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How raters played ball with IL&FS brass

Emails cited by Grant Thornton show huge manipulation

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“Attached is the edited rating rationale. Please let us know if there are any other changes required from your end.” This email from a credit-rating agency (CRA) to an employee of Infrastructure Leasing & Financial Services (IL&FS) sums up the huge manipulation done by both the parties to hide the financial trouble at the group.

A draft report by Grant Thornton (GT), which was submitted to IL&FS on Thursday, shows that ratings were upgraded after former IL&FS executives met officials of rating agencies. The report has reviewed the role of five rating agencies — CARE, ICRA, India Ratings, Brickwork, and CRISIL — during 2011-2019. And it reveals that at least



three CRAs did not downgrade the companies despite being aware that the group was under pressure and had multiple issues in November 2011. Again, concerns were raised in IL&FS, IL&FS Financial Service (IFIN), and IL&FS Transportation Networks (ITNL) in February 2017. GT's report, which has been reviewed by *Business Standard*, says their

review indicates no downgrades in the rating.

The email trail of the top management of IL&FS shows several instances where meetings were suggested with the senior management of CRAs to seek upgrades of ratings. In one such mail that the GT report has put out, Arun Saha, former joint director of IFIN,

GRANT THORNTON'S FINDINGS

- **Credit rating rationale was modified** by former key employees of IL&FS
- **They sought to delay rating** or its publication in case of adverse report
- **Told agencies** to either withdraw adverse opinion or lose business
- **Conflict of interest** between IL&FS and CARE
- **IL&FS, IFIN owned 5-9 per cent** of CARE between 2007 and 2013

informed Ramesh Bawa, former MD and CEO of IFIN, that he had told CARE to not send any official communication after IFIN was given the AA rating. Both have been arrested by the Serious Fraud Investigation Office (SFIO). Currently, the Enforcement Directorate and the SFIO are investigating the case. **Turn to Page 10 ▶**

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In an email dated January 8, 2018, Saha had written to Dilip Bhatia, former CEO of ITNL, highlighting that there would be an immediate downgrade by India Ratings for ITNL, but not by several points. After this, former IL&FS vice-chairman Hari Sankaran informed the group that he and Saha met Ind-Ra's key officials and they appeared to have delayed the rating downgrade actions by three months, notes GT.

Another email, dated January 30, 2018, was sent by Mic Kang – representative of Moody's – to Bhatia, providing him with the rating letter for ITNL. This was further shared

by Bhatia with the key management for IL&FS, where he suggested that rating from Moody's should be kept in private domain and requested another employee to check the cost for the same. Based on the trail email, it was noted that by paying an additional \$68,000 to Moody's, the ratings can be kept in private domain.

However, in an emailed response, a Moody's spokesperson said: "The draft report commissioned by the IL&FS board on credit rating agencies is wrong with respect to Moody's. To be clear, Moody's has never requested, accepted or in any way agreed

to receive an additional fee in exchange for keeping a rating in the 'private domain', as the draft report inaccurately claims. The fee for any particular rating is the same regardless of whether the rating is public or private, and monitoring of the rating is subject to a separate annual fee. We are in the process of alerting the company to the inaccuracies relating to Moody's in the draft report and expect the report to be corrected accordingly."

The former management of the group regularly withheld information as well as fudged data for better ratings. As another email in the GT

report shows the projected profit after tax for FY11 was approximately ₹240 crore. However, the same was indicated as ₹325 crore for the purpose of rating from CRISIL.

The draft report also goes on to say the ratings were done even without critical data like the projection of profits.

The report also noted that the credit rating rationale supposed to be drafted by the rating agencies was materially modified by or significant suggestions from the former key employees of IL&FS were incorporated, to provide and support good ratings given by the CRAs.

Further, when key employees became aware that ratings won't be favourable, they tried to delay the process and publication. In addition, when the company did not get desired rating from the CRA, they would pressurise them to either withdraw the credit ratings or approach other rating agencies for better ratings. GT further noted that IL&FS also provided favours/gifts to representatives of various CRAs, such as facilitating a villa purchase, arranging for football match tickets, or donating to trusts associated with an official of a CRA.