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## **Sikkim a Turf for Round Tripping and Benami Investments**

by Soumik Dutta - Gangtok, January 8, 2013

Sikkim, since 2004 has become the turf for Hyderabad based hydro power companies and a safe haven for perking illegal funds from outside the country. On the other hand, mortgaging of Sikkim's land by these companies to financial institutions, banks etc. to get huge amounts as corporate loans on the pretext of developing clean and green energy by way of hydro power projects in Sikkim, is also a regular feature and is but an eye wash. The worst part is that the GOS is either a 26% or an 11% equity partner in these projects, hence a party to the deals as a guarantor. These huge sums of money are again being siphoned outside the country and being perked in tax-haven countries like Singapore, Mauritius, Seychelles, Switzerland and Luxembourg. Examples of the later is Teesta Urja Limited taking a loan of Rs. 4500 crores from the consortium of the Rural Electrification Corporation and seven other nationalized banks, but perking it in Asian Genco Pte based at Singapore (in 2008). The fallacy is that REC, the lead lender for TUL has once again consented and sanctioned a cost over-run finance in the tune of Rs. 995 crores, the overall cost has escalated to more than Rs. 8500 crores. With the additional amount, the State-run REC's total loan to the TUL project is Rs. 3,095 crores.

In terms of black money, round tripping money of illegal routes being pumped into Sikkim's hydropower projects let's take the cue from the master at Hyderabad, Mr. Jagan Mohan Reddy himself. As per numerous media reports readily available in the public domain (internet editions of Times of India, The Hindu etc.) and the Central Bureau of Investigation (CBI) issued press information and remand reports against the Kadapa MP, several high profile companies like Indu Projects, Ramky Infra, Pioneer Infra, Aurobindo Pharma, Lanco, Hetero Drugs and individuals like Nimmagadda Prasad had invested in Jagan's media house, whereas other big investors like Dalmia Cements and India Cements had invested in Jagan's cement factory Bharati Cements at a very high premium. The name Lanco, is significant, since they are developing the 500MW Teesta VI project in Sikkim through a SPV called Lanco Teesta Hydro Power Pvt Ltd. Unfortunately, this project since October 2012, has virtually stopped all works, citing financial constraints as reason and are already actively retrenching employees in Sikkim, including locals. Salaries are outstanding for the past several months, retrenched workers have testified. The company has had significant investments in mines in South Africa and the Griffin mines of Australia. The money they obtained from mortgaging Sikkim's land with the GOS as guarantor was parked in investments in South Africa and Australia. Similar is the fate of their project in Uttaranchal. (Source, the published news items in national media in the internet). As is mentioned in the CBI reports, Lanco Infratech has had significant investments in Jagan's companies, in lieu of quid pro quo benefits in AP, elsewhere. Jagan's own Teesta Stage II project in North Sikkim, initially with 480 MW installed capacity but now scaled down to 130 MW, is uncertain, even the DPR is not ready after five years and due to strong opposition by locals, not much headway was achieved by the company till date. His wife Bharathy Reddy is the direct owner of the HEP. (Source, rejoinder reply filed by Secretary Power, GOS in the Anand Lama PIL against HEP s of Sikkim, and published media reports in Deccan Herald).

It may be pertinent to mention here that the CBI has already registered the FIR in the case against Mr. Jagan Mohan Reddy, on August 17, 2011 in the case of illegal assets and alleged flow of illegal investments into his business empire and registered cases against him and

74 others under Sections 120B (criminal conspiracy), 420 (cheating), 409 (criminal breach of trust) and 477A (falsification of accounts) of the Indian Penal Code, besides Section 13 of the Prevention of Corruption Act. His bail was denied in December by the High Court of AP and he is in judicial custody.

Now let us look into the round tripping aspect and illegal money being pumped into Sikkim's companies developing hydropower projects. The best case study is, unfortunately, once again Teesta Urja Limited. The Singapore based Asian Genco Pte, owned by T. V Vijaykumar, an erstwhile close aide of the Late. Y S R Reddy, Late. C V Balayogi and Ramachandra Rao, and Jagan Mohan, is currently the owner of the 1200 MW Teesta Stage III being developed by TUL.

In the board of Directors of Asian Genco are Mr. Gordan Hunt a senior member of asset management group of Morgan Stanley Infrastructure Partners (MSIP), a \$4 billion global infrastructure fund. Mr. Pandit is the Managing Director at General Atlantic. Prior to joining General Atlantic, Mr. Pandit served as a Managing Director for McKinsey & Company, where he served a number of major US and other global companies in a variety of areas. Mr. Atul Kapur is Co-Founder and Managing Partner of Everstone Capital. Formerly, Atul spent twelve years at Goldman Sachs where he was a Managing Director within the Principal Strategies Group (Goldman Sachs proprietary capital) for three years in Europe. Prior to this, Atul spent nine years in the Principal Investment Area of Goldman Sachs in Asia and Europe and Mr. Rajesh Mehta is Portfolio Manager at Ashmore.

A clique of investors, led by Morgan Stanley Infrastructure Partners, bought a close to 49% stake in power generation and engineering services firm Asian Genco for \$425 million, the biggest private equity (PE) transaction in India in almost last two years. The deal is also the biggest private equity transaction in the country's power sector and the first one of over \$300 million since 2008. The last PE deal of this size was when Providence Equity Partners invested \$428 million in Aditya Birla Telecom in 2008.

The group of investors in Asian Genco Singapore includes Everstone Capital, General Atlantic, Goldman Sachs Investment Management and Norwest Venture Partners, among others. The independent company, in which former power secretary RV Shahi is learnt to be a consultant, had earlier raised funds from other investors like power trading firm PTC and its finance offshoot PTC Financial Services, besides global investors such as Tiger Global Management. The same people are all on the Asian Genco board.

Let us delve into an international angle to this Benami transaction and quid pro quo benefits with Jagan Reddy's companies and the Sikkim connection. Indian American Mr. Rajat Gupta, a former director at Goldman Sachs, had violated the firm's code of conduct by disclosing details from a 2008 board meeting to hedge fund manager, Mr. Raj Rajaratnam, the main accused in the largest hedge fund insider trading case to hit US courts. Mr. Gupta, who is accused by the Securities and Exchange Commission (SEC) of passing insider information to Mr. Rajaratnam, denies wrongdoing and has sued the US regulator. The SEC has alleged that Mr. Gupta tipped off Mr. Rajaratnam about an imminent \$5 billion investment in Goldman by Warren Buffett in 2008, and that he also provided the quarterly earnings of Goldman and Proctor and Gamble, where he also served as a director. Gupta who is now serving a jail sentence in the USA was a key investor in Asian Genco, and has also Benami investments in Jagan's associate company the Indu Projects Limited, owned by Syam Prasad Reddy, another big industrialist from Hyderabad whose business registered phenomenal growth during 2005 - 10. Indukuri Syam Prasad Reddy is chairman of Indu Projects, a company that dabbles in the real estate sector. Among the factors that drew the CBI's attention was that Indu Projects registered a phenomenal turnover of Rs. 2,000 crore in a short span of time. Significantly, during the period YSR was chief minister, Indu Projects registered a growth of 100% every year. Syam Prasad Reddy is being investigated for his links with Jagan and possible quid pro quo

investments in Jagan's companies. Mr. Rajat Gupta had invested nearly Rs. 100 crores in Indu, had investments in two companies, one is Mask Limited, whose address is his Connecticut, USA residential address. Another company is Ambit Limited, which is a Swiss company. This is the same company, which was mentioned in his fourth Subpoena by Rajaratnam, who is also in jail for insider trading. Rajat Gupta himself agreed during the US Court trial that he diverted illegal money into Ambit Limited. Such is the complex cobweb like functioning of these highly placed and bestowed corporate operators that even the sleuths of CBI and ED are sometimes tricked by their moves and motives, not to mention their high ranking government and bureaucratic nexus.

When Rajat Gupta, Indukuri Syam Prasad Reddy, Jagan Mohan Reddy himself are under the wings of the CBI, arrested and the prosecution is already on, why has the CBI not taken action against Jagan's Benami investments in Sikkim and abroad, why is Asian Genco being sanctioned another cost over-run loan that too, by a Public enterprise the REC? Why has no investigation been launched against T V Vijaykumar for his doubtful links? There should be full and proper inquiry just in the lines of the 2G Spectrum or the Coalgate scams, all such projects should be scrapped immediately and fresh ICB conducted for legal allotment of HEPs in Sikkim. Even the Apex Court should take up the matter in due diligence at the earliest.

Online at: <http://www.itsnotyellow.com/sikkim-turf-round-tripping-and-benami-investments>