

Four banks dropped Liberty's commodity trading business after alleged paperwork problems in metal trades.

British industrialist Sanjeev Gupta's companies seemed to be prospering until his main lender, Greensill Capital, imploded last month. But long before Greensill collapsed, several banks had cut off the commodity trading business of Gupta's Liberty House Group.

Four banks stopped working with Gupta's commodity trading business, starting in 2016, after they became concerned about what they perceived to be problems in bills of lading – shipping receipts that give the holder the right to take possession of a cargo – or other paperwork provided by Liberty, according to interviews with 18 people directly involved in the trades, as well as internal communications seen by Bloomberg News. The banks include Sberbank PJSC, Macquarie Group Ltd., Commonwealth Bank of Australia and ICBC Standard Bank. Goldman Sachs Group Inc. also stopped working with Gupta's companies around that time.

In 2018, Sberbank sent a team to scour the brightly coloured containers stacked in the port of Rotterdam, looking for the ones full of nickel that the bank had financed on behalf of Liberty. Yet each time investigators located one of the containers, they found it had already been emptied, according to two people involved in the matter. After checking about 10 of them, they gave up, the people said. Sberbank confronted Gupta at a meeting weeks later. He promised that his company would pay back the roughly \$100 million it owed, the people said.

“At some point certain discrepancies were spotted within documentation and logistical data, which made Sberbank discontinue all operations with the company,” the bank said in an emailed statement. “The issue was settled in pre-trial format. Thanks to the existing control systems, we incurred no financial losses through these operations and managed to unwind all transactions in the spring of 2019.”

Double pledging is the practice of improperly raising funds more than once using the same collateral.

As several banks dropped Gupta's commodity trading unit, GFG Alliance came to rely more on Greensill Capital for loans – ultimately racking up debts of nearly \$5 billion to Lex Greensill's trade finance company by March 2021, according to a presentation seen by Bloomberg News. Gupta's commodity trading business alone has \$1.04 billion of debt, of which \$846 million is owed to Greensill, according to the presentation.

“LCL has ongoing banking relationships with separate financial institutions,” GFG Alliance said in the statement. “Its reliance on Greensill was a natural consequence of the competitive nature of the trade finance market, which has been hugely challenging for all but the very largest commodities traders in recent years.”

Now, with Greensill in insolvency and its German subsidiary under a criminal complaint after the regulator said it found irregularities in how the banking unit booked assets tied to GFG Alliance, Gupta is trying to find new financing. But it has been tough. After Gupta searched for would-be financial backers for weeks, Credit Suisse Group AG – which became a major lender to Gupta's companies by buying debt packaged by Greensill – moved last month to push Liberty Commodities Ltd. into insolvency. Gupta said in interviews on BBC Radio 4 and Sky News on April 1 that the action made no sense and that he'd litigate it if needed.

Traders in the world of commodities have long relied on banks to help finance the flow of goods on their journey from origin to destination. From the banks' point of view, this type of financing is generally considered low risk. Should the trader run into financial difficulties, the bank can seize its collateral – the cargo – and easily recoup its money. That holds true so long as the shipping paperwork used, such as a bill of lading, is accurate.

ICBC Standard Bank stopped financing Liberty's commodity trading unit by early 2016, after discovering it had presented the bank with what seemed to be duplicate bills of lading, according to two people with direct knowledge of the matter. Commonwealth Bank of Australia pulled the plug on lending to Gupta's trading business the same year after the bank financed a cargo of metal for Liberty, only to be presented with what appeared to be the same bill of lading a short time later by another trader seeking a loan, according to three people directly involved.

Then, in late 2016, Goldman Sachs, which had extended a credit line of about \$20 million to Liberty to finance its nickel trade, stopped dealing with Gupta's trading company after being warned of alleged paperwork problems by a contact in the warehousing industry, according to three people familiar with the matter.

Spokespeople for Goldman Sachs, Commonwealth Bank of Australia and ICBC Standard Bank all declined to comment.

"No financial institution has been left out of pocket as a result of lending money to LCL," GFG Alliance said in the statement, referring to Liberty Commodities Ltd. "On the contrary, they have received substantial commercial returns."

By 2016, Liberty had already become one of the world's largest traders of nickel, according to an interview with Gupta in Metal Bulletin. Still, Liberty's containers of nickel would sometimes take an unusually long time to travel between Europe and Asia – instead of the normal sailing time of about one month, the voyage would take several months, stopping off at ports along the way for weeks at a time, six people said.

Metals trader Red Kite Capital Management, which also cut ties with Liberty, did so because it had become "uncomfortable" with some of the trades, said Michael Farmer, the company's founder who is also a member of the U.K.'s House of Lords. "It was difficult to work out the commercial sense of some of the shipments, which resulted in our decision to err on the side of caution and discontinue such trades," said Farmer, who is one of the world's best-known metal traders. "We had no proof of any misdoings."

SOURCE: BLOOMBERG.COM

