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# Rating firms colluded with IL&FS executives: Audit

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NEW DELHI: A forensic audit on credit rating agencies has pointed to massive irregularities by top IL&FS executives in obtaining favourable ratings, with allegations that the agencies did not change the ratings despite knowledge of stress in the group, and colluded with the beleaguered entity's management.

The draft update by Grant Thornton is based on several e-mails exchanged between IL&FS group executives as well as some key functionaries of the agencies to accuse ratings companies of changing their action after "private meetings and discussions". The mails point to instances of agencies ranging from ICRA, CRISIL, CARE, Fitch, India Ratings, Moody's and Brickworks being manipulated by IL&FS

management or ignoring the warning signs.



## **brass or ignored warning signs, claims draft audit report**

➤ **Emails seem to indicate that agencies changed their actions after “private meetings and discussions” with IL&FS executives**

➤ **There were no downgrades although the “agencies were aware that the group was under stress and had multiple issues”**

The mails suggested that for at least three years before the collapse, the agencies ignored stress in IL&FS, IL&FS Transportation Network Ltd (ITNL), despite having knowledge. Similarly, between 2012 and 2018, the rating agencies had multiple concerns on IL&FS, ITNL and IL&FS Financial Services and yet, kept assigning high ratings.

For instance, in an email on September 24, 2015, IFIN CEO Ramesh Bawa informed IL&FS vice chairman Hari Sankaran, with a copy to then chairman Ravi Parthasarthy, about liquidity issues in ITNL due to cost overrun in various projects. He also highlighted the rise in borrowing, which the market saw as a concern.

Similarly, in March 2016, Parthasarthy, who stepped down as IL&FS chairman months before it collapsed, wrote to top executives about the cash problems at ITNL and IL&FS Engineering and Construction Company (IECCL) for six-seven months. IECCL had faced problems even in 2014-15.

The audit also points to an email sent on November 21, 2011 highlighting concerns of the three rating agencies — CARE, ICRA and Fitch regarding profitability, divestment and weak exposure in group companies but GT has said that there were no downgrades although the “agencies were aware that the group was under stress and had multiple issues”.

Again in December 2015, Parthasarthy wrote to ousted ICRA CEO Naresh Takkar regarding concerns flagged on ITNL operations, but the audit suggested that there were no rating action.

IL&FS and CARE did not comment on the report, while Crisil, Fitch, Brickworks and India Ratings could not be reached for comment. "We are aware of the interim report commissioned by the ILFS board. We are reviewing the report, however, we can not comment on the accuracy of the report at present," an ICRA spokesperson said.

What could have helped avert a rating downgrade were “private discussions and meetings” that IL&FS group executives had with the brass at the agencies, with the GT report citing several instances. What is more damaging for the agencies, whose role is already being probed by investigative and regulatory agencies, are references by IL&FS employees to change the rating rationale. Surprisingly, they not just played ball but the mails suggest that in certain cases the words used by the rating companies were the same as those suggested by the controversial group.

In fact, there are cases where agencies seem to have agreed to “requests” from the IL&FS management to delay adverse action against ITNL and Gurgaon Metro to help them complete certain events such as a transaction or comply with regulatory timelines.

Some of the emails also suggest that the agencies went ahead with their action despite having incomplete information. A mail seems to indicate former ITNL MD K Ramchand instructing his colleague Ajay Menon to share “limited information” with CARE on an acquisition that took place in 2008. A few years later, Menon allegedly wrote to Ramchand suggesting that he had projected profits of Rs 325 crore for the year against projections of Rs 240 crore.

The IL&FS executives - some of whom have been arrested and several others named in the chargesheet filed by the Serious Fraud Investigation Office - also used every possible trick to browbeat the rating agencies. This included the threat to drop the agency if the rating was not favourable to the group. They often cited higher ratings being given by another agency to argue for a better appraisal.

There are also instances where the ratings obtained were kept private. In one instance, IL&FS executives suggested that Moody’s ratings could be kept private if an additional fee of \$68,000 was paid. Moody’s has denied this. “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 ongoing 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,” a spokesperson said in a statement.

Crisil said it had first rated ITNL in 2011, and withdrawn it in July 2016. "Since then Crisil has no outstanding rating on ITNL. As a fact check, the rating history of ITNL (which is in the public domain) indicates that the negative rating outlook (initially assigned in May 2012) was reaffirmed by CRISIL at negative in January 2014," said a statement. It added, "We do not comment on speculations and private conversations".