I was recently reading a book on Financial statement fraud.The book has lots of example which provide the reason of inflating the book (cooking books) , motive behind the same and manner in which the book was cooked. I am sure if any one who want to cook the book can go through various examples and decide on which are to be cooked rather than re inventing the wheel. I was thinking as to what will be the motive of Satyam founder in cooking the book of one of the prestigious software company.

Various organisation like SEBI, SIFO, CID, MCA are doing their respective job in identifying the modus operandi of fraud and where the money has gone. Most media is claiming regarding the siphoning of funds diverted to his associated companies etc.

While I had observed that in most of the cases where the companies books was cooked the motive was either meeting the expectation of the street, Increase the valuation of the company, Management compensation & E sops etc. So what is the motive of Satyam for fabricating the books

After going through the letter written by Satyam founder disclosing the facts of fraud, it is quite surprising that he had brought back fund of Rs 1,230 crore (USD 246 million) in the companies book for running the operation of the company. This particular facts is quite disturbing and unique as why the founder who was cooking book for siphoning of the companies fund as assumed by many people will bring back USD 246 million of USD 1.1 billion fraud amount which is almost 25% of funds siphoned. To most of the people this aspect has been not looked for. The question comes to my mind as to why Mr. Raju will bring the money back to the company if his sole motive was to siphon fund ? The civil or criminal liability would have been the same even the amount was not brought back?.

Mr. Raju had used one of the favorite way of cooking book by inflating sales and in his letter there is a little mention of inflation the cost. The extract from his letter is “ For the September quarter (02) we reported a revenue of Rs.2,700 crore and an operating margin of Rs. 649 crore (24% Of revenues) as against the actual revenues of Rs. 2,112 crore and an actual operating margin of Rs. 61 Crore (3% of revenues). This has resulted in artificial, cash and bank balances going up by Rs. 588 crore in Q2 alone” . In one quarter it self inflated cash/receivable of Rs 588 crores was created. Hence by looking at the magnitude it appears that Satyam revenue would have been inflated in large proportion in last 8 -12 quarters to arrive at this mammoth amount.

So by doing a small calculation if you inflate your sale and keep the cost constant then the second effect can be either debtor or cash or both . In satyam case it is more cash and less of debtors. Thus there is a little chance that Satyam had siphoned out money from the inflated sales.

The other question comes to my mind is if Satyam founder has not siphoned out money than why he bought huge cash in the company which is un accounted and what would be the source of such cash. It is obvious if I had not gain any money then why i will invest from my pocket?. Thus both the statement by Satyam founder contradicts each other and motive is not getting clear.

Every experience in past when the book was inflated was caught and the books was reinstated to original level. The history has full of examples where no body was successful in hiding the wrogdoing beyong a certain extent. if the limit has been crossed the ballon has to be burst. The same thing has happened in case of Satyam. Cooking was beyond a certain extent which was not manageable.

To my mind after going through Mr.Raju letter and various other incidents the likely motive of Satyam case could be

- The cooking helped to increase the share price of Satyam
- Cooking may have increased compensation to directors & ESOPS
- Cooking may have also being done to get eligible for contract criteria like sales,net worth etc. This would have helped to achieve more sales.
- Siphioning small amount for investing & promoting other companies
- Diluting of Satyam shares slowly to promote other companies
- Dilute stake holding in other promoted companies as soon as price increase to higher level
- Purchase shares of Satyam when the price is down or through preferential allotment
- Legitimate the cooking by either bringing cash from the other promoted companies or investment in other promoted companies.

The above is just an indicative analysis of likely motive of Satyam cooking.

The thing which doesn't happen in this case is slowdown in reality sector which Mr.Raju had bet. Decrease in share prices substantially of reality companies. hence Mr, Raju was not able to sell other companies share to legitimate the inflated books in Satyam. Shares Pledged by Mr.Raju had gone against him. thus the factors which compleed Mr.Raju was beyond his control rather than his conscience which he had claimed.

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