

IL&FS firm gave loan to Pune businessman and funds to pay it back

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RAISING questions of round-tripping through a maze of firms, an influential Pune-based businessman received over Rs 52 crore from an IL&FS (Infrastructure Leasing & Financial Services Ltd.) group company which he then used to repay his initial loan to the very same IL&FS company.

That businessman is Sarang Kale and two of his companies figure in the chain of transactions red-flagged in the forensic audit conducted by Grant Thornton.

Records show that on January 7, 2017, IL&FS Transportation and Network Ltd (ITNL), an IL&FS Group Company, gave an unsecured loan of Rs 52 crore to Rajasthan Land Holdings Ltd, a company that had no revenue-generating business.

This is a subsidiary of Road Infrastructure Development Company of Rajasthan Ltd. (RIDCOR), which is a joint venture between the Public Works Department of the state government of Rajasthan and IL&FS.

The same day, records show, Rajasthan Land Holdings, extended a short-term loan of Rs 52 crore to Kaleidoscope Developers Private Ltd— a company owned by Kale.

KDPL, in turn, gave a loan/advance of Rs 51.98 crore to Oceanfront Infra Pvt Limited (OIPL), another Kale company, and which had zero revenues between FY'15 and FY'19. That very day, OIPL used this money to repay its outstanding loan to ITNL.

Financial statements of OIPL for the year ended March 2017, filed with the Registrar of Companies, show that the company got a loan of Rs 51.98 crore

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IL&FS firm

from KDPL in 2016-17 and repaid loans of Rs 40 crore to ITNL.

"It appears unusual that even after Rajasthan Land Holdings had no revenue generating business and appears to have no capability to repay loans, ITNL had extended loans worth of Rs 124.48 crore which was majorly utilised towards advancing and repayment of loans and interest payments of related parties. Further, it appears that loans provided by ITNL via Rajasthan Land Holdings were potentially utilised by OIPL to repay its existing loan taken from ITNL," the audit report said.

When contacted, O P Meena, Chief Secretary of Rajasthan between July 1, 2016 and June 2017, and who was also chairman of RIDCOR during this period said: "I was a non-executive chairman and just presided over the board meeting. These transactions did not come to the board for approval, so I don't know."

Devendra Bhushan Gupta, who retired as Rajasthan's Chief Secretary last month and was Principal Secretary, PWD, did not respond to messages and calls. He was on RIDCOR's board between July 2016 and July 2, 2020.

An IL&FS spokesperson declined to comment; emails and messages sent to Sarang Kale did not elicit any response.

The sequence of transactions constitutes what is considered round-tripping and ever-greening of loans – lenders and borrowers use this device to prevent disclosure to regulatory authorities, prevent NPA declaration and evade action by rating agencies.

In effect, ITNL allegedly got involved in this round tripping exercise by funding its borrower through a series of companies. And in ever-greening by helping its borrower to repay its previous loan and not get classified as NPA.

Since ITNL is a listed company, by taking this circuitous route to fund its borrower, the company avoided disclosure.

If OIPL had not repaid the loan, ITNL would have had to declare NPA and provide for provisioning against it. On the other hand, by getting funding to repay the loan, OIPL saved on default and, thereby, action by rating agencies which could have hampered its borrowing ability.

Sources said investigating agencies are looking at exploring links between Kale, his firms, IL&FS and its top management, that raise concerns of financial propriety and conflict of interest.