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# Ghost Revenues: How round-tripping tricks bank and masks financial trouble

**As forensic accountants, we investigate several cases where numbers in financial statements appear sound on the surface, but closer inspection reveals a different story. One technique that consistently stands out for its deceptive elegance is round-tripping — a method used to inflate revenues and improve financial metrics without any underlying economic activity.**

Round-tripping typically involves routing funds or goods through a network of related or shell entities, only for them to return to the original source. To an untrained eye, these transactions may seem like genuine trade. In reality, they are circular in nature, creating an illusion of revenue that never truly existed. The primary motive is to mislead stakeholders — especially banks, into believing the company is more robust than it actually is.

Banks, which rely heavily on top-line growth, financial ratios, and audited statements to assess creditworthiness, often fall prey to these schemes. Inflated revenues allow companies to access:

- **Fund-based facilities** - such as working capital loans, cash credit, and term loans.
- **Non-fund-based facilities** - like letters of credit (LCs) and bank guarantees, where banks extend their credit without immediate disbursement.

In many cases, round-tripping is not just a tool to inflate turnover but a calculated strategy to game the banking system. By layering these transactions across multiple entities and jurisdictions, companies are able to present a misleading picture of growth, liquidity, and profitability.

## Foreign Round-Tripping Variant - The Shell Game at Sea

A more refined and complex version of round-tripping takes place in cross-border transactions, particularly through high seas sales and merchant trade arrangements.

- High seas sales involve the sale of goods while they are still in transit — prior to customs clearance. These transactions are executed through the transfer of the Bill of Lading.
- Merchanting trade involves an Indian company acting as an intermediary, buying goods from one overseas entity and selling them to another — without the goods entering India.

These arrangements are not tricky in themselves. However, when the real intent is to book circular trade and inflate revenues rather than facilitate genuine commerce, it becomes a matter of concern.

Example: Company A (India) imports goods from Company D (Overseas) under an LC. Company D procures the goods from Company C (also Overseas). Simultaneously, Company A "exports" the same goods to Company B (Overseas) through high seas or merchanting trade. The twist? Companies B and C are undisclosed related parties, ultimately controlled by the same promoter group that controls Company A.

The documents like invoices, shipping records, payment confirmations — all check out. But the trade is circular, the profit margins are negligible, and the goal is not commerce but deception. What's worse, commissions and payments are often routed back to beneficial owners through offshore entities, further enriching the promoter group.

## What's Really Happening

- Transactions use the same invoices and shipping documents, settled in a back-to-back manner.
- The primary goal is not trade but to create an artificial spike in business activity.
- LCs raised by the Indian company eventually devolve, as the underlying trade lacks substance.
- The related entities leverage these inflated revenues to secure additional credit or attract investors.

Such circular trade manipulates not just the books, but also investor sentiment, market valuation, and the risk assessments of lending institutions. In some cases, these funds are routed back into India as foreign direct investment (FDI), loans, or profits, giving the illusion of business growth and capital inflow.

## Legal and Regulatory Breach

These schemes typically violate provisions of the Companies Act (especially concerning related-party disclosures), FEMA (on foreign transactions), and anti-money laundering laws. Unfortunately, poor internal controls, collusion with auditors, or deliberate omissions allow many of these violations to go undetected during routine audits.

## Red flags for detecting Round-Tripping

Round-tripping mostly involves fake sales and purchases to inflate revenue without real economic activity. Key signs one can look for:

1. **Mirror Transactions** – Goods sold and bought back at similar prices within a fleeting time.
2. **No Goods Movement** – Lack of transport docs like e-way bills can signal fake transactions.
3. **Inconsistent Documentation** – Duplicate invoices or mismatched dates point to manipulation.
4. **Circular Money Flows** – Funds routed through LCs and returning quickly can show artificial turnover.
5. **Hidden Related Parties** – Common addresses, directors, or contact details could reveal undisclosed links.
6. **Suspicious Timing** – Sales and purchases with no inventory holding can raise doubts.
7. **Unusual Volume/Profit** – High volumes with minimal profit signal non-genuine trades.

8. **Connected Parties** – Buyers and sellers being related entities could trigger circular deals.

Artificial Intelligence (AI) models these days can look deeper than the numbers, to finds what's really going on. It can track how money flows, how goods are supposed to move and whether the same parties keep appearing on both sides of deals. If funds are rotating in circles, invoices are suspiciously similar or there's no real movement of goods, AI models can raise a red flag instantly.

It can go deeper too - spotting links between companies that share the same address, have the same directors, or use the same phone numbers and emails - revealing shell entities and hidden relationships often missed in traditional audits.

## Emerging Trends

In several high-profile  bankruptcies — IL&FS, ABG Shipyard and Bhushan Steel for example -round-tripping through shell companies and bogus trade layers was a showstopper in cooking books and hiding stress. These weren't rare incidents, they highlighted a deeper weakness in credit assessment and continuous monitoring systems.

As per RBI data, 'Misuse of trade credit and deceptive use of Letters of Credit' have emerged as key factors driving the surge in NPAs across public sector banks.

Over the past five years, Indian banks have written off more than ₹10 lakh crore of bad loans- much of it linked to fake turnover, circular trade and diverted funds routed through issue  multiplex structures.

## Final Thoughts

As finance professionals, we need to move beyond surface-level analysis. Fancy revenue growth or high trade volumes should not be taken at face value. Especially when trade appears circular, margins are thin, and counterparties are opaque — it's worth digging deeper.

The biggest red flags are often hidden in plain sight. It is our responsibility as auditors, bankers, analysts, and regulators, to question anomalies, follow the money, and not be blinded by the appearance of performance.

Because sometimes, what looks like business growth is just a ghost — haunting the ledgers with numbers that never existed.

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