

REPORT

Financial Fraud in India - Vijay Mallya Scam



Introduction

When someone defrauds you of your money or otherwise negatively impacts your financial well-being through manipulation, fraud, or other illegal means, this is referred to as financial fraud. This can be accomplished in a variety of ways, including identity theft and investment fraud.

Why reporting a financial scam is important?

Irrespective of the nature of financial fraud, it is critical to report the crimes as soon as possible to the responsible authorities and federal agents. Fraudulent charges should be challenged or canceled as soon as they are discovered. Moreover, victims should gather records related to the crime, including bank statements, payment history, and tax documents from current and previous years, and continue to file crucial data throughout the reporting process.

As we got an understanding of what is financial fraud, we will be moving on to the case study on the Vijay Mallya scam, who was the owner of the defunct Kingfisher Airlines. Mallya owes approximately ₹ 9,000 crores to 17 Indian banks and is charged with fraud and money laundering in the home nation.

Facts & Findings

Initially, Mallya inherited UB Spirits, renowned for the Kingfisher beer brand, from his father and converted it into India's leading liquor producer. At the age of 28, he was appointed as the chairman of the UB Group in 1983. The majority of the group's other businesses, however, didn't perform well, with Kingfisher Airlines was perhaps the most significant failure.

Initially, Vijay Mallya was dissatisfied with Kingfisher Airlines' operations within Indian borders only. He intended to take the airline internationally. However, according to Indian regulations, airlines that have been in operation for less than five years are not permitted to fly international routes. Mallya decided to circumvent the law by purchasing an existing airline.

The first bid for Air Sahara was made in 2006 but Kingfisher lost the bid as Jet Airways defeated them. However, Mallya was eventually successful in acquiring Air Deccan. In September 2008, Kingfisher was granted permission to operate on international routes, with its first flight from Bangalore to London.

By 2008, Kingfisher Airlines had a fleet of 77 aircraft and was operating 412 domestic flights per day, carrying 10.9 million passengers. Kingfisher Airlines became the Indian market leader in 2009, with a market share of 22.9 percent.

Even after flying internationally and acquiring Air Deccan, Kingfisher was unable to make a profit. In 2010, the company was losing a lot of money because it couldn't keep up with its operating costs. Mallya continued to borrow money from banks in order to run his airlines. He borrowed approximately 9000 crores from 17 banks, and despite the fact that SBI declared Mallya bankrupt, other banks continued to lend him money. The company eventually went bankrupt and had to be closed down. As of October 2013, it had not paid its employees' salaries for 15 months, had lost its airline license, and owed more than US\$1 billion in bank loans. His company also accumulated passenger service tax, provident fund, and employee income tax. However, he did not report these funds to the Provident Fund or IT officials.

By November 2015, the amount owed to banks had risen to at least \$1.35 billion, with additional debts owed for taxes and to a slew of small creditors. As a result of the Kingfisher fallout, Vijay Mallya has been designated as a "willful defaulter" under Indian law, with accusations of money laundering, misappropriation, and other offenses leveled against him. Below is the list of banks and respectively the loan amount taken by Mallya:-

Banks	Amount
1. SBI	₹ 1,600 crore
2. PNB	₹ 800 crore
3. IDBI	₹ 800 crore
4. Bank of India	₹ 650 crore
5. Bank of Baroda	₹ 550 crore
6. United Bank of India	₹ 430 crore
7. Central Bank of India	₹ 410 crore
8. UCO Bank	₹ 320 crore
9. Corporation Bank	₹ 310 crore
10. State Bank of Mysore	₹ 150 crore
11. Indian Overseas bank	₹ 140 crore
12. Federal Bank	₹ 90 crore
13. Punjab & Sind Bank	₹ 60 crore

14. Axis Bank	₹ 50 crore
3 Other Banks	₹ 603 crore
<i>Total</i>	<i>₹ 6,963 crore</i>

A debate also emerges about the methods and collateral chosen by banks or their executives to grant Mallya these loans. As previously stated, the BOI loaned Vijay Mallya a loan of 300 crores on the collateral of office stationery, boarding pass printers, and folding chairs. Bank authorities were distrustful of the banks' willingness to make loans based on existing assets such as capital.

SBI made a loan of 300 crores based on Kingfisher Airlines' trademarks and goodwill. These were retained as collateral. These trademarks were worth more than Rs. 4000 crores in 2009, but have now dropped to less than Rs. 6 crores. IOB suffers similar issues because the two helicopters used as collateral by Mallya are no longer operational and so cannot be traded to recover Rs. 100 crores of debt.

Mallya fled the country on March 2, 2016, the day plenty of public-sector banks filed a debt-recovery petition against him with the Debt Recovery Tribunal. He was declared a fugitive economic offender under the Fugitive Economic Offenders Act in January 2019.

Current Verdict

In August 2021, after more than eight failed auctions, the Debt Recovery Tribunal (DRT) in Bengaluru finally sold Kingfisher House, the former headquarters of the defunct Kingfisher Airlines, to a Hyderabad-based business Saturn Realtors for 52.25 crores.

In July, a British court declared and granted a bankruptcy judgment against Vijay Mallya, setting the way for a consortium of Indian banks led by the SBI to pursue an international freezing order in quest of recovery for debt due by the now-defunct Kingfisher Airlines. Later, the Debt Recovery Tribunal (DRT) auctioned shares in Vijay Mallya worth Rs 792.12 crore confiscated by the Enforcement Directorate (ED) in a money laundering case on behalf of a consortium of banks led by the State Bank of India (SBI) to collect loan money.

Previously, the consortium collected Rs 5,824.50 crore and Rs 1,357 crore by selling Mallya's shares on two separate occasions. The bank recovered 81% of their entire claim against Mallya, which was Rs 9,900 crore. The majority of the shares were of United Breweries Ltd (UBL) and United Spirits Ltd (USL) that Mallya possessed in the name of seven distinct businesses, some of which were paper firms that he controlled. Earlier, the ED had confiscated these shares in the case, following which the ED was listed as the owner of these shares on the exchange record.

What were the reasons/factors for Kingfisher's downfall?

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1. High crude oil prices - The aviation industry had begun to bleed even before Kingfisher could be launched. Crude oil prices were high, with fuel costs frequently accounting for half of an airline's operating costs. However, Vijay Mallya proclaimed that his airline would indeed be a luxury, world-class airline.
 2. Acquisition of Air Deccan - Mallya, who had become unstoppable by this point, moved to acquire a bleeding Air Deccan in 2007 (the agreement was completed in 2008), with the group's cash cow and holding company, United Breweries Limited, offering to pay Rs 550 crore for a 26% stake in the low-cost carrier promoted by Captain G R Gopinath. Many believe that this decision resulted in the grounding of Kingfisher Airlines years down the line.
 3. Running out of cash - However, as oil prices began to rise (an approximate of \$72.68 per dollar between 2005 and 2010) and perhaps the company found it difficult to run a business that included both a full-service airline and a low-cost carrier, its finances deteriorated and its debt burden and liabilities increased. Kingfisher's debt had reached Rs 934 crore by the end of March 2008. It had multiplied to Rs 5,665 crore a year later. The company's net losses increased from Rs 188 crore in 2007-08 to Rs 1,608 crore the following fiscal year.
 4. Low demand and more supply - With the acquisition of Air Deccan, Kingfisher Airlines came to an end. There was excess capacity (more seats available than demand) in the aviation sector at the time, and Air Deccan was lowering ticket prices to Rs 400, and so on, which was not feasible. Furthermore, crude oil prices, sales tax, and other customs duties had dragged down all of the country's aviation companies.
 5. Continued taking more debts - By 2009-10, Kingfisher Airlines had accrued a debt of almost Rs 7,000 crore. It continued to incur losses and had already become net-worth negative the previous fiscal year. That was also the year Kingfisher Airlines became a non-performing asset or a bad debt for banks. For the first time, banks restructured Kingfisher's debt in November 2010. The alliance of lenders led by the State Bank of India converted Rs 1,355 crore of debt into equity at a premium of 61.6 percent over the market price of Kingfisher Airlines stock. Furthermore, lenders extended the loan repayment duration to nine years with a two-year prohibition, reduced interest rates, and approved a new loan.

However, loan repayment relief was insufficient to rescue Kingfisher Airlines, which continued to hemorrhage with each passing year.

Major reforms in laws or regulations post the event of the case

According to the concerns expressed above, the directors of firms bear a wide variety of obligations for adhering to the standards and best practices outlined in many laws and rules. Rules were made stricter for the banking system so that they can't give out loans on the trust and relationship they have with customers but on the basis of the credit score and proper documentation the loans or financial support needs to be given. The negligence of banks had led to Mallya being able to borrow huge amounts of loans and escaping overseas. It is always better to take precautions before it is too late or to avoid the exploitation of the financial system which could affect the country as a whole.

Apart from the rules and regulations proposed by various institutions from time to time, corporations are also required to act responsibly towards society as a whole, because corporations are so large in today's world that they have an equal impact on each and every citizen of the country. The burden on organizations has already been decreased because they are required to adhere to strict criteria and are not allowed to deviate from them. It is also critical that all stakeholders display their interest and active participation in decision-making processes in order to make it a contributory job overall. The government, banks, the RBI, statutory authorities, and independent directors must all work together to create a unified, flawless framework to address the scourge of corporate mismanagement.

Recommendation

To reduce fraudulent behaviors, the following essential requirements must be met:

1. the corporate governance system must be enhanced.
2. There will be strong regulatory and anti-fraud alliances developed.
3. Anti-fraud control mechanisms, such as a whistleblower policy
4. A strong ethical code of conduct and a proactive fraud control program meet the requirements to be adopted by the world's leading corporations.

It is past time to instill ethics in professions and individuals, as failure to do so will result in national disasters. Failure of the banking system and regulatory mechanisms will send negative signals to the average investor and can be used as an example for other fraudulent practices.

Conclusion

Even though this event took place there have been many reforms that come into the picture. Government has step necessary steps and tighten the law, however, the system should be careful enough to notice and take action quickly rather than just letting things go south after many warnings. There is still a scope of improvement in regulating the banking system. It wasn't just Mallya's fault but the whole system played a significant role to make this scam happen.

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