ETV Ramoji Rao Exposed

Inside story of Margadarsi Financiers

Citizens Forum for Democratic Debate

Ramoji Rao Exposed

Inside Story of | Margadarsi Financiers

Documents
Collected & Compiled by

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Member of Parliament (L.S)
Rajahmundry, A.P.

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Documents
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FOREWORD

It was sometime in early 1990s that some of my family members, close relatives and friends invested their hard-earned money in Margadarsi Financiers, which in the public perception at that point of time and perhaps till 7th November, 2006, was an extended arm of the Margadarsi Chit Funds Limited. It was not as if we were not aware that the promoter of Margadarsi group is the same as that of the promoter and Chief Editor of Eenadu Newspaper, the Largest Circulated Telugu Daily which has been campaigning against the Congress party. In fact, we always knew that Eenadu Paper was started essentially to fight the Congress party. This is not what we just believe; this is what Mr.Ramoji Rao himself has been openly saying in all the fora including in the affidavit he filed before the Hon'ble High Court of Andhra Pradesh and Hon'ble Supreme Court of India.

In saying all this, I am only trying to convey that a strong Congress family like ours had invested in Margadarsi Financiers knowing fully well that it belonged to Sri Ramoji Rao, who launched Eenadu Telugu Daily, essentially to fight against the Congress party. We have done this because we never intended to link his finance business with that of his media business. This is our stand even today. ***All through the last 16 years, our family members had been always renewing the deposits after maturity. In the year 2006, for the first time, Margadarsi Financiers refused to renew the deposits after maturity because the amount was less than Rs.1 lakh per account. In this connection, I happened to see the Deposit Bonds (document enclosed) issued by Margadarsi Financiers signed by Sri Ramoji Rao in his capacity as Karta of HUF. I noticed that the same Sri Ramoji Rao signed the Cheques on behalf of Margadarsi Financiers as Proprietor and not***

as Karta of HUF, giving scope for doubts about the true legal status of Margadarsi Financiers. It was at this point that I started getting doubts and consulted a few of my classmates and friends who are Chartered Accountants and Lawyers as to what could be the reason for non-renewal of deposits whose value was below Rs.1 lakh.

When I produced the Fixed Deposit Receipt, my lawyer-friends in Rajahmundry told me that, prima facie, the finance business carried on by Margadarsi Financiers, which is a Hindu Undivided Family by status, was illegal and violative of the amended provisions of the Section.45-S of the RBI Act, 1934 and that the acceptance of deposits from the public after the year 1997 was punishable under law. I could not believe that a person like Sri.Ramoji Rao, who has been crusading against corruption in public life, would himself indulge in a blatantly illegal business. Everyone's the role played by news papers including Eenadu in exposing various irregularities of several Urban Cooperative Banks in the State of Andhra Pradesh. It was because of the pressure the newspapers had built up on the Government of the day, many Directors and Chairmen of various Urban Cooperative Banks were put behind the bars, even while RBI itself was seized of the matter.

The Urban Cooperative Banks are bodies registered with the Registrar of Cooperative Societies of Andhra Pradesh and were duly licensed by the Reserve Bank of India for their banking business. They were under regular surveillance of the RBI. There was nothing illegal about their business. In spite of this, merely on suspicion that some of them were likely to default, the newspapers including Eenadu have sensationalized the whole issue and brought pressure on the then State Government to arrest the Directors. The total deposits involved in about 45 Urban Cooperative Banks put together was about Rs.630 crores.

Compare that to the business of Margadarsi Financiers, which is completely illegal; and which is not registered with RBI; they are not registered with Government of Andhra Pradesh; they are not registered with anybody in the country. Being an Unincorporated Body, they are specifically prohibited from accepting deposits from the public from the

year 1997. The promoters are punishable with imprisonment up to two years besides a penalty which is as high as twice the amount of the deposits collected in such violation. ***Whereas the total deposits collected by 45 Urban Cooperative Banks put together was Rs.630 crores, Margadarsi Financiers alone has illegally raised Rs. 2,600 crores from about 2.75 lakh depositors and what is shocking is that they have been raising these deposits in the face of mounting losses year after year which stood at Rs.1400 crores as on 31.3.2006. The total group losses of Ramoji Rao HUF were Rs.1800 crores as on that date. Sri Ramoji Rao tried to explain away that these losses were only technical losses. Many financial experts, however, failed to understand what exactly was meant by technical losses.***

The financial position of the Margadarsi Financiers was never published in any newspaper nor was it circulated to any of the depositors. The whole business was done clandestinely. The name of Margadarsi Financiers never figured in the Group Website. Surprisingly, Margadarsi Financiers never displayed any sign boards at any of its offices ,deliberately to give the impression that deposits were being collected by a division of Margadarsi Chit Funds Limited. So, when it came to my notice, I lodged a complaint with the Hon'ble Union Minister for Finance on 6th November, 2006, marking a copy thereof to the Hon'ble Chief Minister of Andhra Pradesh for initiating appropriate action for protection of the interests of the depositors.

Sri Ramoji Rao, instead of being apologetic for the gross illegal business that he is carrying on, desperately tried to wriggle himself out of the situation by raising the bogey of other Press Freedom. Naturally, ***all politicians in the State and at the Centre who are opposed to Congress party, without even verifying the facts and figures, extended unconditional support to Sri. Ramoji Rao and together tried to divert the attention of the people by raising the bogey of infringement of press freedom. Unfortunately, all these people forgot that they were directly helping somebody to escape from Law.*** The least that was expected of Sri.Ramoji Rao was he explains to the people as to how he proposed to repay their deposits. That has not been done till today.

When the State Government, which is under an obligation to take action against erring financial establishments under the A.P. Protection of Depositors of Financial Establishments Act, 1999, after the receipt of the complaint from me on 6-11-2006, issued orders appointing a fact-finding Committee on 19th December, 2006, Sri.Ramoji Rao, instead of submitting the information desired by the Committee, challenged the very appointment of the Committee before the Hon'ble High Court on the ground that it is vitiated by malafides, pleading that the State Government was witch-hunting him because he was exposing the wrong-doings of the Congress party.

The Hon'ble High Court refused to buy the theory of malafides and did not grant interim stay. As Sri.Ramoji Rao was refusing to cooperate with the fact-finding team appointed by the State Government, the Government with the specific orders from the Judicial Magistrate conducted searches on the premises of Margadarsi Financiers. ***Unfortunately, senior political leaders like M/s L.K.Advani, Narendra Modi, Jayalalita, Mulayam Singh Yadav, columnists like Kuldip Nayyar and media persons like Sri N.Ram have raised hue and cry against the searches that were being carried on by the Government with the permission of the Court.*** Sri N Ram went to the extent of writing an Editorial in his paper The Hindu asking the Congress High Command to discipline Dr Y S Rajasekhara Reddy, the Chief Minister of the State for appointing a fact finding committee to know whether Margadarsi Financiers has been acting in a manner prejudicial to the interests of the depositors. He of course gave a clean chit to Margadarsi Financiers, because, it appears that somebody in RBI told him that Margadarsi Financiers had an impeccable track record. Sri Ram is perhaps not aware that the RBI in their official communication to Government of Andhra Pradesh on 29th December, 2006 (document enclosed) clearly stated that they have no idea of Margadarsi Financiers, as it was not registered with them. They also said that they had no documents about this firm with them. In the light of this, it is unthinkable that a person of the stature of Sri .N. Ram, Editor of the 128 years-old paper, The Hindu, purely based on hearsay and unconfirmed reports, has taken up the cause of the Margadarsi Financiers and had written such bitter

Editorial which is completely devoid of facts. Such things must have rarely happened in the long history of The Hindu. It was unfortunate that he went in defence of a person carrying on an illegal business. This is on record of this country. It is a matter of serious concern that these gentlemen in public life had not even once thought of the depositors and their interests. ***It is pertinent to note that other than Eenadu and their TV Channel, there are as many as 20 recognized Newspapers and several TV Channels that are operating in Andhra Pradesh and none of them have even remotely tried to connect the issue of Margadarsi Financiers with that of press freedom.***

Sri Kuldip Nayyar and Sri.N.Ram went to the extent of impleading themselves in an appeal preferred by Sri.Ramoji Rao to the Hon'ble Supreme Court. The Hon'ble Supreme Court refused to buy the theory of malafides and categorically observed that there was nothing wrong if the Government proposed to take action against an illegal financial establishment and that the same could not be equated to infringement of press freedom, although both the businesses are run by the same person, as both the activities are independent and different. With these observations of the Hon'ble Supreme Court, the so-called crusaders in public life were silenced and their attempts to bail out somebody who has been carrying on an illegal business were also put on hold.

As I talk to several of my colleagues in the Parliament and elsewhere in the society, I realized that in spite of such wide publicity that the whole issue has received, many people still seem to be confused about the facts of the case. It is in this context that I propose to place before you all the documents and correspondence on the subject to enable you to appreciate the issue in its totality.

V. Arun Kumar

VUNDAVALLI ARUN KUMAR
M.P.,(Lok Sabha), Rajamundry

ARUN KUMAR VUNDAVALLI
MEMBER OF PARLIAMENT
(LOK SABHA)

RAJAHMUNDRY - 533 103.
% : 0883 - 2460002 (O)
0883 - 2460003 (R)

Date : 6th November, 2006

Sri P. CHIDAMBARAM,
Hon'ble Union Minister for Finance,
Government of India,
NEW DELHI.

Dear Sir,

Sub: ***Request for thorough investigation into the affairs of Margadarsi Financiers, Hyderabad based Hindu Divided Family - Regarding.***

It has been brought to my notice that Margadarsi Financers, a Hyderabad based Hindu Undivided Family, has been engaged in the business on Non - Banking Financial activities, that is, accepting Deposits and Unsecured Loans from the General Public and Deploying the same as investments in the ***group companies*** against the rules and regulations of the Provisions of Sec. 45-S of The RBI Act, 1934.

You are kindly aware that with a view to safeguarding and protecting the interests of the Depositors, the Parliament has introduced the Chapter. 3-C in the RBI Act, 1934 and brought in Sec. 45-S into the said legislation expressly prohibiting the ***Individuals, Par tnership Firms or an Unincorporated Association of Individuals*** from accepting any Deposits from the public unless it is from relatives as defined under Sub-Sec (3) of Sec. 45-S. The said sub-section under its explanation provides that "for the purposes of this section, a person shall be deemed to be a relative of another, if and only if they are members of Hindu Undivided Family", clearly covering

the activities of HUF also within the scope of the Unincorporated Association of Individuals.

Any association of individuals may come into existence either by such individuals ***voluntarily coming together*** or ***by an operation of law as in the case of HUFS.*** Thus, a HUF has to comply with the provisions of Sec. 45-S of RBI Act, 1934 which clearly mandates that they cannot raise deposits from the public. As against this mandate, the Margadarsi Financiers, a HUF by status has raised as on 31.3.2005 a sum of Rs. 2201 crores as Deposits from the public and reported an accumulated loss of Rs. 1100 crores as on that day. What is more interesting is that this organization has mobilized Rs. 300 crores as deposits in the year 2004-05. Out of this, a sum of Rs. 245 Crores was utilized for payment of interest on the deposits, which meant that only Rs. 55 crores was used for further investments. The deposits mobilized during the year had to be used for payment of interest payment ***because the organization suffered a cash loss of Rs. 235 crores in the year 2005-06.*** The organization also suffered a loss of Rs. 231 crores for the year 2003-04 and even in that year the loss had to be met by mobilizing additional deposits. ***Another very important issue is that whereas Margadarsi Financiers is incurring losses every year upwards of Rs. 200 crores, the total profits of all the group companies in which the investments are made out of the deposits collected by Margadarsi Financiers, as per our information, is not more than Rs. 100 crores per annum and this clearly means that there is no way that the existing depositors can be serviced.***

Apparently, the Depositors are not aware of the financial status of Margadarsi Financers as rationally speaking, even assuming that the general public are not aware of the mandatory provisions of Sec. 45-S of prohibition of acceptance of deposits, no individual would be willing to invest in a company which is incurring losses at the rate of Rs. 235 crores per annum.

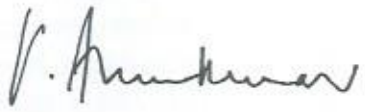
This clearly means that for reasons best known to RBI, they have not been exercising their supervisory and regulatory control over Margadarsi Financiers, which is why they are able to carry on their activities with impunity. Interestingly, even the Income Tax Department, where the Financial Statements are filed year after year for the assessments, has also kept quiet without enquiring into whether annual accretions to the deposits are from Members of the general public or the amounts re-cycled clandestinely and against the provisions of Money Laundering Act.

With the result, if the deposits are from the general public (majority seems to be from them) the Depositors can get only 50% of their investments. In case the Deposits are from Money Laundering and recycling of their own funds, there is a clear case of evasion of taxes.

The whole issue, therefore, has to be thoroughly enquired into and it should be done urgently. I am enclosing the copy of the Balance Sheet received by me. I therefore request that necessary investigation is immediately ordered in the larger public interest.

With regards,

Yours sincerely



(VUNDAVALLI ARUN KUMAR)

NOTE ON MARGADARSI FINANCIERS

1. Margadarsi Financiers, a Hyderabad based family business firm (Hindu Undivided Family) of Sri Ramoji Rao has been illegally collecting deposits from the public in violation of Section 45 S of the RBI Act, 1934, which expressly prohibits acceptance of deposits by unincorporated bodies. Sri Ramoji Rao, incidentally, is the owner and Editor of the famous Eenadu Telugu Daily.

2. Margadarsi Financiers, being a Hindu Undivided Family is an unincorporated body. Incorporated bodies include Companies registered under Companies Act, 1956, Societies registered under Societies Registration Act, 1860, Cooperative Societies registered under the Cooperative Societies Act of various State Governments, Public Corporations registered under various specific Acts of Parliament, Banks registered under Banking Regulation Act, 1949, Chit Funds registered under Central Chit Funds Act, 1982 etc. A Hindu Undivided Family is not registered under any law. It gets created by birth in a Hindu Family. So HUF is an unincorporated body.

3. The Government of India brought an amendment to Section 45 S of the RBI Act, 1934, in the year 1997 expressly prohibiting individuals, partnership firms and unincorporated association of individuals from raising deposits from the public, as these classes of business establishments are under no obligation by

virtue of any legislation to get their accounts audited by independent firm of Chartered Accountants. There are no disclosure norms. Their affairs are not available to the public for scrutiny, as in the case of companies, whose affairs and financial position can be verified by any individual by payment of Rs.100 to the Registrar of Companies.

As the unincorporated bodies are not regulated and controlled by any Government Agency, the Parliament, going by its past experience of a large number of unincorporated finance companies cheating the gullible and innocent public by collecting deposits by offering rates of interest much higher than that of the Banks, decided to impose a complete ban on collection of deposits from public.

4. In fact, the said amendment was challenged by Shroffs who have been the traditional money lenders in Gujarat that the impugned amendment to section 45 S of the RBI Act violated Article 14 and 19 of Constitution of India. The Hon'ble Judges of Supreme Court viz; Justice B.N. Kirpal and Justice B.B.Shah, in the case of Bhavesh D. Paresh vs Union of India, in the year 2000, while upholding the validity of Section 45 S, categorically stated that it was in the larger interest of the country that unincorporated bodies are prohibited from accepting deposits, in order to prevent financial suicides by innocent public, who would otherwise continue to get attracted towards institutions offering higher rates of interest. They also observed how can we save the moth from the fire except by putting out the fatal fire?

5. The Reserve Bank of India vide their Press Release dated 18.12.1998 announced the ***changes of deposit norms for NBFCs and unincorporated bodies,*** to give effect to the amendments to Section 45 S of the RBI Act. Para No.9 of the said press release is reproduced below:

Unincorporated bodies

*The unincorporated bodies engaged in the business of a non-banking financial institution are not allowed to accept deposits except from the relatives specified and the manner prescribed in the provisions of Section 45 S of the RBI Act. However, as per recommendations of the Task Force on NBFCs, such entities could be allowed to access loans from bodies with a corporate identity, including NBFCs. Accordingly, the deposits from (a) the companies incorporated under the Companies Act; (b) corporations established under any Statute; and (c) the cooperative societies registered under any State law have been exempted from the definition of '**deposit**' under the RBI Act. Individuals, firms, associations of persons, Hindu Undivided Families and partnership firms may accept deposits from the above mentioned corporate entities also for the purpose of their financial business.*

6. It is clear from the above that the unincorporated bodies like HUFs can collect deposits from the relatives and corporate bodies but not from the general public.

7. The Task Force of Government of India on non-banking finance companies has directed all the State Governments to enact legislations to protect the interest of the depositors. Accordingly, Government of Andhra Pradesh had enacted Andhra Pradesh Protection of Depositors of Financial Establishments Act, 1999, which authorizes the State Government to exercise control over the properties of financial establishments which have either defaulted or are likely to default in the payment of interest and repayment of deposits. In case of defaulting firms, Section 5 of the said Act provides for a penalty in the form of imprisonment to the extent of 10 years or fine or both, while sec 3 of the said Act authorizes the State Government to attach the properties of erring financial establishments. The objective of delegating this authority and responsibility to

State Government is apparently because the RBI cannot be expected to have a surveillance mechanism over a large number of Un-incorporated bodies spread across the country.

8. Similarly Section 58 B (5A) of the RBI Act 1934 provides for levy of penalty in the form of imprisonment up to a period of 2 years and fine which may extend up to twice the amount of deposits collected in violation of Section 45 S, of the RBI Act 1934. Even under the RBI Act, 1934, in respect of Section 45 S, 45 T and 58 E of the RBI Act, both the RBI and the State Government are independently and equally empowered to launch prosecution against erring firms.

9. It is reported that Margadarsi Financiers, an unincorporated body (UIB) has accepted Rs.2200 as deposits from the public as on 31-03-2005 and reported an accumulated loss of Rs.1100 crores as on that date. The loss for the year 2004-05 was Rs.235 crores. It is further reported that the Margadarsi has collected an additional sum of Rs.400 crores from the public during the financial year 2005-06 and reported an additional loss of Rs.300 crores.

10. Margadarsi Financiers invested a large portion of the money collected from the public in various business run by Ramoji Rao HUF, of which Margadarsi Financiers is one of the divisions. As per the return submitted to the Income Tax Department, the entire Ramoji Rao HUF (which includes Margadarsi Financiers) suffered a loss of Rs.1850 crores as on 31-03-2006 and a loss of Rs.434 crores for the year 2005-06 alone. This clearly indicates that a situation has arrived wherein Margadarsi Financiers is now borrowing additional deposits every year to repay the interest and matured deposits. There is no way that the group can be expected to repay from its profits.

11. Not only is Margadarsi Financiers, an unincorporated body being a HUF, has been collecting deposits from the public in complete violation of the RBI Act, 1934, but is also against the established financial prudence, which demands that a loss making firm cannot accept unsecured loans/deposits from the public.

12. It is pertinent to note here that Margadarsi Financiers is not a registered NBFC. Nor can RBI permit it to collect deposits from the public. Even the organizations which are permitted to collect the deposits cannot accept deposits more than four times of their net owned funds. The offer document has to be independently rated by two rating agencies. These companies have to file prospectus or statement in lieu of prospectus giving details of the financial position of the company for three years preceding the year in which deposits are sought to be raised.

13. Margadarsi Financiers has thus committed an illegal act. When the issue was made public by Mr.Arun Kumar, Sri Ramoji Rao and his daughter-in-law, through their news paper and TV channels tried to explain away the fraud by stating that HUFs are not prohibited to collect deposits as per legal opinion believed to have been obtained by them from two retired Chief Justices of India, whose names they however refused to divulge.

    They did not have the courtesy of publishing the legal opinions they obtained. Retired Judges and Chief Justices of Supreme Court cannot practice in Supreme Court or anywhere in the country and therefore it is very surprising that they could obtain such opinions. The issue of whether HUF is an unincorporated body or otherwise is not open for interpretation, as by no stretch of imagination HUFs are incorporated bodies.

14. Mr. Ramoji Rao also tried to give confidence to the depositors that their assets are worth more than Rs.10,000 crores and that therefore there would be no problem to repay the deposits.

In the larger interests of more than 2 lakh depositors, even accepting for a while the claim of Mr.Ramoji Rao that his business is legal, he has a responsibility to publish at least in his own news paper, as to how he has reached the valuation of Rs.10,000 crores. When that the entire group is suffering losses upwards of Rs.400 crores per annum, how can he claim a positive net worth for the group, unless, the group business is one of real estate, which it is not. The land in his possession is for running a studio and unless he has obtained permissions from the Government under Section 18 (2) of Andhra Pradesh Agricultural Land Ceilings Act, 1975, to hold such large extents beyond the ceiling limits, the holding of such large extents of land in itself is a violation and liable for prosecution under Section 24 of that Act. He thus has a responsibility to immediately publish his net worth to convince the public due to whose gullibility and innocence he built up his large empire. All the deposit holders are unsecured creditors, having no charge on the assets of the business activities of Sri Ramoji Rao. He is already forced to borrow bigger loans to repay the smaller loans.

15. It is also ertinent to note that our State suffered heavily on account of financial irregularity committed by a large number of Urban Cooperative Banks (UCBs). All the UCBs are legally permitted and licensed by RBI to run as Scheduled Banks. There is strict control and regulation by RBI and the Registrar of Cooperative Societies of the State. Inspite of this, during the TDP Government here and the NDA rule at the Centre, as many as 45 Urban Cooperative Banks became sick and are being wound up. The deposits involved in all those 45 banks are to the tune of Rs.605.08 crores. Now as many as 121 UCBs are working in the State. Their collective deposits as on 30th September, 2006 are Rs.2394.10 crores. As per the information available about Margadarsi Financiers, they have collected more than the combined deposits of the 121 UCBs

and have continued to collect deposits till 20th November, 2006 even in the face of huge accumulated losses being piled up year after year. It is also important to note that when some of the Urban Cooperative Banks were reported not to be doing well during the TDP regime, instead of giving them an opportunity to repay the deposits, which Margadarsi is claiming, the then Government mercilessly arrested all the Directors of those banks, thus foreclosing the possibility of repayment of deposits. It is important to note the role played by EENADU paper in particular in prominently publishing failure of each of the Cooperative Bank virtually forcing the State Government, which was alleged at that time to be running at the behest of that paper, to arrest the Director and to create confusion. There was also an allegation that the said news paper was doing this deliberately to gain at the cost of the Urban Cooperative Banks. Neither the EENADU paper nor the then TDP Government had the compunction for having ruined the lives of main depositors of UCBs.

16. Another fallacious argument put forward by Mr.Ramoji Rao and his supporters is that as long as the depositors do not have any doubt and objection, nor have they openly expressed any anxiety or insecurity, there is no reason for the Government or any agency to examine the issue of legality of collection of deposits. Nothing can be more deplorable and irresponsible than this. It is the bounden duty of any responsible Government and its agencies to keep a watch on illegal, unauthorized and ill intentioned efforts of avaricious elements so as to protect simple, innocent and gullible public. It is a fact that gullible public has been clearly misled, cheated and tempted to invest their hard earned money in the form of deposits in Margadarsi Financiers for utilization by Mr. Ramoji Rao and his family to further their own enrichment without providing any semblance of security to the depositors.

17. The State Government apparently for fear of being mistaken for taking action against a business establishment of a News Paper owner has delayed taking action for more than 50 days after the issue became public. If we go by the spirit of various legislations including the RBI Act and A.P.Protection of Depositors of Financial Establishments Act, 1999, the State Government has greater responsibility of surveillance and action. Here is an unincorporated body, which has borrowed more than Rs.2,600 crores as Deposits from the general public as on 31.3.2006 and reported a group HUF loss of Rs.1860 crores as on that date; the loss for the year 2004-05 was alone Rs.434 crores. There is clear evidence from the books that new deposits are being raised only to pay the interest and repay the matured deposits every year. They are liable for action under Section.58-B (5-A) and Section.58-E of the RBI Act, 1934, as per which the State Government has responsibility to launch prosecution. Quite apart from this, the State Government also has the responsibility to initiate action under Section 3 (ii) of the A.P.Protection of Depositors Act,1999, The relevant portion is reproduced below:-

Where the Government have reason to believe that any financial establishment is acting in a manner prejudicial to the interests of the depositors with an intention to defraud the depositors; and if the Government are satisfied that such financial establishment is not likely to return the deposits in cash or kind after maturity, or in any manner agreed upon, the Government may, in order to protect the interests of the depositors of such financial establishment, pass an and interim order attaching the money or other property alleged to have been procured either in the name of the financial establishment or in the name of any other person from and out of the deposits collected by the financial establishment, or if it it transpires that such money or other property of the said financial Establishment, or the promoter, manager or member of the

said financial establishment, as the Government may think fit, and transfer the control over the said money or property to the competent authority.

18. When the whole issue became public, Sri Ramoji Rao along with political parties opposed to the present Congress Government in the State, have, as expected, made best possible efforts to project that if action is taken against Margadarsi Financiers, it will amount to deliberate infringement of the press freedom. What these people have forgotten is that it is not just Eenadu which has been crusading against the corruption in public life; there are also many other papers in the state with large circulation, which have also been crusading against corruption in public life. The entire press in the state has expressed shock and disbelief at the illegal activity being carried on by Margadarsi which is run by a person who incidentally owns a Newspaper and TV Channels. Some of these papers, which have not been known to be friends of the present Congress Government, have published many articles and editorials that no body can claim immunity for their criminal activities merely because they also own newspapers and TV Channel.

19. The country now needs to debate on whether the owners of Newpapers and TV Channels can indulge in illegal activity and get away with it under the garb of Press Freedom.

MARGADARSI FINANCIERS
5-10-195, FATEH MAIDAN ROAD
HYDERABAD - 500 004

BALANCE SHEET AS AT 31st MARCH 2006

PARTICULARS	SCHEDULES	AS AT 31/03/2006 RS.	AS AT 31/03/2005 RS.
SOURCE OF FUNDS			
Capital Employed	A	—	---
Loan Funds	B	26,103,839,042.92	22,014,233,528.15
		26,103,839,042.92	22,014,233,528.15
APPLICATION OF FUNDS			
Fixed Assets (Net Block)	D	121,377,098.89	73,060,670.16
Capital Work in progress	M	0.00	1,156,798.19
Investments	E	9,883,103,787.79	9,464,595,439.79
CURRENT ASSETS			
Cash & Bank Balances	H	2,579,433,158.78	1,838,950,124.43
Loans, Advances & Deposits	I	470,839,939.35	397,447,754.30
Other Current Assets	J	101,516,889.20	70,660,330.06
		3,151,789,987.33	2,307,058,208.79
LESS : CURRENT LIABILITES & PROVISIONS			
Liabilities	K	747,115,947.78	843,305,649.55
Net Current Assets		2,404,674,039.55	1,463,752,559.24
Miscellaneous Expenditure : Profit & Loss A/c		13,694,684,116.69	11,011,688,060.77
		26,103,839,042.92	22,014,233,528.15

per our report of even date

For M/s Satyanarayana & Co.,
Chartered Accountants

G Venkataratnam
Partner

SATYANARAYANA & CO. CHARTERED ACCOUNTANTS

Ramoji Rao
Kartha of H U F

Hyderabad
Date : 27-10-06

SRI RAMOJI RAO - HUF
BALANCE SHEET 2005-06

(a) In a case where regular books of account of business or profession are maintained.

		Rs.
1.	Sales (net of returns)/Gross receipts of business	133,30,88,344
2.	Miscellaneous income	17,00,34,602
	TOTAL	**150,31,22,946**
3.	Consumption of stores and spare parts (details as per P&L A/c)	258,72,64,843
4.	Salaries, wages and bonus	16,68,49,539
5.	Interest	281,44,07,789
6.	Sales promotion including publicity (other than advertisement)	95,56,431
7.	Other/Miscellaneous expenses (details as per P&L A/c)	17,53,16,885
8.	Depreciation	9,28,78,139
	TOTAL	**584,62,73,626**
9.	Profit Before Tax(PBT)	(-) **434,31,50,680**

OTHER INFORMATION

		Rs.
1.	Amounts debited to the P&L A/c, being	
	(a) Expenditure of personal nature	27,40,742
	(b) amounts inadmissable U/s.40(a)	86,66,585
2.	Any amount which was disallowed U/s 43B in Preceding previous year (s) but is allowable During the year	1,68,124
3.	Any amount which is debited to P&L A/c of The previous year but is not allowable U/s 43B	5,67,411
4.	Amount of income or expenditure of prior period Credited or debited to the P&L A/c (net)	13,380

SRI RAMOJI RAO - HUF
BALANCE SHEET 2005-06

PART-A

BALANCE SHEET

			Rs.
1.	*Sources of funds*		
	(i)	Capital	1000,44,56,556
	(ii)	Unsecured loans	2610,45,29,996
		TOTAL	**3610,89,86,552**
2.	*Application of funds*		
	(a)	Fixed assets:	
		(i) Gross: block	162,57,58,219
		(ii) Capital work-in-progress	12,87,39,497
	(b)	Investments	1016,17,40,536
	(c)	Current assets, loans and advances:	
		(i) Inventories	64,87,48,180
		(ii) Sundry debtors	111,34,83,968
		(iii) Cash and bank balances	269,52,68,965
		(iv) Loans and advances	209,38,72,052
	(d)	Current liabilities and provisions:	
		(i) Liabilities	122,11,95,595
3.	*Net Current assets*		599,63,18,003
	(e)	(i) Profit and loss account (Loss)	1819,64,30,297
		TOTAL	**3610,89,86,552**

NOT TRANSFERABLE

Phones: 040-23442195
040-23442196
Cell : 98480-28111
98485-20725
Fax : 040-23442194

MARGADARSI FINANCIERS

5-10-195, Fatch Maidan Road, Hyderabad - 500 004. (A. P.)

FIXED DEPOSIT CERTIFICATE

1Y FDC
No 187002 Date 23/03/2006

This is to certify that V LAKSHMI SUBBA RAO
D No 12-11-120
Aryapuram
Rajahmundry
E G Dt

is/are the Registered holder(s) of MARGADARSI **FIXED DEPOSIT** Certificate issued by MARGADARSI FINANCIERS in accordance with the rules governing the issue of such Certificate. Margadarsi Financiers undertake to pay him/her/them Rs. 92,335/- (Rupees Ninety Two Thousand Three Hundred Thirty Five Only) at this office on or after 09/02/2007 on presentation of this Certificate.

We Received An Amount Of Rs. 84,324/-
REN OF 164994-1

For MARGADARSI FINANCIERS

Rs. 92,335/-

Memo No. ---------- Date 09/02/2006

RAMOJI RAO
Kartha of HUF / Attorney

RAJAHMUNDRY

CHEQUE


HDFC BANK

Payee's Account only

Date 03/11/2006

PAY V LAKSHMI SUBBA RAO

or Order

RUPEES Eighty Five Thousand Four Hundred Twenty Six Only

Rs. 85,426.00

For MARGADARSI FINANCIERS

A/c No. 0210330001279

Proprietor

HDFC BANK LTD.
6-1-73 GR and 3rd Floor, Saeed Plaza,
Lakdikapul, Hyderabad - 500 004.
PAYABLE AT PAR AT ALL BRANCHES OF HDFC BANK LTD.
RTGS / NEFT IFSC : HDFC0000021

⑈94,591⑈ 500 24,000 2⑆ 900 209⑈ 29

Note : This Fixed Deposit Certificate and Cheque was issued by Margadarsi Financiers (Signed by Ramoji Rao, Kartha - HUF) to V. Lakshmi Subba Rao a family member of Vundavalli Arun Kumar.

RESERVE BANK OF INDIA

To Govt. Of Andhra Pradesh, 29.12.2006

Chief General Manager in Charge
D.O.DNBS CO/01.02.007/2006-07 November 30, 2006

Dear Shri Amitabh Verma

Representation of Sri Vundavalli Arun Kumar, M.P. received through Dr. Y.S. Rajasekhara Reddy, Chief Minister, Andhra Pradesh regarding alleged irregularities being committed by Margadarsi Financiers, Hyderabad based HUF.

Please refer to Government's letter F.No 5/94/2006-BO.II dated November 10, 2006 on the captioned subject A Status paper indicating the background in respect of Margadarsi Financiers is given in Annex.

2. In view of the letter under reference received from the Ministry, the Bank had called the representative of the unincorporated body (UIB) of discussion on November 13, 2006 and they were asked to a) Substantiate their stance that they are not covered under Section 45S of the RBI Act, 1934 and b) detail their plans for protection of the interest of the depositors. Pending submission of the replies, the UIB was advised neither to accept any fresh deposit nor renew the maturing deposits forthwith.

3. As regard general policy, in respect of UIBs, Reserve Bank has adopted an approach recognising the fact that the Bank has no powers to inspect the books of account of UIBs. In case of complaint, the Bank has powers to approach a court of law for a search warrant under section 45 T of the RBI Act, As these powers are also vested with the State Governments (Police Department) and because the police are also equipped to deal with such issues under the provisions,

information received about illegal acceptance of deposits or complaints are referred to the state Government for effective investigation and prosecution.

4. However, in this case in view of the large amount of deposit involved at around Rs. 2204.42 Crores covering around 2.5 lakh depositors and the associated systemic risk, the Bank initiated steps out lined in the status note for addressing the issue in respect of the UIB.

5. In its response, the UIB, vide its letter dated November 20,2006 has stated that the provisions of Section 45 S of the RBI Act, 1934 are not applicable to HUF and hence it is not covered under the said provisions. However, it has informed that

i) It had discontinued acceptance of deposits including renewal below Rs 1 lakh with effect from September 16, 2006;

ii) In the best interest of the depositors it has now decided to discontinue acceptance of all deposits (including renewals) with immediate effect;

iii) Currently it intends to make repayment of deposits on matter;

iv) The payment of interest and the repayment of deposits as out lined would necessarily require disinvestments of some of the holdings; assests; and that it is negotiating such disinvestments and expects to complete the process and repayment of all deposits within a period of 3 years.

6. In view of the above that this juncture, the two options available to the Bank are:

a) Applying general approach in this regard and report to the State Government what RBI consider to be violation

of the provisions of the RBI Act 1934 for initiating appropriate action.

b) Giving time for phased repayment to depositors without prejudice to any action RBI may initiate under the provisions of the RBI Act, 1934.

By deciding between the two points the balance of convenience lies in keeping the interest of over 2.5 lakh depositors of the 19B which may be jeopardised in case precipitative action is initiated. The jeopardy of a run of the HUF by the depositors is considered likely in view of the liquidity constraints that may arise not with standing the reported solvency.

It likely be added that it is not unusual for the Company Law Board and Courts to reschedule repayments or provide extended time for repayment of deposits for the defaulting NBFCs. Hence an approach with laree elements indicated below is appropriate for consideration.

(i) Ensuring that no fresh deposits are accepted or matured deposits are renewal so that the violation of the provision of the RBI Act 1934 is put an end to immediately;

(ii) Depositors are paid as and when the deposits mature and any violation could attract action under the ***Provisions of the Andhra Pradesh Protection of Depositors of Financial Establishment Act, 1999.***

(iii) Pending in place a mechanism to monitor the assets of HUF so that they are persuaded compromising its capacity to discharge obligations to the depositors.

7. The Margadarsi Financiers called on as again on 29th November 2006 in the light of the discussions they have.

(i) reconfumed that

(a) No fresh Deposits are being accepted with immediate effect

(b) No renewals of maturing deposits are being made and

(c) Matured deposits are being paid as per schedule;

(ii) and agreed to

(a) Deposit an equivalent amount of unclaimed deposits in an ESCROW account on due date and

(b) Utilise the disinvestments proceeds to meet the depositors liability which are consistent with the three element approach.

(8) The mechanism of monitoring compliance by a Chartered Accountant nominated by RBI Certifying at monthly intervals, compliance with the agreed terms have been accepted by the HUF.

(9) In view of the above, RBI proposes to closely monitor the developments and take appropriate corrective action and when considered necessary.

With regards

Yours sincerely,
(P.KRISHNAMURTHY)

Encl: As above
Shri Amitabh Verma
Joint Secretary(BO&A)
Ministry of Finance
Department of Economic Affairs(Banking Division)
Government of India
Jeevan Deep, III Floor, Sansad Marg
New Delhi-110 001

A LETTER FROM
RBI (Centeral Office) MUMBAI
to A.P Government

Copy of of letter No. DNBS.CO. 4230/01.02.06-2007 dated 29th December, 2006 of from Sri P. Krishnamurthy, Chief General Manager-in-Charge, Reserve Bank of India, Central Office, Mumbai addressed to Sri Paul Bhuyan, IAS, Special Chief Secretary to Government, Home Department, Government of Andhra Pradesh, A-Block, 3rd Floor, Secretariat, Hyderabad.

Dear Sir,

Please refer to your letter No. 37008/General.B/A2/2006-1 dated December 19, 2006 requesting certain information / documents etc. on Margadarsi Financiers, Hyderabad.

2. As you may be aware, the Reserve Bank of India draws its powers for regulation and supervision over the non-banking financial companies (NBFCs) from the provisions of Chapter III B of the Reserve Bank of India Act, 1934/ These powers include registration of NBFCs, inspecting their business, calling for information, calling for returns/statements on deposits and issuing directions. However, the Act does not provide for the Reserve Bank to issue directions. However, the Act does not provide for the Reserve Bank to issue directions or exercise other regulatory and supervisory powers as regards unincorporated bodies (UIBs) such as Margadarsi Financiers which is stated to belong to a Hindu Undivided Family (HUF), Since HUFs are not falling within the definition of a NBFC or a non-banking Insitution under Chapet III B of the RBI Act, 1934, the powers of the Bank are restricted to initiation of criminal proceedings, concurrently with the state Governments, in case where the provisions of Section 45 S of the Act are violated.

3. UIBs like Margadarsi Financiers are not required to submit any statutory statements or returns to the Bank on their deposit acceptance activities. As such the Bank does not have the names and details of the depositors of Margadarsi Financiers or original documents like certified copies of balance sheets etc. on its records which can be made use of by the State Government while initiating prosecution under Section 58 E of the RBI Act, 1934. However, the Bank has informally obtained a copy of the balance sheet for the year 2004-05 and a few deposit opening forms of Margadarsi Financiers. Copies of these documents are enclosed. In view of the limited statutory powers, the Bank had no relevant original documents relating to Margadarsi Financiers availabe on its records to enable its officers to give any authentic evidence on behalf of the Bank. In case the State Police needs any assistance in analysing the financial statements/books of accounts relating to Margadarsi Financiers, the Bank would be glad to make availble on appropriate resource person for such specific purpose.

Yours faithfully

Sd/-
(P. Krishnamurthy)
Chief General Manager-in-Charge

Encl : As above.

भारतीय रिजर्व बैंक
RESERVE BANK OF INDIA
Department of Non-Banking Suervising
Secreteriat Road, Saifabad
Hyderabad - 500 004

Fax : 040 - 23232643
Telephone :
23237983(PADX)
23230281 (Direct)
Post Bag No. 21431

DNBS (H)/ 980/040-08-011 (COMPL)/2003-04 SEPTEMBER 15, 2003

Shri S.K. Sharma
4-61-7
Lawsonsbay Colony
Visakhapatnam - 530 007

Dear Sir

Information about margadarsi Financiers

Please refor to your letter dated nil on the captioned subject.

In this connection we advise that Margadarsi Financiers is not a Non-Banking Financial Company and hence does not come under the purview of RBI. You may therefore approach, the Principal Secretary, Government of Andhra Pradesh, Home Department, Secretariat, Saifabad, Hyderabad for obtaining necessary details about the company.

Yours faithfully

N. Jagannathan

(N. JAGANNATHAN)
Assistant General Manager

(Reply from RBI to one Mr. S.K. Sharma to approach Govt. of Andhra Pradesh as Margadarsi Financiers is not registerd into RBI. It's interesting note that the same RBI said that it did not receive any complaint against Margadarsi from 1999 to 2006)

GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

Allegation of raising deposits against M/s Margadarsi Financiers, Fateh Maidan Road, Hyderabad - Appointment of Sri N. Rangachari, Advisor to Government, Finance, under A.P. Protection of Depositors of Financial Establishment Act 1999 for a Report - Orders - Issued.

GENERAL ADMINISTRATION (L&O.1) DEPARTMENT

G.O.Ms.No. 800 Dated 19.12.2006

ORDER

Government had viewed with concern the News items which have appeared in several newspapers in particular in The Hindu dated 03.12.2006, Eenadu dated 03.12.2006 and 09.12.2006 and in Andhra Prbha dated 14.12.2006, all of which suggest that M/s Margadarsi Financiers is not an incorporated body as it is a Hindu Undivided Family and is consequently not expected to raise or receive deposits from the public as made available to the Government, M/s Margadarsi Financiers is reported to have accumulated losses and on the otherhand is reported to have raised deposits from the public in excess of Rs. 2,000 crores.

2. The State Government has a bounden duty, as per the provisions of the Andhra Pradesh Protection of Depositors of Financial Establishment Act, 1999 (Act No. 17 of 1999), to take deterrent action against financial establishments indulging in malpractices during the course of acceptances of public deposits.

3. With a view to protect the interests of the depositors, the State Government, hereby appoint Sri N. Rangachari, Advisor to Government, Finance, to examine all the relevant papers and other material and to submit a report on whicher M/s Margadarsi Financiers have raised deposits from the public in violation of the provisions of Reserve Bank of India Act or under the provisions of Andhra Pradesh Protection of Depositors of Financial Establishment Act 1999 and if there is any reason to believe that this financial establishment is acting in a manner prejudicial to the interests of the depositors and whether the financial establishment is not likely to return to deposits collected from the public.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

J. HARINARAYAN
Chief secretary to Government

To
Sri N. Rangachari
Advisor to Government, Finance Department

Copy to :
The Home Department

Forwarded :: by order
Section officer
(S.C)

GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

Appointment of Sri Krishna Raju, IPS, Inspector General of Police, C.I.D. as an Authorized Office under Section 45(T) and 58 (E) of Reserve Bank of India Act, 1934 - Orders - Issued.

GENERAL ADMINISTRATION (L&O.1) DEPARTMENT

G.O.Ms.No. 801 Dated 19.12.2006

O R D E R

The State Government hereby authorize Sri Krishna Raju, IPS, Inspector General of Police, C.I.D. as the Authorized Officer o file application in Courts of jurisdiction and take other action as enjoined under the provisions of the Reserve Bank of India Act, 1934 and in particular authorize the said Officer to take action under Section 45 (T) and 58 (E) of the said Act.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

J. HARINARAYAN
Chief secretary to Government

To
Sri Krishna Raju, IPS.,
Inspector General of Police (C.I.D.),
Hyderabad.

Copy to :
The Chief General Manger (Incharge)
Department of Non Banking Supervision, Central Office
Reserve Bank of India, World Trade Centre, Colaba, Mumbai (by name cover)

//Forwarded :: By Oder//

Sd/-
Section Officer (SC)

Shri N. RANGACHARY, ADVISOR TO GOVERNMENT
FINANCE DEPARTMENT, AP SECRETARIAT, HYDERABAD

Present : **Shri N. RANGACHARY**
Advisor to Government

Procs.No. Nill/Adv/07 Dated 19.2.2007

ORDER:

1. I have been required to ascertain under G.O.Ms. No. 800 of 19.12.2006, from material made available whether M/s Margadarsi, Financiers, carrying on business in Hyderabad and who have raised huge moneys from the members of the public by way of deposits, are acting in any manner prejudicial to the interests of the depositors and whether they are likely to return the deposits collected from the public.

2. I had also been required to examine whether the raising of moneys by way of deposits from the members of public by Margadarsi Financiers was in accordance with the provisions of the Reserve Bank of India Act, 1934. By an order dated 14.12.2007, I have held that the activity of Margadarsi Financiers in continuing to raise public deposits was in contravention of s. 45 S of the Reserve Bank of India Act.

3. Margadarsi Financiers are apparently a Hindu Undivided family assessed as such to income tax in Hyderabad. Their accounts for the years ended 31 March, 2006, as audited by M/s Satyanarayana and Co., Chartered Accountants, Hyderabad have been filed with the Income Tax Department, Hyderabad. A copy of these has been made available to me on the basis of which I proceed to make my observations hereunder, for the reasons stated below :

4. I had requested M/s Margadarsi Financiers by my letter dated 23.12.2006 to file with me copies of their accounts for the different years and also to nominate a person from their side to assist me with explanations and information sought from time tome. The party replied stating that they were taking the issue of the appointment of the enquiry to the High Court in Hyderabad whose decision I must await. The High Court in its Order made in January 07, refused to stay the proceedings and no orders were made to indicate that the proceedings must be stayed. I wrote to the party against on 25 January, 2007 pointing out to them and requested for cooperation. To this, a reply was received from M/s P.H. Parekh & Co., Advocates if New Delhi stating that they on behalf of their client intend filing a special leave petition against the decision of the AP High Court and that I must await till the matter was decided by the Supreme Court, I wrote to the Advocates on 12th February pointing out to them that the matter of receiving deposits from the return of those was a very highly sensitive issue affecting public faith and confidence in the entire system of administration and hence the party must cooperate in the enquiry. To this again, the Advocates have replied that the matter was likely to come up before the Hon'ble Supreme Court on 23 February, 2007 and I must therefore wait till a decision is communicated. The issue relates to a large segment of the public where the safety and peace of more than 2,00,000 depositors is concerned who have apparently deposited with Margadarsi Financiers upwards of Rs. 2,600 crores. It is also seen from a copy of the Writ Petition filed by one of the depositors before the High Court the Margadarsi Financiers are not usually in the habit of paying the periodical interest due but pressurizing the depositors to take chits with their allied concern where the interest moneys due are adjusted as periodical contribution to the chits.

5. It is strange but requires to be stated here and none that in none of the communications addressed to me the party or the advocates had addressed themselves to the safety of the deposits and their preparedness to meet the obligations. Such an important and sensitive issue affecting the lives of many of the depositors have not been cared to be adverted to at all. The only arguments that have been advanced here are that the action in the issue of the enquiry order was mala-fide and was dictated by personal considerations or prejudices and that the party will challenge the provisions of the Andhra Pradesh Protection of Depositors of Financial Establishment

Act, 1999. The protection offered by this Act, to the unsecured depositors - the deposits raised from the members of the public do not carry any security protection or guarantee and wholly depend on the strength and the goodwill of the borrower to be returned - is sought to be questioned by the party apparently adopting dilatory tactics not the return the moneys. In the circumstances, I feel that waiting any more for response from Margadarsi Financiers to offer any credible help in solving the issue about liquidity of the party and their acceptability will be adverse to the interests of the depositor community at large.

6. I have already indicated that certain account statements relating to Margadarsi Financiers and its associate concerns have been made available to be for study. These are proper documents, prepared prime facie in the ordinary course of business, looked into by competent Chartered Accountants properly appointed and filed with the statutory authorities - viz., Income tax Department and the Registrar of Companies. In the case of Margadarsi Financiers, account statements upto end of March, 2006 are available whilst in the case of the private limited companies, to whom substantial moneys from Margadarsi Financiers had been diverted by way of share capital and loans, the account statements relate to period ended 31st March, 2005 and in many cases to periods even earlier to that. In some cases, the companies established have become dormant and the investment of Margadarsi Financiers continues. In some cases, these companies have also embarked on the activity of making intra-company loans and investments with the result that the moneys drawn from Margadarsi Financiers have flown into very many fields - some fertile, some drought - prone and many non-yielding any results.

7. That Margadarsi financiers have continued to resort to taking deposits from the public even after Chapter III C of the Reserve Bank of India Act, 1934 is evident from the growth of the figures of deposits as gleaned from the Balance Sheets of the family. Before looking into this aspect, it is worthwhile noting that Margadarsi Financiers, as is evident from the Balance Sheet as at 31st March, 2000 and onwards, did not show any equity or capital of its own invested in their business and the only route for finding capital was loan capital represented by the public deposits raised.

8. The figures for the deposits are as under :

Deposits on	Rs. in crores
31.3.2000	619.25
31.3.2001	885.45
31.3.2002	1,277.03
31.3.2003	1,487.93
31.3.2004	1,909.27
31.3.2005	2,201.42
31.3.2006	2,610.38

9. The above figures are net and therefore prime facie have been adjusted for repayment, it any of matured deposits and taking in fresh deposits. Such net annual accruals were Rs. 266.19, Rs. 391.56, Rs. 210.93, Rs. 421.33, Rs. 292.16 and Rs. 408.91 crores.

10. The application of these deposits in a very large measure had been to make investments in group concerns and also to finance the periodical losses.

11. The losses for the same period as mentioned in the table above plus the fresh investments made in the group companies for that period were as under :

(Rupees in crores)

Year closing on	Accumulated Losses	Acccumalated value of Investments
31.3.2000	250.98	182.33
31.3.2001	338.94	301.24
31.3.2002	472.14	549.29
31.3.2003	654.40	760.87
31.3.2004	868.27	858.29
31.3.2005	1,101.17	946.46
31.3.2006	1,369.47	988.31

12. To put these figures in a clear perspective, we can see that the net fresh deposits raised by Margadarsi Financiers in the accounting year 2005-06 were Rs. 408.91 crores and this sum was consumed to the extent of Rs. 268.29 by way of losses and Rs. 41.85 crores of investments. In other words, more than 75% of the deposits raised in the year went towards meeting the current losses and investments, weakening the financial structure of the party in its ability to repay the deposits. It may not be wrong to assume, on the basis of these figures, that fresh borrowings go only to meet the current losses and did not add to Margadarsi's Financial capacity. The other presumption that one can reasonable make in the light of these figures is that Margadarsi Fanciers have been able to survive only because the current borrowings to towards repayment of dues of earlier borrowings in that the cycle of continuous borrowings has been able to keep the party floating. If any break in this chain of fresh borrowing not being in a position to finance repayment of the earlier loans were to take place, then the interests of the depositors will be vitally affected. This will certainly be the case in view of the decision taken regarding the breach of s. 45 S of the Reserve Bank of India Act. If fresh borrowings are prevented from being made, the fate of the entire population of the current depositors running into more than 200,0000 will become critical.

13. A further analysis of the financial position of Margadarsi Financiers reveals the following :

14. Out of the total deposits of Rs. 2,610.38 crores as on 31 March, 2006, Rs. 1369.47 Crores are irretrievably lost by way of losses. This works out to more than 50% of the borrowings. I am taking the entire amount of losses as funds lost in view of the fact that even on the basis of details available, the loss on account of depreciation on assets was only around Rs. 2.50 crores.

15. Investments in group companies and sister concerns as on 31 March, 2006 came to Rs. 988.31 crores. Most of these concerns have been formed as private limited companies under the Companies Act, 1956 in which either the entire or almost the entire share capital is held by the family of Margadarsi Financiers. This amount includes an investment of Rs. 9 crores in bonds. Thus, the investment in own business was Rs. 980 crores (approx.) on 31.3.2006. Some odd figures are also found include under the caption "loans, advances and deposits". A perusal of the balance

sheets of these private limited companies reveals that most of the companies had filed their account statements with the Registrar of Companies for the period ended 31.3.2005; in some cases, the companies were dormant and except for the paid up capital and accumulated expenditure to be written off, had no substantial business. Only one Company, viz., Ushodaya Enterprises Ltd., had any substantial business; apparently this company carries on the newspaper and television business of the party. The Balance Sheet of this company as on 31.32005, shows a loss of Rs. 917.79 lakhs for the year that has been written down against the carry forward of reserves of the company. The loss of Rs. 917.79 lakhs for that year was against losses of rs. 89.63 lakhs made for the previous year. The trend of business apparently was towards an increase of losses from year to year and I think that it may be safe to presume that for the years after March, 2006, the same will continue and neutralize the past profits that have been built by the company.

16. An examination of the Balance Sheet(s) also does not reveal the existence of any assets that could, in ordinary course of business, lead to a realization of a value more than the book value, to indicate the generation of sources to liquidate any liability. In most cases, the individual assets of the subsidiary companies like land, plant and machinery, etc., themselves had been secured to the lenders such as banks towards working capital loans etc. taken In some cases, judge liabilities towards taxes in dispute had been provided. Investments of Usha Kiran Finance Pvt. Ltd., which had depreciated bt more than 40% of their cost had been disclosed at cost in the books.

17. Further, in my view, the investment by way of share capital and application money towards allotment of shares can only be viewed as sunk costs and not available to margadarsi Financiers as resources available to them to discharge the public deposits. For one, these investments are not liquid and are not available. For another, the realization of the investments will either result in losses or take a very long period to achieve in view of the closely held nature of the shares which do not enjoy a ready marketability.

18. I, therefore, am of the view that even on an readjustment of the values of the interests in the subsidiary companies, Margadarsi financiers will not be able to garner any resources to enable them to play off the depositors.

19. In the circumstances of the case and on the basis of figures available, Margadarsi financiers will not be to meet their obligation to repay the depositors.

20. The availability of liquidity and paying capacity of Margadarsi Financiers as regard their creditors, as a the end of March, 2006, can be depicted as under :

21. The first statement adopts the figures of assets as given in the audited Balance Sheet as at 31.3.2006 in the presumption that all the assets shown and that belong to Margadarsi Financiers will realize their book values.

		Rs. in crores
Cash and bank balance		257.94
Loans, advances and deposits (though these include moneys due from sister and associated companies whose separate asset position is not available, it is assumed that those balances could be recovered in full)		47.08
Other current assets		10.15
		315.17
Investments (mostly held in subsidiaries)		988.31
Fixed assets - [details not available]		12.13
assets cover		1,315.61
Debts owed :		
Creditors relating to business	74.71	
Deposits including accured interest	2,610.38	
		2,685.09
Deficit as regards creditors		**1,369.48**

22. In terms of percentage this work out 51 - In other words, in the best situation available to Margadarsi Financiers, it can repay every creditor (including depositors) only 49 paise in a rupee.

23. The statement that follows will depict the position where according to me the entire share investment in subsidiaries can only be treated as sunk investments and their realization will cause considerable disturbance to Margadarsi Financiers and result in losses. Further, except for one or two companies in which the investment has been made, the rest are dormant and mostly non - functional.

24. In such a situation, the position regarding creditors will be as under (even assuming full realization of the book values if he other assets like loans, deposits, fixed assets etc.)

		Rs. in crores
Cash and bank balances		257.94
Loans, advances and deposits [se note supra]		47.08
Other current assets		10.15
		315.17
Investments- Bonds		9.00
Fixed assets		12.13
		336.30
Sundry creditors - for trade	74.71	
Deposits including accrued Interest	2610.38	
		2685.09
Deficit as regards creditors		2,348.09
Asset cover that will be available to creditors		16.2%
Probable loss		83.8%

25. Unless the financial establishment viz., Margadarsi Financiers undertakes any of the following, it will be difficult for the depositors to recover anything substantial from them towards deposits.

(i) introduce additional funds from own sources, if the family owns any prop Properties or assets apart from those disclosed by Margadarsi Financiers ;

(ii) Unlock its equity holdings in one or more subsidiary companies which have a prospect of being looked into favorably by any investor ;

26. I will also like to consider another aspect of the case - to make the matter complete - Margadarsi Financiers is a Hindu Undivided family business, which has resorted to borrowals by way of public deposits, whose Kartha is Shri Ramoji Rao. It may be that the family still owns assets that have not been part of Margadarsi Financiers have chosen to remain non - cooperative and not provide with m e any details, I am unable to examine this issue. Additionally, the only requirement of G.O. Ms. No. 800 was me to examine the financial stability of Margadarsi Financiers whose entire transactions stand reflected in the statements filed by them with the Incometax Department which statements have formed the basis of my scrutiny.

27. Now, what remains is the consideration of the provisions of the Andhra Pradesh Protection of Depositors of Financial Establishments Act, 1999. This Act, was enacted following the advice to the State Governments by the Centre to protect the interests of the members of the public who deposit moneys, in the hope of getting periodically interest, and who were facing the phenomenon of deposit collecting establishments vanishing all of a sudden and ruining many middle class depositors who by the process lose their life-savings. This Act applies to a financial establishment which has been defined as any person or group for individuals other than a corporation or a cooperative society or a state undertaking or a banking company, Margadarsi Financiers prima facie qualify to be treated as a financial establishment. Deposit has been defined by the Act as a deposit of a sum of money either in lumpsum or installments for a fixed period, for interest or return in kind.

28. It is not disputed that Margadarsi Financiers solicited from the members of the public fixed deposits, cash certificates etc. for a fixed period and interest was offered to the depositors. Hence, Margardarsi Financiers qualify to be treated as a financial establishment covered by the Act.

29. Under s. 3 of the Act, powers have been given to attach property on default in respect of deposit. Such action is possible "if the Government are satisfied that such financial establishment is not likely to return the deposits in cash or in kind after maturity or in any manner offered upon in cases where among other things, where the Government have reason to believe that any financial establishment is acting in a manner prejudicial to the interests of the depositors or where the Government has reason to believe that a financial establishment is likely default in the return of deposits.

30. One of the factors that is to be taken into account is, therefore, the financial stability of the financial establishment which prima facie will affect the ability of the establishment to return the deposits to the public.

31. A recital of facts in the preceding paragraphs leads to the conclusion that Margadarsi Financiers, as it stands today, will not be able to refund the public deposits in full because of their legal inability to raise any more deposits the funds of the establishment having been irretrievably lost by more than 50% by way of business losses and the greater part of the balance having been invested in illiquid assets. Unless, the establishment is able to inject funds either by way of fresh borrowings (which they cannot raise as deposits from public) or realize any part of their business by way of sale or infusion of equity, the public deposits are incapable of being refunded. To that extent therefore, I hold that the financial establishment, namely Margadarsi Financiers is likely to default in the return of deposits on maturity and its present activity of utilizing the deposits raised to fund its ever-mounting losses and for reinvesting in subsidiary companies will amount to their acting in a manner prejudical to the interests of the depositors.

(N. RANGACHARY)
Advisor to Government)

Sri Rangachary (Indian Revenue Service) was Chairman Central Board of Direct Taxes and also Founder Chairman of Insurance Regulatory Development Authority.

Sri Ramoji Rao, owner and editor of the leading Telugu daily Eenadu has over the decades, come to acquire interests in diverse business activities which include Films and Film Studio, Chit Funds, Food Processing, Hotel, Investments, Publications, Visual Media, Real Estate etc. He also has large television network under the 'Etv' banner operating in twelve regional languages.

As part of his family business operated through Ramoji Rao HUF (Hindu Undivided Family) he was engaged in the Finance business in an outfit called Margadarsi Financiers. The Government of India have in the year 1997, brought out a legislation specifically prohibiting all Unincorporated Bodies like HUFs from raising deposits from the public for finance business. This clearly means that even RBI cannot permit HUFs to raise deposits from the public. In spite of this, Margadarsi Financiers has raised Rs. 2600 crores from the public without either taking the permission from the State Government or from the RBI. What is even more startling is that this HUF has reported a net loss of Rs. 1800 crores as on 31.3.2006. He however stopped this business in November, 2006 when this issue was exposed.

When the Government is seeking to take action against this erring financial institution which has been clandestinely raising finances in gross violation of the law of the land, Sri Ramoji Rao complains that any action by the Government against Margadarsi Financiers, even if it is according to the Law, is tantamount to infringement of press freedom. How strange is this?

What is even stranger is the fact that no action has been taken against him even after 200 days after the issue becoming public. Does this not lead to believe that all are not equal before the Law in this country?

■ Citizens Forum for Democratic Debate

■ Hyderabad, Andhra Pradesh