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When the Nation Could Not Feel the Pulse

The Spike in Prices of Tur and Urad Dal Was a Fallout of Cartelisation

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Investigations by the Income Tax department indicate that the sudden spike in the prices of particular pulses in 2015 was a consequence of the formation of international and Indian cartels of traders. These allegations are denied by the players concerned. Reports prepared by tax officials that are being disclosed for the first time, indicate how the pulses trade in the country has been prone to manipulation. The officials also allege there was money laundering in dal trading.

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When prices of dal or pulses kept rising through the early summer of 2015, this was initially seen as a natural fallout of adverse weather conditions. But once the monsoons subsided, prices unexpectedly went through the roof. That was when dal prices hit the headlines in newspapers and dominated discussion on prime time television news. The union government swung into action—first by cracking down on hoarders and announcing that it would import more pulses and then, by increasing the minimum support price (MSP) of two major pulse crops in a bid to encourage farmers to grow more pulses. Gradually, the prices stabilised and the issue disappeared into the news hole, far from public memory.

It was only for those keeping a close eye on developments that the elements did not add up. In May 2015, just when Prime Minister Narendra Modi was completing a year in office, the government claimed that overall consumer price inflation had dropped to a four-month low and that wholesale price inflation had been negative for the previous six months. Only pulses bucked the trend. Even at the global level, there was either a close match or an excess supply of agri-commodities. So, was there a scam somewhere as many suspected?

Yes indeed, there was a scam. In fact, documents seized in October–December 2015 by officials in the income tax (IT) department in the Ministry of Finance and a subsequent appraisal report based on these records reveal that there was an insidious game at play, more than just the simplistic hoarding of pulse stocks at the wholesale or retail levels. The "Appraisal Report in the Case of Pulse Importers and Traders Group" of the IT department summed up the man-made crisis thus:

> The abnormal price situation in India was created by a coordinated collusive activity orchestrated by few trading and financial entities. The physical stocks of pulses (were) cornered in domestic and international markets. Significant long positions on the future were taken on exchanges to create an artificial scarcity at the wholesale and retail levels.

The Indian government did not take a position on the futures market for dal to control prices despite it being the largest importer. And this, according to the department was what transpired:

> Information was gathered that few major commodity dealers having presence in overseas markets as well created a monopolistic condition by procuring and hoarding stocks of pulses in national as well as overseas markets. They rigged domestic rates to an unprecedented level to offload their stock procured at low rate. The super profit earned in this manner was not offered to tax and siphoned off either abroad or converted into unaccounted cash through entry operators.

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The profit was spread through the chain, from the importing wholesalers right down to the retailers and not just at the level of the hoarders. Tax officials discovered three types of operators who together worked as a cartel. Tier-I comprised leading commodity multinational corporations (MNCs) who could influence overseas markets. The second tier included domestic dealers who procured and hoarded local stock and offloaded stocks of the tier-I entities, while the third rung were entry operators who could provide bogus bills to reduce profit and evade taxes. The commodity MNCs shipped out the income to their overseas parent companies through over-invoicing of imports and under-invoicing of exports. Not only was there unbridled profiteering, the cartel members also avoided taxation. The IT officials have come up with the names of the individuals and companies involved:

- **Tier I:** Glencore Group, ETG Group, Edelweiss Group

- **Tier II:** Jindal Group comprising Dalip Jindal, Pradip Jindal, Jindal Agro, etc; Vikas Gupta, Superior Group; Manoj Agrawal; SV Agri Trade; Sharp Mint Group

- **Tier III:** Manoj Agrawal, Riddhi Siddhi Impex, Parth International, Gayatri Maa, Gunn Enterprises, Charles India Private Limited

Other than Glencore and Edelweiss, another major importer of dal and violator was the Sharp Mint group which has been raided by the IT department for a second time as far more serious tax and money-laundering investigations are under way in its case, as also in the case of a major commodity exchange. Taken together—the IT department concurred in its reports that run into more than 2,100 pages—these were the bunch of individuals and companies responsible for the dal crisis that rocked India in October 2015. This writer is in possession of copies of the series of appraisal reports, even as the working of commodity exchanges is currently being investigated by the department. The main players mentioned in the reports were contacted for their responses which have been included.

Supply Shortages

The first signs of a dal price surge emerged in January 2015, in the aftermath of a below-normal monsoon. Prices of moong dal increased by ₹500 per quintal, while tur dal prices went up by ₹100 per quintal. Retail prices of all four main dals—moong, tur, *urad* and masoor—registered a 15%–30% increase over the prices prevailing a year earlier. By the time Modi completed a year in office on 24 May 2015, retail prices of pulses had shot up by a disconcerting 64%. Urad dal at that time was being sold at ₹105–₹123 per kilogram (kg) in metropolitan cities against ₹64–₹80 a year earlier and for tur, the numbers were ₹102–₹116 per kg as against ₹68–₹86 per kg.

In July, union minister of Consumer Affairs, Food and Public Distribution Ram Vilas Paswan said in a written reply to the Rajya Sabha, “Over the last one year, the increase in retail

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prices of major pulses have ranged between 12.63 per cent to 40.73 per cent. The main reason for the sharp increase in prices of pulses is a decline in production on account of adverse weather conditions."

Pulses production for the 2014–15 crop year (July–June) was estimated to fall to 18.43 million tonnes from 19.78 million tonnes in the previous year. The government planned to import more pulses to bridge the demand gap, but this was where there was a trap. India produces roughly 18–19 million tonnes of pulses annually but has to import an additional 3–4 million tonnes to meet domestic
demand, the bulk of this being done by private importers. This was where the clue lay. The government failed to hedge future imports with positions in the derivative market unlike in earlier years. Yet, this hole in the import basket was waiting to be exploited, even as there were murmurs that there was uncertainty about when the stocks would finally land on Indian shores. But when retail prices first topped ₹150 a kg and then breached the ₹200 mark, panic struck the government authorities.

On 14 October 2015, finance minister Arun Jaitley chaired a high-level inter-ministerial meeting that decided to create a buffer stock by procurement and imports of pulses, take strict action against hoarders and black marketers, besides encouraging states to lift stocks of imported pulses, among others. The government also amended the "central order" under the Essential Commodities Act, 1955 on 18 October to enable imposition of stock limits on pulses sourced from imports, stocks held by exporters, stocks to be used as raw materials by licenced food processors and stocks of large departmental retailers.

Next came the much-publicised raids. Nearly 75,000 tonnes of pulses were seized from hoarders in raids across 13 states. The Ministry of Consumer Affairs, Food and Public Distribution said in a statement on 24 October,

> De-hoarding operations across the states continued. These have resulted in seizure of 74,846.359 Metric Tonnes (MT) pulses so far. Total 6,077 raids have been conducted by the states after the amendment in the Central Order under (the) Essential Commodities Act.

Two months later, raids were conducted on the offices of commodity traders and importers. Raids were also conducted at the National Commodity and Derivatives Exchange (NCDEX) "to shortlist the data of traders indulging in speculative trading of pulses and delivery thereof." On 29 December 2019, *India Today* reported, "Edelweiss, Glencore, ETG among other major trading houses are accused of working as a cartel, illegally holding stock, delaying imports, amplifying scarcity, [and] manipulating prices" (Kanwal 2015).

But surprisingly, the role of the multinational corporations, their cartel partners, and how they operated disappeared from the landscape with hardly a trace. The appraisal reports of

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the IT department reveal all that, and more. It took officials almost a year to make sense of the documents that were retrieved from the hard disks that were seized or impounded during the December 2015 raids. In all, 55 premises were searched under Section 132 of the Income Tax Act, 1961 and 134 premises were surveyed under Section 133A. (The particular provisions of the act empowered IT officials to conduct search-and-seizure raids and surveys.)

Glencore: At the Core of the Issue

All threads of the market manipulation that led to the 2015 dal crisis can be tied to one of the world's largest integrated producer and marketer of commodities—Glencore plc (public limited company). An Anglo-Swiss multinational corporation engaged in trading in agricultural commodities and minerals, Glencore (an acronym for Global Energy Commodity Resources) is headquartered in Baar, Switzerland with a registered office in Saint Helier, Jersey. Currently ranked 14th in the Fortune Global 500 list, it operates in India as Glencore Grain India Private Limited (GGIPL) with Pravin Raghuvir Dongre as its managing director. Dongre is also the managing director of another group company, Agricore Commodities Private Limited (ACPL). Both companies figured in the IT investigations. He is also chairman of the trade body, the Indian Pulses and Grains Association.

Tax officials recovered a number of documents that showed how Glencore was controlling operations. One excel sheet (XLS) showed how its Mumbai office was maintaining records of third-party sales to Jindal Agro. Another had records of SV Agri Trade's sales to one Rajesh Trading Company. Yet another XLS sheet aggregated tur dal sales of Glencore, SV Agri Trade and Jindal Agro International. Similarly, a text message from Glencore official Saurabh Bhartia was sent to Dongre in early October 2015. There were multiple text messages which mentioned the existence of a joint venture with the Jindals.

Glencore and the Jindals also traded through many Singapore-based companies. An XLS sheet recovered from one of the Glencore employees (named only as Khandelwal) showed that Glencore extended credit imports to its cartel members. These cartel members were allowed to import through Netherland-based Glencore Grain BV without having to pay for it. There were several files and mails wherein the stock position of cartel entities were aggregated and reported to the Singapore office of Glencore on a regular basis. Glencore executed many trades on behalf of its associate entities in overseas markets. Not all trades were settled through delivery. The profit or loss on account of trades settled without delivery was retained abroad by Glencore and utilised as per instruction of the individuals concerned. This was an issue of transfer pricing as the entities appeared to work at distances other than arm's length.

In fact, Glencore, which controls the Canada and Australia markets, was planning to operate through ETG (once Export Trading Group), a dominant player in commodities trading in Africa and Myanmar. There were several e-mails indicating that instead of competing with

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each other, they decided to enter into a partnership for gaining monopoly control over the Indian pulses market. Glencore was to pick up a 51% stake in ETG at a proposed payout of $162.81 million. With this, Glencore would have achieved backward integration by eliminating local millers. Multiple documents were also found from ETG's office. The deal was to be closed in December 2015. On re-examining the accounts, the tax officials saw that despite recording turnover of thousands of crore rupees and despite being the dominant market force and a world leader, the Glencore Group hardly paid any taxes. The appraisal report noted that this

> .... is a sad commentary on tax compliance behaviour of a global giant who fleeced poor Indian consumers through monopolistic trades and robbed off the exchequer of its legitimate dues. Indulging in unethical, illegal and money laundering activities, [the] Glencore-led cartel seriously threatened the economic security of the country.

Tax officials reworked the accounts and discovered that these were in wide variance with the numbers recovered from the Glencore servers. For instance, for financial year 2010–11, they worked out the profit for GGIPL to be ₹62.86 crore and the total taxes debited at ₹7.42 crore. Therefore, the net profit before taxes for 2010–11 should have been ₹70.29 crore. Instead, the company's audited results showed a loss of ₹2.33 crore. The trend was similar for other years. Moreover, there were substantial differences between the closing stocks in the audit results and those found on the computers. The differences were due to over-invoicing of purchases and holding additional stock outside the books in lieu of the price difference. ACPL's accounts were similarly manipulated. The net profits in 2015 alone (till November) came to ₹53.91 crore, though ACPL had been consistently showing losses. Both companies also suppressed net profit of ₹133.76 crore from trading in wheat, sorghum and other millets in 2015 alone, it was alleged.

One particular email showed how Glencore was manipulating profits in castor trading through Indore-based Nikhil Commodity & Derivatives Private Limited. The numbers of four companies were mentioned in that mail with two of them mentioned only as 'JT' and 'GL.' The cumulative profit and losses of the four companies came to a flat zero. Tax officials concluded that JT and GL were *benami* or front companies. Trading was done and positions taken on NCDEX through the "pro" accounts of brokers acting as a cartel. (Pro-trading is the act or process of buying, selling or exchanging commodities.) The profit earned was not shown in the books. There were regular email exchanges between Dongre and Bhartia through their Gmail accounts. The pro account positions did not appear in the books of the brokers as transactions of either ACPL or GGIPL but were camouflaged as that of the concerned broker himself, the IT department's reports alleged. The accounts were squared off at the broker level.

In 2014–15 alone, GGIPL operated through five brokers and one XLS sheet showed how the

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net position of pulses for each month was squared off to zero. The total realised but undisclosed profit was ₹2.13 crore. Similarly, a profit of ₹1.55 crore was shifted out the previous year. Mails from Bhartia to Dongre also clearly mentioned the actual position of pulses as against the declared stocks. For instance, the difference between 6,310 metric tonnes of chana stocks in the last quarter of 2014 was worked out to be ₹20.19 crore. It was alleged that profits were made from currency arbitrage (or the simultaneous buying and selling of currencies to take advantage of differing prices of the same asset). GGIPL made $32.4 million through currency arbitrage in January–April 2015, a mail to Dongre revealed.

Bigger Games

The numbers at the international level were bigger. An analysis of mail accounts of key employees of Glencore revealed large-scale trading on the Chicago Board of Trade (CBOT) and Bursa Malaysia Berhad (BMD) exchanges. Indian citizens cannot legally trade in overseas markets even under the government's Liberalised Remittance Scheme (LRS). Tax officials found that mails written by employees of ACPL and GGIPL were sent from India to the Rotterdam offices of Glencore Grain BV (and not the other way round). These were not transactions done by Glencore Grain BV that were being conveyed to its India office: in fact, these were transactions entered from India allegedly by employees of ACPL and GGIPL that were being communicated to the group's overseas offices. There were a large number of such mails giving details of trading done on CBOT and BMD. Tax officials worked out the profits: the total profits from 2010–11 to 2014–15 came to $9.44 million.

That there existed an arrangement to trade on the CBOT and BMD markets and to park profits thereon with Glencore, Rotterdam was evident from a draft email of Dongre. The mail to one Ronald de Gelder at the Rotterdam office talked about crediting profits to the India account. The agreed ratio of profit sharing was 50:50. However, as all transactions were done from India, the entire profit needed to be taxed in India, the IT department claimed in its appraisal reports. There was overwhelming evidence that GGIPL and ACPL were also earning income outside India which was credited to its India account through the desk maintained at the Rotterdam office of Glencore Grain BV, the department claimed. These details were frequently exchanged among officials of GGIPL and ACPL and Glencore officials in Rotterdam. This evidence was recovered from mails and their attachments from accounts bearing the name "@glencore.com" and the Gmail account of Dongre. An important mail sent by him to de Gelder acknowledged and documented the profit-sharing and retention mechanism between GGIPL and Glencore Grain BV. Incidentally, these mails were in the draft folder; all important mails which are against local laws had been exchanged as "draft" mails. A part of GGIPL's profit was allegedly retained at Rotterdam in violation of Indian laws. It was not offered for tax, and was reportedly a breach of the Prevention of Money Laundering Act, 2002. The income earned outside India needed to be taxed in India irrespective of the sharing arrangement between Dongre at GGIPL and his counterpart at Rotterdam.

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Other mails exchanged between Dongre and GGIPL director Shyam Doshi showed how the GGIPL profit was being calculated both in India and Rotterdam, apart from the fact that it was not being offered for tax in India. There were trades in both pulses and cotton. The IT officials concurred that the income of the Indian company being parked in Rotterdam needed to be taxed in India. The amount computed only on basis of what was seized came to $43.19 million between 2009–10 and 2014–15.

Adani Connection

In 2008, Glencore plc's subsidiary Chemoil Energy Limited and Adani Global Limited formed a joint venture (JV) Chemoil–Adani Pte Limited for supplying bunker fuel to vessels in Mundra and other ports in India, including Kandla, Jamnagar, Vadinar, Hazira, Dahej and Goa. The JV initially was to supply marine fuel at Mundra. Seized documents showed that sometime later Adani Global acquired 49,00,000 shares of the company. The directors' resolution towards this sale, however, bore no date. An email exchanged between Surish Sharma, who resigned as the director of Chemoil–Adani in the run-up to the sale, and another Glencore official, put the deal at $8 million. In addition to the amount received on sale of shares, Chemoil Energy was to receive another $8 million on sale of properties. According to the IT department, the transaction should have attracted capital gains tax in India notwithstanding that it was between two foreign entities and the transfer of shares entailed transfer of assets in India. Moreover, through GGIPL and ACPL, Chemoil Energy had a permanent establishment (PE) in India. Besides all this, the transaction was negotiated through GGIPL, Glencore's PE in India.

The second deal was over Delhi-based Tinna Viterra Trade Private Limited (TVTPL). Formed as Maple Newgen Trade Private Limited in early 2009, it was renamed later that year after Singapore-based Viterra Asia bought a 60% in the company. The JV existed till May 2013 when Glencore took over Viterra Inc globally, causing the exit of Viterra. The JV had been active in trading in agriculture commodities such as yellow peas, chick peas, wheat and other grains in the Indian market. After the dissolution, the entire shares were held by Tinna Rubber and Infrastructure Limited (TRIL) and its name was first changed to Tinna Trade Private Limited and then Tinna Trade Limited. According to a mail recovered from Dongre's Gmail account, $10 million was payable to Viterra Asia Pte Limited, Singapore. However, Glencore plc was liable to be taxed in India since the underlying assets were located in India. In the end, TRIL paid the amount for the acquisition of shares at ₹10 per share, that is, at par value. No tax was deducted at source (TDS) as no capital gains accrued to it in India being transfer of shares at par. The tax officials reworked the share value on basis of the company's balance sheet for 2012–13, to ₹30.5 per share. Viterra Asia, therefore, made capital gains of ₹6.30 crore, the IT department claimed.

A large number of mails and files were recovered from the premises of the Glencore group which related to its investment in ETC Agro Processing (India) Private Limited, part of the ETG group. In a mail sent to Doshi in March 2015, Dongre talked about joining hands with

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ETG to emerge as a dominant player in India. Even as the dal shortage was beginning to create turmoil in the country, Glencore and ETG discussed how to control this market. According to a file dated 7 September 2015 that was recovered from the premises of the ETG group, the $130 million deal would have Glencore as the single largest stakeholder at 40%. Even though officials of both groups denied any such transaction during the post-search interrogation, the capital gains of ETG and Glencore's funding sources are still being probed.

Fluctuations in Retail Prices

A Glencore spokesperson, in an emailed response to the EPW, denied any involvement or any role in the creation, abetment or compounding of the dal crisis. This is what was stated:

> We also unequivocally deny the allegations of forming any cartel with any individual or organisation. Anybody following the spike in dal prices would know that the price hikes were only in two categories of dals: tur and urad. We place on record that Glencore's core importation commodity in the pulses sector is masoor and yellow peas, which saw no such hike. Our importation of tur and urad are negligible. Therefore, we stand excused of any such charges … Any close reading of the price fluctuations over the period under discussion will reveal that the entire burden of fluctuation and rise was at the retail end. As a major global producer and marketer of natural resources, our core role is to connect commodities from places of surplus to places where they are most required in an efficient, cost-effective, safe, reliable and responsible manner. We base our investment and operational decisions to a large extent on the fundamentals of supply and demand. Commodities are traded globally and this enables countries to import when domestic production volumes are insufficient to meet domestic demand. We also believe that it is very important price signals reach farmers; such price signals enable them to make decisions about the varieties and volumes of crops to grow that are based on their ability to generate the highest return.

The spokesperson attributed the dal crisis to the forces of supply and demand. "Subsequent market intervention by authorities in some states—albeit well-intended—inadvertently led to an exacerbation of the situation and a further rise in prices," the spokesperson claimed and further argued:

• An acute shortage of tur and urad was caused by the monsoon failure in two consecutive years (2014 and 2015). Tur and urad are kharif crops and are dependent on the advent of rains in Maharashtra, Andhra Pradesh and Karnataka. They are also early seeded crops, unlike soybeans, and any delay in the arrival of the monsoon has a direct proportional impact on final yields.

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• Outside of India, tur and urad are only produced in Myanmar and countries in East Africa. Both of these locations are dependent on rainfall as these pulses are mostly grown in rain-fed areas. As a result, the government was unable to buy sufficient stock—despite being aware of the acute shortage of tur—until the 2016 harvest crops from Myanmar and East Africa became available.

• Tur and urad have been delisted from futures trading on the exchange platform since 2007. This shows that higher prices cannot be attributed to speculation on commodities exchanges.

• The entire price rise was a result of attempts to artificially suppress prices in major pulses producing states of Maharashtra, Andhra Pradesh and Karnataka. These states kept stock limits in place; these stock limits prevented farmers from selling their produce to domestic traders/millers. As a result, these farmers had to dispose of their pulses at substantially lower prices (at times even below their cost of production) at the time of harvest itself. This demotivated farmers to cultivate pulses, which resulted in lower acreage in following seasons. And these subsequent harvests were adversely impacted as a result of the failed monsoons.

The spokesperson also commented on the data/documents impounded from Glencore's premises during the raid: "We have suitably responded to all the queries from the income tax department via our various submissions and also during personal deposition of our employees."

The appraisal reports of the IT department made note of such submissions and depositions, but had found those to be insufficient or unsatisfactory explanation for the department's findings.

ETG: Through Tax Havens

The operations of ETG and its financial details that were ferreted out by the IT department officials were similar. Founded in 1967 and purchased by its current directors in 1986, Export Trading Group (ETG) owns the most vertically integrated agriculture supply chain in Africa with operations in procurement, processing, warehousing, distribution and merchandising. It is also actively present in North America, India, China and Southeast Asia. The group has a substantial presence in India in markets for agricultural commodities. In this country, the group is headed by Vijay Bhupatrai Doshi. ETG is essentially a tax haven-based group with ultimate control with a British Virgin Islands (BVI)-based company. The main companies of the group in India are ETG Agro Private Limited, ETC Commodities (India) Private Limited, Greenfield Impex Private Limited, and ETC Agro Processing (India) Private Limited and ETG Agro Processing (India) Private Limited—the two acronyms ETG and ETC (Export Trading Company) should not be confused with each other.

The two entities that figured in the investigations—ETC Agro Processing (India) Private

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Limited and ETG Agro Private Limited—are subsidiaries of the ETG Group in India that are owned by Mahesh Patel and Ketan Patel, who own 60% and 50% stakes respectively in these two firms through the ETC Group, Mauritius. The rest of the shareholding in these companies is held by Vijay Doshi and his family members, Hemir V Doshi, Mala Doshi and Heera Doshi. The first of the companies of the Doshi family that was investigated was Agro Ventures FZC that operates from the Ras Al Khaimah (RAK) Free Trade Zone in Dubai. The investigators examined files pertaining to Pacific Foods Limited (PFL) in Dubai, which was a joint venture of Parle Biscuits Private Limited (one of India's biggest companies manufacturing biscuits and other snack foods operating out of Vile Parle, Mumbai, which was set up by the Chauhan family in 1929); Export Trading Company, Dubai; and Agro Ventures, FZC, Dubai. PFL was incorporated in Dubai in April 2015 to set up biscuit manufacturing plants in Ethopia and Kenya. On examining its books, the tax officials concluded that Vijay Doshi and Hemir Doshi would have to explain the source of ₹5.82 crore in 2015–16 and ₹18.72 crore in 2016–17 that they had invested in PFL.

The second issue was over the tax accrued on the transfer of shares in ETC Agro. In the beginning, the Doshi and Patel families held shares in the ratio of 52.25:47.75. A company called Kiev Services BV then acquired 35% shares from the two families, which were left with 32.50% each. Shares of Kiev Services and Birju Patel (of the Patel family) were transferred to the ETC Group, Mauritius in March 2012. As per the then prevailing exchange rate, $3.8 million (of Kiev's shares) would be equal to ₹19.38 crore and $3.52 million (Patel's shares) would be worth ₹17.99 crore. ETC Mauritius acquired 67.5% of shares before fresh allotment of shares brought down the percentage to 60%. According to the Finance Act, 2012, an asset or capital asset, being any share or interest in a company or entity registered or incorporated outside India shall be deemed to be situated in India if the share or interest derives, directly or indirectly, its value substantially from the assets located in India. Thus, capital gains on ₹19.38 crore in the case of Kiev Services and ₹17.99 crore in the case of Birju Patel was taxable in India, the IT department argued.

But both of these were incidental findings. The IT officials noticed that both ETC Agro and ETG Ago had not paid any advance tax in 2015 when the dal crisis was at its peak. The reasons given to the investigators were "shortage of funds" and "unpredictability" over the previous two quarters (the raids were conducted in December 2015) because of which they expected a dip in profits. However, on examining the accounts, it was discovered that ETC Agro had a taxable income of ₹30.83 crore while ETG Agro's taxable income was ₹37 crore till 30 November. On this, the IT department's appraisal report remarked,

> It's in a position to easily shift its profits to Dubai and Singapore as it has been doing in past. Because of IT action in December 2015, assessee could not get time to manipulate its books and hence the admission. However, it's quite likely that in the period December 2015 to March 2016, it would have booked losses again. AO (assessing officer) must verify these transactions in detail. If

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> so, assistance of Delhi Investigation Wing may be sought.

These remarks would have been in sync with what the officials found for the previous financial year. On a gross turnover of ₹1,807 crore, the two companies in the ETC Group claimed to have incurred a loss of ₹2.38 crore despite being a dominant world player in pulses trading. The alleged ruse offered for the discrepancies were "depreciation/interest." The total amount shown as depreciation and interest did not apparently tally with the accounts of the group examined by the IT officials. Besides, the losses that had accrued from trading did tally with the trading losses mentioned in the spreadsheet files. As per these documents, the trading loss was recalculated. After adjusting for depreciation and finance charges, it was found that the net profit before tax would have been ₹4.54 crore for ETG and ₹8.06 crore for ETC in 2014–15 alone. For 2012–13, the adjusted profit before tax was found to be ₹19.54 crore against the ₹7.72 crore that was shown in its audited accounts. The accounts of subsidiary companies ECL Commodities India Private Limited and Greenfield Impex Private Limited too indicated that the profits shown did not tally with what they had on their books.

Both ETC Agro Processing and ETG Agro traded through their group concerns abroad, with transactions not being incurred at arm's length. There was overwhelming evidence that export prices were suppressed to park profits abroad, the IT department has alleged. There are several spreadsheets wherein comparisons were made with prices offered by third party contracts. One excel workbook relating to yellow maize showed that the rates for unrelated parties varied from $400 per unit to $566 per unit in 2011 alone. However, exports to ETG companies were at $272 per unit. Exports were directly shipped from India to Ho Chi Minh City, Vietnam, whereas bills were raised to its Singapore sister concern. There was no value addition by Singapore's Export Trading Commodities Pte Limited, which appeared to have been used merely for re-invoicing to undervalue the export prices. Because of the alleged heavy under-invoicing ETG/ETC kept on incurring losses on paper. Exports were allegedly under-invoiced to the extent of 40%–45%, and the corresponding profit was shipped out to associate concerns located abroad. Similarly, an analysis of import figures over years showed that imports of ETC Agro and ETG Agro from sister concerns were over-invoiced by 30%–57%. The group, thus, transferred its profits to its associate concerns which were located in tax havens.

ETG: Crisis Due to Increasing Demand

The ETG Group has denied the IT department's allegations. Doshi stated in an email to the EPW,

> The 2015 price increase was almost entirely driven by two years of back-to-back drought and increasing demand. There was acute shortage mainly in two or three pulses varieties from a total of 20 options available to consumers. But

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> excessive sensationalisation impacted all prices beyond reason.

Doshi also wrote about "zero discrepancy" in ETG stocks:

> During the IT surveys that (were) conducted pan-India, there was not even 1 MT (one metric tonne) difference between physical stock and ERP stock across all locations of ETG. Due to there being no discrepancies in the inventory physically found at all locations with the books of accounts, no seizure /payment of taxes (was) made at the time of the survey. All the discrepancies which were noted by the IT authorities at the time of survey and found by them in our computer systems were duly reconciled and submitted to the authorities in the post-survey submissions. The company continues to cooperate fully and provide all the information as required by the government agencies ... ETG stock was merely 2–28 days old and 100 per cent within existent stock limits. ETG had 100 per cent legitimately owned and stored stock and very less relative to our processing capacity, when the stock raids were conducted. ETG imports whole tur (raw pigeon peas) and the same is used for processing and not for trading. The dal made from this raw tur is sold daily across various states. It practically never has dal stock of more than 10 days production in the factory which has been verified from the stock registers. The business model cannot afford to hold any more dal inventory that that.

Doshi also contended that ETG has never had membership of any commodity exchange. He stated: "This has also been favourably noted by the concerned authorities. It is entirely into physical procurement, processing, value addition and distribution of goods." He went on to add,

> ETG is perhaps the only company that publishes its prices daily on their website and emails dal prices to the government bodies daily. Prices are determined by the tens of thousands of companies and individuals speaking to each other daily, assessing supply and demand and the market finding its own level. Pulses market is extremely volatile due to the global vagaries of this highly rain dependent crop. Raw pulses prices fluctuate multiple times a day and for a wide range of varieties and qualities that are available.

He claimed that ETG could not have controlled prices and commented on the character of the trade itself:

> India consumes about 25 million metric tonnes of pulses annually. There are

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> tens of thousands of companies of all types and sizes that operate in pulses across India. It is not practically conceivable that in a mass commodity physical market, a company or few companies can truly influence the market prices. The end produce is not unique by any means and is easily substituted by consumers given the twenty varieties available. Any single company represents a mere drop in the ocean in the commodities market. At the wholesale level one would lose a customer for even ₹1/kg extra pricing expectation as compared with the very broad market....
>
> While imports account for about 20 per cent of India's pulses consumption they have attracted 80 per cent of the attention given that, by definition they move in large consignments. Imports have been happening much the same way for the last 40 years. In all probability 2015 was no different on that front. Moreover, the company did not have any purchase /sale of tur or its products with the other companies which were surveyed.
>
> Millers logically prefer affordable prices. Affordable prices increase dal consumption, result in higher utilization of processing assets, need lower investment in inventory and greatly lower the downside risk. The prices fluctuate on a daily basis and at times one month can do more good or more harm than the rest of the 11 months for any participant in the agri-commodity sector. This is true not just for pulses.

Doshi also asserted that climate change is a reality and the reliability of agricultural output is under severe pressure.

> This key fact and its impact need to be accepted so that real solutions can be found. It is required to efficiently link farmers with consumers. Technology, professional talent and capital are essential to transform the sector. It is time for all of us to focus on solving that fundamental problem in a collaborative environment. We do believe that various government agencies have already studied volumes of data extensively to ascertain existence of any effective artificial influence on the price movements. The government is taking some very strategic steps for the transformation of this sector.

The IT department's appraisal reports also included the full recorded and documented versions and opinions of the ETG Group, but had found them to be inadequate explanations/justifications.

Edelweiss: Through a Dummy?

The Edelweiss Group is one of India's leading diversified financial services conglomerates

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with businesses ranging across capital markets, credit, asset management, life insurance, and commodities. The parent company of the group is Edelweiss Financial Services Limited, which was founded by Rashesh Shah who is also its chief executive officer (CEO) and chairman. Along with his wife, Vidya Shah, he holds a 27% stake in the group while co-founder Venkat Ramaswamy holds 10%. The others whose names repeatedly figured in the investigations are Himanshu Kaji (the group's chief operating officer) and Rujan Panjwani. The main group companies that were found to have played a role during the 2015 dal crisis were Edelweiss Commodities Services Limited, Edelweiss Financial Services Limited, and Edelweiss Trading and Holdings Limited.

On the basis of the documents and the digital files that were recovered, tax officials matched the books of the 45 companies in the Edelweiss Group with the records that had been filed with the IT department. They found that on tallying both realised and unrealised profits and on comparison with the returned income for assessment year 2016–17, in four cases, the income returned was significantly less than the profits shown up to November 2015. The cumulative returned income of ₹215.41 crore was 25.18% of the total realised and unrealised profits of ₹855.48 crore for four Edelweiss companies—Edelweiss Commodities Services Limited, Edelweiss Finance & Investments Limited, Edelvalue Partners and Ecap Equities Limited. Tax officials have also wanted to re-examine the books of eight Edelweiss companies (EFSL Commodities Limited, Ecap Equities Limited, Edelvalue Partners, ECL Finance Limited, Ecap Equities Limited, Edelweiss Finance & Investments Limited, Styrax Commodities Limited and Edelvalue Partners) which showed a cumulative loss of ₹187.63 crore (up to November 2015). The balance sheets for the previous years showed that the returned income was significantly lower than accrued profits; the appraisal report called for the AO to examine the accounts and mark them as "suppression of income" in case explanations were considered "unsatisfactory."

The Edelweiss group has been raising funds in Mauritius and Singapore through overseas entities. These funds eventually found their destination in India. Mails exchanged between Edelweiss officials (that were recovered by tax officials) showed how they allegedly discussed ways and means of avoiding scrutiny by the Foreign Tax and Tax Research (FTTR) division of the Central Board of Direct Taxes (CBDT). The parent companies of these overseas units in India should be asked to reveal name and address of investors, the appraisal report said. Moreover, ECL Finance Limited received huge amounts as share capital for foreign permanent establishments (PEs) and foreign institutional investors (FIIs). The appraisal report asked the AO to make FTTR references to ascertain the identity of the true investors and find instances of round-tripping of funds. All these findings were considered "circumstantial" in nature.

The transactions related to the 2015 dal crisis led to Aster Commodities DMCC, which was formed in Dubai as wholly-owned subsidiary of ECIL Mauritius, which in turn was a wholly-owned subsidiary of Edelweiss Financial Services Limited, India. Aster was allegedly used to over-invoice import of pulses. The management and control of Aster vested in the India

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office of the Edelweiss group. Aster merely issued back-to-back bills to Edelweiss Commodities Services Limited after enhancing the rates. The goods were shipped directly from the port of origin to India whereas the bills were routed through Dubai. To this extent, Edelweiss Commodity Services Limited not only evaded taxes but also indulged in money laundering, the appraisal report concluded. Three of Aster's directors—Durga Prasad Jhawar, Vinod Kumar Soni and Udit Sureka—were employees of different companies of the Edelweiss group in India. Even Jhawar's housing loan had to be approved by the Edelweiss management team in Mumbai. Copies of emails exchanged among Edelweiss employees allegedly showed how they had worked hard to escape tax scrutiny in India.

Funds came to Aster mostly in the form of loans. For one loan amount from Axis Bank, Edelweiss Financial Services Limited was the guarantor. All decisions regarding fund transfers and business transactions were taken from and by core management team of Edelweiss at its Mumbai office. It was seen that Edelweiss divided its businesses in various segments, namely, bullion, commodity, derivatives, etc. Various companies, including overseas ones, also dealt in these business segments and were handled by the same team at Mumbai irrespective of the location of the entity. All this was ascertained from the emails that were recovered from Edelweiss employees.

Many of these mails drove home the point that all purchases from Aster, which was merely re-invoicing, were handled by the Edelweiss commodity team at Mumbai, mostly by operations manager Sitaram Chokhara. One mail showed that a shipment of yellow peas from Canada was being made to Tuticorin port. The seller was Glencore Grain BV and the buyer was Aster. This shipment was for September–October 2015, when the dal crisis was peaking. In this period, a flurry of emails was exchanged between Glencore and Edelweiss. Mails from Glencore suggested that a payment of $3.7 million was made by Aster DMCC to Glencore from a branch of ICICI Bank in Dubai. However, this transaction too was handled by Chokhara far away in Mumbai. These select mails showed Aster was merely a dummy company created solely for re-invoicing. All imports of pulses were handled by Edelweiss Commodity Services Limited, and Aster was interjected to ship out a part of profits at Dubai. There was also evidence of back-to-back billing by Aster in 2014–15 (during the dry monsoon which eventually led to the dal crisis).

The IT department claimed that a perusal of these bills showed a clear pattern: Aster consistently over-invoiced purchases of Edelweiss Commodity Services Limited by close to a third, that is, by around 30%. This was discovered by tallying numbers from Edelweiss Commodity Services Limited with the invoices of Aster. The percentage of over-invoicing varied from 7.59% to 88% and inflation was at a maximum in the case of purchases of pulses made by Aster from Singapore-based Agrocrop International.

This worked both ways, as was evident from the purchases that were made by Edelweiss Commodity Services Limited. Invoices showed that as against the rate of $640/tonne for green peas from Aster, the average rate from unrelated parties was $560/tonne. Thus, the

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Aster rates were higher by a good 18%. In the case of red lentils, the Aster rates were higher by 23%. Overall, the average rate of inflation of purchase of pulses from its own dummy company was estimated to be 10.8%. For these circumlocutory purchases at inflated rates, the IT department's appraisal report called for the income of Edelweiss Commodity Services Limited to be increased by ₹173.77 crore.

Keeping Funds Abroad

The Edelweiss group created many subsidiary companies in Mauritius, Singapore, Dubai, Cyprus, Hong Kong and Chad which did not pay any taxes in India on the ground that they did not have any PE in India. These were allegedly formed to achieve following objectives: ship out profits abroad in tax havens through a complex holding structure designed primarily to defeat tax laws; create and manage "funds"; access overseas commodity and currency markets to take advantage of price differentials; and for speculation in foreign markets. The appraisal report alleged,

> Analysis of seized/impounded data reveals that these companies are manned by employees of [the] Edelweiss group. All decisions with respect to their management and control is taken by core management team of [the] Edelweiss group at Mumbai. The funds by way of equity or loan are also provided by [the] Edelweiss group at Mumbai. Only a charade of documents have been created to show them as separate business entities at arm's length. However, the so created corporate veil must be lifted to unravel the truth and assess correct income in India.

The directors of the companies in these places were employees of the Edelweiss Group in Mumbai. Mails showed how the directors were chosen to bypass Indian tax laws. Different entities were managed by different employees but the integrated accounting gave the game away, or so the IT department would have us believe. The Edelweiss Group in Mumbai not only provided funds by way of equity, it also stood guarantor to loans from banks. According to one mail from May 2013, $100 million was invested in ECIL Mauritius by EFSL India. An earlier mail from April 2012 related to transferring funds from EC Global Mauritius to Singapore. The mail to Edelweiss COO Himanshu Kaji remarked that a more "hygienic" way to deal with the situation was to repatriate the money from EC Global to India and "suffer" a 15% tax, which eventually did not take place. All these led the appraisal reports to remark that the overseas entities—EC Global Mauritius, ECIL Mauritius, Aster Commodities DMCC Dubai, EISAA Mauritius, EISAF Singapore, EW Special Assets Advisors, EAAA PL Singapore, EW Special Assets Funds Singapore, Edelweiss Chad, Edelweiss Cyprus—should be taxed in India by the AO after due verification.

That was not all; Edelweiss took this forward by carrying out dollar trading in money markets. The appraisal report contextualised this in the following manner.

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> Like the thriving non-deliverable forward (NDF) market in Singapore and London, where institutional investors, hedge funds and large business houses punt on the rupee, there exists another market, but more opaque, where bets happen on interest rate movements in India. This is the non-deliverable overnight indexed swap (NDOIS) market, where investors, who think interest rates will rise in India, strike deals to pay a fixed rate and receive a floating rate while those who bet that interest rate will soften enter into contracts to pay a floating rate and receive a fixed rate. As the name (ND) suggests, no delivery of rupees happens in offshore markets, though underlying transactions are linked to rupee rates. The bets are settled in dollars. These large investors had a windfall after the central bank's somewhat unexpected strike in the money market.

The emails seized contained evidence of huge profits made by the Edelweiss Group from money markets. The US dollar trading income of the group was equivalent to ₹94.22 crore for 2012–13 and ₹203.43 crore for 2013–14 which, according to IT officials, needed to be taxed in India since: (i) the trading was done by the group's dollar trading team in Mumbai; (ii) all decisions were taken only with the approval of core management team in India; (iii) the overseas concerns had PEs in India; and (iv) the funds were provided from India.

Edelweiss Trading & Holdings Limited, which offers commodities broking and trading services, too came under the scanner of the IT officials. The company was earlier called Edelweiss Commodities Advisors Limited. Edelweiss Trading & Holdings Limited was incorporated in 2004 and is based in Mumbai. Edelweiss Trading & Holdings Limited operates as a subsidiary of Edelweiss Financial Services Limited. On examining the sales, closing stocks, realised and unrealised profits (primarily of pulses), it was found that the company had understated profits by ₹13.06 crore in 2015 alone (till 31 October 2015). Moreover, it was seen from the inventory of closing stocks that for many items (read, pulses) the quantity was shown at a negative value.

Edelweiss' Denial of Cartelisation

Edelweiss has denied having played any role on what the IT department described as "cartelisation" of the dal crisis. A spokesperson of Edelweiss Business Services Limited asserted over email to the EPW:

> Please note that Rashesh Shah, Venkat Ramaswamy and Himanshu Kaji are not on the Board; neither are they CEOs of this subsidiary and nor are they involved in the day to day management of the said subsidiary. We wish to state that the points raised are only allegations and that too, generic in nature, and in the absence of any specific questions it is difficult for us to specifically respond. We would also like to place on record that we are not in possession of

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> any such report. We have always run all our businesses in a professional manner, strictly abiding by the laws of the land and all regulatory guidelines. In the case of the agricultural commodities business, Edelweiss has always ensured that the food and civil supplies department has been kept abreast of stock purchase and sales on a monthly basis, since inception. We deny any allegation of cartelisation on our part.

The IT department, however, was not satisfied with the responses.

Conspiracy theories abounded at the peak of the dal crisis, not all of which were entirely unfounded. Everyone knew pulses were being hoarded, but no one had a clue how this was affecting the entire trade and the market. Could hoarding alone lead to such a shortage that prices would skyrocket so much? Unless, of course, this was being done in a concerted and organised manner. And if bigger games were being played, how then did the so-called stage-managed scarcity of dal play itself out? The IT department's appraisal report based on the raids carried out in the aftermath of the dal crisis did point towards the role that big corporations had played at the global level. It also got to the bottom of things by examining the books of a few key players who were manipulating stocks at the wholesale level in the country.

Jindals: Suppression of Incomes?

The Dalip Jindal Group comprising Jindal Agro International, Jindal Green Crop International, SG Polyplast and Faquir Chand Dalip Kumar and the Pradip Jindal Group comprising Jindal Overseas Corporation allegedly suppressed their incomes through over-invoicing of purchases and under-invoicing of sales according to the IT department's appraisal reports. They achieved this with the assistance of an entry operator Ashok Gupta in Delhi and Jindal's selling agent-cum-unofficial partner Manoj Agrawal in Indore. The IT officials identified six "bogus" concerns of Gupta and 17 benami firms of Agrawal. It was found that a part of the transactions of companies in the Dalip Jindal and Pradip Jindal Groups were with genuine entities and at market-determined prices. However, a part of these transactions were routed through the bogus concerns of Gupta and Agrawal. These were structured transactions at rates decided by the two Jindals, thereby reducing profits. The profit parked in these bogus and benami entities either came back to Dalip Jindal and Pradip Jindal and their concerns, or were utilised by Agrawal for buying unaccounted stock, playing *dabba* or entering into speculative transactions.

Gupta said in a signed statement, "We have carried out billings on the instruction of Shri Dalip Jindal at the rate and dates decided by him. Such bills are not corroborated by any other documentary evidence." He then elaborated on the modus operandi:

> We work as commission agent and we wanted good business relations with big

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> parties like Shri Dalip Jindal. He offered us to provide sale purchase bills of transactions which were not carried out and were just for passing entries. The sale purchase dates and sale purchase rates were instructed by Shri Dalip Jindal. We were offered negligible commission in lieu of this which we never received. We started this activity on the instruction of Shri Dalip Jindal around June 2015. We did this considering it as a normal business practice and in want of better clientele and reputation (*sic*). We were not aware of any further transactions.

Dalip Jindal's so-called bogus firms Ridhi Sidhi Impex, SA Agro International and Gunn Enterprises had transactions with four of group companies. In all, fake bills worth ₹1,160 crore were issued by Gupta's firms to Jindal. The corroborative evidence came from Agrawal, who too submitted a signed statement to the tax authorities. Jindal could not furnish details of transactions apparently because of a fire at his office that he claimed had destroyed the documents. Printed bill books of Ridhi Sidhi were recovered from Agrawal's possession.

To estimate the tax evaded through bogus purchase and sales bills, officials picked up random examples. In one case, back-to-back sales bills were raised by one Narmada Ginning and Pressing Factory. The truck's licence number, the quantity and dates were identical. In 2014–15 and 2015–16, roughly 24% profits were evaded by Jindal Agro by routing it through Gunn and Narmada. Gupta said he issued purchase bills to concerns of Dalip Jindal at lower rates. These were then sold by Agrawal at higher rates. The money received by Gupta's concerns was then transferred to the Dalip group which was shown by it as unsecured loan/sundry creditors. Towards the end of the year, this amount was squared off against bogus bills. The procedure was repeated ad infinitum and incomes remained unaccounted for. In 2014–15, the proportion of unaccounted income to actual turnover for Parth International (one of Gupta's firms) was around 32.8%. On examining the books of Jindal Green Crop International, it was found that the allegedly concealed income as a percentage of turnover was 34%. In fact, the discrepancies that the income tax officials found mostly hovered around 33% or one-third of the overall turnover amount shown.

The suppression of income was done through various means. First, on re-examining the audited results, it was found that SG Polyplast, Jindal Agro and Jindal Green Crop had suppressed gross profits with unaccounted income being ₹29.53 crore in 2014–15 alone. In 2015–16 (till the raids were conducted), Jindal Agro booked losses for trading in chana. However, from several files found from the computers of Agrawal it was found that the actual rates were much higher. Books were manipulated by over-invoicing purchase bills and under-invoicing sales bills which resulted in apparent losses for trading in chana. A sum of ₹64.07 crore needed to be added to the income of Jindal Agro for 2015–16. Jindal was evidently aware that it had booked bogus losses for chana sales in the books of Jindal Agro. Jindal ignored them while working out its profit and loss, as was apparent from multiple

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excel sheets found on its computers. After accounting for the bogus losses and the actual profit made on trading in chana, another ₹86.27 crore would have to be added to its income for 2014–15, the IT department claimed. Similarly, the suppression of income from SG Polyplast and Jindal Green Crop for that financial year came to about ₹16 crore.

Glencore was found to be prima facie involved in providing accommodation entries to Pradeep Jindal through alleged manipulation of import prices. Mails showed that Jindal requested for remittance of $1 million as his credit balance with Glencore on 17 March 2015. Another mail revealed the mechanism that was devised to provide this amount to him in Singapore. Glencore manipulated contracted prices to create a credit balance of $1 million in favour of Jindal Oversees Corporation (JOC) as evident from a mail from an employee of Dongre, the IT officials alleged. This was in contrast with the books of JOC wherein Glencore appeared as a sundry creditor by $2 million. Thus, it was JOC which should have paid Glencore and not vice versa.

Lowest-rung Manipulation

Investigation into Manoj Agrawal's activities revealed how the scam played out at the lowest level. Agrawal alias Poddar was engaged in the trading of pulses, peas and grains. The commodity trading was managed through his proprietorship concern—Surya Foods in Indore. Surya Foods was also into physical trading of pulses, peas and grains. Agrawal had another proprietary concern called Manoj & Company which acted as a broker and commission agent for trading in all types of foodgrains. Agrawal did commodity trading under the name of Arihant Future & Commodities Limited, Indore. He controlled and managed several so-called benami concerns for issuing bogus bills of purchase and sale, adjusting rates of transactions (over-invoicing/under-invoicing), and managing the dabba (speculation) business, the IT officials claimed. Evidence in the form of pre-signed cheque books, blank signed forms for RTGS (or real time gross settlement for electronic transfer of funds in bank accounts), bill books and books of accounts (using Tally software) were found and impounded/seized. Agrawal accepted all these allegations in his handwritten submissions, or so the IT department has claimed.

Pre-search surveillance of Agrawal's activities showed that he was running a dabba trade to hoard stocks and manipulate prices. This was corroborated through documentary evidence recovered during search and seizure operation on his firms. Agrawal maintained a list of clients with assigned client codes. Dalip Jindal of Jindal Agro International, Pradeep Jindal and Superior Agro (Vikas Gupta Group) were his main clients. The client codes were similar to the client code system used in recognised exchanges. Dabba trade is illegal as it is tantamount to running a parallel commodity exchange. The dots were joined by tallying the numbers recovered from Agrawal, the Jindals and the NCDEX: all these matched except that the trades were being conducted off official books of account. Agrawal traded on NCDEX on behalf of others including the Jindals and settled their accounts out of the books. He and his clients are liable for prosecution for indulging in illegal activities, the IT department

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concluded.

Agrawal also indulged in future trades. Before a shipment would reach India, brokers like Manoj & Company would be asked to find buyers at a price fixed by the importer. The broker would sell consignments to other parties or brokers at a price that was higher than that fixed by the importer. There could be subsequent trades of purchase and sales. Agrawal would buy them back and sell again, and so on. One appraisal report of the IT department observed:

> It's like a commodity exchange where members enter into future trades. In these transactions, no physical exchange of consignment takes place, but Manoj & Co and his clients may either earn a profit or loss. The profit or loss so obtained is not booked by Manoj & Co and his clients. These are settled with physical delivery. Manoj & Co only earns brokerage on the same.

Transactions went around in circles, enabling the players to make money at each stage. For instance, on 28 September 2015 (shortly before the government woke up to the spike in prices of urad and tur dal), Surya Foods (of Agrawal) sold to Fakirchand Vinodkumar & Co 6,260 bags of imported tur dal at a price of ₹9,500 per unit, which was immediately sold to Laxmi Cotton Industries at the rate of ₹9,600 per unit. Laxmi Cotton again immediately sold this to Surya Foods at ₹10,500 per unit. Thus, Surya Foods sold dal for ₹3,00,05,280 and bought back the same for ₹3,31,59,000 thereby incurring a "loss" of ₹31,53,720. Of course, both Fakirchand Vinodkumar & Co and Laxmi Cotton Industries were associated concerns of Manoj Agrawal. Similarly, on 3 August 2015, Surya Foods sold 5,200 bags of imported tur dal for ₹2,00,00,267 to Jindal Super Dal which sold the material to Narmada Ginning & Pressing Factory for ₹2,02,59,977. This was sold back to Surya Foods for ₹2,07,79,397 thus creating a "loss" of ₹7,79,130 for Surya Foods. Narmada Ginning and Pressing Factory was allegedly a benami concern of Agrawal. All this was done with such impunity that the number of the truck used to carry the goods mentioned in each set of transactions was exactly the same!

NCDEX: Under a Cloud?

The indirect role played by the NCDEX in accentuating the dal crisis is still being investigated. The speculation in trades in pulses and the alleged price manipulation were to a great extent facilitated by the NCDEX which played right into the hands of the cartel, the IT department believes. Coincidentally, it was in January 2015, that the Forward Markets Commission granted approval to the agricultural-commodity bourse NCDEX to launch forward contracts in seven additional commodities including some types of pulses. The approval was given to launch both transferable and non-transferable specific delivery forward contracts at a fixed price in urad, tur, yellow peas, yellow soyabean meal, pepper, RBD (refined, bleached and deodorised) palmolein and bajra. The NCDEX commanded an

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almost 100% share in trades in these agri-commodities. The deliveries of goods at the end of contracts were only 1%–2%. Moreover, a person could easily escape delivery be paying a meagre penalty of 2%–3% to the exchange. “So, it is a 100 per cent speculative exchange,” the appraisal report commented.

Documents with the IT department showed that Edelweiss “hoarded” stocks of castor through its clients who bought on the NCDEX and sold entire stocks offline to Edelweiss to avoid scrutiny by the regulator. One such client was Pooja Mittal, who had never traded on the NCDEX platform, but was registered as a client under a broker named EC Commodities Limited, a group company of Edelweiss. Mittal purchased (delivery taken) from the NCDEX (as a client of EC Commodities Limited) and sold the entire delivery to Edelweiss Commodities. The IT department is currently working on a supplementary appraisal report on the NCDEX.

Conclusions: Piecing It All Together

The IT officials could put everything together by tallying with one another the hard copies and digital documents that were recovered during the raids. Not everything could be recovered, but by cross-referencing whatever documents were impounded, what emerged was the existence of a cartel that operated at multiple levels and created the dal crisis of 2015. The story, however, did not end there. In June 2016 too, dal prices had surged with tur selling at ₹170 a kg and urad at ₹196 a kg. In September, a panel headed by the Chief Economic Advisor in the ministry of finance Arvind Subramanian called for procurement of pulses on a “war footing.” It suggested better incentives for farmers in the form of higher MSP combined with effective procurement to increase domestic availability and prevent price spikes. Prices finally crashed in the winter of 2016 in the wake of a bumper crop in Maharashtra and Karnataka, and the acute cash crunch created by demonetisation. Four months later, tur dal prices hit an all-time low of ₹3,950–₹4,050 per quintal after the deadline for central procurement at MSP through NAFED (National Agricultural Cooperative Marketing Federation of India) and other agencies expired on 22 April 2017. Farmers were reported to be still holding over one-fourth of the stocks. In fact, the Centre was already in a quandary in April over what to do with the 20 lakh tonnes of pulse stocks.

Surprisingly, there were no high-profile raids in 2016, and even the government’s *Economic Survey 2016–17* released in January gushed: “The prices of pulses, in particular tur or urad, remained persistently high from mid–2015 to mid–2016 due to shortfall in domestic and global supply. Since July 2016, pulses prices except gram dal prices have been declining owing to near normal monsoon, increase in the rabi pulses sowing and buffer build up by the government,” the survey stated even as it added a word of caution: “Vigilance is essential to prevent other agricultural products becoming in 2017–18 what pulses was in 2015–16 in terms of supply deficiencies and consequential higher inflation.”

The fact that a huge multi-level scam had taken place in 2015 resulting in a sudden spike in

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the prices of dal, in particular, tur and urad, seems to have been all but forgotten.

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