Assignment on

SATYAM

and the perfect "scam"

submitted to

Ms. Sweta Sharma

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Prabhjeet Singh

BBA 6th Sem

Regd. No. 625241504

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INTRODUCTION

- SATYAM COMPUTER SERVICES LIMITED WAS FOUNDED IN 1987 by Ramalinga Raju
- The Company offers information technology (IT) services spanning various secters , and listed on the New York stock exchange and Euronext.
- In news Because of the accounting scandal by its CEO Ramalinga Raju.
- The company employs more than 40,000 IT professionals across world.
- Satyam's network covers 67 countries across six continents.
- The major countries are **:- India, The United States, The United Kingdom, The United Arab Emirates, Canada, Hungary, Singapore, Malaysia, China, Japan, Egypt , Australia etc.**
- It serves over 654 global companies, 185 of which are Fortune 500 corporations.
- Satyam has strategic technology and marketing alliances with over 50 companies.
- It has development centres in India at ***Hyderabad Bangalore, Chennai, Pune, Mumbai, Nagpur, Delhi, Kolkata, Bhubaneswar, and Visakhapatnam.***

BOARD OF DIRECTERS

Kiran Karnik, Chairman ,

A.S. Murthy, CEO

Deepak S. Parkesh

C Achuthan

Tarun Das

T. N. Manoharn

PRODUCTS BY SATYAM

- Strategic IT consulting
- Product Development Services
- Chip Desgin
- Embedded Systems Robotics
- R & D Services
- Entreprise Application
- Managed It services
- SSoftware development & maintenance
- Business Process Outsourcing

MILESTONES

It’s one of the youngest IT service companaies to reach US $ 1 billion in annual revenues.

- 1987 Incorporated as Privte Limited company.
- 1991 Debuts on Bombay Stock Exchange
- 1993 Signs Joint Venture with Dun & Bradstreet
- Awarded as ISO 9001 Certification
- 1999 SIFY becomes the first Indian Internet Company listed on NASDAQ , Presence establish in 30 countries.
- 2000 Associates count reaches 10,000
- 2001 Listed on NYSE (New York Stock Exchange)
- 2005 Latest global development center outside India begins operation
- 2007 Becomes the fficially IT service Provider for the FIFA World Cups , 2010 And 2014
- Announces acquisition of UK based Nitor Global Solutions Limited.
- 2008 Revenue Crosses US $ 2 billion mark

becomes the first company to be invited by the NSE ring the opening bell.

CONTROVERSIES

Maytas acquisition

In 2008, Satyam attempted to acquire two infrastructure companies (Maytas Infrastructure and Maytas Properties) founded by family relations of company founder Ramalinga Raju for $1.6 billion, despite concerns raised by independent board directors. Both companies are owned by Raju's sons. This eventually led to a review of the deal by the government, a veiled criticism by the vice president of India and Satyam's clients re-evaluating their relationship with the company. Satyam's investors lost about INR 3,400 crore in the related panic selling. The USD $1.6 billion (INR 8,000 crore) acquisition was met with scepticism as Satyam's shares fell 55% on the New York Stock Exchange. Three members of the board of directors resigned on 29th December 2008.

WORLD BANK

The World Bank had banned Satyam from doing business with it for 8 years due to inappropriate payments to the World Bank's staff. The World Bank accused Satyam of giving improper benefits to its (the Bank's) staff and of failing to maintain documentation to support fees charged for its subcontractors. However, it clarified that Satyam was not involved in incidences of data theft or malicious attacks that had been made on the Bank's information systems.

UPAID LAWSUIT

UK mobile payments company Unpaid Systems is suing Satyam for over 1 billion US dollars on complaints of fraud, forgery and breach of contract

ACCOUNTING SCANDAL OF 2009

The Satyam Computer Services scandal was publicly announced on 7 January 2009, when Chairman Ramalinga Raju confessed that Satyam's accounts had been falsified.

Details

On 7 January 2009, company Chairman Ramalinga Raju resigned after notifying board members and the Securities and Exchange Board of India (SEBI) that Satyam's accounts had been falsified .
Raju confessed that Satyam's balance sheet of 30 September 2008 contained:

- inflated figures for cash and bank balances of INR 5,040 crore (as against INR 5,361 crore reflected in the books).
- An accrued interest of INR 376 crore which was non-existent.
- an understated liability of INR 1,230 crore on account of funds was arranged by himself.
- an overstated debtors' position of INR 490 crore (as against INR 2,651 crore in the books).

Raju claimed in the same letter that neither he nor the managing director had benefited financially from the inflated revenues. He claimed that none of the board members had any knowledge of the situation in which the company was placed.

He stated that

"*What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions as the size of company operations grew significantly (annualised revenue run rate of Rs 11,276 crore in the September quarter of 2008 and official reserves of Rs 8,392 crore). As the promoters held a small percentage of equity, the concern was that poor performance would result in a takeover, thereby exposing the gap. The aborted Maytas acquisition deal was the last attempt to fill the fictitious assets with real ones. It* *was like riding a tiger, not knowing how to get off without being eaten.*"

Aftermath

Raju had appointed a task force to address the Maytas situation in the last few days before revealing the news of the accounting fraud. After the scandal broke, the then-board members elected Ram Mynampati to be Satyam's interim CEO. Mynampati's statement on Satyam's website said:

> "*We are obviously shocked by the contents of the letter. The senior leaders of Satyam stand united in their commitment to customers, associates, suppliers and all shareholders. We have gathered together at Hyderabad to strategize the way forward in light of this startling revelation.*"

On 10 January 2009, the Company Law Board decided to bar the current board of Satyam from functioning and appoint 10 nominal directors. "The current board has failed to do what they are supposed to do. The credibility of the IT industry should not be allowed to suffer." said Corporate Affairs Minister Prem Chand Gupta. Chartered accountants regulator ICAI issued show-cause notice to Satyam's auditor PricewaterhouseCoopers (PwC) on the accounts fudging. "We have asked PwC to reply within 21 days," ICAI President Ved Jain said.

On the same day, the Crime Investigation Department (CID) team picked up Vadlamani Srinivas, Satyam's then-CFO, for questioning. He was arrested later and kept in judicial custody.

On 11 January 2009, the government nominated noted banker Deepak Parekh, former NASSCOM chief Kiran Karnik and former SEBI member C Achuthan to Satyam's board.

Analysts in India have termed the Satyam scandal as India's own Enron scandal.

Immediately following the news, Merrill Lynch (Now with Bank of America) terminated its engagement with the company. Also, Credit Suisse suspended its coverage of Satyam.[citation needed]. It was also reported that Satyam's auditing firm PricewaterhouseCoopers will be scrutinized for complicity in this scandal. SEBI, the stock market regulator, also said that, if found guilty, its license to work in India may be revoked. Satyam was the 2008 winner of the coveted Golden Peacock Award for Corporate Governance under Risk Management and Compliance Issues, which was stripped from them in the aftermath of the scandal. The New York Stock Exchange has halted trading in Satyam stock as of 7 January 2009.[15] India's National Stock Exchange has announced that it will remove Satyam from its S&P CNX Nifty 50-share index on January 12.[16]The founder of Satyam was arrested two days after he admitted to falsifying the firm's accounts. Ramalinga Raju is charged with several offences, including criminal conspiracy, breach of trust, and forgery.

Satyam's shares fell to 11.50 rupees on 10 January 2009, their lowest level since March 1998, compared to a high of 544 rupees in 2008[17]. In New York Stock Exchange Satyam shares peaked in 2008 at US$ 29.10; by March 2009 they were trading around US $1.80.

The Indian Government has stated that it may provide temporary direct or indirect liquidity support to the company. However, whether employment will continue at pre-crisis levels, particularly for new recruits, is questionable .

On 14 January 2009, Price Waterhouse, the Indian division of PricewaterhouseCoopers, announced that its reliance on potentially false information provided by the management of Satyam may have rendered its audit reports "inaccurate and unreliable.

On 22 January 2009, CID told in court that the actual number of employees is only 40,000 and not 53,000 as reported earlier and that Mr. Raju had been allegedly withdrawing INR 20 crore rupees every month for paying these 13,000 non-existent employees .

Ramalinga Raju is currently in a Hyderabad prison along with his brother and former board member Rama Raju, and the former CFO Vadlamani Srinivas.

There is analysis of the previous 3-5 years figures. Which shows the following ratios and figures to make conclusion .

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 ration has 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. After interpret the Net profit ratio with the growth of expense ration to get some clue here what is to 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?? DOUBT !!!

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 were 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 the figure which 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. The statement which is 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 it 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 maintain 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) The doubt is that the poor expense control would have let to the disaster.

FUTURE SEEN BY SATYAM

- ABLE to quickly put the issues behind us and ensure continuity of our operations and our services delivered to our customers.

- Do everything that we can as an organisation to ensure the stakeholders

- Restore confidence of the customers employees, suppliers and investors by ensuring business continuity.