

'IFIN ALLOWED TO CONTINUE OPS DESPITE ADVERSE INSPECTION REPORTS'

SFIO says RBI Could've Acted Faster on IL&FS

Agency's chargesheet suggests regulator should conduct internal inquiry & take 'appropriate action'

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Mumbai: 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

Red Marks

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

RBI repeatedly pointed to...

Non-compliance with group exposure norms	Wrong calculations of NOFs in its inspection reports
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Yet...

No penalties were imposed during the period by RBI	IFIN allowed to operate without any corrective measures
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First firm 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



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.

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Finger Pointed at RBI's Oversight

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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 ₹190 crore to the Siva Group were "used to evergreen the earlier loan", the RBI had said.

Tata Teleservices (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 ₹254 crore. In another loan to

the Siva Group, the SFIO said the RBI had asked for full provision of ₹190 crore against OCDs during the FY16 inspection report. Provision of ₹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, and in the year FY16-17, insufficient security cover has been pointed out on the loan to Onaway Industries," 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 (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 ex-

IFIN falsified financial statements and did not disclose details of NOF and CRAR observations of RBI to credit rating agencies

posure 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 Ka-

poor 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."