

PREFACE

“All characters appearing in this work are fictitious. Any resemblance to real persons, living or dead, is purely coincidental.”

This is a typical disclaimer that any work of fiction carries. But this book is different. None of the characters – living or dead – and incidents mentioned here are fictional. They all belong to the real world. *Sahara: The Untold Story* is not a creative work. It’s a journalistic work – a result of painstaking research to demystify India’s most secretive and largely unlisted conglomerate, the Sahara India Pariwar, which has excelled in raising money from people over decades and courted endless controversies.

I have sifted through thousands of pages of legal papers: affidavits, petitions, judgments of high courts and India’s apex court; directives and notifications of regulators, both banking and markets; minutes of closed door meetings; and media reports. Besides, I have interviewed several people across India who have been associated with the group in one way or another – regulators, chartered accountants, legal experts and journalists who track the group.

I have also bought a packet of Davidoff cigarettes (though I am not a smoker) and a bottle of Grey Goose (and I’m not a vodka drinker either) to appreciate the finer taste of Subrata Roy, the Sahara India Pariwar boss.

I mention all this to explain my approach to a subject that is extremely complex – if not anything else, just for the mystery that shrouds it.

This book could well have been called “The Death of a Four-Letter Word”. When I started the project, my objective was to understand the financial intermediary called residuary non-banking companies (RNBCs), named so for the lack of a better word, when two finance ministry bureaucrats were busy classifying all non-banks in the 1960s.

At the fag end of the day, they were tired but they could not leave their job unfinished as a cabinet note had to be prepared that night for presentation the next day. So, for want of a better word, a bunch of non-banks that were into neither home loans and car loans nor hire purchase and lease were called residuary non-banking companies, as they were residues in the list of non-banks.

Indeed, the RNBCs were subjected to directed lending norm, tightened in phases over the years, and capital adequacy ratio but the Reserve Bank of India (RBI) struggled to supervize them. There were month-long inspections of books by RBI inspectors every year, but the regulator was still not happy. It tightened the noose when YV Reddy became governor of the Indian central bank. I wanted to chronicle the growth and demise of RNBCs.

Sahara India Finance Corp. Ltd is the biggest among them, followed by the Peerless General Finance & Investment Co. Ltd. Peerless was born four-and-a-half decades before Sahara, in Bangladesh, when the world was in the grip of the biggest Depression. It grew by leaps and bounds in the 1970s and 1980s, even becoming the lender of last resort for some state governments. Peerless was able to challenge the RBI’s authority at various courts, until a Supreme Court judgment dealt a blow to it in January 1996.

Its story is interesting but very different from that of Sahara’s with all its mystery, secrecy, glitz and glamour. This is because of Sahara’s promoter Roy’s proximity to film and sports and politicians of every hue. There are other differences as well: while Peerless went to court challenging the

regulator, Sahara published advertisements in national newspapers congratulating the banking regulator for tightening the RNBC norms in 1987.

Roy, the guardian angel of the group, whose feet is touched by everybody in the Pariwar, is an entrepreneur who wants to reach out to a million lives and who feels claustrophobic in regulations. So, the clash with the regulators is inevitable. But when one regulator slams the door, Roy opens another. This play has been on since 1978 – when Sahara was set up.

Roy soaks in the glamour of cricket and the film world, and exudes patriotism, with a statue of Bharat Mata (the presiding deity of the group, on a chariot driven by four fierce-looking lions, representing four religious communities in India) adorning his headquarters in Lucknow. The other India, the millions of illiterate, poor depositors in northern and central India, stands in awe of him. Roy is the Robin Hood of a country where only 35% of the adult population has access to formal banking services. But does he also exploit them? Do these poor people actually keep money with him or are they a front for others?

Sahara: The Untold Story is this story. The first chapter sets out the context; the second chapter is devoted to Peerless. Chapter three, four and five dwell on Sahara's fight with the RBI, a phase that is over. Chapter six and seven deal with its fight with India's capital market regulator, a phase not over as yet. Chapter eight portrays a few key people who are involved in the Sahara saga. Chapter nine is an attempt to demystify the Roy persona. And chapter ten is a crystal ball gazing into what lies ahead for the group.

The annexures that follow outline the history and growth of shadow banking; carry some of the communications between Sahara, RBI and others which are not in the public domain; and the timelines of the Peerless and the Sahara sagas.

For me, writing about a group that has 4,799 establishments and businesses under 16 verticals in its fold and is the second-largest employer in the country after the Indian Railways is similar to a blind man trying to describe an elephant. I don't have answers to all the questions, even though I have raised them. But they may help you, dear reader, to appreciate the complexities of the Indian financial system, the role of the regulators and judiciary, and offer you glimpses into the psyche of Roy and his pariwar, which no agency has understood fully as yet.