



## The Great DHFL Heist: Unraveling India's Biggest Banking Scam

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### Abstract:

The case study has highlighted different aspects and operations of DHFL on how they have efficiently planned and executed India's biggest banking scam of 34,000 crore rupees in 2019. Rajesh Kumar Wadhawan established DHFL, also known as "Dewan Housing Finance Ltd.", on April 11, 1984, in Mumbai, India. DHFL was established to make house loans more accessible to lower- and middle-class residents of India's rural and semi-urban areas. By making face-to-face pledges to give house loans to deserving people, it has been discovered that DHFL has amassed millions of dollars in money and loans from the market. However, the main stakeholders and supporters of DHFL moved all the money onto Shell company accounts that don't even exist in reality and spent it all to increase their riches.

### Keywords:

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### Introduction

Every individual in this world dreams about having their own house to spend their entire life and create beautiful memories with their family. To fulfill this dream and generate a great business in the Indian market DHFL was formed by Rajesh Kumar Wadhawan as Non-banking Finance Corporation. The company used to lend money from different banks at lower interest rates and provide that money to different people of low-income and medium income category people of rural and semi-urban areas of India as a Home Loan. The Scam came into the news when the company started to default all their dues by the end of July 2019. This case study would highlight. The discussion of India's biggest Banking fraud by DHFL the people of India have ever witnessed.

## **History of DHFL**

DHFL also known as “*Dewan Housing Finance Ltd.*” was founded by Rajesh Kumar Wadhawan on 11th April 1984 in Mumbai, India. DHFL was founded to provide lower- and middle-income populations in rural and semi-urban areas of India with access to affordable home financing. In the year 2010 DHFL “*Deutsche Postbank Home Finance*” company with a business deal of 1,079 crore rupees and later after 3 years, they also acquired “*Pramerica Life Insurance Ltd.*” by buying their 74% shares on 18th December 2013. Everything was running smoothly for the company until a big allegation was raised against the company where an investigating journalist highlighted a huge *baking scam of 34,000 crore rupees*. On 29th January 2019, *Cobrapost, an Indian Journalist Group* published that DHFL is using various *Shell companies (Fake companies)* to siphon 34,000 crore rupees of public money. It has been highlighted that DHFL is doing this huge financial manipulation for the personal gains of the organisational primary stakeholders *Kapil Wadhawan, Aruna Wadhawan and Dheeraj Wadhawan*. Cobrapost also mentioned unethical political donations worth crores of rupees that were made in violation of Section 182 of the Companies Act of 2013 for political donations in that same article.

## **Issues**

The case is structured to achieve the following objectives of the case study:

- To observe the organizational operations and working business model of DHFL that helped them to conduct India’s biggest financial Scam in 2019.
- To understand how DHFL has been able to conduct India’s biggest Banking Scam.
- To identify the aspects and people that played a major role in the 34,000 crore money laundering of DHFL
- To observe the reasons and negative impact of this financial scam by DHFL

## **Business Model of DHFL**

DHFL is an NBFC which is also known as “*Non-banking Finance Corporation*” where they used to provide housing loans to the lower- and middle-income category people of rural and semi-urban locations of India. To provide loans and generate business DHFL used to take big loans from different 17 banks like *PNB*, *SBI* and *Yes Bank* at a very low interest rate even sometimes less than 7% interest rates. Later the company used to provide housing loans to its customers with interest rates between 9 to 12% to generate business income in the process. Even to increase the organisational values and to maintain proper liquidity to provide more loans to other people DHFL used to raise funds from the market in the form of public bonds and debenture like any other company. The process of providing loans to DHFL was very simple where the first step was the loan request of the customers, then the second step was all the collected loan requests were transferred to the organisational database for final checking, sorting and verification. After the complete verification and selection of the loan requests, they were transferred approval committee of the company for the final procedure.

### **Identification of the Issue**

From 2019 to 2020, a huge problem of liquidity or cash crunch was identified in “*Yes Bank*” and “*Punjab and Maharashtra Cooperative Bank*” when their account holders were unable to withdraw money from their bank accounts. Because of this reason, both these banks came under the supervision of *RBI (Reserve Bank of India)*. From the investigation, it has been found that there is a strong personal relationship between the top primary stakeholder of these banks and the Wadhawan family. Later on, it has been found that due to personal relationships, the Wadhawan family scammed crores of rupees from those banks for personal gain. The involvement of RBI and strict financial investigation later highlighted the biggest banking scam of India when DHFL defaults the interest payment of their 960 crore rupees loan in May 2019 and then started to default all repayments

Biggest Banking Scam of India by DHFL

When DHFL failed to pay the interest on their loan of 960 crore rupees in May 2019, they gave an excuse for liquidity issues in the company which will be solved within a few weeks. But the reality was by the end of July 2019, the company started to default on all its loan and interest dues they took from different banks. Since the company failed to meet their many repayments, all the depositors started to take legal action against DHFL. But the biggest issue was raised for the company, when Union Bank launched a complaint to CBI against DHFL on 30<sup>th</sup> November 2021. They raised questions on DHFL that they have given loans of 14,000 crore rupees to many under projects that do not even exist in real life. Soon after that KPMG released a report which stated that all 14,000 crore rupees were transferred to 66 different companies out of which 25 companies did not have any proper address, operational identity or business revenues. More importantly, it has been identified that all the investments were done intentionally where DHFL transferred all their money to those Shell companies that existed only on paper and belong to different tax-free countries. The actual banking fraud was stated in the year 2012 when DHFL took crores of loans from 17 banks using their strong *Debt credibility* and *Business or political connections*. To take a huge amount of loan using strong connections, the company had shown fake housing loan documentation and orders. But all the money was transferred to the primary stakeholder and promoters of the company in the name of a new branch of DHFL in Bandra (Mumbai). Later the entire money was transferred to more than 2,60,000 fake loan accounts just to showcase fake money transactions in the book of accounts. Later all the money was withdrawn by the primary stakeholders where most of the money was invested in the Real Estate businesses remaining of them were transferred to different foreign business accounts. Even after many financial manipulation and repayment defaults DHFL managed to get the best credit rating till the year 2019 when the *Pradhan Mantri Awas Yojna* scheme of the central government also played a significant role. In the year 2015 when the central government launched *Pradhan Mantri Awas Yojna (PMAY)* to provide affordable houses to needy people of India. To make this scheme successful Government used to contact different banks and the banks used to give permission and loans to DHFL even with interest subsidies. But all the loan money was used by primary

stakeholders and promoters of the company for their personal use, not by the people. The company not only scammed the banks and broke the trust of their customers but also harmed the financial wealth of their retail investors who invested their hard-earned money in DHFL. Many people and retail investors who invested their money in DHFL stocks, Debentures and Bonds not only lost all their money but also could not retain their investments. When the entire financial scam was revealed in front of everyone, Kapil Wadhawan was arrested for *the "Prevention of Money Laundering Act, 2002"* on 21<sup>st</sup> January 2020. But due to strong political connections and networks, the bail of Kapil Wadhawan was approved by the Mumbai High Court on 22<sup>nd</sup> February 2020. However, *PCHFL* also known as "*Piramal Capital & Housing Finance Ltd.*" acquired DHFL on 30<sup>th</sup> September 2021 and settled most of their banking dues worth more than 34,000 crore rupees by the end of 2021. But still, DHFL neither could retain its reputation and market trust nor even tried to return the hard-earned money of their retail investors who trusted them once.

## **Conclusion**

From the above discussion and analysis, it is concluded that DHFL stakeholder has efficiently manipulated many banks and their retail investors to generate crores of wealth for their gains. The company took crores of funds and loans from the market by showcasing face promises of providing home loans to needy people. But primary stakeholders and promoters of DHFL transferred all the money into the accounts of Shell companies that don't even exist in real life and used all the money to develop personal wealth. Being a NBFC the company used to play a

significant role in the middle man where they used to take loans from 17 banks at lower interest rates and later use that money to provide home loans to people to generate profit. It was very easy for them to manipulate the use of money and play with the trust of banks, their retail investors and customers which led to India's biggest banking scam of 34,000 crore rupees.

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