grant Thornton, after an audit of IL&FS books, said last month that a third of IFIN's total outstanding loans were either unsecured or had inadequate collateral.

IL&FS has a total debt of close to a Rs 1 trillion and the Kotak-led management has put several of its group companies up for sale to raise funds to pay off creditors. "I think we will be able to achieve this (resolution of IL&FS debt) in an accelerated manner in an environment of comfort with each other's trust," Kotak said. "We are not trying to hoodwink anybody. We also know that whatever comes will not go to the shareholders but to the creditors sitting on the other side," he said.

## **PNB fraud: UK court remands Nirav Modi till June 27**

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### **Court asks for confirmation of prison cell in India**

Nirav Modi, wanted in fraud and money laundering charges amounting to nearly USD 2 billion, was on Thursday remanded till June 27 by a UK court, which directed the Indian government to confirm within 14 days which prison he is to be held in if he were to be extradited.

Modi, dressed in a blue shirt and black trousers, was produced in the dock at Westminster Magistrates' Court before Chief Magistrate Emma Arbuthnot for his first case management hearing Thursday.

The 48-year-old, wanted in India to face charges of fraud and money laundering amounting to nearly USD 2 billion in the Punjab National Bank (PNB) case, took notes as the judge fixed his next remand hearing via

videolink for June 27 and set a 14-day deadline for the Indian authorities to confirm the prison plans in India.

“There is no reason why it should not be answered within 14 days,” Judge Arbuthnot said, adding that Arthur Road Jail would be the obvious candidate .

Arbuthnot, who ordered the extradition of liquor tycoon Vijay Mallya in December 2018, had sought a video of the exact cell in which the former Kingfisher Airlines boss was to be held. She therefore indicated that if Modi was to be held within the same premises, the court would most likely not have any objections.

Modi’s barrister, Clare Montgomery, agreed that unless it was the same cell, she would be seeking a court-appointed independent prison visit to ensure that any holding cell in India met with human rights guidelines.

No further details or timelines were set for the extradition trial at the first case management hearing on Thursday as Montgomery told the court that the defence team was yet to receive the opening position statement on the case to start building on its arguments.

The judge has given the Crown Prosecution Service (CPS), representing the Indian government, six weeks’ time to present an opening position statement laying out the prima facie case against Modi, with the next case management hearing set for July 29 — when a timeline for extradition trial is expected to be laid out.

“I have had a brief look at the pagination and it is much better than before it is much clearer than earlier, so I am delighted about that,” said Judge Arbuthnot, as she welcome the improvement in the paperwork submitted by the Indian authorities.

She has previously been extremely critical of the paperwork submitted for previous extradition cases, including that of Mallya. She directed the CPS to make the index clearer in the opening statement, which is now due to be submitted by the Indian side by July 11.

A team from the Enforcement Directorate (ED) and Central Bureau of Investigation (CBI) were present during the hearing in court, which was especially packed due to a hearing in the Wikileaks co-founder Julian Assange's case, which was ultimately adjourned due to his ill health .

CPS barrister Ed Martin, representing the Indian authorities in the Modi case, had offered a six-week timeframe as opposed to an initial eight-week period for the opening statement after the judge pushed for an earlier date to move the legal process along.

Modi was taken back into custody at Wandsworth prison in south-west London, having been denied bail by the court on three previous occasions.

"This is a large fraud and the doubling of security to 2 million pounds is not sufficient to cover a combination of concerns that he would fail to surrender," Arbuthnot had ruled at the last hearing on May 8.

"A combination of interference with witnesses, destruction of servers and mobile phones and the lack of community ties means I still have doubts that he would fail to surrender before the court, she concluded.

Modi was arrested by uniformed Scotland Yard officers on an extradition warrant from a Metro Bank branch in central London on March 19 and has been in prison since.

During subsequent hearings, Westminster Magistrates' Court was told that Modi was the "principal beneficiary" of the fraudulent issuance of letters of undertaking (LoUs) as part of a conspiracy to defraud PNB and then laundering the proceeds of crime.

Arbuthnot noted that Modi had "squirrelled away" funds that he may use for his escape from the UK if released on bail, which means he has remained at Wandsworth prison — one of England's most over-crowded jails — where his experience has been described by his lawyers as vivid and damaging .

Modi is one of India's richest men, worth an estimated USD 1.75 billion, according to Forbes. He launched his own eponymous brand in 2010 and

he soon had stores across India, as well as in New York, London and Hong Kong.

His diamond-encrusted designs were worn by Hollywood stars like Kate Winslet, Rosie Huntington-Whiteley and Naomi Watts, while the Bollywood star Priyanka Chopra-Jonas appeared in advertisements for the brand.

## **Bankers mostly optimistic on economy: CII-IBA**

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### Survey reveals a robust increase in Financial Conditions Index in first quarter

The CII-IBA Financial Conditions Index for Q1 (April-June) FY20 has recorded yet another rise to the above-50-mark for the third time in a row, owing to expectation of improvement in the overall condition of the economy.

The Financial Conditions Index for Q1 FY20 has come in at a robust 68.1, against 62.9 in the preceding quarter. The index is up on account of most of the components — External Financial Linkages, Funding Liquidity Index and Cost of Funds Index — barring the Economic Activity Index. Going by the significance of index levels, a reading above 50 is considered 'largely optimistic'.

The latest index figure is based on Round 15 of the Financial Conditions Expectation Survey undertaken in April, in which 23 entities participated, including seven public sector banks, six private sector banks, two foreign banks, one co-operative bank, and seven non-banking finance companies.

According to the joint survey by the Confederation of Indian Industry (CII) and the Indian Banks' Association (IBA), the Cost of Funds Index was recorded at 67.4 in Q1 FY20, against 58.5 in the preceding quarter.

The majority of the respondent banks and financial institutions expect short-term interest rates (the interbank call rate and three-month bank certificate of deposit rate), long-term interest rates, yield on 10-year

Government of India bonds and conditions of marginal cost of funds-based lending rate (MCLR) to come down, indicating improvement in the Cost of Funds Index.

#### Funding liquidity

The Funding Liquidity Index in the current quarter recorded a value of 71.2, marking a significant improvement over the preceding quarter's 61.2.

This index depicts the likely liquidity position in the market. The improvement is primarily due to the improved mobilisation in the money market through commercial papers/certificate of deposits, issuance in the corporate bond market and mobilisation in the equity market.

#### External financial linkages

The External Financial Linkages Index has recorded a value of 81, which is significantly higher compared to the preceding quarter's 67.4. Out of all the factors, this index has achieved the highest score across all indicators.

According to the survey, 87 per cent of the respondents expect mobilisation through American Depository Receipts, Global Depository Receipts, External Commercial Borrowings and Foreign Currency Convertible Bonds to increase; only 4.3 per cent of the respondents think otherwise. The remaining 8.7 per cent of the respondents expect the mobilisation to remain the same.

#### Economic activity

The survey revealed expectations on the Economic Activity Index have seen a relatively significant decline to 52.7, compared to the preceding quarter's 64.7. This reading, however, still indicates optimism. The value of the index is supported by the moderate optimism over GDP growth, asset prices and non-food bank credit pick-up.



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