



Moneylife » Investing » Regulations » CAG questions Axis Bank's role in 4G deal

# CAG questions Axis Bank's role in 4G deal

7 comments

[+ COMMENT](#)

MONEYLIFE DIGITAL TEAM | 29/07/2014 03:39 PM |

Follow | 4,148 followers

**CAG has questioned how [Axis Bank](#) gave a guarantee of Rs252.50 crore to Infotel Broadband, which had a net-worth of Rs2.5 crore, without any margin money. Will RBI show some interest now?**

The Comptroller & Auditor General (CAG) has recommended cancellation of the 4G licence and spectrum allocation, alleging wrongdoing in fixing the [eligibility criteria](#) in the bidding process. Interestingly, in its draft report (a copy of which is with *Moneylife*), the CAG has also questioned the role played by Axis Bank in facilitating money transactions. This includes the bank guarantee (BG) to Infotel Broadband Services Pvt Ltd (now Reliance Jio Infocomm) without any margin money or security, provided for paying the license fee at the [broadband wireless access](#) (BWA) auction.

Infotel Broadband, along with its [application for](#) the BWA auction, submitted earnest money deposit (EMD) in [the form](#) of a bank guarantee (from Axis Bank) worth Rs252.50 crore to the Department of Telecom (DoT) on 19 March 2010. In this regard, [the draft](#) CAG report said, "Audit, however, found that there was no disclosure regarding the margin money paid by Infotel Broadband against this guarantee of Rs252.50 crore in their annual accounts for 2009-10. Incidentally, the company along with its [promoter](#) company (Infotel Digicomm Pvt Ltd) had paid 100% margin money for getting the BG of a much smaller amount of Rs10 lakh and Rs25 lakh, respectively, as per disclosures made in their audited annual accounts."

According to the CAG, "It was thus not clear as to how the BG of Rs252.50 crore was obtained by Infotel Broadband with a net-worth of just Rs2.5 crore, from a premium private bank (Axis Bank) without [payment](#) of any margin money by the company. Further BG issued by the Axis Bank had a major alteration at the place of the name of the beneficiary (Infotel Broadband). The name of the beneficiary – Infotel Broadband – was

**WHAT ALL WOMEN MUST KNOW ABOUT MONEY- FOR THEIR OWN SAFETY!**

6<sup>th</sup>

AUG

Sucheta Dalal,  
Managing Editor,  
*Moneylife*

Debashis Basu,  
Editor, *Moneylife*

Principal Mutual Funds

STOCKLETTERS

Panther

27.51%

Non-annualised since 25 April 2014

Focus: Small-caps and/or low-price

Antelope

51.23%

Annualised since 2012

hand-written in ink on the body of the BG after erasing the name of the beneficiary written earlier.”

"It was therefore apparent that the bidder had either been acting as front company on behalf of a hidden bidder or had taken assistance of a third party in obtaining the BG for the auction, which went against the sanctity and transparency of the auction process. Incidentally, the annual report of RIL, which subsequently bought a 95% stake in Infotel Broadband, showed significant transactions (investment of Rs2,250 crore purchased and sold) with Axis Bank during 2010-11," the report from CAG says.

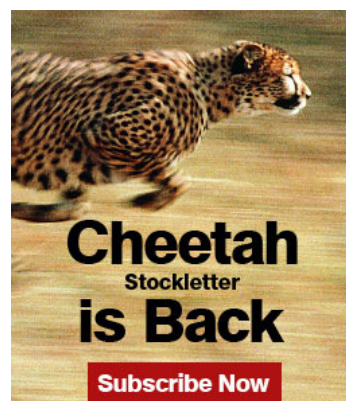
Further, according to documents seized by CAG, Axis Bank's Corporate Banking Branch at Worli in Mumbai, stood security for \$500 million which originated from the Royal Bank of Scotland (RBS), Singapore Branch. This money was used to pay the fee for the BWA spectrum on 16 June 2010.

When asked about so many irregularities, Axis Bank insisted that it was a straightforward transaction. "The Bank does not normally discuss individual client transactions but can confirm that all credit decisions have been taken after due appraisal, keeping in mind all aspects, including that of security," an official spokesperson of Axis Bank said in an email reply. It did not clarify why Infotel Broadband's name would be handwritten after erasing the name of another entity.

There is a lot of mystery surrounding the security for the \$500 million which originated from Royal Bank of Scotland's (RBS) Singapore Branch too. What made Axis Bank confident enough to provide security? Both these shady transactions call for an investigation by the Reserve Bank of India. But will it happen?

Infotel Broadband (promoted by the controversial Himachal Futuristic Communications group) had won a pan-India 4G licence by bidding 5,000 times its net worth and was acquired by Reliance Industries Ltd (RIL) within hours of winning the bid, leading to obvious conclusions. It has been renamed Reliance Jio and the CAG's draft report says that the vitiation of the auction process gave the company a windfall of Rs22,842-crore. RIL has strongly denied CAG's contentions.

CAG, in its report says, "...a non-participant company Reliance Industries Ltd (RIL) exploited the loophole left by the Department of Telecom (DoT) in the eligibility criterion, lock in period etc, for obtaining BWA spectrum, by acquiring a winning company Infotel Broadband within hours of closure of the auction process, through collusion and sharing the confidential information in the course of audit process in violation of Auction Conditions/Rules. The DoT failed to rigging of the auction right from the beginning, when the auction documents and the Earnest Money Deposit (EMD) of Rs252.50 crore was paid by a small ISP through the covert and overt assistance of a third party/ private bank. This small ISP (Infotel) ended up bidding Rs12,847.77 crore (5,000 times of its net-worth) for Pan India spectrum and then ended up being sold on the day of completion of the auction, indicating Infotel Broadband's collusion and sharing of confidential information with a third party, in violation of Auction Conditions/Rules. Neither the top management of the DoT nor important committees like the application screening committee (ASC), Inter-Ministerial Committee (IMC) and Committee of Secretaries (CoS) could detect the tell-tale signs of collusion and sharing of confidential information by the biggest bidder, a tiny ISP. The government should get the matter investigated even at this juncture, fix responsibilities on the bidders that violated the auction conditions/rules prescribed in the



## MONEYLIFE MAGAZINE



Current | Download | Back Issue

SUBSCRIBE



notice inviting application (NIA) and cancel the [allotment](#) of the BWA spectrum along with exemplary punishment for the colluding firms."

During October 2013, Reliance applied for a Unified License (UL) for all the 22 circles won by Infotel Broadband in the BWA spectrum auction. Reliance Jio became the first telecom operator in India to get a pan India unified license and on 21 October 2013 signed an agreement with the DoT, after submitting required documents and paying the requisite entry fee. "With the grant of a unified license, Reliance Jio has migrated its existing ISP license along with broadband wireless access (BWA) spectrum to the unified license with authorisation for all services, except global mobile personal communication by satellite service (GMPCS) under unified license in all service areas," RIL had said in a release at that time.

However, CAG said this (granting of unified license to Reliance Jio) had given a windfall of over Rs22,800 crore to the company. "...by permitting ISPs to provide mobile voice service using BWA spectrum won in 2010 auction, the government has brought ISP licensees with BWA spectrum at par with UAS/ CMTS 3G spectrum winners. Hence, Infotel Broadband, now Reliance Jio Infocomm, appeared to have been according undue advantage of Rs22,842 crore, i.e. the difference of the proportionate prices for 20 MHz block size in 2.1 GHz spectrum band (3G spectrum) and 2.3 GHz spectrum band (BWA spectrum) plus the net present value of the entry fee for UASL at the end of FY2009-10 (Rs20,653 crore plus Rs3,847 crore-Rs1,658 crore). Besides, the sanctity of the entire auction process has been rendered vitiated due to post auction interpretations and interventions after three years. It was therefore no surprise that Reliance Jio Infocomm was among the first group of companies which applied for a UL immediately after the introduction of the Scheme and obtained a letter of intent (LoI). Had the spectrum blocks been specified and declared as liberalised spectrum blocks i.e. open for all technology/services in the NIA in February 2010, there was no doubt that bidders would have taken an informed decision for putting up their bid and the market discovered price would have been significantly different for 3G and BWA spectrum," the CAG said.

The CAG report also expressed surprise over the mid-way exit of incumbent operators like Vodafone, Idea, Reliance Communications and Tata Communications from the BWA auction.

"...a tiny new ISP (Infotel Broadband), ranked 150th in the list of ISPs as on 31 December 2009 by the TRAI, connived and colluded with a major corporate giant (RIL) in flagrant violations of the confidentiality clause/auction conditions/rules provided in the NIA and made a mockery of the sanctity and transparency of the auction process, bidding a sum of Rs12,847.77 crore, which was more than 5,000 times of their net-worth, to win a Pan India chunk of BWA spectrum. Two major UASL operators-Vodafone Essar Ltd and Idea Cellular Ltd-did not win the BWA spectrum even in a single circle in the auction. Two other major UASL operators promoted ISPs, Reliance Communications Ltd and Tata Communications Ltd, also withdrew from the auction without winning BWA spectrum in any circle".

Infotel Broadband was controlled by the promoters of the infamous Himachal Futuristic Communications Ltd (HFCL). More than 18 years ago, the tiny HFCL gained notoriety by being the highest bidder for new telecom licences when the telecom minister was Sukh Ram. Nobody knew who was funding HFCL at that time. But unlike last time, this time it is clear who is funding Infotel.

Be a Moneylife Foundation Member &



**Download**

Presentation on

**UNION BUDGET 2014**

**Tough Times, Tough Measures?**

by



**Ameet Patel**  
CA & partner,  
Sudit K Parekh & Co

**FREE DAILY NEWSLETTER**

Enter your email id here

1,00,000 Readers




**LEGAL RESOURCE CENTRE**



**SEEK LEGAL HELP ITS FREE**

**Moneylife Insurance Helpline Success**


**201** Cases Guided Correctly

53 members got back

**₹44,43,137**

Have any insurance-related problem?

**Click Here**




**Free**

**MUTUAL FUND HELPLINE**

Ask Questions, Report Problems about

**Mutual**



According to sources, banks provide guarantees for a corporate deal after scrutinizing the financials. Sometimes banks also consider the promoter entity and its net-worth while providing BG to a group entity. However, in the case of Infotel Broadband, the net-worth of its promoter entity was also miniscule, compared to the Rs252.50 crore bank guarantee given as EMD by the company before bidding for BWA spectrum.

Infotel Digicomm Pvt Ltd, set up in March 2007 was the promoter of Infotel Broadband and held 99.99% stake at the time of submission of application for the BWA auction in March 2010. Infotel Digicomm had an equity capital of Rs6 lakh and its net-worth was Rs8.55 lakh as on 31 March 2009. This promoter company did not have fixed assets and had earned a revenue of Rs2.59 crore mainly from other income with a net profit of Rs42.8 lakh as on March 2009. It had also given margin money in the form of a fixed deposit of Rs25 lakh. as security against issuance of BG for Rs25 lakh as on 31 March 2010.

Infotel Broadband was set up in February 2007. In November that year, it was granted a pan-India licence for operating an ISP and started its commercial business from 1 April 2009. The company had only one subscriber (leased line) and had earned revenues of Rs14.78 lakh during 2009-10.

Infotel Broadband's authorised share capital was Rs3 crore, while its paid up capital was Rs2.51 crore with no reserves or surpluses as on 31 March 2009. For the year ended March 2009, the company had cash and bank balance of Rs18 lakh, of which Rs11 lakh was tied up as 100% margin money for the bank guarantee (BG) of Rs10 lakh given by Infotel Broadband to the DoT for the ISP license.

POST COMMENT

29

## More in Moneylife

### Subsidies kill, but are less murderous than political intentions

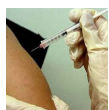
+1422 views

#### TODAY'S TOP STORIES



Call log records of 26/11 tampered? Maharashtra SCIC asks govt to probe

Vinita Deshmukh



Why more vaccines won't translate to better health

Dr Jacob Puliyal & Professor BM Hegde

## Post your Comment

Investor Educational Initiative by TATA MUTUAL FUND. Expertise that's trusted.

moneylife FOUNDATION. SAMIR ZAVERI. Railway Helpline. for Railway accident victims & passengers. Email a synopsis of your problem or suggestion to railwayhelp@moneylife.in. Click to Know More

moneylife FOUNDATION

Join 30,100+ Others

FREE Moneylife Foundation Membership

+ Get 16 Special Features

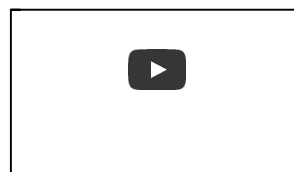
JOIN NOW

#### Foundation Events



### VIDEOS

Ameet Patel on Budget 2014



How to get deemed conveyance for your housing society

Know more about Moneylife Foundation

foundation.moneylife.in

### LATEST COMMENT

Dear Dr Gopalkrishnan

Sir, I have suffered the same fate at the hands of ICICI bank. I am a regula..

Plain Truths about Stock Investing. Offer. PLAIN TRUTHS about STOCK INVESTING. ORIGINAL PRICE--RS125 DISCOUNTED PRICE: RS100 BUY

Comment\*:

Dilip Modi

**MORE**

*SEBI asks Pancard Clubs to stop collecting money from investors*

Moneylife Digital Team

SHARE



*SEBI-Sahara case becomes 'Lawyers' Graveyard'?*

Murali Krishnan (Bar & Bench)

Ameet Patel on Budget 2014



Irresponsible Advertising Account

Corporate Frauds: Penalising the Honest



Book Launch of the legendary Kanga

How to Write your Own Will?

Alert me when new comment is posted on this article  
Please read our [Moderation Policy](#) and [Terms of Use](#) before posting

POST COMMENT

## Comment

7 Comments



**Suiketu Shah** 2 days ago

India needs more and more honest people like Vinod Rai.

[Reply](#) » [Link](#) » [Report abuse](#)



**Vivek Ananth** 3 days ago

This is how an audit report of the govt policies should be. This is how an auditor should be.

[Reply](#) » [Link](#) » [Report abuse](#)



**Gopalakrishnan TV** 4 days ago

There may be several such Instances which escapes RBI's scrutiny as the approach of RBI is to examine the Balance sheet of the Bank as a whole. Individual accounts and that too non fund based limits sanctioned to them accounts may not be figuring as such unless some major branches are covered for inspection and the limits enjoyed by Individual units are beyond a cut off limit fixed normally at a high level. Non fund based sanctions are on the increase of late as banks earn good income and they can easily escape the attention of the regulator.

[Reply](#) » [Link](#) » [Report abuse](#)



**Dayananda Kamath k** 3 days ago in reply to Gopalakrishnan TV

rbi inspection is also an eyewash like so many audits they have prescribed to fill the pockets of chartered accountant without serving any purpose. when they could not act on cases where interanal auditor has submitted reports about irregularities, even when these are brought to their notices what action you can expect in such cases. rbi is the sponsor of all financial scams in india. rbi name is used in many email frauds and a copy of the same is sent to rbi and their reply is rbi is not sending such emails. is it not the duty of regulator to initiate action when such insidents are brought to its notice.

[Reply](#) » [Link](#) » [Report abuse](#)



**c r paranjape** 4 days ago

**MOST READ** **MOST COMMENTED** **MOST SHARED**

CAG questions Axis Bank's role in 4G deal

Nifty, Sensex may try to rally midweek: Weekly Market report

What caused the Malin tragedy was callousness of Netas and Babus

In an exemplary judgement, Bombay HC exposes Income Tax department's tax terror

SEBI-Sahara case becomes 'Lawyers' Graveyard'?

### MONEYLIFE POLL

#### What's your say?

**How you file your income tax returns?**

- Online
- Offline
- Through CA

Enter Code :

Why Bjp is silent on this CAG report? Earlier they did not allow the parliament to function for days in on 2G spectrum but now they are silent because all political parties are on the pay roll of Ambanis. No one can touch this mafia in business who is managing,manipulating government policies for the last four decades and no media in including Times Now will take up this issue because they are afraid of Ambanis

[Reply](#) » [Link](#) » [Report abuse](#)



**Shashibhushan Gokhale** 4 days ago in reply to c r paranjape

Agree.

[Reply](#) » [Link](#) » [Report abuse](#)



**PRABAL BISWAS** 4 days ago

Is it worth the effort? The country would stand still if everything is subject to investigation. Is the CAG holier than thou?

[Reply](#) » [Link](#) » [Report abuse](#)

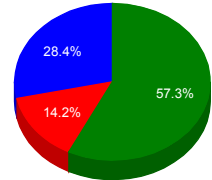
[change code](#)

VOTE

## What you said

How do you rate the first budget of Modi Government?

- Good
- Bad
- So-so



Thanks for casting your votes!  
[View Previous Polls](#)

### MONEYLIFE GROUP

- Overview
- Founders
- Moneylife Magazine
- Moneylife Daily News & Views
- Moneylife Foundation
- Moneylife Smart Savers
- Advertise with us

### MAGAZINE & DAILY NEWS

- Our Approach
- Stock Screener
- Write for us
- Partner with Moneylife
- Privacy Policy
- Terms of Use

### MONEYLIFE ACCOUNT

- My Moneylife account
- Subscriber Billing Info
- How to subscribe?
- Customer Service
- Mail us
- Call us

### INFO CENTRE

- FAQs
- Feedback
- Contact Us
- Site map

### JOIN MONEYLIFE

- Career with Moneylife
- Join Moneylife Foundation
- Moneylife on Facebook
- Moneylife on Twitter
- Moneylife on LinkedIn
- Get Free Newsletter