

How The Singh Brothers Were Allegedly Funded By Their Own NBFC - Religare Finvest

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There's been fishy business going on at Religare Finvest Ltd. for almost a decade, alleges a complaint filed by its own Chief Executive Officer Sanjay Palve and Milind Patel, CEO of Religare Enterprises Ltd., its parent company.

For those following the fortunes of this non-banking finance company, this may not come as news. In the past two years the headlines have indicated several investigations into its lending practices, at least [one regulatory order](#) by Securities and Exchange Board of India directing recovery of Rs 2,300 crore loans from erstwhile promoters — the Singh brothers, and even a bankruptcy filing.

But all this pales when compared to the allegations Palve and Patel have made against brothers Malvinder Singh and Shivinder Singh, and Sunil Godhwani and Narender Ghoshal. They paint a picture of a lending business that obliged its promoters with money whenever they needed. A personal bank of sorts. That over a period of 10 years loaned them Rs 47,968 crore.

This isn't the first time in India that promoters have allegedly used their non-bank finance companies as a personal financing vehicle. An investigation by BloombergQuint had recently revealed that loans made by DHFL Ltd., ostensibly to external parties, [found their way](#) to entities linked to its promoter group.

Palve and Patel's complaint filed with the Ministry of Corporate Affairs suggests this was going on since 2009 at Religare Finvest.

Modus Operandi

A review of the complaint to the Ministry of Corporate Affairs reveals how Religare Finvest extended loans to various entities linked to the Singh brothers.

To be clear, while there are regulations for lending to promoters of banks, there were no clear guidelines on lending to promoters of NBFCs. NBFCs were required to make internal policies on related-party transactions which were tightened subsequently by banking regulator Reserve Bank of India.

But the manner in which these loans were extended suggests all due process was ignored, according to the complaint. It describes the process thus:

The disbursement of loans under the corporate loan book would be initiated on the basis of oral instruction, to the former CEO or CFO of Religare Finvest, or in certain cases routed through board members of RFL, from an officer of the Singh's promoter entity RHC Holding. Emailed queries to an RHC Holding spokesperson and text messages to Shivinder remained unanswered.

Instructions also came from Narender Ghoshal, another alleged long-term associate of the Singh brothers, even though he didn't hold any official position in either of the companies. Queries sent through email and Whatsapp did not elicit any response.

Upon receipt of the instructions, the former CEO or CFO would orally inform the chief risk officer and the treasury department about the name of the proposed borrower, the vertical to which the loan was to belong and amount to be disbursed. The treasury would then initiate approval and disbursement process and simultaneously mail the risk/underwriting team to prepare loan documents and the company secretary would send a notice for convening a risk management committee to approve the proposed loan and disburse it. Many a times the memorandum of understanding with the borrower would be signed after the loan was disbursed. The complaint says, "It appears that the loans under the CLB were disbursed not in compliance with the ICD or CLB policy of Religare Finvest."

Until March 2012, Religare Finvest allegedly funded 115 promoter entities through the its corporate loan book with a total Rs 47,968 crore in various loans, the complaint states. The exposure under the corporate loan book peaked at Rs 3,538 crore on March 20, 2012, it added.

By then the RBI had caught on.

RBI Audit

The RBI audited Religare Finvest for the year 2009-10 and the inspection report was shared with the company's management in January 2012. In the report, the RBI observed that "RFL has the practice of parking a major chunk of surplus funds with fellow subsidiary group companies and other companies which were often being used for taking positions in securities". The regulator also found that funds were transferred to companies with no actual financial backing, the complaint says.

This allegedly forced Religare Finvest and its promoter entities to somewhat alter the modus operandi. The NBFC would reduce exposure to promoter entities just before the end of the earnings quarter and then increase it within days of the beginning of the new quarter—thereby managing to conceal the actual corporate loan book at the end of the quarter.

For instance,

- On June 30, 2012, the exposure from CLB book stood at Rs 1,738.50 crore, but on July 3, 2012 it stood at Rs 2,772.10 crore.
- On March 28, 2013, the CLB book exposure was at Rs 2,167.80 crore which was reduced to Rs 1755.80 crore as on March 31, 2013, but it rose to Rs 2,009.40 crore on April 2, 2013.

Others Involved

Apart from the Singh brothers, the complaint also names Sunil Godhwani, the former chairman and managing director of Religare Enterprises Ltd., for allegedly giving unsecured, high-value purported loans to shell companies and related entities of the promoters without adequate documentations and, in many instances, the documentation was created subsequently and 'antedated'—thus forged.

"I have already filed my replies to the authorities and have nothing more to add to the same", said Godhwani, when contacted by BloombergQuint. In his response to the MCA, Godhwani said RFL continued to disburse loans to Singh even after he stepped down in October 2016 and it is admitted that the beneficiaries of these loans were erstwhile promoter companies. The complaint has been filed in order to hush up the Daiichi Sankyo case which is before the Delhi High Court and Supreme Court, the response said. BloombergQuint has reviewed the letter.

Religare Finvest also filed a criminal complaint against the same four individuals named in the MCA complaint with the Serious Fraud Investigation Office in December 2018. The company has shared its initial findings and relevant documents to SFIO.

The company alleged that according to their internal enquiries the corporate loan book was used essentially as a mechanism to fund promoter related companies and is seeking detailed investigation to track the funds and restore them to RFL, according to the MCA complaint.

At the time of filing of complaint in December 2018, entities belonging to the Singh brothers owed the NBFC over Rs 2,800 crore in principal and interest. This matter came to light after it initiated insolvency proceedings against 19 entities which owed money to the company, and seven of them filed the replies at the NCLT that it took the loan on the instructions of RFL itself and have subsequently transferred that to companies linked to the Singh brothers.

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