Feroze Gandhi

The Unsung Hero

The LIC-Mundhra Scandal

The story of how Feroze Gandhi’s painstaking investigation and persistence exposed the LIC-Mundhra Scam & cost Finance Minister T.T. Krishnamachari his job
In the 52-year-old history of the Lok Sabha, there have been innumerable occasions when alert MPs have used question hour to keep ministers on their toes and to ensure accountability of the executive to parliament. A good example of proper and effective utilisation of question time power by MPs dates back to the year 1957 when two MPs - Dr. Ram Subhag Singh and Mr. Feroze Gandhi - diligently pursued the LIC - Mundhra Scandal and eventually saw the exit of Finance Minister T. T. Krishnamachari from the government.

What eventually cost the Finance Minister his job was the fact that he and his deputy were parsimonious with truth during Question Hour. The LIC-Mundhra Scandal, which came into the open after T. T. Krishnamachari and his deputy offered half-truths to cover up governmental action that prima facie appeared to be against public interest, bears eloquent testimony to the potency of Question Hour. It also shows the extent of power that MPs have to extract information about executive actions which they construe to be against public interest.

The scandal had its origins in an Unstarred Question tabled by Dr. Ram Subhag Singh and two others in the Lok Sabha on September 4, 1957. In their question the MPs drew the attention of the Finance Minister to a report in the Statesman (Delhi Edition) of August 3, 1957 which said that the Life Insurance Corporation (LIC) had invested a sum of Rupees One Crore ‘in a private enterprise with its headquarters in Kanpur. The MPs wanted to know:-
(a) The name of the private enterprise in which these funds had been invested;

(b) The total amount invested so far; and

(c) The reasons for investing the funds in a private enterprise.

The Deputy Minister of Finance Mr. B. R. Bhagat responded to the question as follows: ‘It is understood that the Life Insurance Corporation has not invested, as stated in the report referred to, a crore of Rupees in any single private enterprise with headquarters in Kanpur’.¹

The Minister in question and the Finance Ministry were obviously trying to be clever. Ignoring the core issue in the report—investment by LIC in a private enterprise—and taking advantage of some inaccuracy that had crept into it and into the question put by the MPs, the minister offered a technically truthful reply which said that the LIC had not invested ‘a crore of Rupees in any single private enterprise with headquarters in Kanpur’. But the minister’s circumlocution helped neither him nor his senior T. T. Krishnamachari because they were dealing with some of the best parliamentarians that India had produced.

The truth was that LIC had invested over a crore of Rupees in several companies owned by a noted industrialist Mr. Haridas Mundhra and only one of these companies had its headquarters in Kanpur. The minister and Finance Ministry officials who drafted the reply must have patted themselves on the back for having caught the MPs on the wrong foot but their happiness was short-lived.
Determined to get to the truth, Dr. Ram Subhag Singh asked a fresh question on the same subject in the winter session of Parliament on November 29, 1957. This time, Dr. Singh, Mr. Feroze Gandhi and a few other members had sufficient material to pin down the minister. Also, this time round, the question was slated for oral answers. Since the members could ask supplementaries, the minister could not easily wriggle out. Singh asked the Finance Minister if the Life Insurance Corporation had ‘taken over large blocks of shares from Mr. H. D. Mundhra of Kanpur and if so, the amount involved’. The minister in his reply said the LIC had, about the end of June 1957, purchased shares of a value of Rs 1.26 crore in concerns in which Mr. H. D. Mundhra of Kanpur ‘is said to have an interest’.2

The Finance Minister informed the Lok Sabha that LIC had an Investment Committee and that the corporation’s investment policy was ‘dictated’ by this committee. ‘The government has no hand in the purchases’ he asserted. The members, however, persisted. Dr. Singh pointed out that at the time of nationalisation of the Life Insurance Corporation of India, the government had said that it was taking this step because of the spurious investments that Insurance companies were making. Krishnamachari objected to the insinuation that the investments in question were spurious. He went on to say that the investment by LIC is being done ‘solely with a view to getting a return and making a safe investment and that is the policy behind whatever investment they make’. ‘The question is not one of favouring any particular individual or any particular group but seeing that the corporation benefits and the
policy holder ultimately benefits by the investment.”

Having got the minister to commit himself to the position that investments made by LIC were determined by the corporation’s Investment Committee and that these decisions were guided by the lofty ideal of protecting the interests of policy holders, the members decided to put the knife in. Feroze Gandhi stood up to ask if it was a fact that a few months earlier some shares of these Mundhra companies were purchased at a price higher than the market price on the day the transaction took place. Krishnamachari’s reply was: ‘I have been told that no such thing happened’.

Finally Gandhi asked the minister if he was ready to place on the table of the House information regarding the number of shares purchased, the date of purchase and the amount at which they were purchased. The minister said: “Yes Sir; Certainly, I will try to get that information”.

Since he promised to table this information, the minister had no option but to keep his promise. Feroze Gandhi thereafter conducted his own investigation which revealed that several of the minister's replies during question hour were inaccurate. He along with Dr. Ram Subhag Singh then took the next step. They sought a special debate on this issue. The debate took place on December 16, 1957 and the star performer was Feroze Gandhi. Having researched the investments of LIC in Mundhra companies and the prevailing prices of each of these shares, Gandhi
fired from all guns from the very word go. He warned the minister that ‘there would be some sharp shooting and hard hitting in the House, because when I hit, I hit hard’. He said a fellow MP had told him that the Finance Minister's statement was well fortified. ‘Let me see if I can breach the ramparts at the very first shot’.”

During question hour on November 29, Mr. Krishnamachari had said that in purchasing shares LIC was not favouring one particular individual or group ‘but seeing that the corporation benefits and the policy holders, ultimately, benefit by the investment made’. Referring to this, Feroze Gandhi said : ‘I ask was it in fulfillment of this policy that the corporation purchased by direct negotiation from an individual Shri Mundhra, shares worth Rs 1,25,00,000 in his concern on the 25th June, 1957? In March, in April, in June, in July, in August, in September, for six months in this year and on 19 different occasions the corporation purchased shares of the Mundhra Group for a sum of Rs. 1,56,00,000. If this is not favouring and financing one particular individual or group, then what else is it?’

Yet another statement made by the Finance Minister during his replies in Question Hour was that the LIC only wanted to augment its shares. Referring to this, Gandhi said ‘and, whenever the Corporation wanted to augment its shares Shri Mundhra was always there waiting to oblige, so much so that on one occasion, the Life Insurance Corporation transacted business on a day When both the Calcutta and Bombay Stock Exchanges were closed.’
Gandhi found it strange that the LIC should go out of the way to buy shares of Mundhra companies. But even stranger was the fact that the corporation had paid much more for the shares than the prevailing rates in the share market on the days on which the transactions took place. The MP said his investigations had revealed that as per the quotations on the Calcutta stock Exchange on June 25, the day the biggest transaction took place, there was an excess payment of about Rs 3 lakhs. ‘What are the results of these augmentations?’ Gandhi said ‘such was the stability of these concerns, such was the soundness of the investment, so stable was the man with whom the corporation had struck 19 deals, that within two months of their last augmentation, in September, the government had to appoint administrators and directors in these concerns. This is not investment. This is a conspiracy to beguile the corporation of its funds’. 

Gandhi went on to establish that if the intentions of LIC were honest and it only wanted to augment its shareholdings, it could have purchased these very shares in the week preceding June 25 and saved anything between Ks. 10 lakhs to Ks 13 lakhs. So scathing was Feroze Gandhi's attack and so overwhelming was the feeling that something was amiss in this entire affair, that the government headed by Prime Minister Jawaharlal Nehru had no option but to appoint a Commission of Inquiry headed by Justice M. C. Chagla to probe the charges levelled against the Finance Minister and his officials.
The investigations of the Chagla Commission revealed that Finance Minister Krishnamachari and Mr. H.M. Patel, the Principal Secretary in the Finance Ministry were in Calcutta on June 18, 1957 to address business-men and financiers and to explain to them the government’s economic and financial policy. Thereafter Patel left for Bombay and arrived there on June 20. Krishnamachari reached Bombay on June 21. That day, Mundhra called Patel and sought an appointment. When he met Patel, Mundhra outlined his financial problems and proposed that he wished to sell or mortgage some of his shares without having to make large sales through the stock exchange. He explained the problem and his proposal in a more detailed fashion in a letter to Patel that very day. In that letter he said his total habilities amounted to Rs 5.24 crore of which his liability to various banks was Rs 3.93 crore and liability to different brokers Rs 1.31 crore. He said that his assets which were free of all encumbrances was Rs 1.55 crore. He wanted the LIC to buy shares worth Ks 80 lakhs from him directly, to avoid undue selling pressure from brokers and shares worth another Ks 30 to Ks 40 lakhs from the market ‘to create confidence and to make the situation healthier’.

The second proposal was that LIC give him a loan of Rs. one crore and that in return he would get LIC business worth Rs one crore.

His third proposal was that the corporation buys fresh issues of preference shares worth Rs 1.25 crore in two of his companies — B.I.C
and Jessop & Co — and he in return would get the LIC fire insurance business worth Rs 15 lakh a year. Finally he said he was prepared to consider any alternative proposal that would ‘free him from financial worries’.

Those who are aware of the ‘speed’ at which government works in India would be amazed at what happened after the H. M. Patel-Mundhra meeting on June 21. Patel, the Principal Secretary to the Finance Minister, acted as if he were dealing with a national calamity. He discussed the Mundhra proposals with Mr. Kamat, Chairman, LIC on June 22. The latter was not willing to consider any proposal except the one about buying shares in his companies. June 23 was a Sunday but it was no time for leisure for the key bureaucrat in the Finance Ministry. Patel summoned Mr. Bhattacharya, Chairman, State Bank of India and Mr. Kamat and set up a meeting with Mundhra. At this meeting the three officials agreed in principle to buy shares worth Rs. one crore in Mundhra companies and asked the industrialist to come up with a specific proposal the next day in regard to sale of his own shares in these companies. Mundhra returned on June 24 with specific proposals and had another meeting with Mr. Kamat and Mr. Vaidyanathan, Managing Director, LIC. Following this meeting Vaidyanathan telephoned the Calcutta Stock Exchange to get the prevailing rates for shares of different Mundhra companies and finally the LIC issued two letters to Mundhra dated June 24 and June 25 offering to buy shares worth Rs 1.26 crore.”
The Chagla Commission looked at these transactions and the antecedents of Haridas Mundhra and came to the following conclusion: ‘It would be clearly wrong for the corporation to utilise its funds to help an individual or the concerns of an individual. It would be even more wrong for the Corporation to deal with an individual who was suspected to be a law breaker and possessed a doubtful financial reputation and whose antecedents were of a most questionable character.’ As regards Mundhra, the commission had this to say: ‘Mundhra is a man who has a flamboyant personality and is a financial adventurer whose only ambition is to build up an industrial empire by dubious methods. He is not very particular about the means he employs so long as the end is achieved. Starting from scratch with no education and no means, he succeeded in acquiring control in several large concerns. He is not an industrialist in the real sense of the term. His interest does not lie in developing or enlarging the industrial output of the country, but his interest lies in being a financial wizard who can swallow up concern after concern.

It may be said that this is the picture of Mundhra that emerges after many facts have come to light after June 1957. The record makes it perfectly clear that all that I have just said about Mundhra and more was known to the Finance Ministry.”

The Commission also recorded another nugget of information that shows T. T. Krishnamachari in poor light. Interestingly, in August 1955 T. T. Krishnamachari, who was earlier Commerce Minister had himself
warned Finance Minister C. D. Deshmukh about the dubious activities of Mundhra and called for tightening of the Companies Act.”

The Commission of Inquiry recorded the evidence of Mr. D. L. Mazumdar, Secretary, Ministry of Finance, Company Law Administration, to ascertain what the ministry knew about Mundhra and his activities. Mazumdar told the commission that the government had information about Mundhra’s activities from 1954 onwards and that Prime Minister Nehru too knew about this. The Prime Minister had in fact drawn the attention of both the Commerce and Finance Ministers to the activities of this ‘new star’ and asked them to examine what Mundhra was up to. Therefore, according to him, in June 1957 when the Finance Ministry played such a proactive role in buying Mundhra shares, it knew that Mundhra ‘was using dubious methods, that he was a dashing, young industrialist keen on building up an industrial empire, whose methods were not above board, and that his antecedents were not very reputable and his reputation was not such as could be trusted’. Mundhra was also being prosecuted for violation of the Companies Act. All this had even prompted the Prime Minister to observe in a noting on September 19, 1957 that ‘so far as I know, the reputation of this gentleman is not good’.

When the answer given by the Finance Minister to Mr. Ram Subhag Singh’s question dated September 4, 1957 is seen in the light of this evidence, it becomes clear that the Finance Minister and his
Principal Secretary were dishonest in their response to the question. Referring to this, the Chagla Commission observed: ‘It is most unfortunate that in answering the question the minister did not think it proper to place all the facts fully and frankly before the Lok Sabha.’

The commission was also disappointed with the replies furnished by the Finance Minister to the subsequent question on the same issue in the Lok Sabha, when the MPs came armed with some ammunition to pin down Krishnamachari and yet again during the debate on this issue in the House.

Finally, Justice Chagla concluded that constitutionally the minister is responsible for the action of his secretary with regard to this transaction. ‘It is clear that the minister must take responsibility for actions done by his subordinates. He cannot take shelter behind them, nor can he disown his actions.’ He also said that in a parliamentary form of government, parliament must be taken into confidence by the ministers at the earliest stage and all relevant facts and materials must be placed before it. This would avoid difficulties and embarrassment being caused at a later stage when parliament gets the necessary information from other sources.

Following this report, the Finance Minister submitted his resignation. Such was the impact of Feroze Gandhi's performance in the House during Question Hour and during the debate on this scandal and so deep was his commitment to the concept of accountability that
thereafter most ministers dreaded the prospect of facing him in Parliament. This case also highlighted the power of Question Hour in such a manner that for a decade ministers regarded this responsibility of answering questions in parliament as the most difficult task that fell to their lot.

Notes

1 7 Lok Sabha Debates, Col 11753, September 4, 1957
2 Lok Sabha Debates, Col. 2886, November 29, 1957.
3 Lok Sabha Debates, Col. 2887, November 29, 1957.
4 Lok Sabha Debates, Col. 2889, November 29, 1957.
5 Lok Sabha Debates, Col 5739, December 16, 1957.
6 Lok Sabha Debates, Col 5739, December 16, 1957
7 Lok Sabha Debates, Col 5740, December 16, 1957.

8 Lok Sabha Debates, Col. 5741, December 16, 1957.
10 Ibid., p.8.
11 Ibid., p.8.
12 Ibid., p.9.
13 Ibid., p. 22.