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The IL&FS Financial Statement Fraud: A Failure of Governance, Auditing, and Regulation

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Abstract

The collapse of Infrastructure Leasing & Financial Services (IL&FS) in 2018 marked a pivotal moment in India's financial history, revealing deep structural flaws within the Non-Banking Financial Company (NBFC) ecosystem. This paper critically examines the multi-dimensional factors that led to the IL&FS crisis, including corporate governance lapses, poor risk management practices, manipulated financial reporting, and regulatory inefficiencies. By analysing a broad range of authoritative sources, it explores the complex web of relationships and operational decisions that fuelled the downfall. Special emphasis is placed on the role of auditors, credit rating agencies, and the oversight (or lack thereof) by regulatory bodies. This analysis not only underscores the consequences of unchecked financial mismanagement but also highlights the critical need for accountability, systemic risk detection, and more stringent regulatory frameworks to safeguard financial stability.

Key words : *IL&FS, Financial statements Fraud, Fraud, Corporate governance.*

I Introduction

Infrastructure Leasing & Financial Services (IL&FS), once a prominent infrastructure development and finance company in India, experienced a dramatic downfall in 2018 when it defaulted on its debt obligations. This crisis sent shockwaves through the Indian financial markets, revealing deep-rooted issues within the company and raising serious concerns about the stability of the Non-Banking Financial Company (NBFC) sector. The IL&FS saga serves as a critical case study, highlighting the perils of governance failures, inadequate risk management, misleading financial reporting, and regulatory lapses. This research paper aims to delve into the multifaceted aspects of the IL&FS crisis, the ensuing impacts, the roles played by various stakeholders, and the regulatory reforms and crucial lessons learned in its wake.

II Literature review

Background of IL&FS: From Prominence to Peril

Established in 1987, Infrastructure Leasing & Financial Services Limited (IL&FS), classified as a systemically important Core Investment Company by the Reserve Bank of India, primarily operated by extending loans and making investments in its own group entities. The IL&FS Group had an extensive presence across various sectors including energy, transportation, and financial services. IL&FS was promoted by key Indian financial institutions, including the Central Bank of India (CBI), Unit Trust of India (UTI), and Housing Development Finance Corporation (HDFC), with the primary objective of funding infrastructure projects . It was widely regarded as a model for public-private partnerships (PPP) in infrastructure financing and boasted strategic collaborations with numerous Indian states (Shah, T., 2022) . However, beneath this veneer of success lay a complex web of financial activities conducted through a vast network of subsidiaries, associates, and joint venture entities IL&FS operated within the realm of 'shadow banking', a term popularised by Paul McCulley in 2007 to describe levered-up non-bank conduit systems. In India, these entities are more commonly known as Non-Banking Financial Companies (NBFCs), engaging in financial activities that fall outside the direct purview of traditional banks (Kothari, A., & Ghosh, A., 2020).

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By mid-2018, the conglomerate was burdened with a debt exceeding ₹91,000 crore and began experiencing significant liquidity challenges. The crisis unfolded between July and September 2018 when multiple subsidiaries began defaulting. In July, IL&FS's road development division struggled to meet its bond obligations. Subsequently, in September, a subsidiary failed to repay a ₹1,000 crore short-term loan from the Small Industries Development Bank of India (SIDBI). Other group entities also began defaulting on a variety of financial instruments, including short- and long-term borrowings, inter-corporate deposits, and commercial papers. (Singh, R). The rapid growth of the NBFC sector in India made it a significant source of credit, yet it also amplified concerns regarding the effectiveness of regulatory controls and the resilience of these institutions, as illustrated by the IL&FS crisis (Deepanshu, 2023).

Following are the key findings of the "Grant Thornton Supplementary Report (Report 2.0) on the Special Audit of IL&FS Transportation Networks Limited (ITNL) and its Special Purpose Vehicles (SPVs)", dated February 18, 2022. This document is part of a forensic audit commissioned by the reconstituted Board of IL&FS, under directions from the National Company Law Tribunal (NCLT), and conducted by Grant Thornton Bharat LLP. The report investigates financial and operational irregularities at ITNL and its associated SPVs over the review period from April 1, 2013, to September 30, 2018.

IL&FS Transportation Networks Limited (ITNL), a major infrastructure developer under the IL&FS Group, became the subject of a special forensic audit due to serious financial irregularities and liquidity issues within the group.

Key Issues Identified:

1. Debt and Liquidity Crisis: As of March 2018, IL&FS Group had a massive debt of ₹91,000 crore. Several subsidiaries defaulted on repayments between July and September 2018, including a ₹1,000 crore loan from SIDBI.
2. Suspicious Fund Flow and Circular Transactions: ITNL raised over ₹9,700 crore in new borrowings but used a substantial portion of this to repay other IL&FS group loans or re-circulate funds within group entities. Short-term borrowings were allegedly diverted towards equity or sub-debt contributions in SPVs, violating prudent financial management practices.
3. Questionable Fee Recoveries (PDF/PMF): ITNL charged high Project Management and Development Fees (PDF/PMF) to its SPVs. These fees, totalling approximately ₹3,604 crore, nearly equalled ITNL's own equity investment of ₹3,269 crore in the SPVs—raising concerns of circular recovery and profit inflation. In several instances, the PDF/PMF charged exceeded the actual investment, reaching as high as 329% of equity infused.
4. Improper Loan Repayments: Funds borrowed from financial institutions were often used to repay existing debts within the group, particularly those owed to IL&FS Financial Services Ltd. (IFIN), rather than for their original sanctioned purposes.
5. Lack of Transparency and Controls: The audit noted multiple data gaps and missing documentation, including internal approvals, vendor contracts, and project cost justifications—suggesting either poor record-keeping or deliberate obfuscation. Several construction contracts and operations & maintenance agreements showed signs of inflated payments, excessive margins, or potential dummy invoicing.
6. Regulatory Non-compliance and Misrepresentation: Instances of financial misstatements were found, such as discrepancies between revenue projections and actuals, incorrect disclosures to lenders, and the manipulation of project financials to portray healthier balance sheets.
7. Use of Red-Flagged Entities: Transactions were identified with entities flagged in other IL&FS-

related investigations, implying broader systemic risks within the organization's financial dealings.

8. Concerns over Corporate Governance: The involvement of senior management in many of these decisions—without sufficient oversight—reflected severe lapses in governance, which likely contributed to the group's financial collapse.

Timeline of IL&FS Crisis and Resolution (2018–2019)

1. Pre-2018: Build-up Phase: IL&FS expands aggressively via debt-funded infrastructure projects (roads, energy, transport). Accumulated debt grows to over ₹91,000 crore, mainly raised through inter-corporate borrowings and bond issuances.
2. July 2018: IL&FS Road arm defaults on repayment of bonds. Triggers early signs of a liquidity crisis within the group.
3. September 2018: A subsidiary of IL&FS defaults on a ₹1,000 crore short-term loan from SIDBI. Multiple group entities fail to meet obligations on commercial papers, ICDs, and loans. Credit rating downgraded to 'D', indicating high risk of default.
4. September 30, 2018: Ministry of Corporate Affairs (MCA) orders an investigation by the Serious Fraud Investigation Office (SFIO). Findings point to financial irregularities, Round-tripping and circular fund movements, Misuse of short-term funds for long-term illiquid investments.
5. October 1, 2018: NCLT suspends the existing IL&FS Board, citing mismanagement and threat to public interest. New Board appointed consist of Uday Kotak (Non-Executive Chairman),Vineet Nayyar, C.S. Rajan, and others join to manage restructuring.
6. October 15, 2018: NCLAT issues interim moratorium: No legal proceedings against IL&FS group allowed. Enables preservation of assets during restructuring.
7. October 30–31, 2018: First Progress Report submitted by the new Board to MCA and NCLT. Framework includes asset sales, categorization of group entities (Red, Amber, Green), and formation of new committees.
8. November–December 2018: Asset monetization strategy launched, starting with Wind power assets, Road infrastructure and Education subsidiaries. External advisors and committees like Asset Sale Committee and Operating Committee are set up.
9. February 4 & 11, 2019: Justice (Retd.) D.K. Jain appointed by NCLAT to supervise the resolution process.
10. March 31, 2019 (FY End): IL&FS reports record losses of ₹225,440 million. Resolution progress underway but many entities remain in "Red" or "Amber" categories. No dividend declared; company sustains as "going concern" under supervision.
11. Throughout FY 2019: Progress made on resolution:

- Sale of wind power SPVs to ORIX Corporation (Japan)
- Binding bids received for education arm (School net) and several road assets
- Multiple subsidiaries placed in resolution tracks or winding down (IL&FS Limited, *Annual report 2018–2019)*

Key Points Where IL&FS Was Held Responsible

Infrastructure Leasing & Financial Services Ltd. v. Union of India & Ors., Company Appeal (AT) No. 346 of 2018, decided on 12 March 2020 (NCLAT).

1. **Mismanagement of Funds:** The Union of India filed a petition under **Sections 241 and 242** of the Companies Act, 2013, asserting that IL&FS and its key subsidiaries had **mismanaged public funds**, leading to a severe liquidity crisis. The

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Central Government claimed that the IL&FS board had failed to exercise proper oversight, leading to reckless lending and investment decisions.

2. **Massive Debt Default:** As per IL&FS's own admission, **total debt had ballooned to ₹91,000 crore** as of March 2018. Key group companies like **ITNL, IFIN, and IEDCL** defaulted on their payment obligations between June and September 2018.

3. **Falsification and Suppression of Financial Position:** IL&FS continued to enjoy high credit ratings until shortly before defaulting. This **misled creditors and regulators**, and suggested the **management suppressed material financial facts**. Credit ratings were later downgraded to "junk" or "default" levels by **CARE and ICRA**, exposing hidden financial instability.

4. **Over-leveraging and Reckless Borrowing:** The group operated with a **leverage ratio of 13:1**, borrowing excessively without maintaining sufficient equity capital. Even core investment companies within the group violated **prudential norms set by the Reserve Bank of India (RBI)**, including **Net Owned Funds (NOF)** and **Capital Adequacy Requirements**.

5. **Pledged Shares and Erosion of Control:** IL&FS had **pledged a vast majority of its shareholdings** in key group companies (e.g., 98.23% of ITNL and 100% of IL&FS Investment Managers Ltd.), severely **undermining financial control** and exposing stakeholders to risk.

6. **Neglect of Corporate Governance:** The company's **Risk Management Committee**, mandated by RBI directions for systemically important financial institutions, met only **once in three years (2015-2018)**. This lack of internal oversight contributed to the unchecked growth of liabilities and the collapse of financial discipline.

7. **Systemic Risk to the Indian Economy:** The Department of Economic Affairs raised alarms about the **potential cascading effect on financial markets**, mutual funds, NBFCs, and public sector banks. The NCLAT noted that the **group's collapse could destabilise the entire NBFC and infrastructure financing sector**.

8. **Loss of Credibility and Governance Failure:** The Union of India and NCLAT both observed that the **management had lost credibility** and could not be trusted to resolve the crisis. Hence, the NCLAT allowed the government to **supersede the IL&FS board** and appoint a new board under the supervision of **Justice (Retd.) D.K. Jain**.

Judicial Authentication:

- The MCA moved NCLT to suspend the IL&FS board
- The judgment was passed by NCLAT on 12 March 2020 in *Company Appeal (AT) No. 346 of 2018 & connected matters*. IL&FS was not prosecuted under criminal law in this specific case, but civil and regulatory action was taken under the Companies Act, 2013. Parallel investigations by SFIO (Serious Fraud Investigation Office), ED, and CBI were ongoing and have since led to criminal charges against specific executives.
- SFIO filed charge sheets against former directors.
- SFIO Investigation Report highlighted round-tripping of funds, circular transactions, and falsified net worth projections to secure more credit. Executive directors and audit firms were named in preliminary reports for complicity or negligence.
- ED and CBI launched money laundering and fraud probes.
- Several top executives were arrested or barred from holding directorships.
- The former auditors (Deloitte and BSR Associates) were investigated for audit lapses.

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Key Laws Potentially Violated by IL&FS

Law / Regulation	Section Violated or Invoked	Nature of Violation
Companies Act, 2013	447, 129, 134, 177, 185, 188	Fraud, misstatement in financials, governance lapses, related party violations.
Indian Penal Code (IPC)	420, 409, 120B	Cheating, criminal breach of trust, criminal conspiracy
SEBI LODR Regulations, 2015	Reg. 30, 33, 4	Non-disclosure of material events, incorrect financial reporting
RBI Core Investment Companies Guidelines	Capital adequacy, exposure norms	Breach of prudential lending limits and misuse of CIC license
Prevention of Corruption Act, 1988	Where PSUs and public bank loans involved	Potential collusion with public sector officials
Insolvency and Bankruptcy Code, 2016	Section 10 (failure to initiate insolvency)	Continued default without triggering Corporate Insolvency Resolution Process (CIRP)

III Research methodology

This study adopts a qualitative, descriptive research methodology, primarily based on secondary data sources. The analysis incorporates diverse materials, such as forensic audit reports, regulatory assessments, judicial proceedings, scholarly articles, and media reports. By integrating these sources, the paper explores the interrelated failures in governance, auditing, and regulation that played a role in the IL&FS crisis. The objective is to offer a thorough, multi-faceted view of the structural vulnerabilities revealed by the case.

IV Research Gap

While prior literature discusses financial misreporting and regulatory gaps, few integrate forensic audit evidence with judicial responses to construct a full institutional picture. This paper seeks to fill this crucial gap by offering an in-depth, multi-faceted analysis of the IL&FS collapse, incorporating the roles played by auditors, board members, credit rating agencies, and regulatory bodies. By integrating insights from forensic audits, legal documents, and scholarly research, it constructs a comprehensive picture of the institutional failings behind the crisis.

V Discussions and Suggestions

The Tangled Web: Causes of the IL&FS Crisis

The downfall of IL&FS was not attributable to a single factor but rather a confluence of deep-seated issues spanning governance, financial management, and regulatory oversight.

Governance Failures and Lack of Accountability: The IL&FS case underscores significant failures in corporate governance. The Grant Thornton (GT) report reportedly pinpointed responsibility on the Committee of Directors, including its founder Chairman Ravi Parthasarathy. Allegations of siphoning out substantial funds through fake work orders further highlight a severe lack of ethical conduct and accountability at the top levels. (Kukreja, G., Gupta, S., & Bhatia, M., 2021). The very structure of independent directors, meant to act as a check on management, also came under scrutiny, with questions raised about their potential diversion from duties and the possibility of board-appointed directors being hesitant to challenge the board (Panda, Tusharkant., 2022).

Inadequate Risk Management: A crucial failing was the inadequate risk management practices within IL&FS (Subburayan, B., 2023). The Reserve Bank of India (RBI), following the defaults, reportedly discovered the absence of board approved formal investment policy within the IL&FS group (CNBC TV18, 2019). Furthermore, internal communications allegedly suggested the relaxation of credit norms based on guarantees from subsidiaries like IL&FS Transportation Networks Limited (ITNL), indicating a potential disregard for prudent risk assessment (Raithatha, J.M.V.M., (2022). Alarmingly, the top risk committee of IL&FS reportedly did not meet up for around three years leading up to the crisis (IANS, 2019).

Misleading Financial Reporting and Manipulation: The crisis was significantly Intensified

by misleading financial reporting that masked the company's true financial position. Forensic audits indicated the manipulation of key financial items such as provisions, presenting a distorted picture of profitability over several years before the company reported massive losses in 2018 (Raithatha, J.M.V.M., 2022). The practice of granting 'evergreening loans' to defaulting borrowers further concealed the extent of non-performing assets (Shah, T., 2022). Project Icarus by Grant Thornton provided detailed insights into these transactions and manipulations, demonstrating how the reported financial health was far removed from reality. The misrepresentation of figures misled investors into believing in the company's sound performance.

High Debt and Liquidity Crunch: IL&FS accumulated a substantial amount of debt, leading to a severe liquidity crunch. The company failed to meet commercial paper redemption obligations in September 2018, signalling its inability to meet short-term liabilities. Ratio analysis of the company's financial data could have potentially provided early signs of these troubles (Afsharipour, Afra, & Paranjpe, Manali., 2021). The high debt-equity ratio of IL&FS compared unfavourably with its competitors, indicating a risky financial structure (Kukreja, G., Gupta, S., & Bhatia, M., 2021). A high debt-equity ratio indicates a greater reliance on borrowed funds, making the company more vulnerable to financial distress if it cannot service its debt obligations. An asset-liability mismatch, where long-term assets were financed by short-term borrowings, also contributed significantly to the liquidity mismanagement (Deepanshu.,2023). IL&FS operated in infrastructure and finance, sectors that typically involve long-term projects with delayed returns. To finance these projects and loans to subsidiaries, the company increasingly used short-term borrowings such as commercial papers and inter-corporate deposits. This created a high-risk situation due to the mismatch between short-term repayment obligations and the delayed income from long-term assets.

Unreported Subsidiaries and Complex Structure: Similar to the Lehman Brothers case, IL&FS had a complex network of subsidiaries, with a significant number, with only 169 out of 348 were being reported in the books of account. Many of these unreported subsidiaries acted as Special Purpose Entities (SPEs) in infrastructure projects, potentially obscuring the true extent of the group's liabilities and interconnectedness (Kothari, A., & Ghosh, A., 2020).

Role of Credit Rating Agencies: Credit rating agencies came under intense scrutiny for their continued high ratings of IL&FS's debt instruments despite the company facing liquidity issues as early as 2015 (Subburayan, B., 2023) . The Grant Thornton report highlighted deficiencies on the part of these agencies, suggesting a reliance on information provided by IL&FS without adequate independent due diligence. There were also allegations of strategies employed by IL&FS to maintain these high ratings, including providing undue benefits to rating agency officials. The RBI also observed a lack of proper skill and diligence in the rating process. Various bodies such as Grant Thornton, SEBI, and the RBI concluded that the rating agencies had breached of the SEBI (Credit Rating Agencies) Regulations 1999 and Code of conduct for the Credit Rating Agencies.

Impact of the IL&FS Crisis

The defaults by IL&FS triggered a significant ripple effect across the Indian financial ecosystem.

Financial Market Instability: The crisis caused considerable market disruptions and a loss of investor confidence, particularly in the NBFC sector. The default on commercial papers hit the market sentiment and led to a sharp decline in commercial paper issuances (Mudgill, A.,2018). The crisis exposed the interconnectedness of the financial markets, impacting banks, mutual funds, and other lenders associated with IL&FS.

Downgraded Credit Ratings and Increased Scrutiny: Following the defaults, credit rating agencies rapidly downgraded IL&FS's previously high ratings (Afsharipour, Afra, & Paranjpe, Manali., 2021). This led to increased scrutiny of other NBFCs and a greater awareness of the risks inherent in the sector.

Regulatory Intervention and Investigations: The severity of the crisis prompted swift action from regulatory authorities. The government superseded the board of IL&FS and appointed a new one to restore stability. The National Company Law Tribunal (NCLT) was involved in this process. Various regulatory bodies, including the Serious Fraud Investigation Office (SFIO), the Enforcement Directorate (ED), SEBI, and the RBI, initiated investigations into the affairs of IL&FS and the alleged misconduct. Arrests of senior management officials were made, and criminal proceedings were initiated.

Impact on Lending and Investment: The crisis had a negative impact on commercial banks' lending to NBFCs and significantly affected mutual fund houses and stock exchanges (Kothari, A., & Ghosh, A., 2020). Investors became more cautious about investing in NBFCs, leading to a tightening of liquidity in the sector (Subburayan, B., 2023). The IL&FS fiasco was likened to India's 'Lehman Moment', underscoring its potential systemic risks and economic fragility (Chanda, Sayantan., 2022).

The Roles of Key Stakeholders

The IL&FS crisis brought the roles and responsibilities of various stakeholders into sharp focus.

1. **Top Management and Directors:** They shouldered significant responsibility for the financial mismanagement and the adoption of risky strategies that led to the crisis. (Afsharipour, Afra, & Paranjpe, Manali., 2021). The legal framework for holding directors personally liable for such collapses became a subject of debate (Chanda, Sayantan., 2022).
2. **Independent Directors:** The crisis exposed potential shortcomings in the role and effectiveness of independent directors as watchdogs (Subburayan, B., 2023). Challenges such as limited time, insufficient knowledge of company affairs, and the inherent difficulty in going against the board were highlighted. The need for a more robust framework for their appointment, training, and compensation was emphasised (Panda, Tusharkant., 2022).
3. **Auditors:** External auditors faced severe criticism for their failure to detect and report the accounting misstatements and the true financial state of IL&FS. The forensic audit by Grant Thornton revealed significant discrepancies, and regulatory bodies like SEBI and the National Financial Reporting Authority (NFRA) found instances of non-compliance with auditing standards (Raithatha, J.M.V.M., (2022). The external auditors of the IL&FS group also provided consultancy services to its companies, creating a clear conflict of interest. (Shah, T.,2022).
4. **Credit Rating Agencies:** Their role in assigning and maintaining high credit ratings for IL&FS despite growing financial distress raised serious questions about their due diligence, independence, and methodologies. The reliance on issuer-provided information and the alleged acceptance of undue benefits eroded public trust in the credibility of credit ratings (Subburayan, B., 2023). The crisis underscored the need for investors to develop their own risk assessment mechanisms rather than solely relying on credit ratings.
5. **Regulatory Bodies:** The crisis highlighted potential regulatory lapses and the need for stronger oversight of the rapidly growing NBFC sector. The RBI and SEBI responded with various measures after the crisis, but the effectiveness of

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these measures in preventing future incidents remained a key concern (Subburayan, B., 2023). The government's intervention to supersede the IL&FS board demonstrated the willingness to take drastic action in the face of systemic risk.

Regulatory Reforms and Lessons Learned: Charting a Safer Course

The IL&FS crisis served as a stark reminder of the importance of a robust and adaptive regulatory framework and sound corporate governance practices. In response, several regulatory reforms and important lessons emerged.

1. **Strengthening NBFC Regulations:** The RBI implemented stricter regulatory measures for NBFCs, including adjustments to risk management principles, capital adequacy standards, and liquidity frameworks, aiming to restore public trust and enhance the sector's resilience (Deepanshu., 2023). SEBI mandated that all listed entities prepare consolidated financial statements for quarterly reviews to improve transparency regarding subsidiaries.

2. **Emphasis on Corporate Governance and Risk Management:** The crisis reinforced the critical need for robust corporate governance practices, transparent financial reporting, and effective risk management systems within companies. It highlighted the importance of ethical conduct, integrity, and accountability at all levels of an organisation. The role of the board of directors in overseeing and guiding risk policy and ensuring appropriate controls was further emphasised (Subburayan, B., 2023).

3. **Scrutiny of Auditors and Credit Rating Agencies:** Regulatory scrutiny of auditors and credit rating agencies intensified. The need for greater independence, enhanced due diligence, and more transparent methodologies became paramount (Shamiulla, A. M., Rao, D. G. V. N., & Vyas, A., 2020).

4. **Re-evaluating Liability Frameworks:** The crisis spurred discussions on re-thinking liability frameworks for shadow banks, with arguments put forth for diluting the concept of limited liability to discourage irresponsible risk-taking. Reforms in civil liability to ensure more effective penalisation of collective negligence by directors were also considered (Deepanshu., 2023). The establishment and strengthening of bodies like the NFRA aimed to improve audit standards and accountability. Its first major task involved examining potential auditing failures linked to the IL&FS financial crisis. Established as an autonomous oversight body, the NFRA is responsible for monitoring audit quality across the country. It has been vested with significant authority, including the ability to impose strict penalties on auditors found guilty of misconduct or negligence.

5. **Importance of Early Warning Systems and Whistle blower Mechanisms:** The IL&FS case highlighted the significance of effective early warning systems to identify potential risks and the crucial role of whistle blower mechanisms in bringing unethical practices to light. The contrasting cases of Infosys and ICICI Bank highlight critical differences in corporate risk management and board oversight in India. At Infosys, whistle blower complaints regarding potential ethical breaches were taken seriously by the board, which promptly initiated internal investigations and cooperated with regulators. This proactive and transparent approach demonstrated how an independent and empowered board can effectively manage internal risks and prevent reputational damage. In stark contrast, the ICICI Bank case revealed significant governance lapses. Allegations surfaced against CEO Chanda Kochhar involving conflicts of interest and irregular loan approvals to entities linked to her family. Rather than launching an impartial investigation, the board initially defended the CEO and failed to act with due diligence. Only after intense regulatory scrutiny and public pressure did leadership changes occur. These two instances underscore the importance of

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independent board oversight and robust risk management systems, especially in environments dominated by strong executive leadership. (Afsharipour, Afra, & Paranjpe, Manali., 2021).

6. **Considering Systemic Risk Mitigation:** The crisis prompted consideration of measures to mitigate systemic risks within the NBFC sector. Suggestions included the government considering the formation of an emergency fund for NBFCs, akin to reserve requirements for banks, to provide a buffer against future crises. The potential adoption of provisions from international regulations like the US Dodd-Frank Act concerning asset-backed security disclosures was also proposed (Rathod, Tanya, & Tiwari, Harsha., 2020). In the aftermath of the 2008 financial crisis, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act to rebuild trust in its financial system. This legislation introduced major regulatory enhancements, including centralised oversight of significant non-banking financial institutions, enhanced accountability for credit rating agencies, and stricter transparency requirements for asset-backed securities (financial institutions are required to share more detailed and accurate information about the securities with the investors and regulators). These reforms were designed to contain systemic risks, strengthen investor protections, and prevent future collapses. India, facing similar vulnerabilities in its non-banking financial sector—particularly exposed during the IL&FS crisis—lacks such comprehensive frameworks. The absence of unified regulatory control, insufficient legal obligations for rating agencies, and inadequate disclosure norms have contributed to oversight failures. Drawing from the U.S. model, India could benefit from implementing analogous reforms tailored to its domestic financial landscape, thereby reinforcing market integrity and reducing the likelihood of future crises.

VI limitation and Scope for Future Studies

There is still a need to investigate how these failures interacted over time, compounding each other and exacerbating the situation. A deeper inquiry into the systemic weaknesses, lack of accountability, and ineffective oversight mechanisms that permitted the crisis to escalate unnoticed would support the development of more robust policy and institutional safeguards to avert future financial debacles.

VII Conclusion

The IL&FS financial crisis stands as a watershed moment in the history of the Indian financial sector, exposing vulnerabilities and triggering significant introspection. What appeared to be a model infrastructure financing firm was, in reality, operating under dangerously leveraged and unsustainable financial conditions. The failure of governance at multiple levels—ranging from the board of directors and auditors to credit rating agencies and regulators—amplified the crisis's scale and impact. The aftermath triggered a comprehensive regulatory response, spearheaded by agencies such as the RBI, SEBI, and NFRA, aimed at restoring market confidence and strengthening the NBFC framework. As of March 2025, Infrastructure Leasing & Financial Services (IL&FS) has resolved debts amounting to ₹45,281 crore, according to a affidavit submitted to the National Company Law Appellate Tribunal (NCLAT). This marks an 18.9% increase from ₹38,082 crore, the amount reported in the previous status update filed in October 2024. The debt resolution pertains to 197 out of 302 group entities. Currently, 105 entities remain unresolved, only 57 are still in a situation where they need legal protection from creditor actions while their debt resolution is ongoing. The IL&FS board has projected that the total recovery from the resolution process will reach around ₹61,000 crore, equivalent to approximately 61% of the total debt as of October 2018. To facilitate this recovery, the new board has actively worked to terminate non-fund-based exposures, such as bank guarantees and letters of credit, across the group. In addition to these cancellations, direct cash settlements are also being made to creditors. (The Economic Times, 2025). Key lessons from the IL&FS crisis include the critical importance of transparent financial reporting, robust internal controls, effective risk governance, and the active participation of independent directors. Moreover, the crisis underscores the need for real-time monitoring tools, improved whistle blower mechanisms, and more proactive regulatory intervention. By addressing these systemic vulnerabilities, India can move toward a more resilient and transparent financial ecosystem, better prepared to withstand future shocks.

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