

# Fraud office asks RBI to probe its NBFC wing for ignoring adverse audit

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THE SERIOUS Fraud Investigation Office (SFIO) has recommended that the Reserve Bank of India probe officials in the department supervising non-banking financial companies (NBFCs) for not having acted against IL&FS Financial Services (IFIN), despite an RBI inspection finding major discrepancies in its books as early as 2014, sources told *The Indian Express*. The SFIO recommendation has been sent to the Ministry of Corporate Affairs (MCA) and the RBI for appropriate action.

Almost five years ago, the RBI had, in its annual audit, found that IFIN was borrowing to fund its group companies. The audit also found instances of ever-greening of loans, but the Department of Non-Banking Supervision did not take any action such as cancellation of the NBFC licence of the company, the sources said.

“When the RBI audit detected the lapses in 2014, IL&FS liabilities were around Rs 32,000 crore. However, with the RBI not taking any action, total liabilities skyrocketed nearly three times to Rs 94,000 crore and the group started defaulting on repayments in four years,” said a source involved in the investigation. When contacted, the RBI spokesperson did not comment on the issue. IFIN is yet to respond to queries sent by *The Indian Express*.

The SFIO recommendation for a probe at RBI follows former IFIN managing director and CEO Ramesh Bawa’s response to the agency that RBI had given IFIN a clean chit every year. This, he is learnt to have said, did not raise any alarm about alleged malprac-

**Sources said the audit found instances of ever-greening of loans by IFIN, but RBI’s Department of Non-Banking Supervision did not take any action**

tice in the company. Bawa was arrested by SFIO on April 13 this year.

Bawa was arrested for allegedly abusing his powers in IFIN through his fraudulent conduct and in granting loans to entities which were not creditworthy and caused wrongful loss to the company and its creditors.

In the charge sheet filed Thursday, SFIO has framed charges against 30 officials of IFIN and the company’s old board, including independent directors, under section 447 of the Companies Act. At least two independent directors of IFIN knew about the discrepancies in the firm’s books, but did not raise any questions with the management, it said. The two independent directors sat on three whistleblower complaints received by the board highlighting the malpractices at IFIN, said the SFIO charge sheet.

The frauds office has also recommended prosecution of the auditor firms of IFIN -- Deloitte Haskins, BSR Co and a few smaller auditors -- that audited the company’s books. The SFIO probe has found these firms to be deficient in the audit year after year.

Earlier, in a show-cause notice issued to 14 former directors of the IL&FS board, including former chairman Ravi Parthasarathy and former vice chairman Hari Sankaran, the new management

of IL&FS had charged them with “facilitating money laundering”, sanctioning loans without any security and “conspiracy and getting unlawful gains”. The crisis at IL&FS was triggered following a delayed repayment of Rs 450 crore in inter-corporate deposits by IL&FS Transportation Networks to Small Industries Development Bank of India (SIDBI) in July 2018.

Subsequently, rating agencies downgraded its debt papers/ credit facilities citing weak financials. In September last, the IL&FS group defaulted on a Rs 1,000-crore term loan owed to SIDBI. Following the defaults, rating agencies IcrA, Ind-Ra and Care abruptly downgraded IL&FS and its subsidiary from high investment grade (AA plus and A1 plus) to junk status, indicating actual or imminent default.

The SFIO is also probing at least four credit rating agencies for their role in rating the debt instruments of IFIN that raised about Rs 12,000 crore from the market. Officials of these agencies -- Care Ratings Ltd, IcrA Ltd, India Ratings and Research Pvt Ltd (Ind-Ra) and Brickwork Ratings India Pvt Ltd -- were summoned and questioned by SFIO in the last one month over their role in rating the debt papers of IFIN between 2014 and 2018.

On November 1, 2018, the new board of IL&FS led by Uday Kotak, cautioned that the Rs 53,000-crore exposure of banks to IL&FS is “critical to financial stability”, as its share in the total exposure of the banks to the NBFC sector is about 16 per cent.

In its report on the state of affairs at IL&FS, the company’s new board warned that the “future impact of more defaults in the group, if not addressed in an orderly manner, may be catastrophic for financial stability.”