

**INSPECTION FINDINGS MUST BE TABLED AT FIRST MEET: CENTRAL BANK**

# RBI Seeks Fortnightly Update on Fin Action Taken by IFIN Board

Shilpy.Sinha@timesgroup.com

**Mumbai:** After the Serious Fraud Investigation Office (SFIO) charge sheet suggested that the Reserve Bank of India (RBI) should conduct an internal inquiry, the RBI has written to IL&FS Financial Services (IFIN) board to take action on the supervisory concerns and appraise the progress every fortnight.

RBI said in the inspection report carried from October 8-October 17, 2018 with reference to the financial position as on March 31, 2018, that the company had not disclosed any NPAs for the past four years.

“The erstwhile board failed to exercise oversight over the functions of the entity,” the RBI stated in a letter to IL&FS Financial Services.

RBI said there were serious deficiencies observed in the credit appraisal. Also, loans were sanctioned overlooking proper credit worthiness and given for general and investment purposes and significant number of borrowers were unrated or had poor rating. In some cases, loans were given for ever-greening as fresh sanctions and disbursements were

made to repay the earlier loans.

In its report, RBI noted that wide divergences were observed between reported and assessed position of asset classification and provisions. The erstwhile board failed to exercise oversight over the functions of the entity. They did not monitor the affairs of the downstream entities in which investments were made. No rationale was ever

brought out by the board as to the reasons for funding ITNL and other loss-making subsidiaries on an ongoing basis creating a liquidity crunch in IL&FS and other related parties.

The RBI has asked the new board to meet them every fortnight and appraise them of the progress. The bank also asked them to make asset classification and provisions. It has asked

the new board to place the inspection findings before the board of directors at the first meeting of the board and a report on the action taken on the supervisory concerns and the company's response to the action proposed and approved by the board, to be forwarded to the RBI within a month.

RBI, in its report, said that independent directors did not ensure that the board exercised proper oversight on the strategy adopted by the management to fund ITNL's liquidity mismatch.

“No questions were raised as to the reasons for the liquidity crisis in ITNL,” said RBI in a letter to IL&FS.

“Some of the SPVs to which the CIC has assigned loans were found to be insolvent. While granting loans to group entities, the company did not evaluate the credit risk, repayment capacity and future cash flows. And no mechanism existed for monitoring end use of funds.”

Exposures were taken on SPVs of ITNL by assignment of loan originally given to ITNL. As some of the projects of SPVs were terminated, there was no scope of the SPVs generating funds to repay the loans assigned to them, said RBI.

## What the RBI Found...

**IL&FS Fin Services** has not disclosed any NPAs for the past four years

**Serious** deficiencies observed in credit appraisal

**Loans** sanctioned overlooking proper credit worthiness and given for general, investment purposes

**A significant number** of borrowers were unrated or had poor rating

**Loans were given for** ever-greening as fresh sanctions and disbursements were made to repay the earlier loans

