Financial Statement Red Flags and Corporate Fraud: A Forensic Accounting Perspective - A Study of DHFL, Coffee Day Enterprises, Reliance Power (Reliance ADA Group) and Gensol Engineering

Amrutha KP[1*], Dr. Geetha Rajaram[2]
[1]Assistant Professor, International School of Management Excellence, Bengaluru, Karnataka, India (Research Scholar, University of Mysore, Mysuru, Karnataka, India)
[2]Research Supervisor, University of Mysore, Mysuru, Karnataka, India
***Corresponding Author:** Amrutha KP, Assistant Professor, International School of Management Excellence, Bengaluru, Karnataka, India

Abstract
Corporate financial fraud has repeatedly damaged investor wealth, lender confidence and the credibility of statutory audit in India. Using a qualitative, comparative multiple-case-study methodology built on published regulatory orders, forensic audit findings and press reporting, this paper examines four prominent cases — Dewan Housing Finance Corporation Limited (DHFL), Coffee Day Enterprises Limited (CDEL), Reliance Power and the wider Reliance Anil Dhirubhai Ambani Group (ADAG), and Gensol Engineering Limited — to identify the financial-statement and governance red flags that preceded each fraud, the specific frauds and audit failures involved, and the extent to which forensic accounting tools and techniques could have enabled earlier detection. The paper draws on international precedents — including WorldCom, Enron and Sino-Forest Corporation — where forensic accounting techniques successfully identified fraud, to illustrate what an equivalent early-warning approach could have achieved in the Indian cases. Results show a consistent pattern of promoter-controlled fund diversion through related or reclassified private entities, undetected for years by statutory auditors, credit-rating agencies and, in several cases, the company's own board. The paper closes with practical suggestions for auditors, audit committees, credit-rating agencies and regulators.

Keywords
forensic accounting; financial statement fraud; corporate governance; related-party transactions; Beneish M-Score; India
How to cite this article: Amrutha KP, Rajaram G. Financial Statement Red Flags and Corporate Fraud: A Forensic Accounting Perspective - A Study of DHFL, Coffee Day Enterprises, Reliance Power (Reliance ADA Group) and Gensol Engineering. Int J Drug Deliv Technol. 2026;16(76s): 801-807. DOI: 10.25258/ijddt.16.76s.76

1. Introduction: Financial Frauds in India

India's corporate history over the last two decades reads, in part, as a chronology of financial-statement fraud. From the Satyam Computer Services scandal of 2009 — in which founder-chairman Ramalinga Raju confessed to fabricating cash balances and revenue of over Rs 7,000 crore — to the housing-finance and infrastructure frauds of the 2019-2026 period, a recurring pattern has emerged: promoter-controlled companies raising capital from banks, public depositors, non-convertible debentures or public shareholders, and then diverting a material share of that capital to related or personally-controlled entities while financial statements, credit ratings and auditor opinions continued to signal business as usual.

Several structural features of the Indian corporate landscape make this pattern possible. First, promoter shareholding and board control remain concentrated even in listed companies, limiting the practical independence of boards and audit committees. Second, complex group structures — with dozens of subsidiaries, cross-holdings and personally-owned private entities — create opportunities to route related-party transactions in ways that are difficult for external auditors and minority shareholders to trace. Third, statutory auditors in India have historically been appointed and remunerated by the very management whose numbers they are auditing, creating an incentive misalignment that forensic accounting research has long identified as a contributing factor in fraud non-detection. Fourth, credit-rating agencies have, in multiple cases, continued to assign high ratings almost until the point of default, relying heavily on management representations rather than independent verification.

Against this backdrop, forensic accounting — the application of accounting, auditing and investigative skill to reconstruct transactions, trace fund flows and quantify loss — has become an increasingly important discipline in India, both for post-fraud investigation and, more recently, as a potential tool for early detection through quantitative red-flag screening. This paper studies four such cases — DHFL, Coffee Day Enterprises, Reliance Power/ADAG, and Gensol Engineering — spanning housing finance, retail/hospitality, power/infrastructure and renewable-energy leasing, to draw out (i) the red flags and specific frauds identified in each company, (ii) the audit and gatekeeper failures that allowed each fraud to persist, and (iii) how forensic accounting techniques, already proven effective in cases such as WorldCom, Enron and Sino-Forest Corporation, could have enabled earlier detection in the Indian context.

2. Literature Review

The theoretical foundation for understanding why financial-statement fraud persists despite statutory audit begins with Cressey's (1953) fraud triangle, which identifies perceived pressure, perceived opportunity and rationalisation as the three conditions jointly necessary for occupational fraud. Wolfe and Hermanson (2004) later extended this framework into the fraud diamond by adding individual capability — the position, authority or technical skill needed to exploit an opportunity — as a fourth necessary element. Both frameworks are directly applicable to promoter-controlled Indian corporates, where concentrated authority (capability), weak board independence (opportunity), and aggressive growth or debt-servicing pressure (pressure) frequently co-occur.

A parallel stream of literature has developed quantitative, statement-based tools for detecting the resulting manipulation. Beneish (1999) introduced an eight-variable model — the M-Score — that combines indicators such as receivables growth relative to sales, gross-margin deterioration, asset-quality decline, and total accruals to total assets into a single probability-of-manipulation score, calculable entirely from published financial statements. Complementary techniques described in the forensic accounting literature include Benford's Law digital-frequency analysis, cash-flow-to-earnings divergence testing, Computer-Assisted Audit Tools (CAATs) for full-population rather than sample-based testing, and systematic related-party transaction (RPT) mapping.

The practical power of these tools is documented in several widely cited cases. At WorldCom, an internal forensic audit led by Cynthia Cooper identified the improper capitalisation of approximately $3.8 billion in operating expenses, uncovering what was then the largest accounting fraud in U.S. corporate history. Academic back-testing has shown that the Beneish M-Score would have correctly flagged Enron Corporation's accounts as showing a high probability of earnings manipulation before its 2001 collapse, using only published financial-statement ratios. At Sino-Forest Corporation, Muddy Waters Research combined on-the-ground verification of underlying timber assets with reconciliation of disclosed revenue against actual operations to identify overstated asset holdings, leading to a trading suspension within weeks. Closer to the present cases, retrospective academic application of the Beneish M-Score to Satyam Computer Services' published accounts found that the model would have signalled manipulation years before the 2009 confession, whereas bankruptcy-oriented models such as the Altman Z-Score and Piotroski F-Score did not capture the fraud — direct Indian evidence that routine quantitative screening, rather than reliance on management representation, can surface red flags well ahead of public disclosure. This body of work motivates the present paper's comparative examination of whether analogous, already-available forensic techniques could have provided earlier warning in four recent Indian cases.

3. Methodology

This paper adopts a qualitative, comparative multiple-case-study design, appropriate for exploring how and why a recurring fraud pattern escaped detection across organisationally distinct companies. Four cases were purposively selected — DHFL, Coffee Day Enterprises, Reliance Power/ADAG, and Gensol Engineering — on the basis that each (i) involved a listed or market-facing Indian entity, (ii) resulted in a confirmed regulatory finding, forensic audit, or admission of fund diversion between 2019 and 2026, and (iii) had a substantial public evidentiary record (regulatory orders, forensic audit reports, and contemporaneous press reporting) available for analysis at the time of writing.

Data were drawn from secondary, publicly available sources: SEBI orders and show-cause notices, RBI communications, CBI/ED case reporting, forensic audit findings reported in the business press, and company regulatory filings. Primary internal records were not accessible for any of the four cases; the analysis therefore relies on triangulation across independent public sources rather than direct examination of underlying accounting systems. For each case, the identified red flags and fraud mechanisms were coded under four consistent categories — governance, structural, transactional, and financial-statement/gatekeeper — and then mapped against the forensic accounting techniques identified in the literature review (Section 2) to assess, qualitatively, whether and how each technique could plausibly have surfaced the relevant red flag in advance of public disclosure. This cross-case, technique-mapping approach follows the same logic used in the international precedents discussed in Section 2, where forensic techniques were applied retrospectively (Enron, Satyam) or in real time (WorldCom, Sino-Forest) to demonstrate detectability. As with any document-based case analysis, the approach is necessarily retrospective and interpretive rather than experimental, and the Reliance Power/ADAG and Gensol matters in particular remain subject to ongoing investigation, appeal, or insolvency proceedings as of the time of writing.

4. Results

4.1 Overview of the Frauds

4.1.1 DHFL

Dewan Housing Finance Corporation Limited (DHFL), a Mumbai-based housing finance NBFC, defaulted on its debt in June 2019 after years of aggressive loan-book growth. A forensic audit by Grant Thornton, later corroborated by KPMG, uncovered a fabricated 'virtual branch' at Bandra used to record over Rs 11,755 crore of loans to 2.6 lakh fictitious borrowers, with the money in fact concentrated in 91 entities connected to the promoter Wadhawan family. The RBI superseded DHFL's board in November 2019, and the CBI and ED have separately alleged that DHFL defrauded a 17-bank consortium of over Rs 34,615 crore.

4.1.2 Coffee Day Enterprises (CDEL)

Coffee Day Enterprises, the listed parent of the Café Coffee Day chain, came under scrutiny after founder V.G. Siddhartha was found dead in July 2019, having left a letter to the board disclosing severe financial distress. A subsequent investigation found that approximately Rs 3,535 crore had been diverted from seven CDEL subsidiaries to Mysore Amalgamated Coffee Estates Limited (MACEL), a private entity linked to Siddhartha's family, through related-party advances used to service high-cost private borrowings.

4.1.3 Reliance Power / Reliance ADA Group (ADAG)

Reliance Power and its group companies, controlled by Anil Ambani, have been the subject of successive SEBI actions. In August 2024, SEBI barred Ambani from the securities market for five years over the diversion of over Rs 1,300 crore from Reliance Home Finance Limited (RHFL) to entities reclassified as unrelated parties just before loan disbursement. A separate, larger 2026 matter alleges that Reliance Infrastructure diverted roughly Rs 17,670 crore to an entity functioning, in SEBI's assessment, as an ADAG-controlled conduit; Reliance Power's own FY 2025-26 compliance filing discloses a pending SEBI show-cause notice and forensic audit directly against the company.

4.1.4 Gensol Engineering

Gensol Engineering, a listed solar-EPC and EV-leasing company co-founded by brothers Anmol Singh Jaggi and Puneet Singh Jaggi, was barred by SEBI in April 2025 (confirmed in July 2025) after an investigation found that ring-fenced institutional borrowings meant for EV-asset purchase had been diverted for the personal benefit of the promoters through rapid layering of transactions to related entities, and that conduct letters furnished to credit-rating agencies had allegedly been falsified. The Jaggi brothers resigned, and Gensol has since entered insolvency proceedings.

4.2 Red Flags and Frauds Identified in Each Company

This section sets out, company by company, the specific red flags — governance, transactional, financial-statement and gatekeeper-related — that were identified, in most cases only after the fact, through forensic audit or regulatory investigation.

4.2.1 DHFL

- Governance red flag: Loan-sanctioning authority concentrated entirely in the chairman and managing director, with no independent check on large disbursements.
- Structural red flag: A 'logical partition' created within DHFL's own loan-management software to maintain a parallel, fictitious set of books for a non-existent 'Bandra branch'.
- Transactional red flag: Disbursement of loans to 91 connected entities disguised as 2.6 lakh individual home-loan accounts, with no collateral taken and below-market interest rates charged.
- Financial-statement red flag: Loan-book growth inconsistent with disclosed underwriting standards; asset-quality deterioration was masked until the June 2019 payment default forced disclosure.
- Gatekeeper red flag: Statutory auditors did not detect the parallel books for over a decade; credit-rating agencies retained top-tier (AAA) ratings almost until default.

4.2.2 Coffee Day Enterprises

- Governance red flag: Single-founder concentration of authority; reliance on blank, pre-signed cheques that enabled unilateral fund transfer without independent verification.
- Structural red flag: A 49-subsidiary group structure that obscured consolidated fund flows and facilitated circular dealings with a

promoter-controlled private entity (MACEL).

- Transactional red flag: Continuing, undisclosed advances from listed subsidiaries to MACEL used to service the founder's personal high-cost private borrowings from private-equity investors.
- Financial-statement red flag: A widening related-party receivable from MACEL that grew for over a decade without adequate provisioning or disclosure, against total group debt exceeding Rs 11,000 crore.
- Gatekeeper red flag: The board, senior management and statutory auditors were, per the founder's own letter, unaware of the transactions; the diversion surfaced only after his death, not through routine audit.

4.2.3 Reliance Power / ADAG

- Governance red flag: A promoter (Ambani) exercising de facto control over group lending decisions without holding any formal directorial or key-managerial role in the lending entity, limiting formal accountability.
- Structural red flag: Related-party borrower entities reclassified as unrelated parties immediately before large loan disbursements, and use of an intermediate entity alleged to function as an ADAG-controlled conduit for onward investment.
- Transactional red flag: Circular transactions and loan ever-greening; general-purpose corporate loans concentrated within a narrow window of about six weeks; guarantees issued after the fact by promoter-group companies.
- Financial-statement red flag: Deviation from standard credit-assessment procedures, visible only on forensic reconstruction of loan files rather than from headline financial ratios.
- Gatekeeper red flag: A multi-year lag between the underlying FY 2018-19 transactions and SEBI's 2024 order; a further, still-unresolved SEBI show-cause notice and forensic audit against Reliance Power directly disclosed only in the company's FY 2025-26 compliance filing.

4.2.4 Gensol Engineering

- Governance red flag: A listed public company run, in SEBI's own words, 'as if it were a proprietary firm', with the founder-promoters simultaneously leading a related, unlisted EV-mobility venture (BluSmart).
- Structural red flag: Weak internal controls that allowed ring-fenced institutional borrowings to be rerouted at the total discretion of the promoters.
- Transactional red flag: Rapid, multi-layered transfer ('layering') of borrowed funds to multiple related entities and individuals, with SEBI finding the promoters were direct beneficiaries.
- Financial-statement red flag: Borrowings raised for a specific, ring-fenced purpose (EV-leasing asset purchase) not reflected in matching asset deployment on the books.
- Gatekeeper red flag: Alleged falsification of promoter conduct letters submitted to credit-rating agencies — directly implicating the rating-agency information channel as a point of failure.

4.3 Consolidated Cross-Case View

Viewed together, the four cases point to two distinct but related phenomena: (a) the specific fraud mechanism used to divert or misstate funds, and (b) the audit or gatekeeper failure that allowed the fraud to continue undetected for an extended period. Table 1 consolidates both across the four companies.

Company	Major Fraud Identified	Audit / Gatekeeper Failure	Approx. Quantum	Regulatory Outcome
DHFL	Fabricated parallel books ('Bandra Books') recording fictitious retail home loans, in substance diverted to 91 connected entities; alleged share-price rigging using diverted funds	Statutory auditors did not detect a fabricated ERP ledger partition for over a decade; credit-rating agencies retained AAA ratings almost until default	Rs 34,615 cr (alleged bank-consortium fraud); Rs 11,755 cr (Bandra Books)	SEBI debarment of Wadhawan family; RBI board supersession; CBI/ED prosecution; resolved via IBC to Piramal

Company	Major Fraud Identified	Audit / Gatekeeper Failure	Approx. Quantum	Regulatory Outcome
Coffee Day Enterprises	Circular related-party advances from listed subsidiaries to promoter-controlled private entity (MACEL) to service personal high-cost borrowings	Board, senior management and statutory auditors reportedly unaware; no independent verification of blank pre-signed cheques used for transfers	Rs 3,535 cr	SEBI penalty of Rs 26 cr; directed recovery action against MACEL
Reliance Power / ADAG	Related parties reclassified as unrelated immediately before large loan disbursements; circular transactions and loan ever-greening across group NBFC and infrastructure entities	Multi-year gap between underlying transactions and SEBI action; rating and credit-assessment norms bypassed without early external detection	Rs 1,323 cr (RHFL); Rs 17,670 cr (alleged, R-Infra); Rs 55,000+ cr (group-wide, alleged)	SEBI five-year debarment of Ambani (RHFL, final); R-Infra/R-Power matters ongoing/appealed as of 2026
Gensol Engineering	Diversion of ring-fenced EV-leasing borrowings to related entities for promoter personal benefit; alleged falsification of credit-rating conduct letters	Weak internal controls allowed rapid fund layering; rating agencies relied on promoter representations later alleged to be false	Quantum under forensic audit; borrowings diverted from EV-asset purchase mandate	SEBI interim debarment (Apr 2025) confirmed (Jul 2025); promoters resigned; company under insolvency

Table 1. Consolidated summary of major frauds and audit/gatekeeper failures across the four companies.

A consistent pattern emerges from Table 1: in each case, the fraud was not a single concealed transaction but a sustained scheme routed through related or reclassified private entities, and in each case the relevant gatekeeper — statutory auditor, credit-rating agency, or board — either failed to detect the scheme in real time or was itself the target of falsified information, as alleged at Gensol. This reinforces the case for a more quantitative, less representation-dependent approach to fraud-risk screening, discussed in Section 5.

5. Discussion: How Forensic Accounting Could Have Identified These Frauds Early

Each of the four cases examined in this paper was ultimately uncovered not through routine statutory audit, but through a payment default, a founder's death, a whistle-blower complaint, or a post-crisis forensic investigation. Yet in each case, the underlying red flags — disproportionate related-party exposure, unusual loan-book growth, reclassified related parties, or a mismatch between raised capital and deployed assets — were, in principle, detectable in advance using the forensic accounting techniques set out in Section 2. Mapping those techniques against the results in Section 4 suggests the following:

- DHFL: Benford's Law testing and CAAT-based full-population review of the loan-management system could plausibly have flagged the anomalous concentration of the 'Bandra Books' portfolio in 91 entities years before the 2019 default.
- Coffee Day Enterprises: Related-party transaction mapping and cash-flow-to-earnings divergence analysis across CDEL's 49 subsidiaries could have surfaced the growing, unprovisioned MACEL receivable well before the founder's 2019 death forced disclosure.
- Reliance Power/ADAG: Systematic tracking of related-party reclassifications immediately preceding large loan disbursements — an easily automatable audit test — could have flagged the RHFL loan pattern in FY 2018-

19, rather than SEBI's order following more than five years later.

- Gensol Engineering: Independent, primary-source verification of promoter conduct letters furnished to credit-rating agencies — rather than reliance on the letters as submitted — could have shortened the roughly ten-month gap between the underlying fund diversion and SEBI's 2025 action even further.

Taken together, these four applications illustrate that the techniques already validated internationally at WorldCom, Enron and Sino-Forest, and retrospectively at Satyam, are not case-specific but generalisable to the recurring related-party diversion pattern found across distinct Indian sectors — housing finance, hospitality, infrastructure, and renewable-energy leasing.

6. Suggestions

6.1 For Auditors and Forensic Accountants

- Institutionalise routine, not exceptional, calculation of quantitative red-flag scores (Beneish M-Score, cash-flow-to-earnings divergence) as part of the standard audit of promoter-controlled NBFCs, holding companies and corporate groups.
- Apply Benford's Law and CAAT-based full-population testing to loan-management and ERP systems, rather than relying solely on sample-based substantive testing, particularly for lending institutions.
- Treat any reclassification of a related party to unrelated-party status shortly before a transaction as an automatic, mandatory audit-review trigger.

6.2 For Boards and Audit Committees

- Mandate periodic, board-commissioned independent forensic review of related-party transaction volumes, triggered by objective thresholds rather than discretionary judgement.
- Prohibit the use of blank or pre-signed cheques and similar unilateral-authorisation instruments, regardless of the seniority of the individual requesting them.
- Ensure genuine separation between listed-company capital allocation decisions and any related, promoter-controlled private ventures.

6.3 For Credit-Rating Agencies

- Independently verify promoter-supplied conduct letters and management representations against primary bank, custodian or regulatory records before incorporating them into a rating decision.
- Build related-party exposure and reclassification patterns explicitly into rating methodology, rather than treating disclosed RPTs as a static, one-time input.

6.4 For Regulators

- Continue to shorten the gap between the underlying fraudulent transactions and formal regulatory action; the comparatively fast SEBI response in the Gensol matter (under a year from complaint to interim debarment) should be the benchmark, not the exception.
- Strengthen coordination between SEBI, RBI, CBI and ED so that parallel investigations (as seen in both the DHFL and Reliance Power/ADAG matters) are not conducted in isolation over multiple years.
- Consider mandating periodic, independent forensic-style financial-statement screening (e.g., M-Score-type disclosures) for large NBFCs, systemically important companies, and companies with high related-party transaction volumes.

7. Conclusion

The DHFL, Coffee Day Enterprises, Reliance Power/ADAG and Gensol Engineering cases each involved a distinct fraud mechanism, but a common underlying pattern: promoter-controlled diversion of company funds through related or reclassified private entities, undetected for years by statutory auditors, credit-rating agencies and, in several cases, the company's own board. International precedents — WorldCom, Enron and Sino-Forest Corporation — demonstrate that forensic accounting techniques, applied proactively rather than only after a crisis, can and do identify such fraud early. The consistent recurrence of similar red flags across four Indian cases spanning nearly two decades suggests that the tools required for earlier detection already exist; what has been missing is their routine, mandatory application within Indian audit, credit-rating and regulatory practice.

References

Beneish, M. D. (1999). The detection of earnings manipulation. Financial Analysts Journal, 55(5), 24-36.

Business Standard. (2025, 2026). Sebi confirms ban on Gensol, Jaggi brothers in fund diversion case; Gensol Engineering promoters quit after Sebi order; Sebi rejects Anil Ambani's settlement request over Reliance Infrastructure.

Cressey, D. R. (1953). Other people's money: A study in the social psychology of embezzlement. Free Press.

India TV News. (2020). Cafe Coffee Day probe reveals Rs 3,500 cr fund diversion, gives clean chit to I-T Dept.

India.com. (2023). SEBI slaps Coffee Day with Rs 26 cr penalty for alleged fund diversion.

Mondaq / Cyril Amarchand Mangaldas. (2024). SEBI bars and fines Anil Ambani and ADAG companies in fund diversion case.

Moneylife. (2019, 2020). Café Coffee Day scam; DHFL's forensic audit exposing massive fraud and cooking of books leads to SEBI order banning DHFL promoters.

Outlook Business. (2024, 2026). Sebi turns down Anil Ambani, Reliance Infrastructure's bid to settle fund misuse case; Anil Ambani appeals against Sebi order.

Researchgate / ARMG Publishing. (2023). An analysis of the Satyam case using bankruptcy and fraud detection models (Beneish M-Score, Altman Z-Score, Piotroski F-Score).

The Print. (2022). Probing Rs 34,615 crore 'bank fraud' involving DHFL, CBI finds expensive watches, paintings.

Transparently.ai. (2025). Satyam scandal: Inside India's Enron.

Various authors. (2011-2012). Sino-Forest Corporation case studies. Muddy Waters Research; academic case analyses of the Sino-Forest fraud.

Whalesbook Corporate News. (2026). Reliance Power annual report flags SEBI show cause notice and forensic audit.

Wolfe, D. T., & Hermanson, D. R. (2004). The fraud diamond: Considering the four elements of fraud. The CPA Journal, 74(12), 38-42.

.