

**Response to Public Advertisement and Notice to Subscribers of  
Margadarsi Chit Fund Pvt Ltd by Registrar of Chits**

Margadarsi Chit Fund Pvt Ltd is a reknowned and trusted brand in the Chit Fund Industry with 108 branches across Andhra Pradesh, Telangana, Karnataka and Tamilnadu with meticulous functioning and unwavered financial discipline for over six decades. The Company over sixty years has serviced over sixty lakh subscribers and disbursed over one lakh crore as prize money.

Pursuing their vendetta against the Ramoji Group and Eenadu, the largest Telugu circulated daily, the Government of Andhra Pradesh has initiated direct attack through a constant persecution and witch hunting against Margadarsi Chit fund Pvt Ltd also belonging to Ramoji Group by levelling baseless and non-existing allegations of financial irregularities.

In continuation of their malicious agenda, the Government through its Registrars now have issued an advertisement in the print media in the form of notice to subscribers levelling the same imaginary, arbitrary and perverse allegations. The Registrars have gone on to make these allegations when the subject matter is still subjudice in Courts and they have not filed any counters to writ petitions filed by the Company.

At the outset, Margadarsi is extremely thankful to all the Subscribers for the trust placed on us for over six decades and especially during these difficult times and expresses heartfelt gratitude for your support which is giving the strength to us to withstand this much maligned onslaught.

The allegations levelled in the said notice to subscriber and the facts countering the allegations are as below

### **Allegation no.1**

For the tickets held in the name of **Margadarsi Chit Fund Pvt Ltd**, the payment was made by the subscription money paid by the unrelated members of the group (other chits group) but not paid by the company. This is a major violation. As per the provisions of Chit Fund Act, tickets held in the name of the Company (vacant chits) shall be paid by the company, i.e., Margadarsi Chit Fund Private Limited out of its own funds.

### **Fact:**

- With regard to contributions of the company (Foreman) in each and every chit of respective groups, it is submitted that there has been a business practice **in the entire chit fund industry** to effect the journal entries recognising contribution of Foreman in mandatory chit and also vacant chits as per the technical guidance note issued by highest accounting body 'The Institute of Chartered Accountants of India' in the year 2004. Further submitted that the journal entries are effected in the books of account based on the funds available in the bank account for the contribution of Foreman in mandatory chit as well as vacant chits wherever required. It is thus the question of allegation that the company (Foreman) is not contributing does not arise and in fact it is evidently proved and demonstrated beyond doubt the moment, the prize amount is distributed every month to the subscribers without any default. Further where the prize money is not paid due to delay in furnishing sureties by subscriber, the said amount is transferred to a separate bank account in all those cases **as per Section 22 (2) of the Chit Funds Act, 1982.**
- It is also submitted that the company, with a view to ensure adequate cash flow always in the system, though is entitled to draw gross chit amount under **Section 21(1)(a) of the Act** from the account but is retained in the said account only. This amount enables Foreman to contribute for its mandatory ticket and also contributions if any required for vacant chits. It is also submitted that the journal entry for the chit liability whenever declared is effected in books of account and thus shown as liability in Balance sheet accordingly.

- It is also submitted that the investment in vacant chits in any chit groups always get reimbursed month on month on substitution of those chits by new subscribers from time to time. In the event any chit, other than mandatory chit, is not filled till the end of the group, the said chit is continued till the end of the respective group and such amount is drawn only in the last month after completely making bid payments to all members of that chit group transparently. Further even such amounts invested till the end is drawn in the last month of chit group but is also retained in the system to strengthen cash flow of the branch.
- Thus at the cost of repetition, it is submitted that the contributions of Foreman in mandatory chit and also vacant chits occasionally are completely contributed from the funds held in bank account of the foreman for which the journal entries are effected every month in the books of account. Further the investments in vacant chits always gets replenished as and when the chits are substituted and assigned to new subscribers. It is therefore the bald allegation that the company is not contributing any money towards mandatory chits and vacant chits is completely devoid of any merit and substance and is evidentially demonstrated with the bid payments made to prized subscribers every month without any default and hence their allegation is totally baseless.

### **Allegation no.2**

As the chit company, **instead of paying chit subscription from its own funds, diverted the money of the subscribers belonging to other groups, it was found that the prized subscribers were being paid with inordinate delays.** Payments to prized subscribers were delayed beyond for more than four months in some cases.

### **Fact:**

- The company has been making the subscription payments by effecting journal entries as the amounts / funds are available in the Bank Account

no. I itself. Hence there is no such misconception of company not making its contribution towards the chits held by it and there is no delay of payments to the prized subscribers.

- It is completely denied that utilization of other group subscription amounts for payment of prize amounts of this group or any other group as well. As per the Act, subscriptions collected from subscribers of various chit groups are remitted into designated bank account maintained as per chit agreement at the branch and the payments to successful bidders are also released from the same bank account as per the Act which are being filed with the Registrars from time to time.
- Further since the prize amounts are paid from Bank Account no. I and also the amounts are transferred to Account no II diligently **as per Section 22 (2) of the Chit Funds Act, 1982**, the question does not arise that one group subscriptions amounts are utilised for payment of prize amounts of other group.
- **Section 21 (1) (e) of the Act** provides rights to the foreman to demand sufficient from any prized subscriber for security the due payment of future subscriptions payable by him.
- Subscribers offer to provide other securities including Future Subscriptions Deductions, Sureties / Guarantors, Security Amounts, LIC pledge, Bank Guarantee, Property Pledges etc for the future subscriptions payable by them. The company exercises its rights in this regard to scrutinise the strength of the securities provided as this is to ensure the interests of other non-prized subscribers in the group which is just and necessary. Payment of prize money is made immediately after submission of sufficient security. Where there is a delay on the part of the prized subscriber, the unpaid prize amount is deposited in a separate approved bank account as per Act before the next succeeding instalment and the intimation is made in writing to the fact of such deposit and the reasons there for to the prized subscriber and to the Registrar. There is no delay as alleged here as the company is well within its rights to demand sufficient security and the company diligently follows the Act in this regard.

### **Allegation no. 3**

**No amount should be accepted from chit members without obtaining proper permissions before commencing a new chit.** But funds were received from the **public arbitrarily flouting all the provisions of the Chit Fund Act.**

#### **Fact:**

- The Company enrolls the subscribers upon obtaining the Previous Sanction Order (PSO) only as per **Section 4 of the Chit Funds Act, 1982.** The subscriber enrolled makes the payment of subscription amount on his own discretion before the auction which in some cases the subscriber may remit advance subscription. The company never requests the subscribers for the subscription amount in excess of the first instalment to be made unless they opt for their own comfort. All such subscriptions are shown separately in the books of accounts as advance subscriptions under the head liabilities in the Balance Sheet.
- Also, the Chit Funds Act does not mention or has any clause preventing the subscription amount collected before commencement.
- The Registrars are resorting to making imaginary and baseless allegations blatantly to bring disrepute and defame the Company.

### **Allegation no. 4**

Prized Chit subscribers who bid for their financial emergencies were **not being paid prize money on time** and were **coerced in the name of non-provision of sufficient security to the satisfaction of Foreman** for the release of Prize bid money. They were found to be **deducting future liability of the instalments or luring bidders** and giving receipts that they will pay interest rates of 4 to 5% on **depositing Prize bid amounts.**

#### **Fact:**

- It is submitted that **Section 21 (1) (e) of the Act** provides for rights of foreman to demand sufficient and adequate surety from any prized

subscriber for securing the future subscriptions due and payable. Subscribers offer to provide surety and securities in the form of deduction of Future Subscriptions, Sureties / Guarantors, Security Amounts, Pledge of LIC policy surrender value, Bank Guarantee, Property Pledges etc. for completing the procedure stipulated in the chit agreement. The company at its Corporate Office exercises its rights in this regard to scrutinise the strength of the securities provided so as to ensure and protect the interests of other non-prized subscribers in the group which is just and necessary. Prize payments by Margadarsi are considered to be the best in the industry with quick and easy payments upon submission of sufficient securities to the satisfaction of the Company.

- It is also submitted that at the option of the subscriber, the foreman permits security amount for the future instalments due, as clarified vide Chapter III of Master directions of RBI issued in the year 2016 allowing the companies engaged in chit fund business which are classified as Misc Non Banking Companies. Hence **the subscriptions received whether current or future instalments do not constitute a "Deposit"** and are outside the scope of deposit. Further this view also finds support from the definition of deposit under section 45-I(bb) (VII) of Reserve Bank of India Act which clearly does not include subscriptions collected by a chit company as deposit.

#### **Allegation no. 5**

As per the provisions of the Chit Fund Act, 1982, Foreman shall be responsible for conduct of the chit groups in that branch. However, **Bank operations of Margadarsi Chit Fund Private Limited instead of being handled by foreman are being handled by unauthorized persons from corporate office**, who are resorting to diversion of funds, illegally.

#### **Fact:**

- The Branch Manager, who is an authorized representative of Foreman i.e the Company is having full knowledge and controls bank accounts of the operations of the Branch and is in charge of all the chit operations in the

Branch and each Branch is having three Bank Accounts as per the provisions of the Act and the Rules. In order to have effective centralized control mechanism, only the dual Cheque signing powers are entrusted to the senior staff who are stationed in Registered Office of the Company in Hyderabad, but the cheques are issued only as per the instructions of the branch manager concerned and are forwarded to the branches concerned for disbursement to subscribers. It is thus clear that operations under the Act and the Rules are carried by the Branch only.

- No diversion of subscribers funds takes place as the monies of the Subscribers in the Bank Accounts in the Branches are only utilised for payment of Prize Amounts only or to transfer the unpaid prize amount to separate bank account **as per Section 22 (2) of the Chit Funds Act, 1982.**
- Hence it is categorically denied that the Company is not resorting to any illegal means by operating the Bank Accounts from the Corporate Office.

### **Allegation no. 6**

The company has been making the **defaulting subscribers as prized bidders and was illegally diverting chit amounts.**

#### **Fact:**

- Default is an inherent risk more so in financial sector in which our company operates. The company operates on mutual trust with the subscribers and conduct the group without any hassles.
- Subscriber are allowed to participate in the auction only upon receipt of subscriptions due by them. The subscribers choose to make payments by Cash / DD / Online and also by the way of cheques.
- If there are any instances where cheques are returned due to various reasons, the dues of the subscriber in that chit along with any dues in his other chits and guaranteed chits are adjusted and the remaining prize amount is paid if he is declared as a prized subscriber only after obtaining

requisite securities. This adjustment is done with the consent of the said subscriber.

- In any case, the prize amount if it remains unpaid until the date of the succeeding instalment, the company deposits such prize amount forthwith in a separate account with an approved bank as per **Section 22(2) of the Act** mentioned in the chit agreement and intimates in writing the fact of such deposit and the reasons there for to both the prized subscriber as well as the Registrar.
- The amount lying in such separate bank account if being unpaid due to subscriber not providing requisite security will be adjusted for his dues every six months as a practice and this is done in the interest of other subscribers of the group. As the amount is already transferred to such account, such amount is not available for the company to use except for the purpose of adjusting the dues if any as stated above.
- The company does not resort to any favor for certain members who are otherwise not eligible to obtain the bid amount. There is no benefit the company obtains by retention of bid amounts as they are meticulously paid or transferred to separate bank account which is again as good as paid. Hence there is no incidence of illegally diverting the chit amounts of the subscribers.

### **Allegation no. 7**

**Violated the chit fund Act by non-filing of Balance Sheet, Profit and Loss accounts of the company** with the regulatory authorities as per the provisions of Schedule I and II, as per Section 24 and Rule 28 of Chit Fund Act, 1982.

### **Fact:**

- With regard to furnishing of audited accounts, it is submitted that **Section 24 of the Chit Funds Act, 1982** governs the preparation and submission of the Balance Sheet. It reads as follows "24. Balance sheet.—Without prejudice to the provisions of the Companies Act, 1956 (1 of 1956), every

foreman shall prepare and file with the Registrar within such time as may be prescribed, a balance sheet as on the last date of each calendar year, or, as the case may be, the financial year of the foreman, and a profit and loss account relating to the year of account, in the forms set out in Parts I and II of the Schedule, **or as near thereto as circumstances admit**, in respect of the chit business and audited by auditors qualified to act as auditors under the Companies Act, 1956, or by a chit auditor appointed under section 61." Emphasis needs to be given to the term "**or as near thereto as circumstances admit**". Accordingly the company has been furnishing the audited annual Balance Sheet and Profit and Loss Account every year as certified by statutory auditors, in conformity with IND AS (Indian Accounting Standards) as stipulated by the Ministry of Corporate Affairs (MCA), Government of India. In fact it contains much more disclosures and details than what is stipulated in Part I and II of the Schedule as required under Section 24 of the Act which the company had always complied with very prudently for sixty years. It is also submitted that it is an established and settled law whenever there is a conflict between Act and Rules, it is always what is provided in the Act prevails.

- It is also submitted that individual bank accounts for each chit group which are in thousands and furnishing of chit wise balance sheet and profit and loss account are practically impossible, for a corporate entity which operates more than 1800 chit groups in Andhra Pradesh, as per Rule 28(2) which is however not mandated or empowered by Section 89 of the Act. Thus Rule 28(2) does not get power to demand chit wise balance sheet. It is also relevant to state that the Latin maxim "lex non cogitad impossibilia" that means that law cannot compel anyone to do so what is impossible and has been upheld by no less than the Apex court of the Country in cases such as LIC of India Vs.CIT and State of MP 219 ITR 410 Vs. Narmada BachaoAndolaan (2011) 7SCC 639.