INTRODUCTION

COMPANY PROFILE:

Satyam was founded in 1987 by B Ramalinga Raju. The company offers consulting and information technology (IT) services spanning various sectors, and is listed on the New York Stock Exchange (NYSE), the National Stock Exchange (NSE India) and Bombay Stock Exchange (BSE India). In June 2009, the company unveiled its new brand identity "Mahindra Satyam" subsequent to its takeover by the Mahindra Group's IT arm, Tech Mahindra.

SATYAM SCANDAL:

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

- Inflated figures for cash and bank balances of Rs 5,040 crore (US$ 1.04 billion) (as against Rs 5,361 crore (US$ 1.1 billion) crore reflected in the books).
- An accrued interest of Rs. 376 crore (US$ 77.46 million) which was non-existent.
- An understated liability of Rs. 1,230 crore (US$ 253.38 million) on account of funds was arranged by himself.
- An overstated debtors' position of Rs. 490 crore (US$ 100.94 million) (as against Rs. 2,651 crore (US$ 546.11 million) 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 (US$ 2.32 billion) in the September quarter of 2008 and official reserves of Rs 8,392 crore (US$ 1.73 billion)]. 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 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"*****.**

- **PULL OUT OF CUSTOMERS**

  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. 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.

- **COMPANY SHARE-PRICE**

  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. 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 New York Stock Exchange has halted trading in Satyam stock as of 7 January 2009. India's National Stock Exchange has announced that it will remove Satyam from its S&P CNX Nifty 50-share index on January 12. 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.

GUILTY PARTIES TO THE SCAM

1. AUDITORS

What were the auditors doing? Rs 5,000 crore of cash not in the banks and auditors have gone ahead and signed on the balance sheets saying that its there on the banks. The interest accrued – where is this interest accrued from? It has to be there. Auditors are supposed to do bank reconciliation to check whether the money has indeed come or not. They need to check bank statements and certificates.

2. BANKER OF SATYAM:

The second are bankers of Satyam which are quite a few actually because it is a big company. You have ICICI Bank, HDFC Bank, BoB and lot of other banks which are bankers. These banks are supposed to provide bank statements on a quarterly basis and bank certificates on basis of which auditors go ahead and signed the balance sheet.

Either the bank statement and certificates are false or auditors haven't taken cognizance of the fact that bank statements are showing some other figures and the management is depicting some other figure.

3. INVESTMENT BANKER:

The third one – the I-bankers – now what we understand from sources is that Merrill Lynch withdrew from Satyam mandate yesterday evening. It did not inform the exchanges till today after Mr. Raju informed the stock exchanges. We want to know why Merrill Lynch after withdrawing the mandate did not inform the stock exchange or at least public in general or the shareholders before market hours.

These questions have to be answered by Merrill Lynch and that's one of the key questions because Merrill Lynch was the outside advisors to Satyam. It withdrew from the mandate because of the kind of mess Satyam was in. So Merrill Lynch should have had informed Satyam and alerted the market that there is something very wrong which is going in Satyam and that's the reason for their withdrawal.

4. BOARD OF DIRECTOR:

The fourth is the CFO and his team. They will have to answer how they did the entire scam and how were they able to hide it for so many quarters.

BSE figures show a number of senior people in the company, including Raju and CFO Vadlamani were reportedly selling Satyam's shares over the last 22 quarters.

- In June 2001, Raju had nearly 23 per cent shares. By December that year, his share was down to 22.4 per cent.
- In September 2002, it fell to 21.6 per cent which fell a year later to just over 19 per cent.

- In 2004, Raju's holding was 16 per cent which fell to 14 per cent in 2005, 11 per cent in 2006. In 2007 it was in single digit.
- By September 2008 Raju's share was just 8.27 per cent.
- BSE figure also show Vadlamani sold 92,538 shares while the then CEO Ram Mynampati sold 700,000 shares plus 2,50,000 ADRs.

Apart from these, other senior officials also reportedly sold large number of shares. Sources say they include one Kiran Cavale (VP) who reportedly sold 400,000 shares and 10,000 ADRs and one Rajan Nagarajan (Head - Solutions and Chief Information Officer) who reportedly sold 430,000 shares and 70,000 ADRs.

FIVE TYPES OF PEOPLE AFFECTED FROM SATYAM SCAM

1. **Employees:**

It is very clearly anxious moments, sleepless nights and heartburns for the over 53,000 employees of Satyam Computers as they conjure up worst case scenarios like non-payment of salaries, project cancellations , layoffs and equally bleak prospects outside.

As the company's management tries to reassure shocked employees, jobs sites have got flooded from resumes of hundreds of Satyam employees. "Till Tuesday evening, there were about 7,800 people from Satyam who had posted their resumes on job sites. By Wednesday afternoon, it has gone up to 14,000. By the end of the day, the numbers may be much higher," said Kris Lakshmikanth, CEO of Headhunters India.

However, job consultants believe that in the current economic climate when the IT industry is already facing tough time, Satyam employees might have to settle for lower salaries outside. Also, with most IT companies already announcing a hiring freeze, it is an employers' market.

2. **Customers**

The debacle may force the clients of beleaguered Satyam to review their contracts and look at other offshore suppliers.

"Satyam clients will naturally be concerned and many clients will be forced to review their contracts and talk to the other offshore suppliers in the account about potentially taking over work from Satyam," said a Forrester Research analyst.

According to a senior executive from a rival IT firm, Australian telecom company Telstra, which contributes $20-25 million to its revenues, had already decided to split a new contract worth $200 million among three Indian vendors. “There was intense competition among Satyam and other offshore vendors earlier but Telstra now seems to be more tilted towards Infosys and EDS-Mphasis. Satyam seems to have lost the race,” said the official, whose company was one among the bidders for the contract.

Another partner and customer of the company, Cisco Systems said that a proposed investment in Satyam subsidiary (Satyam Global Lifenet) could be in jeopardy.

However, allaying the fears of employees and clients in the Asia-Pacific, Satyam today said it is committed to its customers in the region. "Satyam as an organization remains committed to its customers in (the) Asia Pacific, a region which continues to offer promising growth," said Satyam's Senior Vice-President (Asia Pacific, Middle East, India and Africa) Virender Agarwal, based in Singapore.

The fourth largest software company's clients include General Electric, Nissan Motors and General Motors.

3. Shareholders

An accounting fraud was the last thing investors in India would have imagined as a trigger for a reversal in investor sentiment. The Satyam accounting fiasco has come at a time when the sentiment is already brittle and is likely to affect the image of Indian companies among foreign portfolio investors.

Fund managers said the revival of India’s position as a preferred investment destination would depend on the speed of regulatory action to salvage the situation. “The regulators would have to take drastic measures to regain the confidence of foreign investors in Indian companies as frauds like these will have greater implications on emerging markets than developed markets,” said a CIO with a leading private mutual fund.

National Association of Small Investors (NASI), a registered NGO, has filed a complaint against scam-hit software exporter Satyam Computer Services Economic Offences Department (EOD), for "cheating shareholders and investors".

Law firms in the US have also filed class-action complaints against Satyam Computer Services and its executives for securities fraud. The lawsuit has been filed on behalf of all buyers of Satyam ADS between January 6, 2004 and January 6, 2009.

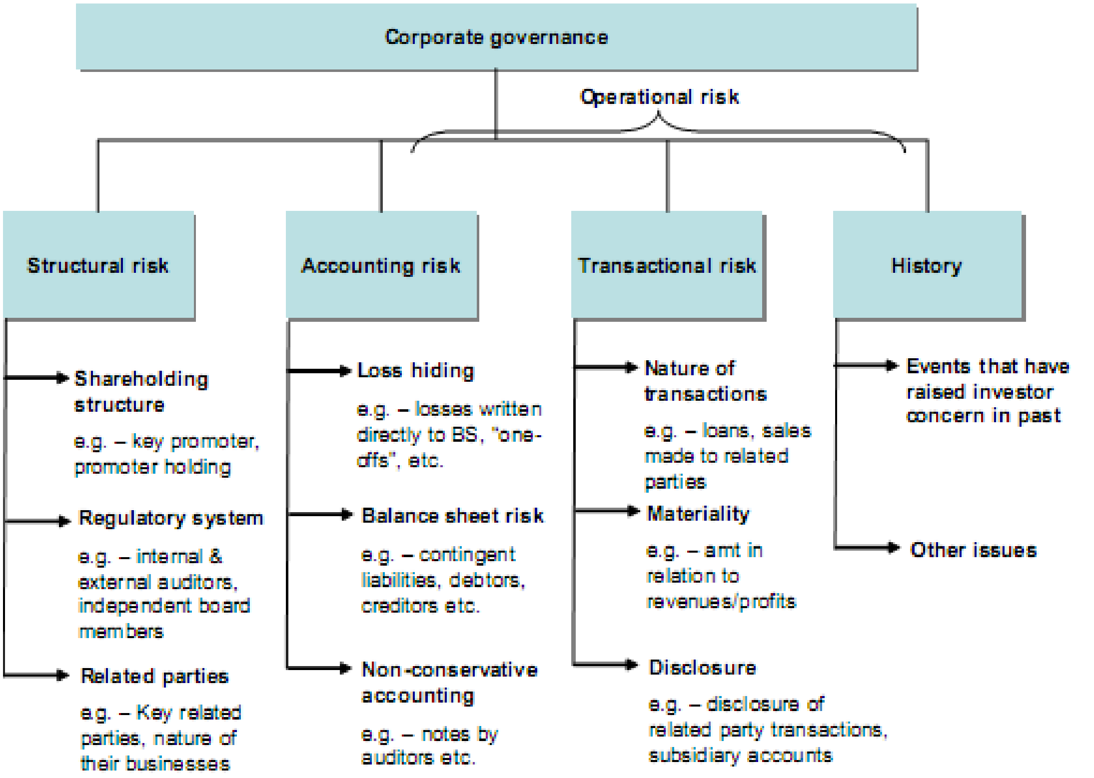
4. General Public

The incident has hurt public perception of Corporate India. Howsoever one-off incident one may term it, it is likely to hurt shareholders' confidence in India Inc. No doubt, India Inc reacted with shock and dismay to the scam. The VC and MD of Mahindra and Mahindra, Anand Mahindra in a statement said that the development had "resulted in incalculable and unjustifiable damage to Brand India and Brand It in particular."

In a write-up in ET, Rahul Bajaj said, "It is likely to dent the public credibility about the concepts of corporate governance that the Indian industry has been so assiduously trying to cultivate for the last ten years."

CORPORATE GOVERNANCE

Figure 1: Framework to assess corporate governance



Source: Credit Suisse estimates