

# 'To Avoid Ratings Cut, ITNL did Not List ₹2.5kcr Loans as Contingency Liabilities'

Audit report says firm drafted LOAs such that they couldn't be construed as guarantee

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**Mumbai:** An audit report has revealed that IL&FS Transportation Networks India did not disclose as 'contingent liabilities' loans amounting to ₹2,570.50 crore sanctioned by sister concern IL&FS Financial Services — despite providing assurance letters — to avoid rating downgrade.

These loans issued to third parties, who were also vendors to ITNL, didn't follow required standard

operating procedures (SOPs), or any formal policy or protocol regarding approval from the board of directors or committee of disputes (COD) — increasing the risk exposure of the company, it said. ET has seen a copy of the Grant Thornton India report.

"During the course of our review, we noted that ITNL had issued letters of assurances / awareness / comfort ('letters') for loans sanctioned by IFIN to various external parties who were also vendors to ITNL," the audit report said. "These letters were issued by ITNL in order to provide additional security to IFIN as well as vendors that the repayment of the loan would be from the cash flows/receipts of ITNL."

However, it appeared that these letters did not undergo adequate approval mechanism, thereby in-

creasing the risk exposure of ITNL, it said.

"Further, it appears that the letters were intentionally drafted in such a manner that they were not required to be disclosed as a contingent liability. However, based on our review of the letters, our assessment is that it should have been disclosed as a contingent liability," the audit report observed.

"Thus, based on the above facts, it appears that improper disclosures of contingent liabilities may have been made and presented to the stakeholders of ITNL."

An email sent to the government-constituted board of IL&FS did not elicit any response as of press time Tuesday.

The report said the minutes of board and committee of disputes meetings were silent on issuance of letters to external parties.



## What is Contingent Liability?

A possible obligation that arises from past events and whose existence will be confirmed only by occurrence and non-occurrence of one or more uncertain future events and not wholly within the control of the entity