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Architectures of Deceit: Analysing the Legal and Regulatory Aftermath of Landmark Indian Corporate Scams

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ABSTRACT

Through the lens of three significant case studies—the Harshad Mehta securities scam (1992), the Satyam Computer Services accounting fraud (2009), and the IL&FS liquidity crisis (2018)—this research paper investigates the course of corporate fraud and the subsequent development of regulatory frameworks in India.

The report used a qualitative case-study methodology to examine the distinct "modus operandi" of every incident, from clever "creative accounting" and the collapse of intricate shadow banking systems to the exploitation of ready-forward trades and faked bank receipts. The paper also assesses the legislative reactions to these occurrences, particularly the strengthening of the Insolvency and Bankruptcy Code (IBC), the adoption of the Companies Act, 2013, and the empowerment of SEBI.

According to the report, corporate wrongdoing has shifted from external market manipulation to systemic liquidity problems and internal governance shortcomings. It emphasizes how each crisis served as a trigger for legislative change, fixing gaps in the law while also exposing fresh weaknesses in board oversight and audit independence.

The study comes to the conclusion that although the regulatory environment in India has grown considerably stronger, the shift from "rule-based" to "principle-based" governance is still difficult. To reduce the likelihood of future corporate misbehaviour, judicial vigilance and technology integration in audits are crucial.

Keywords: *Corporate Frauds, Harshad Mehta Scam, Satyam Scandal, IL&FS Crisis, SEBI, Companies Act 2013, White-Collar Crime, Financial Regulation.*

I. INTRODUCTION

Corporate fraud has been the most discussed about topic in the recent times grabbing the eyeballs of people around the world. There have been various scandals in the recent times where the problem of corporate fraud has been the main highlight and various laws and guidelines have been formed the tackle this problem. In other words, this corporate fraud is also known as

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White Collar Crime; these crimes are those which are done by the respected individuals of the society, holding one or the other prominent position in the society, either in public or private concern. In most of the scenarios it is hard to detect.

Every organisation is expected to adhere to fairness and transparency in its operation, reflecting accountability to a range of stakeholders and thereby reinforcing legitimacy and governance². Following ethical norms is not only normative but also essential to attaining long-term organizational viability in the setting of globalized markets and increased competition for scarce resources³. In India, corporate fraud remains to be a persistent challenge which frequently goes undetected until and unless the company faces any deadlock or a situation when a company faces a collapse⁴.

India's economy, which is renowned for its broad range of industries and quick growth, has seen a spike in corporate mismanagement and fraud at the same time. Insider trading and accounting irregularities are two instances of financial improprieties that can seriously jeopardize a company's financial stability and compromise the market's integrity as a whole. Given the necessity of addressing these issues, a critical analysis of the existing corporate governance frameworks is necessary, looking into how they either exacerbate or lessen the vulnerabilities related to financial fraud.

The development of financial regulation and corporate governance in India is a reactive story formed by systemic failures rather than just a history of legislative drafting. Every significant fraud case has served as a "regulatory disruptor," highlighting the weakness of current institutional protections and the cunning of white-collar crime. Although the "letter of the law" is provided by the theoretical framework of the Bharatiya Nyaya Sanhita (BNS) and the Companies Act, 2013, the "spirit of the crime"—the actual exploitation of audit, supervision, and technological gaps—is shown through the examination of particular case studies.

In Corruption Perception Index by Transparency International in the year 2025, India has been ranked at 91st position. It has improved its position from last year from 96th in 2024. The factors that improved the position by 5 places by attributing the expansion of Digital Public Infrastructure (DPI), E-governance, reducing “middleman” corruption through challenges regarding bureaucratic opacity and weak enforcement remain. It includes all aspects like

² Capraş, I. L., & Achim, M. V. (2024). Analysis and classification of corporate fraud based on the literature and investigated cases in Romania. *Studies in Business and Economics*, 19(2), 155–175.

³ Sharma, S. K., & Agarwal, R. (2014). Corporate social responsibility: An overview. *Prabandhan Guru*, 5(1–2), 78–79.

⁴ Gupta, P. K., & Gupta, S. (2015). Corporate frauds in India – perceptions and emerging issues. *Journal of Financial Crime*, 22(1), 79–103. <https://doi.org/10.1108/JFC-07-2013-0045>

corporate, political, social spams and scam in India⁵. If we go for growth there comes the inevitable byproduct in Indian economy in form of corporate fraud. Illiteracy is one of the problems arising among the investors due to which corporate frauds have been growing constantly. People in India are more interested in making money out of money rather than going into the complexities and technicalities that how this works due to which they fall for insurance scandals and ponzi schemes. With the growth of technology, it has become very easy to defraud via spams. It poses a threat to foreign investors.

To deal with these situations of corporate fraud, major amendments were made in law retrospectively. Starting from The Companies (Amendment) Act, 2013 to introduction of Insolvency Code 2016 and time to time addition of new rules and regulation by market regulators, SEBI and RBI, these regulations tried to either stop or decrease the frauds but one cannot win against the human tendency for greed which leads to corruption in corporate fraud⁶. There was a situation around early 1990's when a major scam was identified and the government started taking the situation of corporate fraud vigilantly and added new rules and regulations for the same.

II. THE 1992 SECURITIES SCAM: HARSHAD MEHTA

Harshad Mehta being the most infamous scandals in Indian history, which highlighted the flaws in the country's financial and regulatory system in 1990's⁷. This scam was not just about money but also the loopholes in the Indian banking system channelling money in the stock market. Mehta along with his associates found ways to artificially sky-high the stock prices. When in 1991, India's economy underwent major change in the economic affairs through liberalisation that was the time when in 1991-1992 this scam unfolded. This was the time when Sensex climbed from 1000 points to 4500 points, stock market was skyrocketing.

Mehta finding the loopholes in the market regulations, took advantage of the situation. But here the question arises how? He misused the bank receipts (BR) fraudulently for his own gain rather than the market. He used the BR, ready forward (RF) transactions, and face securities to use a large number of amounts from banks for the fraud. He used some specific stocks whose value was just a minimal price, but he used the banks money in a way that the pricing of those shares rose to an unrealistic level. At that point of time the scammed sum was of around 4,000 crores from banks which if we calculate the value in today's world it would be around 24,000 crores. When the stock market crashed it wiped out the wealth worth 1,00,000 crores. Here the

⁵ India, Transparency Int'l, <https://www.transparency.org/en/countries/india> (last visited Apr. 15, 2026).

⁶ Robin Banerjee, *Who Cheats and How? Scams, Fraud and the Dark Side of the Corporate World* 28 (2015).

⁷ Harshad S. Mehta vs Central Bureau Of Investigation on 1 October 1992, **1992**

scammed value was not in question, the scam's real impact was the flaws of financial system that were discovered after this scam. It brought about major changes in the banking sector, stock market, and financial market that are being helpful in today's world as well⁸.

India's financial sector was transitioning from a closed to a more liberalized system in the early 1990s, but it lacked contemporary regulatory tools. There were no electronic trading platforms, dematerialized accounts, or centralized real-time verification mechanisms, and the stock market was completely unregulated. This led to vulnerabilities that may be taken advantage of, particularly in the interactions between stockbrokers and commercial banks.

RF Ready Forward transactions, a 15 to 45 days short-term loan arrangement between two banks, were used to sustain some of the most complex scams. An RF transaction involves one bank lending money to another, supported by steady and low-risk government assets. Brokers like Harshad Mehta played the role of intermediary, completing these transactions because banks were unable to trade securities among themselves.

Mehta sold fake Bank Receipts (BRs) to a few unknown institutions in order to take advantage of the trust system. A certificate of ownership of a government security that a bank holds on behalf of another bank is represented by a BR. Mehta was able to persuade some banks to issue BRs without any real securities, though. Then, under the false impression that the loans were on genuine government bonds, he gave these counterfeit BRs to big banks like SBI (State Bank of India), who took tremendous financial resources from them. Mehta moved the money from RF agreements to the stock market, buying significant quantities of shares of specific companies like as Tata Tea, Sterlite Industries, and ACC (Associated Cement Companies). As a result, purchases were portrayed as a demand, which caused prices to skyrocket.

Mehta held enormous sums of money far more than his true net worth as the scheme grew dramatically. When the State Bank of India demanded the return of actual securities related to an RF purchase and they refused, the fraud began to fall apart. When Sucheta Dalal, a journalist for The Times of India, revealed the inconsistencies in a front-page piece, suspicions escalated into a full-fledged probe. As a result, formal investigations were started by regulatory bodies such the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and the Central Bureau of Investigation (CBI).

Impact and consequences

Following the revelation of the Harshad Mehta scam, the stock market experienced a sharp

⁸ scam 1992: *Harshad Mehta Scam Story*, 5Paisa (Apr. 15, 2026)

decline that destroyed billions of rupees in market capitalization in a matter of days and shattered investor confidence, particularly among retail investors whose life savings were staked in the rapidly expanding market. Mehta was not the only victim of this fraud; it also damaged the reputation of the Indian banking system by causing multiple banks to go through a phase of liquidity rationing when the funds provided under false bank receipts could not be recovered. It was discovered that there was a systemic risk brought on by inadequate oversight and excessive carelessness.

In addition to Mehta, the scam had an impact on a number of interbank offered rates in the banking sector, including the absence of independent confirmation for securities transactions and interbank fauna. This created a weakness in the stock market manipulators, giving them more opportunities to access the market through price-rigging and circular trading. Up until that point, the Reserve Bank of India was the only organization in charge of interbank offering rates. However, as a result of the fraud, they were compelled to modify their guiding principles by adding more robust regulatory mechanisms, like efficient risk frameworks on the banks themselves⁹.

As a result, some regulatory changes were implemented quickly. One of the most notable results was the empowerment of the Securities and Exchange Board of India (SEBI), which was granted legislative authority in 1992 to oversee stock market operations, regulate brokers, and look into irregularities. Margin trading, stockbroker registration, and audit trails that assisted in keeping an eye on questionable transactions were some of the steps SEBI implemented. Dematerialization (demat) is the process of replacing physical share certificates with electronic holdings in order to reduce counterfeiting and manipulation¹⁰.

Additionally, the Indian government helped modernize the stock markets, which made it possible for the new National Stock Exchange (NSE) to develop as an electronic trading system. The system was now more transparent, deals could be tracked in real time, and individual brokers had less power to manipulate prices. Additionally, the RBI had to closely monitor the banks' adoption of stricter internal controls and reporting. The case also made clear how crucial financial journalism and whistleblowing are to preserving market integrity. Investigative reporting by Sucheta Dalal marked a paradigm shift in Indian business journalism and enabled the media to take on a more accountable role in monitoring influential corporate entities¹¹. Over time, the Harshad Mehta scandal made India's financial sector more open and regulated.

⁹ Reserve Bank of India (1992). Report on the Securities Scam

¹⁰ SEBI. (1992-1995). Annual Report

¹¹ Dalal,s., & Dalal, D. (1992). The Scam: Who Won, Who Lost, Who Got Away. Business Today Publication

Even if the scam had extremely negative short-term effects, it did open doors for new capital market services that are better shielded from large-scale fraud in the future.

Legal framework and regulatory landscape

Reserve Bank of India- According to the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949, the Reserve Bank of India (RBI), which was the highest authority entrusted with overseeing and monitoring banking institutions and preserving monetary stability, failed to supervise government securities transactions. For example, Section 6(1) of the Banking Regulation Act permits banks to participate in RF transactions, but there are no significant limitations or mandates for oversight. Similarly, the RBI has the authority to supervise advances and give directives under Sections 21 and 35A, but these powers were not successfully used to monitor or manage interbank securities transactions¹². Thus, in *CBI v. Harshad Mehta*¹³, the court noted the RBI's incapacity to step in and control the securities market.

Securities and Exchange Board of India (SEBI)- Before the relevant act was passed in 1992, SEBI functioned only as a non-statutory advisory body with limited authority, issuing guidelines without the ability to enforce them or regulate them by enforcing fines for noncompliance. Because SEBI was previously unable to compel disclosures or look into suspicious trade activities, price manipulation and insider trading were able to grow unchecked. The SEBI Act, 1992, which gave SEBI statutory powers including the ability to register intermediaries, regulate stock exchanges, conduct investigations, and impose penalties, was a significant outcome of the scam's emphasis on the need for a powerful and powerful securities regulator. Regulations that addressed insider trading, large acquisitions, and the Listing Obligations and Disclosure Requirements (LODR Regulations, 2015)¹⁴ were established by later revisions (SAST Regulations, 1997).

Companies Act, 1956¹⁵- Financial fraud and market abuse were not addressed by the Companies Act of 1956, despite being tasked with regulating corporate governance and firm formation. Stricter audit procedures, beneficial ownership declarations, and real-time financial disclosures were not included. For example, Section 209 allowed for decentralized bookkeeping, which made it possible for shell corporations like Grow More Investments to function covertly. Additionally, Section 233 gave auditors limited authority and prioritized

¹² S. Srivastava, *The Securities Scam of 1992: A Critical Study*, *IJRAR*, Vol. 6, Issue 2, 2019

¹³ *CBI v. Harshad Mehta*, 2001 SCC Online Bom 233 (India)

¹⁴ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

¹⁵ Companies Act, 1956

compliance over fraud detection. Mehta was able to transfer money between corporations without any limitations since Section 372A allowed inter-corporate loans without any inspection. By requiring declarations of beneficial interests and strengthening the role and responsibilities of statutory auditors, the post-scam changes included in the then-Companies Act, 2013¹⁶ addressed these flaws (Sections 143 and 177)¹⁷.

An important turning point in our country's financial history was the Harshad Mehta scandal. It revealed persistent inefficiencies in the banking system, a breakdown in regulatory oversight, and the disastrous consequences of destructive market speculation. Mehta used both banks and the stock market to build a personal fortune that would collapse due to a complex misuse of financial tools, including two Ready Forward agreements and fake Bank Receipts.

However, the scam's aftermath offered a chance for important changes in financial transparency, technical advancements, and market regulation. It reaffirmed the vital significance of prompt auditing, independent reporting, investor knowledge, and robust legal frameworks. When compared to the global scams of Enron and Satyam, it shows that different financial frauds with different approaches do originate from the same gateway of opacity, lax controls, and greed-based behaviours. Ultimately, this case is more than just a tale of deception; it serves as a powerful reminder of the need for responsible regulation, ethical finance, and wise investing to cooperate in order to preserve stable and legal economic systems.

III. THE SATYAM SCANDAL¹⁸: INDIA'S ENRON

The founder of Satyam Computers, Ramalinga B. Raju, faced difficulties after he admitted to raising the company's quarterly sales, profit, and profit margins over a five-year period beginning in 2003 and concluding in 2008. He was thought to have taken something worth about Rs. 7,200 crores. He and the company's global head of internal audit employed a number of techniques to commit the fraud. Raju falsified several bank statements in order to continue the fraud. In order to make the books appear better, he made up balances in the bank accounts. He was able to raise the report of profits by adding the interest from the fake accounts. Raju also acknowledged that he had created more than 6,000 fictitious pay accounts during the previous few years and embezzled the funds that the business had deposited into them. The company's global head of internal audit created fictitious clients and had invoices produced in their names in order to inflate revenues. He not only obtained funding for the company illegally,

¹⁶ Companies Act, 2013

¹⁷ DAS AND TIWARY, *Decoding the Harshad Mehta Scam: Legal Loopholes and Financial Irregularities in India's Securities Market*, [ISSN 2581-5369]

¹⁸ M/S. Satyam Computer Services Limited, vs Directorate Of Enforcement, ... on 31 December, 2018

but he also fabricated board decision¹⁹.

Soon after Raju's disclosure, new board members were chosen, and they started looking for a strategy to keep the business afloat. Within a hundred days, the Board of Directors planned to sell the business. Before Raju revealed the scam, Tech Mahindra, the top bidder, bought Satyam and saved its operations for \$1.13 per share, or roughly a third of the company's stock market worth. The SEBI and Tech Mahindra discovered the scheme at the same time. As a result of the investigation that followed the fraud's discovery, several groups of people with connections to Satyam have been charged. Along with Raju and his brother B. Rama Raju, the Indian authorities also arrested Srinivas Vadlamani, the company's previous managing director, the chief financial officer, and the head of internal audit. Indian authorities also arrested and accused many employees of the company's auditing firm, PWC, of fraud.

How it happened?

Raju began fabricating Satyam's financial records in 2003 in order to present a more optimistic picture of the company's expansion and profitability than it had actually achieved. Together with his brother Rama Raju, the managing director of Satyam, and a number of senior executives, Raju engaged in a web of deceit that included creating fictitious invoices, clients, bank accounts, and even employees in addition to fabricating audit reports. To exacerbate the situation, Raju invested Satyam's money in his family's businesses, such as Maytas, for his own gain in real estate and other ventures. For six years, Raju tricked authorities, auditors, investors, and analysts who were taken aback by his fictitious accolades and fraudulent data. Satyam became one of the most valuable IT companies in India in 2008 when its stock price surged from Rs. 10 to Rs. 544. The company has also won corporate governance and social responsibility honors, such as the Golden Peacock Award in 2008.

But by the end of 2008, as the global financial crisis devastated the IT industry, the façade began to fall apart. As Satyam's sales and profitability declined, Raju was under further pressure from creditors and lenders to pay his debts. Due to Raju's illegal employee benefits, the World Bank also investigated his actions and prohibited Satyam from taking part in its projects for eight years. In December 2008, Raju launched an unsuccessful \$1.6 billion offer for Maytas using Satyam's financial reserves in an attempt to preserve his failing business. However, this tactic backfired disastrously, causing a ferocious outcry from Satyam shareholders and board members who perceived the deal as a clear conflict of interest and a financial diversion. By the time Raju had 12 hours to back out of the agreement, Satyam's stock price had fallen by 55%.

¹⁹ Mehlawat, Raizada, Major Scandals Explaining the Magnitude of Economic Crimes, 4.4 JCLJ (2024) 18

After being trapped and left with no other option, Raju finally confessed to his lies. In a letter to Satyam's Board of Directors and regulators on January 7, 2009, he admitted to inflating Satyam's assets by an astounding Rs. 7,800 crores, or almost 94% of the company's assets. Additionally, he acknowledged inflating Satyam's earnings by Rs. 5,040 crores, or almost 75% of the company's total earnings. Raju said that he operated on his own and that neither his board members nor auditors were aware of his illicit activities.

Following Raju's admission, a comprehensive investigation was initiated by the Central Bureau of Investigation (CBI), the Securities and Exchange Board of India (SEBI), and the Serious Fraud Inquiry Office (SFIO). Money laundering, insider trading, forgery, criminal conspiracy, breach of trust, account falsification, and forgery were among the charges brought against Raju and his friends when they were apprehended.

Following the Satyam Computers scandal, Satyam's employees, clients, investors, and suppliers were terrified and uneasy. The company is plagued by layoffs, project cancellations, and unpaid dues, which have left a devastating trail in their wake.

An unidentified whistleblower revealed the Satyam scam by sending emails to Krishna Palepu, one of the company's directors. Palepu sent the emails to S. Gopalakrishnan, a PwC partner and Satyam's auditor, as well as another director. The alias Joseph Abraham was used to send the emails. The media and SEBI were also informed about the scheme by the whistleblower. The emails led to an inquiry by the auditors and regulators, which ultimately resulted in Raju's arrest and confession.

How is corporate governance an issue?

Raju acknowledged that he had committed fraud totaling just roughly \$276 million. Satyam broke every corporate governance guideline in the process. Inadequate corporate governance measures in India were exemplified by the Satyam fraud. It does not demonstrate positive relationships with the employees and stockholders. Satyam's corporate governance problem emerged as a result of the company's failure to fulfill its commitments to its stakeholders. The following are listed below:

- Differentiating between the functions of management and the board;
- The CEO and chairman's functions are kept apart;
- Being appointed to the board;
- Compensation for directors and executives; and
- Defense of the rights of executives and shareholders.

The 2009 incident illustrated the devastating results of a poorly managed company leader. As the aftermath continues, it is generally hoped that the incident will have some positive effects in the form of lessons learnt. As a result, the effects were felt throughout the world economy. We learned a few things from the Satyam Scandal. A poorly managed corporate pioneer can have frightening consequences, as the 2009 scandal showed. It is hoped that something constructive can be extracted from the lessons learnt that have been deemed embarrassing as the fallout unfolds and the impacts spread throughout the economy. We have learned some important lessons from the Satyam Scandal.

Error finding- The \$276 million deception scheme at Satyam had quite modest beginnings. Indeed, many cunning plans had modest beginnings, with the culprit reluctant to be pointed out and believing that little changes wouldn't make a big difference. As a result, it's critical to consider all subtleties.

Negative impact on reputation

Fraud damages not just the company but the entire nation. The largest corporate scandal in recent Indian history has stunted the expansion of a once-booming segment of the country's corporate sector. In reaction to the news, Bombay's important benchmark file fell 7.3%, and the Indian rupee did the same. The Satyam affair will increase regulatory, investor, and customer scrutiny of Indian enterprises. The Satyam case is just one more illustration of the need for stronger corporate governance. When choosing their CEOs and board members, publicly traded corporations should be cautious. Additionally, the positions of Chairman of the Board and Chief Executive Officer ought to be kept apart.

SEBI development

- Companies must keep a record of all stock market transactions for SEBI to review.
- SEBI regularly keeps an eye on all transactions involving investors, shareholders, brokers, and the business.
- When examining balance sheets, SEBI pays particular attention to big, irregular transactions.
- The Audit Committee will appoint the CFO following a thorough evaluation of their credentials, experience, etc.
- The appointment of independent directors to the board to guarantee the company's honest and equitable operations. These directors should get their salaries in the form of reimbursements rather than stock options.

- A number of audit standards were established, such as the requirement that auditors and audit firms rotate every five years.
- Preventing auditors from engaging in any non-audit-related activities to guarantee their integrity and the absence of conflicts of interest.
- All large corporations have adopted the International Financial Reporting Standards for preparing their various financial reports.
- Half-yearly interim disclosure of balance sheet data (audited balances of key account heads).
- Strict deadlines for submitting several financial reports to SEBI each year.

The Satyam scam case serves as an example of how human ambition and greed shape conduct. The Satyam affair highlights the need of accounting standards, ethics, and sound governance. In developing nations like India, corporate governance and securities laws are necessary. Stricter controls were prompted by the Satyam Computers scam. Examining large financial crimes promotes best practices and helps prevent similar situations in the future.

IV. THE IL&FS CRISIS²⁰: THE SHADOW BANKING COLLAPSE

One of the Reserve Bank of India's systemically important Core Investment Companies is Infrastructure Leasing & Financial Services Ltd. (IL&FS). It lends money to companies in its network and makes investments in these enterprises. Furthermore, IL&FS has numerous group companies in a variety of industries, including finance, transportation, and energy. The first proponents of IL&FS were the Central Bank of India, HDFC Ltd., and the Unit Trust of India. Furthermore, IL&FS does not accept deposits. As a result, compared to other banks, it is not as strictly regulated. Nevertheless, IL&FS has contributed to the development and financing of projects totalling about 1.8 lakh crore over the past 30 years, and its transportation division is building almost 14,000 lane kilometres in more than 30 projects. Now that it has a huge debt of Rs 91,000 crore, the company is trying to raise money by selling assets. Public sector banks are responsible for about Rs 57,000 of the total debt. According to the government, its financial and infrastructure assets are valued at approximately Rs 115,000 crore. IL&FS had 169 group firms as of 2017–18, which comprised associate companies, joint ventures, and subsidiaries.

Where does the problem arise?

IL&FS Financial Services was unable to fulfill its responsibilities due to a shortage of funding.

²⁰ *Union of India Vs. Infrastructure Leasing & Financial Services Ltd & Ors*, NCLAT New Delhi (2020).

While new infrastructure projects stalled, IL&FS's ongoing projects saw cost overruns as a result of land acquisition and authorization delays. It also did not fulfill its commitments to pay back commercial paper, term and short-term deposits, and bank loans (apart from interest). It claimed to have received statements for some of the late and defaulted inter-corporate deposits it had taken. Due to defaults, the rating agency ICRA lowered the ratings of both short-term and long-term borrowing programs. With hundreds of investors, banks, and mutual funds linked to IL&FS, the defaults also created a default scare that endangered other non-banking financial institutions and frightened equities investors. It had a debt of 94,000 crores.

Causes

While revenue from its assets has been skewed to be earned in the long run, IL&FS has accumulated excessive debt in the short term. The primary causes of the crisis were:

- **Defaults in Structure:** The structure of NBFCs is faulty. This raises the possibility of project and financial issues. One example of a parent firm that does business through its subsidiaries is IL&FS, where it all started. It suggests that it makes investments in subsidiaries that make project-related investments. Dividends, interest, and other payments are normally expected to return to the parent firm; however, the crisis resulted in a backlog of these payments, which affected the entire business.

- **Debt Layer After Layer:** The IL&FS group accrued a massive debt of Rs. 91,000 crores, while the main company's equity capital was only Rs. 9.83 crores. The parent company raises debt, which is then invested in each subsidiary as equity. To raise more money, the subsidiary also uses equity, which is a debt on the parent's accounts

- **Assets-Liability Inconsistency:** A negative assets-liability mismatch, which happens when assets come in lower than liabilities go out, is the main cause of this issue. Therefore, before investing in projects having a gestation time of 10 to 15 years, NBFCs borrow money for 8 to 10 years. However, companies were forced to issue CPs and debentures in order to borrow money from the market due to RBI refinancing regulations. Taking out loans for shorter periods of time while investing in long-term assets led to a major asset-liability mismatch.

- **Unfeasible Projects:** The crisis has been greatly impacted by the NBFCs' investments in unsustainable projects. The nearly 60,000 crores in project-level debt that IL&FS alone owes includes water, electricity, and road projects. Due to challenges obtaining land, delays in obtaining environmental permissions, and cost escalation, some projects were abandoned. This project was delayed by a number of problems, including a lack of timely action.

Impact on Indian economy

The IL&FS Crisis has the following significant effects on the Indian economy:

- **Regarding Independent Investors:** Since IL&FS started raising massive amounts of money from the market using commercial paper, an unsecured debt intended for speedy financing, investors—including mutual funds, individuals, banks, and other corporations—who offered a loan through inter-corporate deposits were the most severely impacted.

- **Regarding Infrastructure Initiatives:** The ongoing infrastructure projects will be greatly impacted by the IL & FS issue. For example, Maharashtra government officials think that banks' unwillingness to finance the ongoing building of the Mumbai-Nagpur Communication Expressway is due to the IL&FS crisis. Banks were hesitant to provide funding for infrastructure projects as a result of the crisis. Additionally, IL&FS's ongoing projects—some of which used the Public-Private Partnership (PPP) model to build national routes and connecting roads—saw a significant setback.

- **Regarding Credit Rating Organizations:** The crisis brought to light the credit rating agencies' lack of accountability and transparency as well as their distortion of the principles of caution, prudence, and complete integrity. Following the incident, the government tightened its regulation of credit rating agencies and stiffened the penalties for fraud.

- **Regarding the NPA Crisis and How It Affects the Economy:** NBFCs faced a liquidity crisis as a result of a significant funding shortage that followed the 2018 crisis. The decline of Infrastructure Leasing and Financial Services (IL&FS) was the primary cause of NBFCs' difficulties after the crisis. Investors withdrew large amounts from major NBFCs, particularly housing loan organizations, as a result. The RBA adopted provisions in its February 2019 policy to guarantee flexible lending facilities, which are crucial for well-rated NBFCs. The RBI tightened NBFC credit criteria and made bank exposure for lending grade reliant, which led to this action.

- **Management Issues:** The management of the NBFCs overvalued the business. Despite the RBI's concerns, the NBFC administration ought to have taken corrective action. It raised more questions about the transparency, accountability, and corporate governance of these companies.

- **Assessing the Credibility of Agencies:** The fact that the credit rating agencies gave the securities "AAA" ratings despite being unable to pinpoint the issue due to inadequate industry research and analysis speaks volumes about their dependability.

- **Regulation** NBFCs are not subject to strict regulation by the RBI or any other body, in contrast to traditional banks. But in the wake of the IL&FS catastrophe, these firms' management has come under scrutiny.

V. COMPARATIVE FRAMEWORK OF SCAMS

FEATURE	HARSHAD MEHTA (1992)	SATYAM (2009)	IL&FS (2018)
PRIMARY VICTIM	Banking System & Retail Investors	Shareholders and Employees	Debt Markets & Mutual Funds
CORE FAILURE	Asset Verification (bank receipts)	Financial Reporting	Risk Management
MAJOR LEGAL CHANGES	SEBI Act, 1992	Companies Act, 2013	Strengthening of IBC& NFRA
KEY REGULATOR	RBI/SEBI	SEBI/SFIO	RBI/MCA/NCLT

VI. REMAINING GAPS & LESSONS LEARNED

Systemic flaws persist despite reforms:

- Under national law, private sector employees are still not covered by the whistleblower regime. Financial incentives like the US SEC's whistleblower bounty program are not available in India.
- Stronger monitoring and conflict-of-interest management are necessary for rating agency accountability. Rating agencies are still unable to effectively prevent manipulation.
- To facilitate analytics and detection, data quality and the enforcement of standardized machine-readable filings must be improved.
- There is still a lack of coordination between SEBI, RBI, SFIO, MCA, ED, and CBI; a permanent fraud intelligence unit could improve data interlinking and facilitate early detection.
- Strict rotation, firm-size restrictions, and the separation of audit and consulting responsibilities are still crucial since commercial audit fee dynamics continue to threaten audit independence.

VII. CONCLUSION

Fundamental shortcomings in corporate governance, accounting, credit rating, and regulatory oversight were revealed by the Satyam and IL&FS scandals. While widespread abuse of short-term borrowing, misreporting, and rating agency complicity caused a financial contagion in IL&FS, dishonesty and collusion concealed fraudulent financials in Satyam for years. India's corporate governance structure has been reinforced by post-scandal reforms such as the Companies Act, 2013, SEBI rule modifications, NFRA, SFIO empowerment, and digital disclosure reforms. However, there are still issues with data standardization, rating agency regulation, whistleblower protection, and interagency coordination. To move from reactive enforcement to proactive fraud defense, the pillars still need to be strengthened. The lessons learned from both incidents are still very relevant today: company design must incorporate integrity, accountability, and openness, and regulators must act decisively in response to early warning indicators.
