



## ORIGINAL PAPER

# Major Financial Scams that Shook Post-Independent India: An Investigative Study for the long term period 1950-2023

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### Abstract:

The paper deals with 13 major banking and stock market scams that have shook Indian Financial landscape in 80 years since independence. The scam considered here starts with 1956 Mundhra scam to the recent Mahadev Betting App scam of 2023. With changing times the landscape of financial scam has changed and taken new forms as evident in Adani case as well as Mahadev case. Present values of scams are also calculated using average inflation value since independence. All the scams are of different magnitude and have affected differently with different levels. One common theme observed is poor corporate governance and management practices as the core reason for financial sector failures. There was a period in between when there were series of negligence on the part of NBFC leading to troubles as in the case of PNB, IL&FS, DHFL etc. One common scam theme observed in the case of stock markets since independence was circular trading. Some cases also include poor debt management leading to extreme results.

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**JEL Classification:** K42, G28, K22, D18, G38, D82, D91, C72

## **Introduction**

India is a huge country with aspirations and has traveled for lots of years and almost 78 years since independence and had its ups and downs in the form of wars, financial downturns, fiscal-monetary reforms, and finally a journey to a liberalized economy and a global power in coming times. It was not a smooth journey at all and India had its fair share in both the limiting skies and deeper trenches in the economic domain. And the position we hold today is the result of huge learnings we have learned from our past mistakes and mismanagement.

We had scams in the very first decade of our independence and were unique in involving stocks and circular trading which changed the course of the Indian financial administration completely in the years 1992 and 2001 due to scams involving circular trading. The financial scams and crises we have survived are not only bank-based in nature but also involve sheer corporate governance issues and compliance challenges along with a huge impact on the economy at large. Each financial downturn tested our resilience as a common sentiment. Some of the scams included NBFCs as their focal point and the capital market in general was impacted tremendously. Instances of fraud in general have increased. (Rathinaraj & Chendroyaperumal, 2010) According to RBI, fraud means commission or omission of financial or accounting data in any transaction or books of accounts. (Jamuna et al., 2023) A security scam involves the manipulation of share prices, a monopoly in dealing with huge shares and using the money for other purposes including buying shares or debt servicing. (Narayanan, 2004) Corporate fraud is on the rise and detection and prevention become imperative, especially nowadays Government is an important party. (P. K. Gupta & Gupta, 2015)

## **Objectives of the Study**

1. To find the key issues involved in the considered scams.
2. To investigate the amount involved.
3. To calculate the present value of the amount involved in the scams.

## **Scope of the Study**

The paper is investigative and based on review hence, all the generalizations are based on the previous study that has been conducted before. The paper has considered only scams that are banking or stock market-based. For each scam, multiple articles have been considered to make generalizations. The timeline considered is from 1950-2024. It contains all the major scams from the earliest to the latest times.

## **Limitations of the Study**

1. The qualitative nature of the study just attacks the surface and scope for deeper analysis is left.
2. The paper acts as a general overview on financial and banking scams in India and does not emphasize on the each aspect. But all the relevant points have been considered.
3. Aftermath and the reforms are not studied.

## **Methodology**

The paper is qualitative and investigative, many relevant research articles are explored and referred to involving financial and banking scams post-independence to recent times. A total of 13 scams have been covered. The methodology followed is to

investigate the main problem in detail along with finding the amount involved and estimating its present value. The linkages on the context of how the scam has affected other macroeconomic variables are also considered but a lot of focus has not been given to the aftermath the scam.

For the convenience of calculation, the average of inflation from independence is considered and 7% is used to calculate the present value of the amount of scams. The value is not calculated based on any base year but the Y-O-Y (Year on Year) approach has been considered.

### **Literature Review and Analysis**

#### *Mahadev Betting App Scam*

Mahadev App is a fantasy sport based on any type of sport. It is defined as an assemblage and competition of real players based on their statistical performance in real life but in a virtual sense and usually real money is involved for speculation purposes.(Dasgupta & Sen, 2024)These online games facilitate money laundering and other financial crimes involving criminal funds as well. Enforcement Directorate has been investigating the Mahadev App Scam involving funds worth INR 6000 Crore. (Chandola, 2024)

The App was an online gaming platform having exclusive members and chatgroups and often members were encouraged to take part in illegal betting. The main issue involved was the transfer of money through Hawala, charging INR 100 per 1 Lakh transaction. Due to this many celebrities were found involved and it was also claimed that a cash courier of INR 508 Crore was sent to the then CM Sri Bhupesh Baghel. The network of Mahadev Betting extends beyond India to countries like Nepal, Sri Lanka, etc. and it has been estimated ED has frozen assets worth INR 417 Crore in addition to seizure of several hundred locations along with luxury cars, etc.(BS Web Team, 2023) According to ED, Mahadev Online Betting acted as an umbrella syndicate arranging online platforms and enrolling new users for illegal betting for the purpose of multi layered Benami Transactions.(PTI, 2024)

#### *Adani Hindenburg Controversy*

Adani Group is an Indian business conglomerate that operates in various sectors, including FMCG, Logistics, Ports, agribusiness, defense, and real estate. Recently a New York-based report known by the name of Hindenburg Report, has put the group under the microscope of regulators and investors leading to a huge valuation meltdown.(Kumar & Mishra, 2023)The report criticized the Adani Group ahead of its FPO and it was also the case that through the derivatives route, Hindenburg had short positions in Adani group. Hindenburg has been largely criticized in its methodology regarding such criticism against many companies and usually this has resulted in huge stock meltdown. Adani was alleged over Green concerns in Australian coal investments as a threat to Great Barrier Reef and other financial due diligences including diamond export business.(A. Singh, 2023)

A study conducted 10 days prior and 11 days post the release of the report reported that, Indian stock market is not strong in its semi-strong form and the news did not had immediate impact on the stock market but investors having first hand access to the report first gained abnormal profits before stocks started to collapse, signifying that first the investors took cue from the news and after understanding they responded. (Mallesha L. & Archana H. N., 2023)A study conducted concludes that the report had a significant impact on the stock prices but the effect was not homogenous across all the companies. Due to trust factor, stock prices of Public Sector Banks and Nifty 50 regained

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confidence in 3 days and 5 days respectively. The spillover experienced by the creditors of the Adani was not very significant except for LIC. In the case of competitors, only Tata experienced price appreciation.(Sapra et al., 2024) The effect was multiplied on the onus that the securities were already affected by the Russia-Ukraine war and the returns further declined after the report was made public.(Parthasarthy et al., 2024) The returns was affected from 28% to 86% in certain cases.

### *Karvy Stock Broking Scam*

In the case of Karvy Stock broking it was identified that the Karvy has been using investor shares to raise money to fund its own operations along with diverting money to its sister concerns by pledging its clients' shares. KSBL transferred a net amount of INR 1096 Crores to its group company Karvy Realty. KSBL sold clients' shares in many cases, some cases were such that the account used were not functional or in some case there were no transactions since a year. According to the report there were 3 lakh active clients, and out of them, only 25000 are the ones who transacts on daily basis. In June 2019, SEBI had issued notification regarding the not pledging clients' shares to raise funds and the timeline to implement this was till 2019. KSBL failed to implement this and as it was not doing financially very well it continued such operations and this put not KSBL into regulatory radar but many financial institutions were identified and there assets got frozen to such an extent that lender banks had to approach Securities Appellate Tribunal (SAT) to unfreeze the securities and recover the lending amount. (KUMAR, 2020)

Total amount that was pledged unauthorized amounts to INR 2300 Crore and the wrong accounting information was provided. This resulted in lack of trust in Indian financial system as well as discontentment among stock brokers. (Lenka & Jena, 2024) The trading license of Karvy was suspended by SEBI and DP holdings were frozen and stockholders were unable to transfer their holdings.(Sharma, 2021)

### *Nirav Modi Scam*

This refers to INR 11,000 Crore scam done by Diamond merchant Nirav Modi and two Punjab National Bank (PNB) Mumbai Branch officials. Letter of Understanding (LOU) were issued by PNB without registering to the core database of the bank. In order to make the LOU more credible the LOU was communicated through SWIFT (Society for Worldwide Interbank Financial Telecommunication), which was again not integrated to core ledger of the PNB. Result of this was PNB was rated to "watch" category by CRISIL, PNB stock prices dropped, there was increase in NPA (Non-performing Assets) of the bank. RBI credibility was too challenged as it was unable to detect discrepancy during its audits.(A. K. Singh & Gupta, 2018)The valuation of PNB reduced by almost 27% in a year.(Narang, 2019) This lead to a significant Public Banking Sector Reforms by then Finance Minister Arun Jaitley of almost INR 2.11 Trillion. (Khalique & Srivastava, 2024)

### *ABG Shipyard Scam*

The scam involved INR 22892 Crore scam with fraudulent default in loan repayment in 27 banks including SBI by ABG Shipyard Corporation. The management of the corporation allegedly embezzled and misappropriated the fund. (G. Singh & Kaur, 2023)Inefficient auditors, faulty management, and unchecked promoters are the reason for the scam of this extent. (M. Gupta et al., 2023)

ABG Shipyard was doing very well operationally and had bagged many contracts including from the Indian navy and coast guards, it had also launched its IPO at INR 158 per share but after some time the financial position deteriorated and due to collusion of internal members and bank officials, funds were misappropriated and

resulted in criminal breach of trust for not using the loan for the purpose it was lent. On audit, it was found that ABG Singapore had subscribed preference shares from ABG Shipyard and had taken loan from it and had made foreign investments. It was noted that payment made to ABG Singapore was to divert bank funds and it was also noted that security deposit of ABG Singapore was used to buy properties. Due to this many contracts including the Indian Navy were terminated and it resulted in bad debt and ultimately NPA.(Pandey, 2022)

#### *DHFL Scam*

DHFL was a housing finance company with a net income of 1,171 crore in 2017-18. A financial scam was uncovered of INR 31,000 crore. Huge amount of money was loaned to shell companies and was reassociated to DHFL promoters via several associate and related companies. As the companies were shell in nature, hence was not backed by any asset to mortgage. On defaulting the payments no action was taken for recovery, again many shell companies almost 45 was divided into small companies and had same address and owner and directors. DHFL borrowed 96,000 crore worth loan from public sector banks and almost 31,000 crore was diverted to these shell companies in the form of loans. Soon DHFL defaulted its interest payments and its ratings were downgraded and further its stock price also dropped.

Soon DHFL came into RBI radar and senior board members were replaced, CBI inquiry took place and it was discovered that several fake PMAY subsidies were claimed by creating fake loan amounts. 2,60,000 fake loan amounts and loans of 14,000 crore were routed to fake book firms known by the name Bandra. Soon DHFL became insolvent. (Shobha & Kumari, 2021) Before crisis DHFL had AAA ratings and mutual funds heavily invest in NBFC stocks. This raises a prime question on the audit, rating and financial fragility in this particular context.(Manda & Rao, 2019)

#### *Yes Bank Crisis*

Yes Bank was one of the largest private banks having three promoters. The bank soon after its incorporation went public and had promising shareholding. The niche of Yes Bank was to provide easy loans to corporations who had trouble getting loans elsewhere at a higher interest rate. Soon the bank also ventured into the retail sector by offering higher interest to savings account up to 7% in comparison to 4% offered by peers when RBI removed the cap on the interest rate. Yes Bank under the leadership of Mr. Rana Kapoor expanded voraciously by expanding bank branches and the number of ATMs to a tremendous quantity. This put stress on the financial health of the YES Bank and later in 2015 when RBI performed Asset Quality Review (AQR) it was identified that the Bank had an NPA of INR 4950 Crore. Despite this Yes Bank added more retail buyers, almost 7 lakh in 2018-19 and with a growth rate of 35%. Some of the credits that Yes Bank advanced included Reliance Communications, Zee, Café Coffee Day to name a few, all later were in bad financial shape. On investigation the troubled amount was close to INR 26,000 Crore. The NPA problem became 4 times in a year and the valuation started degrading 40% in just one week. The Bank tried to raise money almost INR 5000 crore to 10,000 crore from foreign investors in form of debenture and bonds to boost investor sentiment but soon the bank reported its stressed assets to be around INR 10,000 crores. Later to bail out Yes Bank, RBI imposed a moratorium and initiated the board restructuring. The whole incident not only impacted the shareholders drastically but put restrictions on the liquidity of demand depositors of Yes Bank.(Akhtar et al., 2021)The debt of Yes Bank increased from INR 55,000 Crore to INR 2.1 Trillion from FY14 to19.(Sarangal et al., 2023) The problem this case posed is reconstruction but at the cost

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of keeping the general interest of the public intact along with all moratoriums and revamping of board and bailout.(Malik, 2022)

### *IL&FS Crisis*

A 2018 crisis of a major NBFC that failed to pay its interest and dues in the stipulated time created mayhem among creditors, mutual fund managers, Pension fund managers, and shareholders in general. This resulted in the downgrading of ratings to BB from AA+. This led shareholders to sell their shares and fund agencies with major NBFC investments into the dilemma. The sudden sale of shares changed prices, creating repayment pressure on fund companies, resulting in poor market sentiment and investment scenario. As of 2018, the corporation's debt was almost USD 13.6 Billion (INR 98000Crore), and about 35% of its debt was held by its two subsidiaries. This NBFC had 186 subsidiaries, most of which were jointly controlled by national and overseas entities. (Mehta et al., 2024) Its business included both financing and developing. One of its subsidiary arms was responsible for financing holding equities. IL&FS depended heavily on external borrowings, leading to a high debt ratio along with a rising trend in short-term borrowings in comparison to long-term borrowings for the past 3 years led to an asset-liability mismatch. Serious Fraud Investigation Officer (SFIO) in its findings has told the company that the top management and independent directors of IFIN (financing subsidiary), have formed a “Coterie” with the auditors. It was observed that IL&FS lent money to its subsidiaries for longer term and at highest interest rates, which they used to service their debts. (Kukreja et al., 2021)

### *NSE Co-Location Scam*

NSE in 2009 allowed co-location services to its members at a nominal charge for high-frequency trading and keeping the server connected to the exchange's server more efficiently. However, it was reported that some preferential access was made available to certain brokers.(Mehta et al., 2024) Algorithmic trading is a way to execute orders in an automated manner.(Mohan et al., 2023) This led to an investigation by SEBI.(Manda & Khaliq, 2023) It was understood that the computer that logs in early and gets access first has early information on the prices, this gave them advantage to monopolize the information and later NSE-Broker nexus was formed which exploited this infrastructure and almost 21 major trading companies used to have earlier accesses. Later SEBI investigated and this high-profile scam was fixed.

### *Satyam Scam*

Satyam was an IT company based in India and it inflated its books to make the books look attractive and appease the investors and shareholders. From the inflated books cheap loans were taken in USA and properties were bought by Mr. B. Ramlinga Rajuin Hyderabad. But in 2008, the property prices collapsed, exposing the financial positions of thee Satyam Computers. The manipulated accounting value was almost INR 7000 Crore. A group of 356 companies were found to be allegedly revolving Satyam's money. Even false employees and their compensation was created on books. The money was planned to acquire Matasya Enterprises bur instead acres of land were bought.(Bhasin, 2016)

### *2001 Ketan Parekh Scam*

This case is the classic case of the Bank-Broker nexus which led to the failure of major cooperative banks along with Unit Trust of India (UTI) US-64 mutual fund. This was exposed when the pay order of Madhavapura Mercantile Co-operative Bank bounced

of worth INR 140 Crore.(Ghosh & Bagheri, 2006)It manipulated the small capital companies stock prices through circular trading among traders creating false demand and it is estimated to be a fraud of INR 40,000 Crore. (Varghese, 2022)

#### *1992 Indian Stock Market Scam*

This is famously known as Harshad Mehta scam and is estimated to be around INR 5000 Crore. This includes two components i.e. bank funds and bank receipts. In the case of bank funds he would get the money of bank in his personal account in promise for higher returns and pump that money in stock market to plunge the prices, ACC went from INR 200 to 9000 in 3 months. He used to keep some part of profit to himself and then return the rest profit to the bank.

Similarly, in the case of bank receipts, he would get the bank receipts without backed by any securities and use the amount from the buying bank to get money and invest in the market and after the profit, the two banks were settled. Most of the public banks lost around INR 1700 crore from the crash. This shook entire financial system of India. (Barua & Varma, 1993)

#### *1956 Mundhra Scam*

One of the first stock market or financial scams of Independent India by Haridas Mundhra ( Calcutta-based stock speculator) through circular trading of almost INR 4 Crore. The major allegation is that premium amount of 55 Lakh policyholders of LIC amounting to almost INR 1.5 Crore was invested in 6 troubled companies above market prices. It was independent India's first major scandal.(Mukherjee, 2024)

**Table 1 Present values of the past money**

<b>Year</b>	<b>Name of the Scam</b>	<b>Past Value (Values in Crores)</b>	<b>Present Value (Values in Crores)</b>
2023	Mahadev Betting App Scam	6000.00	6869.40
2024	Adani Hindenburg Controversy	NA	NA
2019	Karvy Stock Broking Scam	2300.00	3451.68
2018	Nirav Modi Scam	11000.00	16508.03
2012	ABG Shipyard Scam	22892.00	55166.17
2019	DHFL Scam	31000.00	46522.64
2020	Yes Bank Crisis	5000.00	7012.76
2018	IL&FS Crisis	9900.00	15897.24
2015	NSE Co-Location Scam	50000.00	98357.57
2009	Satyam Scam	7000.00	20665.15
2001	2001 Ketan Parekh Scam	40000.00	202894.68
1992	1992 Indian Stock Market Scam	5000.00	23702.65
1956	Mundhra Scam	4.00	455.96

Source: Authors' tabulation

From the above table, it can be observed that there have been mainly 13 scams and huge amounts have been involved at their respective years of occurrence but their present value are also calculated considering yearly inflation of 7%.

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### **Conclusion**

India is an aspirational country with huge economic potential and its diverse nature and tryst with destiny have led the State to the pinnacle as well as in introspecting phase at times but what remains constant is the growing sentiment of India and now India of huge demographic dividend. During 75-80 years since independence along with macroeconomic challenges, we have also experienced some banking and financial incidents that shook the financial landscape of our country. In this study we have considered 13 scams but it is not all the scams in the entirety. The first major scam considered is 1956 Mundhra scam, which was almost 4 crore then but in current context it would have been a 450 crore scam. Similar scam was of 1992, 5000 crore worth then but in current context 23,700 crore scam. When we look at Ketan Parekh Scam, it almost is worth 2 lakh Crore in present times. Satyam Scandal was a non-complex scam but a classic case of corporate misgovernance of 20,600 Crore in the present context. One of the most Hi-tech scams involving NSE is worth 98,000 core nowadays. IL & FS seems like a simple case but the amount of money is much higher than 9900 crore or 15,000 crore. Yes Bank put a dent of almost 7000 crore in current times. DHFL although a recent case but it was worth 31000 crore then and 46000 crore now. One of the less-noticed huge scams was ABG Shipyard with over 55000 crore in the current context. One of the most famous scams is the PNB-Nirav Modi scam., it was worth 16000 crore and then 11000 crore. Similar scam is Karvy, it went unnoticed but the company's scam value is of 3400 crore. Two new types of scams are Mahadev Betting app and Hindenburg Report, the discomfort that overall participants faced due to the Hindenburg Report cannot be imagined. In case of Adani Hindenburg, actual financial position is hard to calculate but in Mahadev Betting App, 7000 Crore was scammed in Hawala. With inflation, the value has increased tremendously, and in some cases, it is much more than lakhs of Crore, greater than the GDP of many countries. Further researchers could read and investigate the major scams in present context for more deeper understanding and may incorporate some quantitative analysis to substantiate the position. However, in this time research avenues involving AI and ML becomes imperative as well as it can pose hidden information from already existing information.

### **Authors' Contributions:**

The authors contributed equally to this work.

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