

The Satyam hole could only be known completely when the books will be restated. But one thought arose in my mind as to what would be the restated balance sheet would look like given the disclosure made by Mr. Raju in his confession letter. I am making a humble attempt and trying to present the picture of restated account after all the cooking is reorganised.

The main confession made by Mr. Raju is

1. The Balance Sheet carries as of September 30, 2008,

- a) Inflated (non-existent) cash and bank balances of Rs 5,040 crore (as against Rs 5,361 crore reflected in the books);
- b) An accrued interest of Rs 376 crore, which is non-existent
- c) An understated liability of Rs 1,230 crore on account of funds arranged by me;
- d) An overstated debtors' position of Rs 490 crore (as against Rs 2,651 reflected in the books);

2. For the September quarter(Q2) we reported a revenue of Rs 2,700 crore and an operating margin of Rs 649 crore(24 per cent of revenue) as against the actual revenues of Rs 2,112 crore and an actual operating margin of Rs 61 crore (3 per cent of revenues). This has resulted in artificial cash and bank balances going up by Rs 588 crore in Q2 alone.

The gap in the balance sheet has arisen purely on account of inflated profits over several years (limited only to Satyam standalone, books of subsidiaries reflecting true performance).

Based on the information available from the confession letter, Annual Report for the financial year 07-08 and quarterly report for the financial year 08-09 ending June 08 & September 08, balance sheet as on September 08 is prepared. Since important figures like reserve, debtors, cash balance, accrued interest is available and figures like share capital, fixed assets, investment is assumed to be same as on March 08. The Balance sheet would look like after taking into account the above confession is as below (amounts are in crores)

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	FY 07-08	HY 08-09	Remarks
I. Sources of Funds :			
1. Shareholders' Funds			
(a) Share Capital	134.1	134.1	Assumed
(b) Share application money, pending allotment	1.83	1.83	Assumed
(c) Reserves and Surplus	7221.71	8392.23	As per Result Q2
Total	7357.64	8528.16	
2. Loan Funds			
(a) Secured Loans	23.67	23.67	Assumed
Total Source of Funds	7381.31	8551.83	
II. Application of Funds :			
1. Fixed Assets			
(a) Gross Block	1486.53	1486.53	Assumed
(b) Less: Depreciation / Amortisation	1062.04	1159.91	Added dep for both the Qtr
(c) Net Block	424.49	326.62	
(d) Capital Work in Progress	458.63	458.63	Assumed
Total	883.12	785.25	
2. Investments	493.8	493.8	Assumed
3. Deferred Tax Assets (net)	87.65	87.65	Assumed
4. Current Assets, Loans and Advances			
(a) Sundry Debtors	2223.41	2651	Stated as per Raju
(b) Cash and Bank Balances	4461.68	5361	Stated as per Raju
(c) Other Current Assets - Interest Accrued on Fixed Deposits	272.45	376	Stated as per Raju
(d) Loans and Advances	400.2	400.2	Assumed
	7357.74	8788.2	
Less: Current Liabilities and Provisions			
(a) Liabilities	890.72		
(b) Provisions	550.28		
	1441	1603.07	Bal Figure
Net Current Assets	5916.74	7185.13	
Total Application of Fund	7381.31	8551.83	

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The following action has been taken based on confession letter

Sr.No	Inflated figuers	Effect in Balance sheet
1.	Inflated (non-existent) cash and bank balances of Rs 5,040 crore	The cash will be reduced by Rs. 5040 crore and the second effect would be reduction from Reserve (1)
2.	An accrued interest of Rs 376 crore, which is non-existent	Accrued Interest will be reduced by Rs 376 crore and the second effect would be reduction from Reserve (2)
3.	An understated liability of Rs 1,230 crore on account of funds arranged by me	The liability will increase and the second effect would be reduction from Reserve (4)
4.	An overstated debtors' position of Rs 490 crore (as against Rs 2,651 reflected in the books)	Debtor will be reduced by Rs. 490 crores and the second effect would be reduction from Reserve (3)

1) Since inflated cash would have been due to fictitious sales and assuming no fictitious expenses would have resulted in increase in Profit which ultimately would have been added to Reserve in balance sheet.

2) Since Accrued Interest income would have resulted in increase in Profit which ultimately would have been added to Reserve in balance sheet.

3) Since inflated debtors would have been due to fictitious sales and assuming no cash received from the sales would have resulted in increase in Profit which ultimately would have been added to Reserve in balance sheet.

4) I assume that the cash brought in would be amount spend for meeting the operational expense without entering in Books, hence to that extent profit would be overstated. Due to which Reserve is reduced.

I am not considering the yearly impact as the net effect will be cumulated and the impact will be seen on the HY08-09 Balance sheet.

By making the above effect in the HY 08-09 Balance sheet as mentioned above the Balance sheet would look like as follows

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	HY 08-09	Adjustment	HY 08-09 (After Adjustment)
I. Sources of Funds :			
1. Shareholders' Funds			
(a) Share Capital	134.1		134.1
(b) Share application money, pending allotment	1.83		1.83
(c) Reserves and Surplus	8392.23	-7136	1256.23
Total	8528.16	-7136	1392.16
2. Loan Funds			
(a) Secured Loans	23.67		23.67
Total Source of Funds	8551.83	-7136	1415.83
II. Application of Funds :			
1. Fixed Assets			
(a) Gross Block	1486.53		1486.53
(b) Less: Depreciation / Amortisation	1159.91		1159.91
(c) Net Block	326.62	0	326.62
(d) Capital Work in Progress	458.63		458.63
Total	785.25	0	785.25
2. Investments	493.8		493.8
3. Deferred Tax Assets (net)	87.65		87.65
4. Current Assets, Loans and Advances			
(a) Sundry Debtors	2651	-490	2161
(b) Cash and Bank Balances	5361	-5040	321
(c) Other Current Assets - Interest Accrued on Fixed Deposits	376	-376	0
(d) Loans and Advances	400.2		400.2
	8788.2	-5906	2882.2
Less: Current Liabilities and Provisions			
(a) Liabilities			
(b) Provisions			
	1603.07	1230	2833.07
Net Current Assets	7185.13	-7136	49.13
Total Application of Fund	8551.83	-7136	1415.83

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The impact will be

- a) Reserve will reduced by Rs. 7,136 crores
- b) Net Current Asset will reduce by Rs. 7,136 crore.

The book value of Satyam shares will be Rs 20.67 whereas the current market price is hovering around Rs.45-50. God knows how the same is justifiable.

My analysis says that the the company who purchases the Satyam company will have a big trouble in justifying the high prices and also the legal action which the company will face after buying.

As per my understanding,

- a) Mass layoff would happen in Satyam after purchase by other company unless it is not part of purchase agreement to stay afloat.
- b) Client base is susceptible and revenue growth in this recession is quite not possible.
- c) The share price may come down to sub Rs.25 level after the dust is settle down.
- d) Outsourcing is going to be tough due to recent law changes in US, and it would not be quite surprising if UK take the same step in future.
- e) Big clients and critical employee would go to rival company who intend to buy but not successful.

It is unimaginable the baby created by Mr. Raju was himself the reason to destroy the same.

Lets hope for the best...

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.

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