

A junior analyst at rating agency tells investigators that the senior management of the company refused to act upon his findings, claiming the books of IL&FS and related companies were good

# MCA and IL&FS Board Probing Why Rating Co Ignored Analyst's Concerns

**Reena Zachariah & Rashmi Rajput**

**Mumbai:** The Ministry of Corporate Affairs (MCA) and the new board at IL&FS are investigating why questions raised by a junior analyst at a rating agency about financial irregularities at the infrastructure financier were ignored by the top management at the creditworthiness evaluator.

The junior executive has allegedly told probe officials that when he brought his concerns to the notice of the senior management at the rating agency, the decision makers refused to act upon his findings, claiming the books of IL&FS and related companies were good.

The crisis at IL&FS came to light in July 2018, when its roads unit faced difficulty in making repayments due on bonds. Credit rating agencies then started to cut the rating for the

group parent, IL&FS, beginning August.

"In March, one of the four agencies raised a red flag about the group's elevated leverage but citing the company's track record in the infrastructure sector, it retained the investment grade," said a government official who didn't wish to be named. "In another case, a junior analyst did alert his seniors about the situation in IL&FS Financial Services, but the seniors overlooked and trusted the rosy projection given by the management."

The Serious Fraud Investigation Office (SFIO), the investigation arm of the MCA, had questioned officials of rating agencies earlier this year. SFIO is investigating whether rating agencies, entrusted with the responsibility of qualifying and grading the creditworthiness of borrowers, have knowingly suppressed information.



Four credit rating agencies - Care Ratings, ICRA, India Ratings and Brickwork Ratings - are being probed by the SFIO and the new IL&FS board on the rating action at IL&FS Financial Services Ltd (IFIN).

Emails sent to ICRA, CARE Ratings, India Ratings and Brickwork Ratings remained unanswered until the publication of this report.

"Because of the credit ratings given by rating agencies, EPFO (employee provident fund organization) invested huge provident fund amo-

unts in IL&FS and their subsidiaries," said a person close to the development.

According to sources, the four credit rating agencies have been found to be in violation of the provisions of Section 36 of the Companies Act, which pertains to penalties for fraudulently inducing people to invest.

Sources said that relying on the credit ratings, many companies invested their provident funds and pension money in IL&FS, totaling more than Rs 9,000 crore, affecting debt funds. This amount is part of the Rs 94,000 crore of unresolved debt at the embattled infrastructure financier.

"The auditor and credit rating agencies are a part of the IL&FS crisis," said an official associated with the investigations. "The probe has revealed that they have violated certain provisions of the Companies Act. The government is of the view that stringent action be taken aga-

inst all those who contributed in the IL&FS crisis."

Credit rating agencies had derived comfort from the institutional parentage of IFIN without doing an independent assessment of the company as a standalone entity, sources said.

Market regulator Sebi also examined the rating assigned to the non-convertible debentures (NCDs) of IL&FS, and it pointed out procedural lapses in due diligence by credit rating agencies. These included over-reliance on management submissions in the absence of disclosures by the company to the stock exchange.

The regulator observed that rating agencies maintained the rating outlook as 'Stable' in spite of writing in their press releases about multi-notch downgrades in the event of significant deviation from the management's deleveraging plan.