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Grant Thornton Flags ₹13kcr IL&FS Dealings as Suspect

Interim report details 10 major anomalies while grouping transactions and sums involved

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Mumbai: More than ₹13,000 crore worth of transactions at IL&FS could be linked to anomalies such as conflict of interest, inadequate risk assessment and deviation from banking norms, audit firm Grant Thornton India has said in its interim report to the board of the embattled infrastructure financier.

The 166-page report, a copy of which was seen by **ET**, details 10 major anomalies, grouping together various types of potentially irregular transactions and the sums involved in each deal type.

More than ₹6,000 crore, for instance, pertains to transactions at IL&FS Financial Service Ltd (IFIN), deals the report said had violated banking governance norms. About ₹2,270 crore, lent to borrowers of IFIN with the knowledge of the erstwhile board, was utilised by certain IL&FS group companies. Of this, ₹1,150 crore was infused into IL&FS Transportation Network Ltd (ITNL). 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.

What Report Says

THE ANOMALIES

Conflict of interest, inadequate risk assessment and deviation from banking norms

MAJOR VIOLATIONS

29 **instances where** loans disbursed to borrowers were in turn utilised by their group companies to repay debt obligations to IFIN

16 **instances where loans** amounting to ₹1,922 cr were sanctioned on a negative spread

14 **instances where quantum** of charge created against borrowings appeared inadequate

Conflict of Interest ▸▸ 12

Transaction Amounts to Conflict of Interest

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"…Funds lent to certain third parties (i.e. borrowers of IFIN) were potentially utilized by them to provide funds to certain group companies of IL&FS (majorly ITNL)…. We have identified multiple instances where the loan was disbursed to the third party and on the same date, it was transferred to IL&FS group companies," the report said.

It detailed 29 instances where loans disbursed to borrowers were apparently utilized by their group companies to repay existing debt obligations with IFIN. In 2015-16, for instance, SKIL's Gujarat-Dwarka Portwest Ltd borrowed ₹253 crore and in the same period SKIL Infrastructure repaid ₹230 crore to IFIN. Similarly, between 2017 and 2019, ₹365 crore was disbursed by IFIN to Flemingo group and during the same period, its group companies repaid Rs 407 crore to IFIN. Also in 2017-18, India Cements' Chennai Super Kings Ltd borrowed ₹65 crore from IFIN and in the same period, EWS Finance & Investment Pvt Ltd paid Rs 40 crore to IFIN, the report said.

"…it appears to be unusual that advances/repayments of very similar amounts are received from/paid to the same group in the same financial year," the audit firm's report said.

On end utilization of loans, the audit firm has observed that ₹94 crore of advances to entities linked to senior IL&FS executives or directors, citing six potentially conflict-of-interest cases.

"…(About) ₹28.99 crore (was) borrowed by Indus Equicap Consultancy Pvt Ltd; on April 4, 2015, ₹2.95 crore was transferred into the account of Siddharth Mehta, one of the promoters of Bay Capital and also a current director in IL&FS Energy Development Company Ltd," the report said.

Grant Thornton went on to add that such a transaction amounted to a conflict of interest because of the executive relationships involved.

"... it appears unusual, that a loan is being provided to a company in which the existing director of IL&FS group companies is the promoter. Further, it is also unusual that the partial amount of the loan was utilized to pay the said director. This appears to be a potential conflict of interest".

The report also highlights eight instances, involving ₹541.4 crore, where short-term loan facilities at IFIN were instead being potentially utilized for lending long term.

"….it appears in certain instances where funds borrowed for short duration were potentially utilized to provide loans for the long duration...Given the backdrop, it appears unusual that in spite of a continuous deterioration in the funding gap, adequate/appropriate measures seemed to not have been taken to mitigate the risks," the report said.

It points out that the funding gaps were at their peak in July 2018. The erstwhile CMD, Ravi Parthasarathy, resigned on July 21, 2018.

Grant Thornton also identified 16 instances where, apparently, loans amounting to ₹1,922 crore were sanctioned on a negative spread (avg. cost of borrowing rate minus lending rate), or limited spread, for companies in financial distress. In seven of these cases, the loans provided have either been written off or are related parties of the companies for whom loans were written off. In five out of these 16 cases, loans were approved even after negative assessments by the infrastructure financier's risk team.

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IL&FS ignored risk assessment reports while extending loans: audit

'Firms took money from company to pay off existing loans to its subsidiary'

ASHISH RUKHAIYAR

MUMBAI

A forensic audit report of IL&FS has found serious lapses in the manner in which huge loans were extended to certain entities even after internal risk assessment clearly showed that the borrowers were under financial stress.

Further, various instances have been found wherein the committee of directors of the infrastructure financing company extended loans at a negative spread to borrowers facing liquidity issues. (A negative spread occurs when interest rates charged on amounts lent are lower than interest rates paid on borrowed sums.)

Potential stress

According to the forensic audit report prepared by Grant Thornton, the quantum of such loans is pegged at over ₹4,300 crore.

Damning report

Some questionable transactions of IL&FS

₹2,502 crore Group companies of borrowers used money to repay existing debt obligations with IL&FS Financial Services

₹2,400 crore Directors approved loans despite negative assessment by risk team

₹2,270 crore Loans to third parties were used by them to provide funds to IL&FS Group companies

₹1,922 crore Directors sanctioned loans at a negative spread or limited spread to financially stressed companies

₹541 crore Funds borrowed for short-term purposes potentially used for long-term purposes

₹145 crore Borrowers used loans to repay the existing debt obligations with IL&FS Financial Services

Among other observations, the report said the forensic audit "identified 18 instances where the Committee of Directors (CoD) ultimately approved loans to those borrowers who appeared to be in potential stress on the basis of media reports/articles in the public domain and in spite of a negative assessment by the risk team" while pegging the quantum of such loans at about ₹2,400 crore.

Meanwhile, another 16 instances with a cumulative loan amount of ₹1,922 crore were found wherein the CoD sanctioned loans at a negative spread or limited spread, for those companies, which clearly were under stress.

Seven loans written off

Of such instances, seven loans have either been written off or are related parties of the companies for whom loans were written off, while in five instances, the CoD ultimately approved loans even after a negative assessment by the risk team, as per the report. Separately, the audit found 29 instances of loans collectively worth over ₹2,500 crore that were given to entities, whose group companies used the money to repay existing loans taken from IL&FS Financial Services, a 100% subsidiary of IL&FS and a Systemically Important Non-Deposit Taking Non-Banking Finance Company.

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