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No. R-11017/ 31 /2012-L&M (Part-IV)
Government of India
Ministry of Agriculture and Farmers' Welfare
Department of Agriculture, Cooperation and Farmers' Welfare
(Office of the Central Registrar of Cooperative Societies)

Krishi Bhawan, New Delhi
Dated 6th December, 2018

ORDER

(Under Section 86 of the Multi State Cooperative Societies Act, 2002)

Whereas, vide letter dated 26.06.2018, this office received a report of Serious Fraud Investigation Office (SFIO) through Ministry of Corporate Affairs' on the basis of which this authority had issued first show cause notice dated 27.07.2018 to Adarsh Credit Cooperative Society Ltd., (hereinafter, called as Society) Ahmedabad, Gujarat. The report *inter alia*, spelt out following irregularities in the functioning of the society:-

- i) Misuse and diversion of funds to shell companies/associate companies/concerns owned by assessee group persons/dummy directors in the garb of loans and commission income for investment in real estate;
- ii) Findings of on-site verification of shell companies and its directors including dummy directors reveals that these companies are shell companies, and they are thinly capitalised and have small share capital and further they are not found to have any business activities at their given addresses;
- iii) Some companies have availed loans. On examination of open charges against 120 companies reveal that 43 companies have an exposure of Rs. 2334.30 crore from the society which is founded by Shri Mukesh Modi. The maximum loan of Rs. 490 crore was availed by Adarsh Buildstate Ltd.

2. This authority had also received another report dated 02.07.2018 from the Income Tax Department, the findings of which reveals the following irregularities in the functioning of the society. The society vide first show cause notice dated 27.07.2018 was also directed to render explanation on the irregularities indicated in the said report:-

- (i) Shri Mukesh Modi, founder of the society and his relatives have registered more than 125 private limited companies with their registered addresses at different locations. On investigation, it reveals that most of these companies have no business activities at their given addresses and the Modi group failed to produce their books of accounts during the course of search. An amount of Rs. 9238 crore (almost entire deposit amount) is given as loan to these group companies and associate concerns without adequate securities. Neither the principal amount nor interest has been received back from most of these companies during the last several years nor any action has been

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initiated by the society against the companies to recover the outstanding balance. It is, therefore, prima facie seen that Shri Modi and his family members have floated all these shell companies to siphon off the funds of the credit society running into several thousand crores.

(ii) There is no established procedure of sanctioning loans to the members. Total deposits collected by the society as on date is Rs. 9474 crores. The loans and advances (including outstanding interest) amounting to Rs 12,433 crores are outstanding. It is also seen that out of the said loans an amount of Rs. 12,406 crores has been sanctioned to 180 companies and individuals out of which 122 companies are completely controlled and managed by Shri Mukesh Modi family and his relatives. It is also found that the society has not shown this amount of Rs. 9238 crores as bad loan or non-performing assets but it is being shown as outstanding principal and interest for year after years. The security or mortgage of assets against such a huge loan is approximately Rs. 612 crores. Thus, it is clear that sanction of this loan amount of Rs. 9238 crores by the society is not at all safe and the interest of the common depositors has been put at risk.

(iii) It is further observed that the society paid commission of an amount of Rs. 59.36 crore, Rs. 194.69 crore and Rs. 406.68 crore, for Financial year 2015-16, 2016-17 and 2017-18 respectively as commission for advisory services to one single firm M/s Mahaveer Consultancy wherein wife and son-in-law of Shri Mukesh Modi are partners. On further verification, it is found that the firm has a very small establishment (one small room having 4-5 chairs) at Gurugram and no books of account has been found there. One of the employees of the firm in his statement on oath stated that the firm is engaged in the business of only castor seed trading and he is not aware of advisory activities of the firm. Shri Vaibhav Lodha, one of the partners of M/s Mahaveer Consultancy in his statement on oath mentioned that the firm is providing advisory services to the society but no books of account have been found in his given address. Similar commission of Rs. 760 crores during Financial year 2017-18 has been paid to the so-called advisors, major portion of which is likely to be bogus. Thus, it is clear that the funds of the society are being siphoned off in the garb of payments made for advisory services to the family members of Shri Mukesh Modi.

(iv) M/s Adarsh Credit Co-operative Society has shown total of Rs. 25.62 crore as investments in gold, silver and stock of trading gold whereas on physical verification only Rs. 8.18 crore gold and silver was found. Thus, the physical stock of gold and silver was found short of Rs. 17.44 crore. It is suspected that the management of the society might have siphoned off the gold and silver to the tune of Rs. 17.44 crore.

(v) Certain depositors of the society in their statement have stated that the money deposited by them was not reflected in their pass book. When they raised the issue with the society they have been told that their money will be returned in the form of loan without any interest. It is clear that books of accounts are being manipulated and deposits are being shown as loans. However, none of them have got their full amount even in the form of loan.

3. Whereas, this authority issued the second notice dated 08.08.2018 to the society enclosing therewith, 16 complaints received from investors for non-repayment of deposits as well as other irregularities in the functioning of the society.

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4. Whereas, this authority issued third notice dated 24.08.2018 to the society enclosing therewith, earlier two reports of SFIO and Income Tax Department dated 26.06.2018 and 02.07.2018 respectively and also enclosing therewith the second report received from the Income Tax Department dated 08.08.2018. The second report of the Income Tax Department, indicated following irregularities against the society :-

- (i) The society is not functioning in accordance with the cooperative principles and also found to be violative of the objectives of the society.
- (ii) All the directors of the board including chairman and vice-chairman of the society are dummy and Shri Mukesh Modi and Shri Rahul Modi are controlling the entire society and run as family concern.
- (iii) All the family members of Shri Mukesh Modi are holding higher posts in the society and their salary and incentives are exceptionally higher than ordinary employees.
- (iv) All the project loans are sanctioned with the approval of Sh. Mukesh Modi who is the founder of the society.
- (v) The entire procedure of loan sanctioning is totally controlled by Sh. Mukesh Modi and Shri Rahul Modi.
- (vi) The society is paying commission of crores of rupees to Mahaveer Consultancy without any work. The commission paid for the last three years from 2015-16 to 2017-18 is to the tune of Rs.660 crore.
- (vii) Approximately 95% of the outstanding loan pertain to the friends/relatives of Shri Mukesh Modi and their companies.
- (viii) The society has shown investment in gold/silver around 25.80 crore in its balance-sheet as on 31-3-2018 whereas the gold and silver found in search operation valued only Rs. 8.18 crore.

5. The society vide third notice was also directed to appear for personal hearing on 05.09.2018 at 2.30 P.M. before the authority to explain why the society should not be wound up under sub-section 2(b) of section 86 of the MSCS Act, 2002. Shri Rahul Modi, Managing Director of the society appeared for hearing and submitted documents dated 04.09.2018 for the reply to the third show cause notice dated 24.08.2018. This authority has also received two replies dated 27.08.2018 for the first and second show cause notices separately from the society on 31.08.2018 and 05.09.2018 respectively.

6. The replies given by the society dated 27.08.2018 for the first and second show cause notices as well as the reply given by the society dated 04.09.2018 for the third show cause notice were examined. The society denied the allegations mentioned in the three notices.

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7. Whereas, the research report of SFIO received through the M/o Corporate Affairs dated 26.6.2018 reveals that the money raised by the society from the members is siphoned off through the web of corporate entities set up by Shri Mukesh Modi, his family members and associates and the investors have been put at risk.

8. Whereas the reports of the IT Department dated 02.07.2018 and 08.08.2018 clearly establish that the activities of the society are not for the benefit of the members of the society, but for the individual benefit of Shri Mukesh Modi and his family members. The reports also establish that the society is not functioning as a cooperative society, but works as a family concern because it is completely controlled and managed by Shri Mukesh Modi and his family members and most of the deposits received have been used for the individual benefits of the Modi family and its concerns and not for the common members of the society. The management of the society is not only withdrawing the money of the depositors, but also siphoning off these deposits in the form of giving consultation fee, gold and loans to the companies within relatives of Shri Mukesh Modi and their family members.

9. Based on the above reports of SFIO and IT Department, the following deficiencies/irregularities have been observed in the functioning of the society:-

- a) The deposits collected from the members have been used for the benefit of few members who belong to one family. This amounts to violation of cooperative principles.
- b) The society has extended loans to companies which cannot become members. Section 25 of the MSCS Act, 2002 does not permit the private companies to be admitted as members in the multi-state cooperative societies. As per bye-law No. 4 of the society, only individuals can be admitted as members of the society. Therefore, the society is found to be violative of section 25 of the Act and the bye-laws of the society.
- c) The loans have been sanctioned without due diligence which indicates that board of the society has acted in favouring few members and have misused the money of members for personal gains, which amounts to violation of cooperative principles.
- d) The society can accept deposits from its members only, however the society is holding money from external sources which is akin banking activities without permission of the same from RBI. This amounts to violation of Banking Regulation Act, 1949.
- e) The Annual Report 2017-18 of the society indicates that as on 31.03.2018, the society was working with 20,38,553 members with more than 800 branches and collected an amount of Rs. 9349.50 crore towards deposits and majority of this amount is found to be invested in the shell companies of Shri Mukesh Modi and their family members, which indicates that the deposits of the members have been cornered by few individuals, which again amounts to violation of cooperative principles.

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10. Since the society registered as a Multi-State Cooperative Society under the provisions of the MSCS Act, 2002, it has to function as per the provisions of the said Act read with bye-laws approved by the Central Registrar. From the reports of SFIO and IT Department, it is evident that the society has failed to function according to provisions of the MSCS Act, 2002 and cooperative principles as enumerated in First Schedule of the said Act.

11. Whereas, the society has been given reasonable opportunity of hearing, however, the society has failed to provide any satisfactory explanation/justification for the irregularities pointed out. The society has been found to indulge in misusing the funds of the members for personal gains and has violated Cooperative Principles and the provisions of the MSCS Act, 2002. Now, therefore, after careful consideration of above facts and in the fitness of things, I, Dr. Abhilaksh Likhi, Central Registrar of Cooperative Societies, in exercise of powers conferred under sub-section 2(b) of section 86 of the MSCS Act, 2002, direct to wind up the above society and hereby appoint **Shri H.S. Patel, IAS (Retd.), Plot No. 338, Sector No. 8B, CH Road, Gandhinagar, Gujarat - 382007**, as Liquidator under section 89(1) of the Act for winding up of the above society as per the provisions of the MSCS Act, 2002 & Rules made thereunder.

11. The liquidator shall finalize the liquidation proceedings within a period of one year from the date of this Order. The liquidator shall also submit status report showing the progress made in liquidation of the society, to this office on quarterly basis.

Issued under my hand and seal on this 6th day of December, 2018,


(Dr. ABHILAKSH LIKHI) 6/12/18
Joint Secretary (Cooperation) &
Central Registrar of Cooperative Societies

Distribution to :

- 1) Shri H.S. Patel, IAS (Retd.), Plot No. 338, Sector No. 8B, CH Road, Gandhinagar, Gujarat - 382007.
- 2) The Chairman / Chief Executive, Adarsh Credit Cooperative Society Ltd., Second Floor, 14 Vidya Vihar colony, Opposite Hotel Fortune Landmark, Usmanpura, Ahmedabad-380013, Gujarat.

Copy for information and necessary action to :

- a) Shri Mohamad Sahid, Principal Secretary, Cooperation Department, Government of Gujarat, New Sachivalay, Near Vidhan Sabha, Block No. 5, 2nd Floor, Sector-10, Gandhinagar, Gujarat- 382010.
- b) Commissioner for Cooperation & Registrar of Cooperative Societies, Cooperation Department, Government of Gujarat, Block No-10, Dr. Jivraj Mehta bhavan, Gandhinagar, Gujarat-382010.
- c) Shri U.K. Sahoo, Joint Director, M/o Corporate Affairs, 5th Floor, A Wing, Shastri Bhawan, New Delhi-110001.
- d) Shri S.K. Gupta, Director General of Income Tax (Investigation), O/o Director General of Income Tax (Inv), New Central Revenue Building, Statue Circle, Jaipur, Rajasthan.

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Issued

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7.12.18