The Satyam Fraud discussion is selling like a hot cake. Think to ponder is at the same time $ 50 Billion Madoff case is not being mentioned the way Satyam fraud of $1.2 Billion is being done. Imagine do people have forgot the materiality concept.

Like all people are doing analysis, assuming ,ifs & buts and trying to unfold the Satyam saga . I also tried to do the same thing being a Chartered Accountant from India, thought whether can we get some clue of number fabrication from the annual statement. Tried to do some ration analysis of the previous 3-5 years figures. Would like to present the following ratios to the readers and tries to make some conclusion out of the number game.

Year	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004
Net Profit Ratio	20.44%	22.20%	21.76%	21.15%	21.19%
Revenue Growth	30.65%	34.40%	33.78%	36.30%	25.59%
Personnel Expenses to Revenue	62.01%	59.50%	58.28%	57.66%	52.64%
Operating & Admin exp to Revenue	14.61%	14.99%	14.69%	15.12%	18.24%

Looking at the above numbers it seems that each rations have been maintained well. Imagine the organization maintains the net profit ration in last 5 year at an average rate of 21%. First question which arise is it possible to maintain the same profit ratio of 20% when revenue is growing at an average of 32-35%. This is a kind of a trigger probably SEC of USA may be using for identifying organization doing income smoothing method for meeting the analysts target.

While I tried to interpret the Net profit ratio with the growth of expense ration to get some clue here what I observed

Year	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004
Revenue Growth	30.65%	34.40%	33.78%	36.30%	25.59%
Personnel Expenses Growth	36.16%	37.21%	35.22%	49.30%	
Operating & Admin Growth	27.34%	37.14%	29.98%	12.99%	

Hence from the above ratio it can be analysed that the revenue was growing @32-35% whereas the expenses was growing more than the revenue growth. Hence it is difficult to absorb how the net profit growth rate was maintained. This can be achieved only if other income offset the differences. Looking at the financial statement the other income growth ration is as follows

Year	2007-2008	2006-2007	2005-2006	2004-2005
Other Income Growth	41.27%	57.17%	38.95%	1.79%

Thus it can be concluded that the difference has been compensated with increase in growth of other income.

But whether this analysed would have helped in identifying the potential number game ? I doubt..

I tried to make some number sense by comparing the Debtors, Cash , Collection period, Account payable with revenue. The ratio looks like

				Rs. in crores
Year	2007-2008	2006-2007	2005-2006	2004-2005
Debtor	2223.4	1649.8	1122.8	765.17
	34.77%	46.94%	46.74%	
Revenue	8137.18	6229.08	4634.31	3464.22
	30.63%	34.41%	33.78%	

Thus it can be observed that the Debtors was growing more than the revenue, which shows the difficulty faced in collection by the company. This can happen 1) If revenue is inflated and the corresponding effect made in debtor, the same will not be collected which will increase the debtor collection period which stands at 98 days for FY 07-08 increase from84 in FY 03-04 and 2) If revenue not inflated debtors are becoming bad.

Generally the various case of Improper revenue recognition was identified in 2-3 years because the debtor was getting beyond control.

After above analysis I was checking for cash from operation for various years which is as follows

				Rs. in crores
Year	2007-2008	2006-2007	2005-2006	2004-2005
Cash Flow from Operation	1412.92	1029.83	785	643

Thus it can be observed that cash from operation was positive in all the years.

I would like to admit that based on ration analysis it would have been difficult for a laymen to make a conclusion regarding some suspicion. But after confession of Mr.Raju and based on ration analysis I could make out the following modus operandi that would have been employed

1) Inflating sales year on year.
2) Majority of sales, cash would have been collected by inflating the bank statement.To show positive cash from operation.
3)The sales would have been inflated from not so big client as it would have raised suspicion to auditor.
4) I suspect the connivance of bank official for altering the bank statement to provide the collection received from the inflated sales.
5) The other income was inflated to match the fictitious cash parked in fictitious deposit account which has helped in maintaing the net profit ration as explained above.
6) The majority of inflating would have been done from FY 2005-2006 onwards.
7) The restatement of account which is in progress will show negative cash from operation as the I suspect expense growth was more than the revenue growth.
8) I doubt that the poor expense control would have let to the disaster.
9) Whether the expense in earlier year was to siphon out funds can only be known when the restatement of account come.

Need to wait and watch.

Disclaimers : The views mentioned are the personal views. Any reference should be at your own risk. The author is not any way responsible for any action taken based on the content of the article.