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A BRIEF OVERVIEW ON SOME OF THE BIGGEST FINANCIAL SCAMS IN INDIA

ABSTRACT

Since 1990, India has seen large-scale financial fraud almost every year. Financial market fraud has a long history and is well documented, beginning with (unknown) securities fraud in Harshad Mehta (1992), MS Shoes (1995), and CR Bhansali (1996), Ketan Parikh (2001), DSQ Software Scam (2001), IPO Demat Scam (2006), Vanishing Companies (2007), Satyam (2008), Home Trade (2010), Sahara India Pariwar Investor Fraud (2010), Home Trade (2010), ULIP Misselling (2011), Saradha Group's financial scandal (2013), NSEL Fraud (2013), PACL Ponzi Scheme Fraud (2014). Scams also led to legislative reforms, the establishment of new institutions, and the expansion of established ones. The study looks into SEBI's role in ensuring market integrity by proactively detecting market frauds and investigating abusive, manipulative, or illegal trading practices in Indian securities markets. The role of market surveillance in protecting market stability by maintaining a stable and protected atmosphere is explored in greater depth in this article.

What are scams?

A dishonest individual, group, or company engages in a fraudulent scheme in order to obtain money or something of value. Scams used to be based on confidence tricks, in which a person pretended to be someone with skill or authority, such as a doctor, lawyer, or investor. New types of scams emerged as the internet became more widely used, such as lottery scams, scam baiting, email spoofing, phishing, and requests for assistance. Email fraud is what these are referred to as. See also phishing and scheme. A scam is a deceptive attempt to deceive you into giving up your

money. A 'scammer' may approach you personally with a too-good-to-be-true offer. Someone may contact you via email, phone, text message, or social media with an offer that they want you to accept. Scams can reach their intended audience in a variety of ways, from one-person door-to-door operations to multinational, highly sophisticated telemarketing scams. Advertisements, direct mail, text messaging, phone calls, and e-mail are all common methods of communication.[1]

SCAM, on the other hand, refers to when someone tries to deceive you by initially making you a very good offer on something, only for you to discover later that the person was simply bluffing and you have lost your money. The lottery scam is an example of this.

For example, someone will call you or send you an email telling you that you have won the lottery jackpot. However, the fee for charging this money is very small. You must pay this fee, and then the money will be remitted to you.

The top ten financial scams in India:

1) 2G Spectrum Scam

2) Commonwealth Games Scam

3) Satyam Scam

4) Telgi Scam

5) Bofors Scam

6) The Fodder Scam

7) The Hawala Scandall

8) IPL Scam

9)Harshad Mehta Stock Market Scam

[1] Gangineni Dhanaiah & Dr. R. Siva Ram Prasad, 2016. "*Frauds in Indian Capital Market- A Study*," Journal of Commerce and Trade, Society for Advanced Management Studies, vol. 11(2), pages 64-74, October.

10)Ketan Parekh Stock Market Scam.

The Satyam Computers Scam (2009)[2]

Satyam was the first major scam of its kind in the country, shocking the public and leading the government to strengthen rules, accountability and governance mechanisms. This scam was as shocked and awed as Enron and Lehman Brothers As a result of these frauds, the most stringent regulation ever enacted, Sarbanes and Oxley, was enacted, and many other countries followed suit with similar regulations.

The founder of Satyam Computers and the chairman Ramalinga Raju admitted that the company's accounts were not on the right track, technically a fraud in 2009. In the balance sheets, he revealed a Rs.7,000 crore accounting fraud. Ramalinga Raju admitted and confessed to inflating the company's cash and bank balances in an email sent to Sebi and stock exchanges on January 7, 2009.

Unexpectedly, Satyam has been recognized by many well-known organizations for his excellent corporate governance. Over time, its promoters have won the respect of the industry and developed a formidable personality. The promoter suddenly admitted to the fraud, which dealt a heavy blow to the country in this context.

Raju also tampered with the books by failing to include certain receipts and payments, resulting in a total misstatement of Rs 12,318 crore, according to an analysis of Sebi's findings. A senior executive submitted up to 7,561 false invoices, which were included in the company's internal audit report. Over a period of 5-6 years, the company's revenue was overstated by Rs 4,783 crore solely due to these fake invoices. The investigation lasted nearly six years, and it discovered that fictitious invoices were created to show fake debtors on Satyam's books worth up to Rs 500 crore.

On April 9, 2015, Ramalinga Raju was convicted along with 10 other members. The following 10 people were found guilty. B. Ramalinga Raju; B. Ramalinga Raju; B. Ramalinga Raju. His brother

[2] M/S. Satyam Computer Services v. Directorate of Enforcement, Writ Petition No. 37487 of 2012.

and former managing director Satyam B. Rama Raju; former CFO Vadlamani Srinivas; PricewaterhouseCoopers Former examiners Subramani Gopalakrishnan and T. Srinivas; Raju's other brother B. Suryanarayana Raju; former collaborator G. Ramakrishna, D. Venkatpati Raju and C. Shrisailam; and Prabhakar Gupta, the former chief internal auditor of Satyam. SFIO sentenced Ramalinga Raju and three others to six months in prison on December 8, 2014.

Following the discovery of the fraud, the government ordered an auction to sell the company in the best interests of investors and over 50,000 Satyam Computers employees. Tech Mahindra bought it, renamed it Mahindra Satyam, and eventually merged it with Tech Mahindra. According to Sebi's investigation at the time, the Satyam saga eventually turned out to be a case of financial misstatements totaling Rs 12,320 crore.

Nirav Modi, The Punjab National Bank Fraud[3]

Who is Nirav Modi?

Modi, who was born in India and raised in Antwerp, Belgium's diamond capital, is a third-generation diamantaire. He joined his maternal uncle Choksi's family business, Gitanjali Gems, after dropping out of the University of Pennsylvania's Wharton School.

Nirav Modi rose to prominence in the last decade after becoming the first Indian to appear on the cover of a Christie's auction catalogue in 2010 for a Golconda diamond necklace that sold for $3.56 million at a Hong Kong auction.

Diamond merchants Nirav Modi and Mehul Choksi's companies are accused of defrauding Punjab National Bank (PNB) of more than Rs 11,000 crore ($1.77 billion). According to PNB management, the scam was discovered in the third week of January 2018, and they contacted the Central Bureau of Investigation on January 29.

Jewelry worth Rs 85 crore were seized by the agency from the Gitanjali Group, owned by Nirav Modi's uncle, who is also wanted in this case.

[3] The Government of India (Requesting State) v. Nirav Deepak Modi (Requested Person), https://www.livelaw.in/pdf_upload/goi-v-nirav-modi-judgment-final-25022021-389755.pdf.

It all started with a much smaller sum in 2011, with a single letter of undertaking (LoU) worth around Rs800 crore. A letter of undertaking is a guarantee that a bank will repay a loan if the actual borrower—in this case, Nirav Modi—fails to repay it. SWIFT (Society for Worldwide Interbank Financial Telecommunication) is a system for sending instant messages between banks. The loan is disbursed to the borrower once a foreign bank or a foreign branch of a bank receives the LoU via the SWIFT message. More LoUs were issued on behalf of PNB to offset the payment when the credit due was not paid on time.

When the borrower failed to repay the first Rs800 crore, the bank should have intervened and declared the group company in default. Instead, the two PNB employees who were allegedly involved in the fraud issued more LoUs on behalf of PNB, requesting new loans from other banks. This went on for two weeks before the whole operation was exposed when some of Modi's employees went to the bank on January 5th. The management was caught off guard, and the outstanding loans totaled more than Rs11,000 crore. According to PNB sources, the bank is not fully integrated on a Core Banking System (CBS), which could have detected the discrepancy immediately.

According to sources, PNB began integrating with a CBS in 2002. It took a decade for the technology to mature. It was supposed to be upgraded by 2012, but it wasn't.

PNB discovered two junior branch officials had issued LoUs to foreign branches of Indian lenders on behalf of firms associated with Nirav Modi and his uncle, Mehul Choksi, as it investigated the case internally before the public revelation. These bank guarantees were primarily intended to assist these companies in obtaining buyer's credit from these foreign banks in order to pay for their imports.

Jewelers are having difficulty obtaining funds from banks as a result of the PNB fraud case. The banks' argument was that every jeweller was misusing the funds, but he claimed that this was not the case. In response to another question, he stated that the gems and jewellery industry is worth Rs two lakh crore and is growing at a rate of 7-10% per year. The CBI and the ED filed separate cases against Modi, his companies, and diamond jeweller Mehul Choksi in connection with the multi-billion-dollar PNB fraud on January 31 and February 15, 2018, respectively.

The CBI has so far arrested 19 people, including former PNB DGM Gokulnath Shetty. A Special PMLA court has already issued non-bailable arrest warrants for Modi and his maternal uncle Choksi, who had fled the country before the alleged fraud was discovered.

The Harshad Mehta Scam (1992)[4]

Harshad Mehta, a Gujarat trader, was founded in the early 1990s as a middleman capable of conducting ready-made forward transactions between Indian banks. In this process, he would borrow money from banks and then illegally invest it in stocks listed on the Bombay Stock Exchange in order to artificially inflate stock prices.

On June 16, 1993, Mehta caused another uproar when he announced publicly that he had paid Rs 1 crore to the then-Congress president and prime minister, Mr P.V. Narasimha Rao, as a donation to the party in exchange for his release from the case.

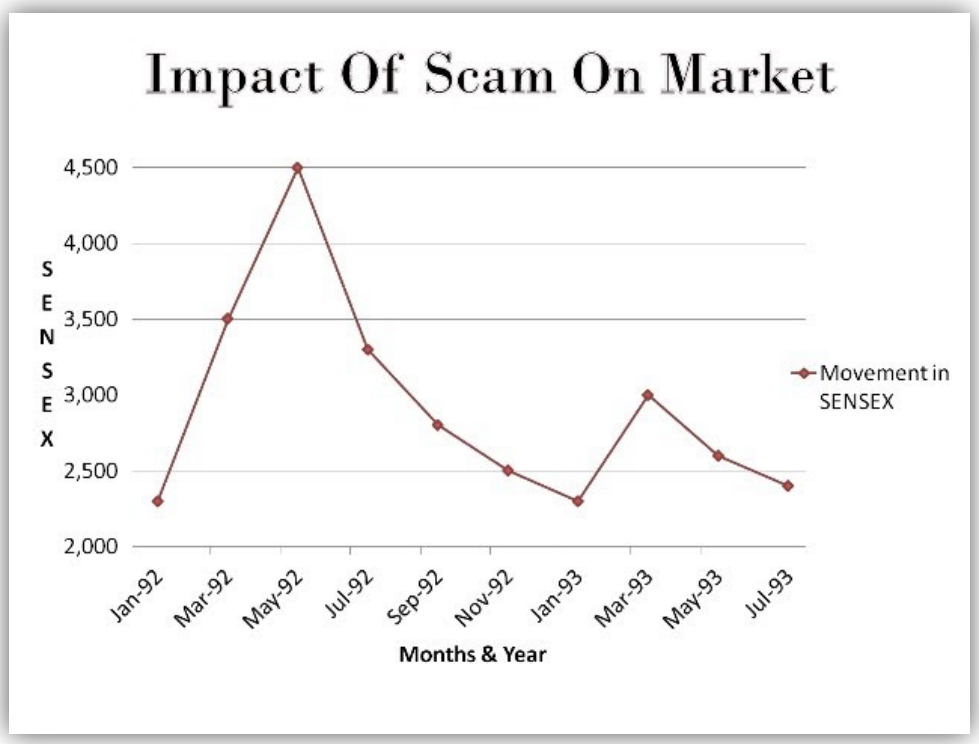
How did this happen,

Mehta siphoned off around Rs 1,000 crore from the banking system and used it to buy stocks on the Bombay Stock Exchange. The markets continued to reach new highs as he pumped money into them. Retail investors took cues from what Mehta was purchasing and followed in his footsteps.

The Sensex went into a frenzy between April 1991 and April 1992, returning 274 percent on a move from 1,194 to 4,467 points. That is the index's highest annual return.

He also promised the banks higher interest rates in exchange for transferring the funds to his personal account, ostensibly to buy securities for them from other banks. To buy securities and forward bonds from other banks, a bank had to go through a broker at the time. Mehta used the money in his account to buy shares, causing demand for certain shares (of well-known companies such as ACC, Sterlite Industries, and Videocon) to skyrocket. He then sold the shares, giving a portion of the proceeds to the bank and keeping the rest for himself. As a result, stocks like ACC (which was trading for Rs. 200/share in 1991) have risen to nearly Rs. 9000 in just three months.

[4] Harshad S. Mehta v. C.B.I (1992) 24 D.R.J. 392.



The scam was exposed when the State Bank of India reported a shortfall in government securities. An investigation was launched, and it was discovered that Mehta had defrauded the system of around Rs 3,500 crore. The markets crashed by 72 percent on August 6, 1992, after the scam was exposed, resulting in one of the largest drops in history and a two-year bearish phase. In a column for The Times of India on April 23, 1992, journalist Sucheta Dalal exposed Mehta's illegal methods. Mehta was using the banking system illegally to fund his purchases.

Few stocks which were highly invested in by Harshad Mehta were:

- ACC Apollo Tyres
- Reliance
- Tata Iron and Steel Co. (TISCO)
- BPL
- Sterlite
- Videocon

After the Harshad Mehta scandal broke out in April 1992, the stock market fell into complete chaos. The first consequence of fraud is a sharp drop in stock prices. The index fell from 4,500 to 2,500, a loss of 100,000 rupees. The market value is Rs. However, the biggest damage to the stock market did not end there. Because the respondents are active stockbrokers, they have traded a large number of stocks in the past year. All these actions have deteriorated and become unusable. And it cannot be used in the market. This is a huge loss for an innocent investor who bought these stocks before the scandal broke out.

The scam received a lot of media attention, and political parties wasted no time in criticising the government. The government was under a lot of pressure, and its liberalisation policies were getting a lot of flak. Harshad Mehta and his associates were also suspected of being involved in the formulation of these policies.In the end, the government had no choice but to postpone the liberalisation plans. The approval of private sector mutual funds had to be postponed by SEBI. Some of the recommendations of the Narasimham Committee on the banking system had to be postponed. The much-discussed entry of foreign pension funds and mutual funds has become further away than it has ever been.Several Indian companies' planned Euro-issues have been postponed because their ability to raise equity capital on global markets has been severely hampered.

ILFS[5]

The ILFS fraud was India's largest corporate fraud, causing a financial crisis because the company was a key vehicle for the country's infrastructure development. Despite the fact that the largest shareholders, such as LIC, SBI, and others, had representatives on the board, fraud occurred. With a debt exposure of around Rs. 91000 crores, ILFS had the largest debt exposure (including Rs, 20000 crores invested by PF and pension funds).

Borrowed funds were diverted to related entities of some members of the top management team. Imprudent lending to people with bad credit for nefarious reasons Loans are "evergreened" by routing funds from one group company to another through a third party. Vendor overbilling, accounting of fictitious expenses, and the difference being routed back to related entities of some

[5] Union of India v. Infrastructure Leasing & Financial Services Ltd., Company Appeal (AT) No. 346 of 2018, https://www.ilfsindia.com/media/113762/ilfs-judgment-dated-12032020.pdf.

members of the top management team Profit overstatement due to non-provisioning of loans, accounting of fictitious expenses, and improper recognition of project revenue, among other things. The company had 346 subsidiaries and group companies, which were used to route the above transactions. Some of these companies are not disclosed as related parties. Some subsidiaries, associates, and joint ventures are not disclosed.

Due to the company's high credit rating, most mutual funds, insurance companies, and PF gratuity funds invested large sums in its debt issuance. The fact that the company's credit rating was not downgraded despite clear signs of financial stress was a case of negligence on the part of reputable credit rating agencies. Only after the company defaulted on its repayment obligations was the rating downgraded abruptly to the lowest level from the highest.

Surprisingly, this public-benefit organization was run for years by the same top management team, who treated ILFS like personal property. No one dared to question their decisions because their subordinates and even the Board were so intimidated by their intimidating persona. Fraud had been going on for years, but it was not discovered until the damage had been done.

The government, like Satyam, suspended the board and appointed eminent experts to the board, which is chaired by Uday Kotak, a well-known and experienced banker. The company is currently in the midst of a restructuring process, and some of its infrastructure has been sold. Progress, on the other hand, has been slow. As a result, the extent and timing of recovery are unknown.

CONCLUSION

While the country's corporate governance framework is on par with that of other developed markets, it must be implemented in both letter and spirit. The fact that white-collar crime persists, and appears to be on the rise, suggests that the expected costs of cheating do not outweigh the expected benefits.

More severe penalties are required. That concludes our list of the greatest Indian con artists of all time. The total amount of money involved in various scams over the last 12 years, since 1992, is estimated to be over Rs 80 lakh crore (Rs 80 trillion) or $1.80 trillion, according to the compilation! Many people outside of India associate India with Mahatma Gandhi's khadi cloth, good ethics, and compassion for the poor.

To some, it is a future superpower and an economic miracle, while to others, it is a cruel place of caste, ethnic, and rich-poor divisions, as well as violence. Above all, India is a maze of unethical, unlawful, and illegal swindles that connect most politicians, many bureaucrats, and a large number of businessmen and others.[6]

[6] ANOLI v. ADHIA, Financial Scams in India, 2013, https://www.academia.edu/36365144/Project_Report_on_Financial_Scams_in_India.