



This is an Open Access article distributed under the terms of the Creative Commons Attribution- Non-Commercial-Share Alike 4.0 International (CC-BY-NC-SA 4.0) License, which permits unrestricted non-commercial use, distribution, and reproduction in any medium provided the original work is properly cited.

CORPORATE FRAUD AND LEGAL REMEDIES IN INDIA

-Sanjana Chandragiri¹

ABSTRACT

Corporate fraud poses a critical threat to India's financial ecosystem, affecting businesses, investors, and the broader economy. This research paper explores the multifaceted nature of corporate fraud in India, examining its definitions, typologies, and major historical instances such as the Harshad Mehta securities scam, Satyam scandal, and the PNB-Nirav Modi case. It delves into the comprehensive legal framework that governs corporate misconduct, including the Companies Act, 2013, Bharatiya Nyaya Sanhita, Prevention of Corruption Act, PMLA, SEBI Act, and other regulatory statutes. The paper highlights the key enforcement bodies—such as the SFIO, SEBI, CBI, and ED—responsible for investigating and prosecuting corporate frauds. Emphasis is placed on the wide array of legal remedies available, including criminal prosecution, asset confiscation, civil litigation, and whistleblower protections. Despite the robust legislative and regulatory mechanisms, effective enforcement and inter-agency coordination remain pivotal. The paper concludes that combating corporate fraud requires not just legal remedies, but a sustained commitment to institutional reform, ethical governance, and stronger regulatory vigilance to preserve market integrity and investor trust.

INTRODUCTION

Corporate fraud is a pressing issue that affects not just the balance sheets of the companies but also the lives of countless individuals from employees to investors. It also damages market integrity. Corporate fraud involves deception- manipulating financial statements, engaging in illegal transactions, or false guarantees leading to substantial financial losses and also diminishing public trust in economy. Over the years, India has witnessed numerous high-profile frauds like the Harshad Mehta securities scam of 1992, the Satyam accounting scandal in 2009,

¹ Sanjana Chandragiri, 4th year BBA., LLB. (Hons.) Student at Karnataka State Law University's Law School, Hubballi.

and more recently the Nirav Modi-PBN fraud in 2018. Corporate fraud in India is not merely a business anomaly it reflects systemic weaknesses in enforcement, accountability, and ethical standards. While the legislative framework anchored in statutes such as the Companies Act, 2013, the Indian Penal Code, and various financial laws has evolved to address corporate crime, its practical effectiveness remains contingent upon robust regulatory oversight and timely legal remedies. This article seeks to examine the contours of corporate fraud in India, analyse the legal provisions and institutional frameworks in place, and provide a detailed exploration of the remedies available under Indian law to deter, punish, and prevent corporate malfeasance.

CORPORATE FRAUD: MEANING AND TYPES

“Corporate fraud” generally refers to intentional deception by a company or its agents to secure an unfair or unlawful gain. The Companies Act, 2013 provides the statutory definition: “fraud”, in relation to affairs of a company or any body corporate, includes any act, omission, concealment of any fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss; (ii) “wrongful gain” means the gain by unlawful means of property to which the person gaining is not legally entitled; (iii) “wrongful loss” means the loss by unlawful means of property to which the person losing is legally entitled. ² The concept of fraud, as the RBI puts it in the definition section, "refers to" fraud, which is any intentional act committed or disfigured by a person or other individual in manuals or accounts³

Types of Corporate Frauds

- **Financial Statement Fraud:** This kind of extortion includes the deliberate deception or control of fiscal reports to trick financial backers, leasers, or controllers. Models incorporate swelling incomes, downplaying costs, or exaggerating resources to make a mixed signal of the organization's monetary well-being.
- **Embezzlement:** Theft happens when people dependent on overseeing assets or resources of an organization misuse those assets for individual increase. This can

² Section 447 of companies act 2013, India code digital repository of laws- a system of law for communication

³ Rbi.org.in

include redirecting cash, moving organization assets to individual records, or misrepresenting cost reports.

- **Insider Trading:** Insider exchanging happens when people with admittance to classified, non-public data about an organization utilize that data to exchange stocks or protections for individuals increase⁴. This unlawful practice subverts market respectability and unreasonably inconveniences different financial backers who don't approach a similar data.
- **Bribery and Corruption:** Pay off includes offering, giving, getting, or requesting something of significant worth to impact the activities of a person in a, influential place or authority. Defilement inside a corporate setting can include paying off open authorities, taking part in payoff plots, or working with ill-advised deals to unreasonably acquire benefits.
- **Kickbacks and Procurement Fraud:** Payoffs include offering or tolerating installments, gifts, or Favors in return for granting contracts or ideal treatment in obtainment processes. This sort of misrepresentation can expand contract costs, compromise the nature of labour and products, and sabotage fair rivalry.
- **False Billing and Expense Fraud:** Bogus charging happens when people or sellers submit fake solicitations or billings for labour and products that were not given, were overrated, or were not approved. Cost misrepresentation includes representatives submitting misleading or swelled cost reports to get repayment for individual costs.⁵

MAJOR CORPORATE FRAUDS IN INDIA

India's corporate history is marred by a series of landmark frauds that shocked the public and prompted legal reforms. One of the earliest and most talked-about was the 1992 Harshad Mehta scam which involved manipulating the banking and stock market systems, resulting in a financial upheaval of approximately ₹4,000 crore.⁶

⁴ Aishwarya Pandey: Corporate crime and penal policy in India: an analytical study.4 J. IJLMH, Pg 606, 607, 2021

⁵ Dr. Seema Surendran, and another. "Corporate Frauds Legal and Regulatory frameworks in India: An analysis" Aut Aut Research Journal, Volume XIV, Issue 04 April 2024, page 3-4

⁶ Sucheta Dalal & Debashis Basu, "The Scam: Who Won, Who Lost, Who Got Away" (2012). Page 12-13

This was followed by the 2009 Satyam Computers scandal, where chairman Ramalinga Raju fraudulently inflated the company's earnings and assets, ultimately leading to an estimated loss of over ₹8,000 crore.⁷

In 2013, the Saradha Group chit-fund scam duped thousands of small investors, especially in Eastern India. Promised high returns, many people put their life savings into what turned out to be a massive Ponzi scheme. The total loss was estimated between ₹2,000 and ₹3,000 crore.⁸

More recent incidents include the 2018 Punjab National Bank (PNB) and Nirav Modi scam, where fraudulent letters of undertaking facilitated unauthorized transactions worth nearly ₹13,000 crore via shell entities.⁹ That same year, the IL&FS crisis came to light, involving the concealment of enormous debt through over 170 subsidiary entities, culminating in a systemic financial risk following the company's default.

Each of these fraud cases revealed significant shortcomings in regulatory oversight and enforcement mechanisms. In response, authorities introduced gradual and fragmented reforms. Collectively, these incidents have pushed fraud prevention and stricter enforcement to the forefront of India's corporate policy priorities.

LEGAL FRAMEWORKS IN INDIA

India has established a comprehensive legal framework to combat corporate fraud, which integrates Company Law, Criminal Law, Financial regulations, and Specialized statutes. At the core of this framework is the Companies Act of 2013, which includes explicit anti-fraud provisions and corporate governance standards. Section 447 defines "fraud" in context of company affairs and stipulates severe penalties including imprisonment for up to 10 years and fines equivalent to the amount involved.¹⁰ Other sections such as 66 and 339 impose civil penalties like disqualification of directors and orders for compensation.

⁷ Bhasin, M. (2016) "Creative Accounting Scam at Satyam Computer Limited: How the Fraud Story Unfolded?" *Open Journal of Accounting*, 5, 57-81.

⁸ Ishita Adhikary, *The Saradha Scam Case, 2013: An Overview*, *Lawful Legal Law Journal*, 2024

⁹ Nandini Agarwal, *Legal Aspects of Corporate Fraud in White Collar Crimes in India*, *Indian Journal of Legal Review (IJLR)*, 4 (2) OF 2024, PG. 728-739

¹⁰ Section 447 of companies act 2013, India code digital repository of laws- a system of law for communication

The Bharatiya Nyaya Sanhita, 2023 includes offences commonly invoked in corporate cases, such as Cheating (Section 318)¹¹, Criminal breach of trust (Section 316)¹², Forgery (Section 336)¹³. Alongside, The Prevention of Corruption Act, 1988 criminalizes bribery by corporate officials, especially those in public sector roles even if the company is not a government entity. The Prevention of Money Laundering Act (PMLA), 2002 addresses the laundering of illicit gains, with corporate frauds classified as "predicate offenses," allowing authorities to attach and forfeit assets derived from fraud. The Securities and Exchange Board of India (SEBI) Act, 1992 empowers regulators to penalize fraudulent and unfair practices in the securities market, with SEBI's regulations explicitly prohibiting insider trading, stock price manipulation, and false disclosures by listed companies. The Banking Regulation Act, 1949 contains provisions against fraud involving banks, while the Reserve Bank of India Act can be applied when fraud threatens banking stability. Income Tax Act, 1961 penalizes tax evasion schemes often associated with accounting fraud; the Foreign Exchange Management Act, 1999 (FEMA) criminalizes illegal cross-border currency transactions; and competition law can address anti-competitive collusion or deceptive practices linked to fraud.

REGULATORY BODIES IN INDIA

To enforce the legal framework, there are various agencies and regulators. The Serious Fraud Investigation Office (SFIO), established under the Companies Act, serves as the primary agency for investigating significant corporate frauds referred by the government. Central Bureau of Investigation (CBI) often works alongside the SFIO, particularly in cases involving public-sector entities, utilizing The Bharatiya Nyaya Sanhita and the Prevention of Corruption Act. The Enforcement Directorate (ED) also plays a significant role by

¹¹ Section 318 of BNS: Whoever, by deceiving any person, fraudulently or dishonestly induces the person so deceived to deliver any property to any person, or to consent that any person shall retain any property, or intentionally induces the person so deceived to do or omit to do anything which he would not do or omit if he were not so deceived, and which act or omission causes or is likely to cause damage or harm to that person in body, mind, reputation or property, is said to cheat.

¹²Section 316 of BNS: Whoever, being in any manner entrusted with property, or with any dominion over property, dishonestly misappropriates or converts to his own use that property, or dishonestly uses or disposes of that property in violation of any direction of law prescribing the mode in which such trust is to be discharged, or of any legal contract, express or implied, which he has made touching the discharge of such trust, or wilfully suffers any other person so to do, commits criminal breach of trust.

¹³ Section 336(1) of BNS, 2023: Whoever makes any false document or false electronic record or part of a document or electronic record, with intent to cause damage or injury, to the public or to any person, or to support any claim or title, or to cause any person to part with property, or to enter into any express or implied contract, or with intent to commit fraud or that fraud may be committed, commits forgery.

enforcing the Prevention of Money Laundering Act (PMLA), focusing on asset seizure linked to fraudulent activities, as seen in high-profile cases like the Nirav Modi scandal. In the securities market, the Securities and Exchange Board of India (SEBI) functions as both regulator and adjudicator, investigating market manipulations and corporate misstatements. SEBI has the authority to impose penalties, bar individuals from trading, and mandate refunds of illicit gains. The Reserve Bank of India (RBI) oversees banking institutions, enforcing compliance and conducting forensic audits to prevent fraud.

The National Company Law Tribunal (NCLT) and its appellate body, the NCLAT, address corporate disputes and have powers to investigate allegations of mismanagement or fraud. Other oversight bodies, such as the Central Vigilance Commission (CVC) and Lokpal/Lokayuktas, investigate corruption in public enterprises.¹⁴

LEGAL REMEDIES AVAILABLE IN INDIA

Victims of corporate fraud in India, be they investors, creditors, or regulators have access to broad spectrum of legal remedies. These remedies span criminal prosecution, civil litigation, and restitution mechanisms.

1. **Criminal Prosecution:** Perpetrators of corporate fraud including CEOs, directors, auditors, and financial intermediaries can be criminally prosecuted under both the Companies Act, 2013 and the Bharatiya Nyaya Sanhita, 2023. Companies Act prescribes stringent penalties for fraud, including imprisonment of up to ten years and fines proportionate to the fraudulent gains.¹⁵ Similarly, provisions of the BNS, 2023 such as Cheating (Section 318), Criminal breach of trust (Section 316), Forgery (Section 336) also apply, potentially leading to imprisonment and monetary penalties. The Prevention of Money Laundering Act (PMLA), 2002 adds another layer of criminal liability, enabling prosecution of those who launder the proceeds of corporate fraud, with penalties extending to seven years or more. Under the Prevention of Corruption Act, 1988, any corporate executive involved in bribery either offering or accepting faces prosecution and penal consequences. Upon conviction, courts may impose substantial fines, often equating to the value of misappropriated assets, and impose

¹⁴ Kajal Panchal, "Corporate Fraud and Legal Remedies under the Companies Act, 2013", IJRASET, Volume 13 Issue V May 2025- Available at www.ijraset.com

¹⁵ Section 447 of the Companies Act, 2013

disqualification from holding directorial positions under Section 164 of the Companies Act.

2. **Asset Confiscation and Restitution:** Criminal statutes provide for the confiscation of unlawfully acquired assets. The PMLA authorizes authorities to attach and ultimately forfeit “proceeds of crime,” once a judicial confirmation is obtained. Similarly, under the Income Tax Act and the Foreign Exchange Management Act (FEMA), tax evasion and illicit foreign transactions may attract penalties and recovery proceedings.
3. **Civil Remedies and Litigation:** Victims of corporate fraud can also approach civil courts or tribunals for compensatory and preventive relief. Directors or advisors can be sued for breach of fiduciary duty, negligence, or misrepresentation. Courts can issue injunctions such as account freezes to prevent continuation of fraudulent activities. Under Sections 241 and 242 of the Companies Act, members can file petitions for relief against oppression and mismanagement if corporate affairs are being conducted in a manner prejudicial to stakeholders. Available remedies include forensic audits, reversal of fraudulent transactions, and reconstitution of the board. Civil courts may also award damages for financial losses suffered due to fraudulent conduct.
4. **Whistleblower Protection and Incentive:** Recognizing the critical role of insiders in detecting fraud, Indian law mandates vigil mechanisms in listed companies. Section 177 of the Companies Act requires such companies to provide anonymous channels for whistleblowers, particularly for directors and employees. Recent developments have introduced monetary incentives for informants, especially under the PMLA framework, thereby encouraging disclosures in large-scale financial crimes. While whistleblower protection remains nascent, these measures mark a shift toward proactive internal oversight.¹⁶

CONCLUSION

Corporate fraud continues to pose a significant threat to India’s evolving economic landscape. Over the years, a series of large-scale scams has spurred the development of legal framework comprising the Companies Act, 2013, provisions of the Bharatiya Nyaya Sanhita, 2023, anti-corruption and anti-money laundering statutes, and sector-specific financial regulations all aimed at curbing fraudulent activities. Enforcement of

¹⁶ Kajal Panchal, “Corporate Fraud and Legal Remedies under the Companies Act, 2013”, IJRASET, Volume 13 Issue V May 2025- Available at www.ijraset.com

these laws is entrusted to a web of agencies, including the Serious Fraud Investigation Office (SFIO), Securities and Exchange Board of India (SEBI), law enforcement bodies, and tax authorities. However, the real-world impact of these remedies hinges on timely action, effective inter-agency coordination, and a deeply rooted culture of compliance. Addressing corporate fraud in a meaningful way requires more than just legal provisions it demands consistent enforcement, institutional accountability, and continual policy reform. With targeted reforms and stronger implementation, India can strengthen investor confidence and uphold the integrity of its corporate sector