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Respected Sri Subbarao garu,

14 February, 2011

Sub:- Margadarsi Financiers / Margadarsi Chit Funds/ Ramoji Rao Group
of Companies – involvement in money laundering and large scale
violations of statutory provisions.

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This representation is made to conduct enquiry and to take appropriate
action against Margadarsi Financiers, Vijayawada, Hyderabad, Margadarsi
Financiers, Margadarsi Chit Funds Company and Ramoji Group Companies which
are operating from Hyderabad.

Margadarsi Financiers is a name given to the family of one, Mr. Ch. Ramoji
Rao. It is neither a Firm nor an Association of persons or a Company. Sri. Ramoji
Rao claims, that he is the Kartha of his Joint Family, which is doing several
businesses of which, Margadarsi Financiers and Margadarsi Chit Fund Company,
besides a Telugu News Channel ETv and Telugu Newspaper Eenadu are few of
them.

It has come to the notice of the State Government that among other
businesses, the business being carried on in the name of Margadarsi Financiers is
in violation of the mandatory provisions of the Reserve Bank of India Act, 1934.
Section 45-S was violated warranting prosecution. Though, Reserve Bank of India
had pointed out this in 1997, it has not taken any action.

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The State Government appointed an Enquiry Committee to examine and report about the deposit liability of the Margadarsi Financiers. A report was submitted to the effect that the deposit liability is 2600 crores, that unless the assets of Margadarsi Group are liquidated, it is not possible for repayment to the depositors.

Challenging the constitution of the said Enquiry Committee, W.P. 27065/2006 was filed in A.P. High Court, alleging malafides on the Hon'ble Chief Minister. A Division Bench of the High Court by order dated 25th January, 2007 rejected the plea of malafides and refused to grant any interim order in the said writ petition. Writ Petition was admitted and is pending disposal.

When there existed a threat to repayment to the depositors, A.P. Protection of Depositors of Financial Establishments Act, 1999 provided statutory machinery. Apprehending that the said provisions will be invoked, Margadarsi Financiers and Ramoji Rao, filed another writ petition challenging the vires of the said Act. Interim relief was rejected.

Margadarsi Financiers and Ramoji Rao filed SLP 2847/2007 against the order dated 25th January, 2007 refusing the interim relief pending the said writ petitions and in rejecting the plea of malafides on the Chief Minister. The Hon'ble Supreme Court by order dated 23rd February, 2007 declined to interfere, as regards the plea of malafides but issued notice on the rejection of interim relief. By order dated 20th April, 2007 in I.A. No. 8 of 2007 pending the said SLP, the Hon'ble Supreme Court directed that there shall not be any freezing of the accounts of applicant / petitioner's or any attachment, under A.P. Protection of Depositors of

Financial Establishments Act, 1999. In view of this the State Government could not take any action under the said Act. The said SLP and the said stay orders are pending.

The State Government appointed an Authorized Officer under Section 45-T, 58-E of the Reserve Bank of India Act, 1934. The Authorized Officer is competent to take penal action against those who violate Section 45- S of Reserve Bank of India Act, 1934. Section 45-T enable the Authorized Officer to apply for search warrant to ascertain and recover the documents relating to the acceptance of deposits, in violation of Section 45-S of Reserve Bank of India Act, 1934.

Pursuant to an application filed by the Authorized Officer, the concerned Magistrate in Hyderabad by order dated 21st February, 2007 issued a search warrant. These proceedings could not be completed as Margadarsi Financiers and Ramoji Rao carried the matter to courts by filing a Revision and quash proceedings in the High Court. Ultimately, the High Court directed to return the original documents seized pursuant to the search warrant by taking Xerox copies thereof. The Hon'ble Supreme Court by order dated 28th March, 2008 clarified that the Magistrate can proceed to dispose of the Criminal Case filed before it against Margadarsi Financiers and Ramoji Rao for violating Section 45-S of Reserve Bank of India Act, 1934. Thus from 2007 to 2008 Margadarsi Financiers and Ramoji Rao stalled the proceedings before the Magistrate by obtaining court orders.

Under the A.P. Chit Funds Act, the dividend money and the subscribers prize money has to be deposited in a Bank approved by the State Government. In violation of this, Ramoji Rao kept it in "Margadarsi Financiers", which is again a

statutory violation warranting action under Chit Funds Act.

Under Section 269-SS of the Income Tax Act, no deposits exceeding Rs. 40,000/- can be received, except by way of a cheque or D.D. Ramoji Rao violated this provision and became liable for penalty. Show cause notices were issued, proposing to levy penalty. In all around 1600 crores is the total liability.

In the additional Affidavit dated 28/12/2009 filed by Margadarsi Financiers, they had filed a statement of particulars of payments to depositors for the months of January, 2008 to December, 2009. These particulars are furnished in a tabular form. These particulars are inconsistent with the particulars earlier furnished. In February, 2008 he had stated their financial liability as hereunder:

<u>Period</u>	<u>Amount</u> (Rs. in Crores)
31/01/2008 to December 2008	658.70
January 2009 to December 2009	542.78
January 2010 to December 2010	538.16
January 2011 to December 2011	41.06
January 2012 to December 2012	59.02
January 2013 to December 2013	23.66
January 2014 to December 2014	0.48
January 2015 to December 2015	0.24
Total Liability – Principal Value	1864.10

The State Government could not verify and enquire into these details about the repayments and the depositors in view of the orders of the High Court in the

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said Writ Petition filed by the Margadarsi Depositors Welfare Association. Unless and until a thorough enquiry is made, it is not possible to ascertain the truth and veracity of these claims that are being made. They have to submit the details of the Names, Addresses of the Depositors, the amount collected for each deposit, the manner in which such deposit was made, the amount which was repaid to the depositor and copies of documents to substantiate these details of receipt and repayment.

In the additional Affidavit dated 12/11/2008, filed by the Margadarsi Financiers in the Supreme Court they, inter alia, had claimed that as on that date (12/11/2008) it had made repayments and that as on 12/11/2008 only a sum of Rs.19.06 is payable in respect of 3490 depositors. This claim in this Affidavit is inconsistent with earlier statement. It is submitted that in para 7 of the Additional Affidavit dated 12/11/2008, they claimed that some depositors have addressed letters to them declining to take return of the deposits. The details of such persons or deposits are not furnished. The addresses of these persons and the details of deposits have to be furnished.

The Margadarsi Financiers is not disclosing the source of its funding. Huge sum of Rs. 2000 crore and odd it is claiming as having received as loan. It is further claiming that a part of its stakes having been sold. No details are furnished. All this shows that it is screening its activity and screening those whom it claimed as having advanced to them. They are guilty of several statutory provisions in the

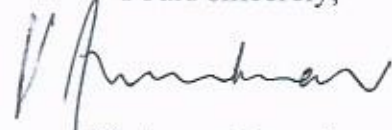
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Reserve Bank of India Act, Money Laundering Act, Income Tax Act and other enactments. At every stage it is obtaining court orders and preventing the State Government from making any enquiry. In particular, they are guilty of violating Sec. 45-S of Reserve Bank of India Act and Sec. 269-SS of Income Tax Act. The penalty proceedings under the Income Tax Act prima-facie revealed that Margadarsi Chit Funds received deposits in fake names contrary to the statutory provisions. It is depositing the dividend money with it as deposits instead of depositing it in any Nationalized Bank.

In view of the above, I request you that a thorough enquiry may be ordered against the money laundering activities of M/s Margadarsi Financiers, Margadarsi Chit Funds, Ramoji Group Companies and take appropriate action. I would also request that M/s Margadarsi Chit Funds should be directed to deposit all the dividends of the chit holders in a Nationalized Bank and transfer all such deposits pending with it, to the Nationalized Bank.

With warm regards,

Yours sincerely,



(V. Aruna Kumar)

Shri D. Subba Rao,
Governor,
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