

Yevtushenkov Suffers Oil, Telecoms Setbacks in India

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AFK Sistema head Yevgeny Yevtushenkov **Denis Grishkin**

Vladimir Yevtushenkov, who controls Russia's biggest mobile-phone operator, is struggling to strike deals with India and link his telecoms and energy empire with Asia's third-biggest economy.

His AFK Sistema investment firm had 21 Indian wireless licenses revoked Feb. 2 by the Asian nation's highest court. Talks to sell 25 percent of Sistema's Bashneft unit, a Russian oil producer with a \$10 billion market value, to Indian state-owned Oil & Natural Gas Corporation are deadlocked over price.

Yevtushenkov, with a \$7.7 billion fortune according to Forbes, wants a bigger energy company and more phone clients among India's 1.2 billion people. He pitched the Bashneft deal as the first step in creating a venture with India's largest oil explorer to help double annual output to 60 million tons.

The billionaire's investment company "will benefit from a strategic investor into Bashneft," said Alexander Burgansky, an oil and gas analyst at Otkritie Financial. "But it doesn't have to be ONGC, particularly if it sees obstacles in India across its other business lines."

President Dmitry Medvedev broached the licensing dispute with Indian Prime Minister Manmohan Singh last month without a resolution, as the two countries try to build ties. Singh's government is appealing the invalidation of Sistema's wireless licenses. A hearing is set for this week.

India's cabinet Tuesday decided to invoke a constitutional provision under which President Pratibha Devisingh Patil can ask the Supreme Court to clarify some parts of its order canceling the licenses.

The setbacks haven't discouraged Sistema, according to Vsevolod Sementsov, a spokesman for the Moscow-based company.

"We don't have any plans to move out of India," Sementsov said by phone April 9. "Sistema wants to agree with India on how to solve the telecoms problems."

Sistema's shares advanced 17 percent in London in the first quarter, trailing the 19 percent increase in the benchmark MSCI Russia Index. Bashneft jumped 27 percent in Russia in the period, the top performer on the MICEX Oil & Gas Index, which climbed 8.3 percent.

Bashneft and Yevtushenkov's Mobile TeleSystems, Russia's largest mobile-phone operator and known as MTS, generate about 90 percent of Sistema's sales.

Yevtushenkov mentioned the 60 million-ton target, aided by possible expansion outside Russia with India's ONGC, last year in Davos, Switzerland. That's more than Britain's output in 2011 and more than double the combined production of Bashneft and Russneft, in which Sistema holds 49 percent.

Sistema missed a target for closing the Bashneft sale in the fall of 2011. Indian officials overseeing ONGC are acting conservatively to avoid any backlash if ONGC is perceived as overpaying, Sistema chief executive Mikhail Shamolin said last month. Talks continue with ONGC as well as other oil and gas companies and private equity funds, he said.

"ONGC is being cautious, and Sistema has no plan to sell for cheap," Shamolin said.

ONGC faced criticism for its \$2.4 billion purchase of Imperial Energy in Russia in 2008 as the Comptroller & Auditor General of India called for more accountability of state finances. In March last year, the auditor accused ONGC of losing 11.8 billion rupees (\$232 million) in the 15 months ended March 2010 after the unit produced at half of plan.

"ONGC has paid excessively for acquisitions before, and that's making them very, very careful for all future deals," said Jagannadham Thunuguntla, a strategist at SMC Global Securities in New Delhi. "India has to get its act together if it wants to be a global leader."

ONGC's overseas arm and Sistema agreed in 2010 to look at a deal involving Imperial Energy and Bashneft, as well as Russneft and international assets and exploration licenses.

The Indian energy producer has sought to lower the price for the Bashneft stake because of Russia's shifting and burdensome taxation of oil producers, said a person with knowledge of ONGC's position, who declined to be identified, citing the confidentiality of talks. The person declined to give ONGC's valuation estimate. ONGC's press service didn't comment.

Russian tax incentives intended to stimulate oil output by reducing the crude export duty have left Bashneft at a disadvantage because it refines more than it produces. The lower duty has increased domestic prices.

An Indian court this week will hear an appeal of the Supreme Court that revoked 122 wireless licenses, 21 of them belonging to Yevtushenkov's investment firm. Auditors found frequencies were sold too cheaply in 2008.

Sistema's largest commitments outside the former Soviet Union are in India, with more than \$3 billion investments in Sistema Shyam TeleServices, which uses the MTS brand. It also has offices for its microchip division Sitronics and the satellite navigational service Glonass. MTS does not own shares in Sistema Shyam.

Sistema said last month that it might apply for arbitration with India to protect its telecommunications investment if the governments don't resolve the dispute.

India's Supreme Court accepted the government's appeal against its judgment last week and may allow companies to operate until a final decision is made.

Former Telecommunications Minister Andimuthu Raja is in jail after the nation's chief auditor in 2010 reported that the sale of the airwaves lacked transparency and ineligible bidders bought them at "unbelievably low prices." The auditor also said the policy chosen by Raja may have deprived the exchequer of as much as \$31 billion, sparking the nation's biggest graft probe. Raja and the other accused have denied any wrongdoing.

The mobile-phone license scandal contributed to an 18-month slowdown in policy making by Singh's government. In local elections last month, Singh's ruling Congress party suffered defeats, two years before a national election.

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