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Zondo Commission – Denel Asia nothing but a money-making scheme for Guptas

The only reason former Denel head Riaz Saloojee lost his job in 2016 was because he was a stumbling block to all Gupta attempts to do irregular business with the state-owned arms manufacturer.

The family, through controversial associate and middle man Salim Essa, started proposing the idea of Denel doing business in India to Saloojee, mere months after he became CEO. He was told by Rajesh Gupta during a meeting that it was the family who influenced his appointment in the first place, a comment that was grossly offensive to him, as he had undergone all the necessary processes in applying for the position.

Saloojee testified before the commission of inquiry into state capture on Wednesday that he first encountered the Gupta brothers during a brief meeting at their Saxonwold home in early 2012. Essa had contacted him, suggesting a meeting to discuss business ideas. When Saloojee accepted his invitation, the two met in Johannesburg, and Essa drove him to the house. On the way there, he told Saloojee that he was acting in the Guptas' interest and that it was important that he be in this meeting, as it was in the best interest of Denel that it happen.

Once at the house, he was introduced to Atul Gupta. To Saloojee's surprise, then public enterprises minister Malusi Gigaba was also present in the house. After an exchange of pleasantries, Gigaba then told Saloojee that the Guptas were his friends, and that if they ever needed his help with anything at Denel, he should assist them. That instruction marked the end of the meeting, and while Essa was driving Saloojee back to where he'd left his car, he told him there was nothing to worry about [regarding the Guptas], and that the meeting had the support from the highest level. Saloojee understood this to be then president Jacob Zuma, as he'd read of the family's links to him in the press. At the next meeting at the house, both Zuma's son Duduzane and the son of ANC secretary-general Ace Magashule were also present.

Saloojee met Atul's brother Rajesh on this occasion, who would later ask him why he did not take money, as "everybody takes money." Saloojee's response to this was that he doesn't take money.

Toxic environment

Fast forward to September 2015, when Saloojee, along with Denel's then CFO Fikile Mhlonto and company secretary Elizabeth Africa, are suspended by a new board that had only been installed in July. They were collectively told they were being charged with misconduct regarding a previous contract of Denel, but not furnished with charge sheets.

Between that first meeting in 2012 and his suspension, Saloojee had met the Guptas and Essa alternately, on several occasions. Each time, the motive was for Denel to open up opportunities for the family to do business. His unwavering stance was always that if there was business to be done, it would follow the correct procedures and be above board. When he got tired of the constant calls from Essa, he delegated Denel's business development head, Zwelakhe Ntsephe, to deal with him.

Saloojee wanted Ntsephe to hear out details of Essa's proposition, advise on what Denel can or cannot do, and then report back to Saloojee on those meetings. His view was that if he kept tabs on what the Guptas wanted out of Denel, he could keep them at bay, as he did not trust them. But he believes Ntsephe eventually developed a close relationship with Essa, that only served to sideline him in the process.

The two executives had a heated exchange once, when Ntsephe lobbied for Saloojee to approve a proposal from the Guptas for the business expansion into India. This was just before Denel's AGM, when the board was about to be rotated and replaced by an alleged Gupta-aligned one. If Saloojee had signed off on the proposal then, he believes Ntsephe would have introduced it to the new board as a bona fide deal that would need no scrutiny. Following Saloojee's suspension, Ntsephe was made acting CEO by the board, which also approved the India expansion deal, Denel Asia.

Denel Asia

When the Guptas bought into VR Laser – a long-term supplier of Denel – their intention was to infiltrate the state-owned entity. Their first prize though, was the establishment of a subsidiary that could operate under Denel, in the Indian market, making them substantial amounts of money. Denel Asia, when it was eventually formed, was established with the approval of the board that suspended Saloojee, brought in by Gigaba's successor Lynne Brown.

An alleged hostile takeover for controlling shares in VR Laser, on which former shareholder Madoda Jiyane testified earlier, enabled Essa to advance the Guptas' plans. VR Laser, once the controversial deal had been concluded, owned a controlling stake (51%) in Denel Asia. This left Denel South Africa in the compromising position of being represented under the Denel Asia banner, with the Indian state representation getting a majority shareholding out of the deal. It was also subject to an agreement on offsets that would be established to benefit the local economy through small businesses in India. So in essence, Denel SA would profit if VR Laser profited, and even then it would be on a small scale.

Denel had not had India in its strategic sights, as the parastatal had been blacklisted in that country following a transgression in 2004, and had been embroiled in the legal struggle to get out of that situation for years. According to Saloojee, not only did the Guptas know about this matter, but had actually capitalised on it during the time that they were courting Denel. Rajesh told Saloojee on one occasion that his family had been instrumental in the eventual lifting of the ban. Saloojee told the inquiry that this was untrue as Denel's legal division had dedicated resources to the matter for years, resulting in the lifting.

Previous testimony by current public enterprises minister Pravin Gordhan revealed that Denel Asia was designed to benefit the Guptas, with Essa registered as a 50% owner. The deal did not have Treasury's backing, as it had always been Denel's strategic position to not use local companies for offshore expansions. Its registration was processed a day after former finance minister Nhlanhla Nene was dismissed in December in 2015, when Zuma had appointed Des van Rooyen as finance minister. A consequence of Denel Asia 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.

For Saloojee, the difficulty of the months following his suspension was the fact that the Denel board that suspended him – chaired by Daniel Mantsha – did not go about the process in the correct way. He was essentially pushed out, he said, with no grounds for his removal. Not only was there never a disciplinary process involved to remove him, Mhlonto and Africa, but the initial cause of misconduct was never justified.

Saloojee read out the contents of correspondence from Mantsha to the acting company secretary who replaced Africa. In it, he appears to be instructing the staff member to influence the outcome of an investigation report that was in the process, commissioned from Dentons law firm, to prove the board's case against the three executives. Mantsha, said Saloojee, was also present at one meeting he attended at the Gupta residence.

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