

5 CREDIT RATING AGENCIES UNDER LENS

Sebi asks for response on collusion with IL&FS brass

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The Securities and Exchange Board of India (Sebi) has sought explanation from all five credit rating agencies, asking them to furnish responses over alleged lapses and possible collusion with the Infrastructure Leasing and Financial Services (IL&FS) brass.

An official aware of the matter said, "The charges are serious and need a thorough examination of each aspect raised by the auditors. It is important that people whose roles are under suspicion are sidelined or sent on indefinite leave until the investigation concludes."

The new board of IL&FS had appointed Grant Thornton to conduct a forensic audit of the beleaguered group. It submitted its report to the board, naming key officials of CRISIL, India Ratings, Brickwork Rating, ICRA, and CARE for allegedly accepting favours and gifts to give consistent good ratings despite weak financials to IL&FS.

On Sebi's directions, chief executive officers of ICRA and CARE have been sent on leave till the completion of probe.

"To assign good ratings consistently for five years cannot be done without manipulation in the rating procedures. Besides, these are not just lapses as it seems to have been executed in a well-planned manner," the source said.

The audit report has pointed out emails exchanged between the senior management of IL&FS and the top officials of rating agencies clearly indicating they were aware about the liquidity crunch of the group, sources said.

The report has given several examples where credit rating agencies initially "decided to downgrade the ratings, but a combination of tactics employed by then key employees of IL&FS and favours or gifts... resulted in either consistent/good ratings or avoidance of rating downgrade."

Grant Thornton said it appeared credit rating agencies consistently provided and maintained good ratings over the years until in July-August 2018, when they downgraded ratings for the first time for ITNL because of a default of repayment of commercial papers.

During the review period, the IL&FS group had availed rating services from



ON THE RADAR

- Ramesh Bawa facilitated the purchase of a villa for Ambresh Srivastava (India Ratings)
- Arun Saha arranged football tickets for D Ravishankar
- (Brickwork Ratings India Pvt Ltd) relating to the matches of Real Madrid
- IL&FS group donated to Sameeksha Trust ₹25 lakh where the managing trustee of the Trust was D N Ghosh (chairman emeritus ICRA)
- Key officials of rating agencies were provided gifts such as smartwatches, shirts, and coasters

CRISIL, CARE, ICRA, India Ratings, and Brickwork.

Grant Thornton said it identified multiple emails from 2008 to 2018 which indicate that the IL&FS group was under stress or faced liquidity issues since 2015.

The special audit has also flagged a potential conflict of interest between IL&FS and CARE — from 2007 to 2013, IL&FS and IFIN owned equity shares of approximately 5-9 per cent in the rating agency. CARE had, in the same period, also provided ratings to instruments of IFIN, ITNL and IL&FS.

The Enforcement Directorate (ED), which is also probing the case, has found ratings of the group firms were upgraded at many occasions after the senior management of the IL&FS had intervened to

review the assigned rating.

Officials at the rating agencies denied any lapses on their part and some even said the interim report seems to suggest limited knowledge of the rating process and was based on one-sided information.

In October last year, a new board was appointed after several defaults by the IL&FS group firms and its debt had risen to ₹90,000 crore. After preliminary enquiry by regulators and enforcement agencies, former top management had come under scanner.

This had led the new board to appoint Grant Thornton to carry out a special audit for all high-value transactions undertaken by IL&FS and some of its group companies between April 2013 and September 2018.