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Zondo commission – Rushed Denel Asia deal explored

Gupta-linked VR Laser got the nod from former Denel GCEO Zwelakhe Ntshepe to partner with the parastatal in a foray into the Asian market in 2015, despite warnings from a due diligence process that warned against it.

Denel sought a due diligence exercise to check if VR Laser was the right partner for the venture, and law firm ENS's forensics unit revealed, in a report submitted on 2 December 2015, that its majority owner Salim Essa- a widely reported Gupta associate – was a politically exposed person, and therefore a risk. But days after the report was put to Denel, on 7 December, the board approved the joint venture (JV), and on 10 December a shareholding agreement was concluded.

But Ntshepe was not worried. "For me, the business was separate from the individuals, how the public views the individual. Many companies have done joint ventures with people that are politically exposed."

VR Laser was promising a R100-million investment into the venture, which would help with the marketing needed by Denel for re-entry into India. Denel had previously worked in India, but had been banned for years, according to Ntshepe, for failure to observe certain protocols issued by the government in that country.

At the first opportunity to explore the Indian market after the ban was lifted, Denel sought partnership with other companies, but many of the well-known ones were already attached. This Ntshepe found out during a trip to India in early 2015, while he held the position of business development executive. Some time later, then GCEO Riaz Saloojee introduced him to Essa, and told him to "work with" Essa in ensuring that the project succeeds.

Saloojee admits in his affidavit – put to Ntshepe by evidence leader Paul Kennedy – that he did introduce the two men, but said he cautioned Ntshepe about Essa. Saloojee also said it was Ntshepe, and not himself, who first introduced the idea of Denel partnering with VR Laser.

"I dispute that vehemently. Mr Saloojee introduced me to Mr Essa with the understanding that I must work very closely with him. Mr Saloojee also informed me that VR Laser is prepared to give about R100-million into the new venture, so we will need to work to make sure that this new venture will happen," said Ntshepe.

Until then, Ntshepe said, he had not known Essa or his association with the Guptas. "I also think he [Saloojee] encouraged Mr Essa to buy VR Laser, because VR Laser was owned by different shareholders before then. Later on he encouraged VR Laser that they would be able to be our partners going into the Asia market."

VR Laser was positioned as the best company with whom to venture into India, said Ntshepe. "They [Essa and Saloojee] made me believe that we would be able to run smoothly in India and also have a buffer for Denel Holdings into the Indian market."

Kennedy asked why there was such a rush to get the JV started and to go into India, considering that Treasury approved it a day after the shareholding agreement was concluded, and it soon went to then public enterprises minister Lynne Brown, who also speedily approved it.

“I don’t think it’s quick. Other companies form joint ventures within a month, private companies,” said Ntshepe. “This took three months, and I have to say, our chairperson – at that point in time – wanted to move Denel forward and he believed in this joint venture.” The chairperson of the Denel board at the time was attorney Daniel Mantsha.

But, Kennedy continued, in comparison to the Hoefyster project, which took over a decade to get off the ground, the Denel Asia venture was relatively quick. Ntshepe acknowledged that Hoefyster indeed took years to launch, but the two processes were very different and should not be compared.

Asked why the process did not follow an open tender, Ntshepe said there were two main reasons. “One, we did not have R100-million to start the marketing campaign in India. Before our banning in India, we spent about R300 -million just in the marketing campaign, and we never ended up getting a contract.”

The second reason was that the types of products Denel sought to manufacture through Denel Asia were different to the South African market. He did acknowledge that Essa did not know a lot about the defence industry, and that the R100-million did not materialise, leading to the collapse of the project.

In his March 2019 testimony, Saloojee told the commission that Rajesh Gupta had told him that it was his family that had been instrumental in the eventual lifting of the ban. But this was untrue, said Saloojee, because Denel’s legal division had dedicated resources to the matter for years, resulting in the lifting.

Public Enterprises Minister Pravin Gordhan confirmed during his evidence on the matter, that Denel Asia did not have treasury backing. It was registered a day after former finance minister Nhlanhla Nene was dismissed in December 2015 and replaced by Des van Rooyen. He also said it had always been Denel’s strategic position to not use local companies for offshore expansions.

A consequence of Denel Asia, said Gordhan at the time, is that the South African government is now stuck with the entity, due to legal bureaucracy and the near impossible task of deregistering it on the Hong Kong stock market.

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