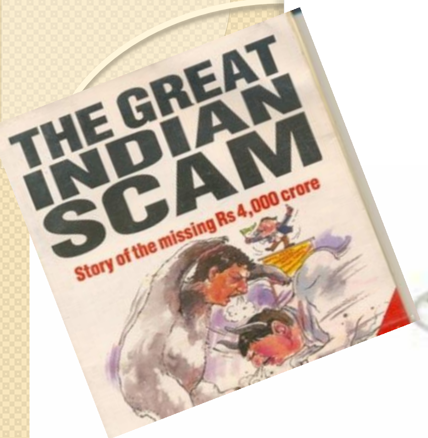


Satyam & Enron

A tale of two companies and two countries

The Great Satyam Fiasco

A detailed presentation about the largest fraud in Indian Corporate Sector

History of Satyam

- Satyam Computer Services was founded in 1987.
- Services offered- consulting and information T technology (IT) services spanning various sectors
- Listed on the National Stock Exchange(NSE) (India), Bombay Stock Exchange(BSE) (India) and also on the Newyork Stock Exchange(NYSE).•
- Satyam employed nearly 50,000 Employees covered 67 countries. Served - 654 global companies.

Achievements : Satyam

- September 2008, the World Council for Corporate Governance awarded Satyam with the "Global Peacock Award".
- UK Trade & Investment India(UKTI) Business Award for corporate social responsibility.
- First IT Company in the World Certified Under ISO 9001:2000.
- April 14 2008,award from MZ Consults India's corporate governance.

REVELATION OF FRAUD

Fall of Satyam - How It Happened?

Dec 16, 2008
Satyam board announces the decision to buy stake in MAYTAS infrastructure a company owned by the promoter family for $1.6 bn

Dec 17, 2008
Satyam call of the MAYTAS deal as a result of investor revolt and says will focus on core IT business and will not diversify

Dec 18, 2008
Satyam announces a board meeting on 29th in wake of investor revolt and says will consider buy back to prop up investor sentiment

Dec 19, 2008
Post MAYTAS U-turn, Upaid files motion against Satyam and promoters for $1.1 Bn claiming fraud.

Dec 23, 2008
World bank confirms an 8 year ban of Satyam for data theft and bribery

Dec 28, 2008
4 Board members resign in wake of MAYTAS controversy and board meeting postponed to Jan 10th 2009. Market speculation talks of hostile takeover by peers

Jan 3, 2009
Sale of Pledged shares of promoters results in the promoter stake in Satyam coming down to less than 5%

Jan 7&8, 2009
Mr. B. R. Raju resigns and cites financial irregularities in the book of accounts to the tune of $1.5 Billion. Lack of liquidity and payroll thus putting employees in jeopardy

So the Drama Unfolds:

- January 9: Ramalinga Raju and his younger brother B Rama Raju arrrested.
- Januaary 14: KPMG and Deloitte appointed to restate accounts.
- January 24: Top auditors of PwC arrested.
- January 27: Satyam board appoints Goldman Sachs and Avendus to identify strategic buyers and obtain bids.
- February 5: Satyam names A.S. Murthy, as CEO.

RAJU'S CONFESSION

- On Jan 7, 2009, Mr. Raju disclosed in a *letter* to Satyam's Board of Directors , SEBI Chairman and Stock Exchanges that he had been manipulating the company's accounting numbers for years. Mr. Raju said the manipulation started out small, and grew larger by the year
- Mr. Raju stated that eventually, the *stress of hiding* the fraud grew too much for him to bear.

To the Board of Directors

Satyam Computer Services Ltd.

From B. Ramalinga Raju

Chairman, Satyam Computer Services Ltd.

January 7, 2009

Dear Board Members,

It is with deep regret, and tremendous burden that I am carrying on my conscience, that I would like to bring the following facts to your notice:

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. 5361 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 over stated debtors position of Rs. 490 crore (as against Rs. 2651 reflected in the books)

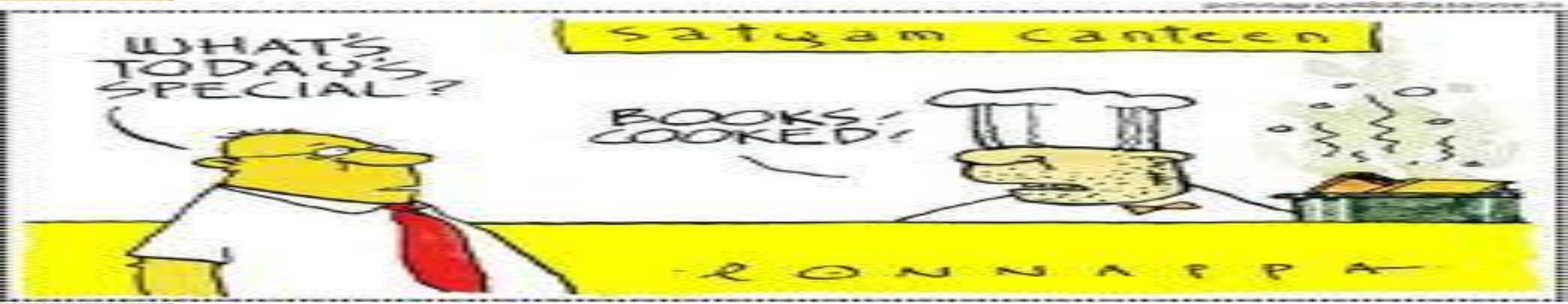
2. For the September quarter (Q2) we reported a revenue of Rs.2,700 crore and an operating margin of Rs. 649 crore (24% Of revenues) as against the actual revenues of Rs. 2,112 crore and an actual operating margin of Rs. 61 Crore (3% of revenues). This

Raju wrote in his confession letter

•Satyam's profits were inflated over several years to *"unmanageable proportions"* and that it was forced to carry more assets and resources than its real operations justified. He took *sole responsibility* for those acts.

"It was like riding a tiger, not knowing how to get off without being eaten."

"The aborted Maytas acquisition was the last attempt to fill the fictitious assets with real ones."

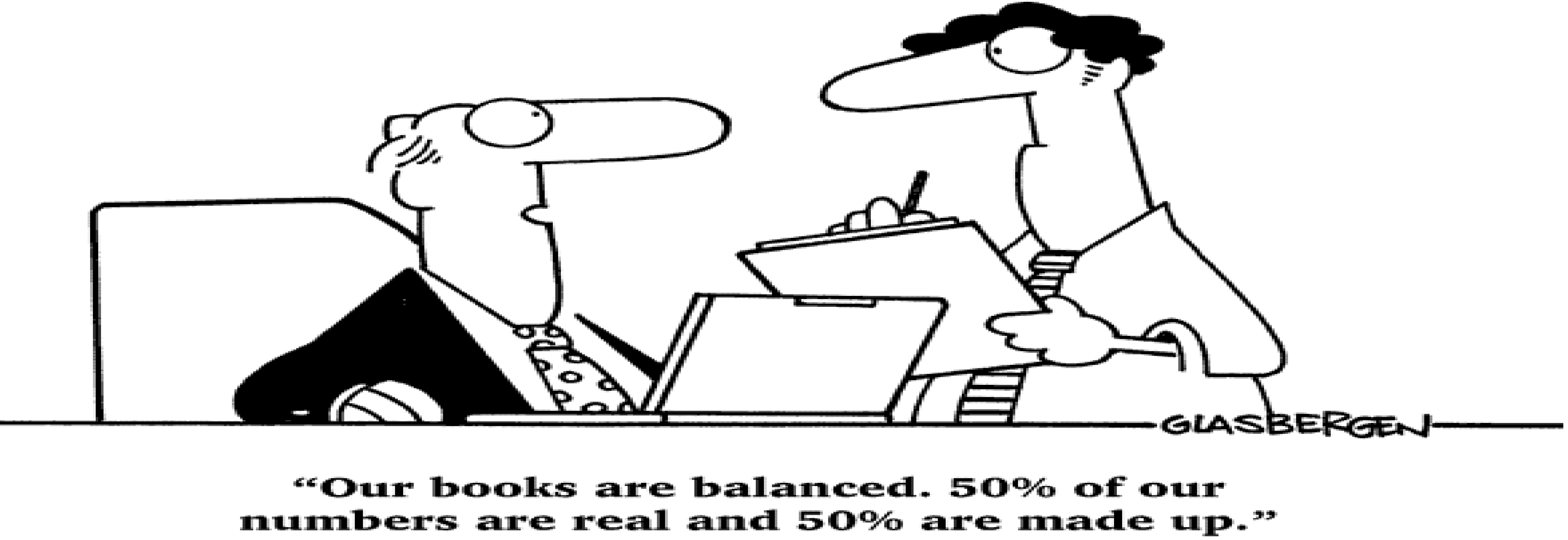


CORPORATE GOVERNANCE ISSUES

- **A CASE OF INSIDER TRADING**
  - Raised money for *building a land bank*
  - Funds used to *purchase lands* in the names of 330 companies and about 30 individuals
  - *All promoters* except Raju brothers and their wives had *exhausted their shareholdings by 2005.*
- **QUESTIONABLE ROLE OF AUDIT COMMITTEE**
  - The timely action on the information supplied by a *whistleblower* to the chairman and members of the audit committee *(an e-mail dated December18, 2008 by Jose Abraham),* could serve as an SOS to the company, but, they *chose to keep silent* and did not report the matter to the shareholders or the regulatory authorities

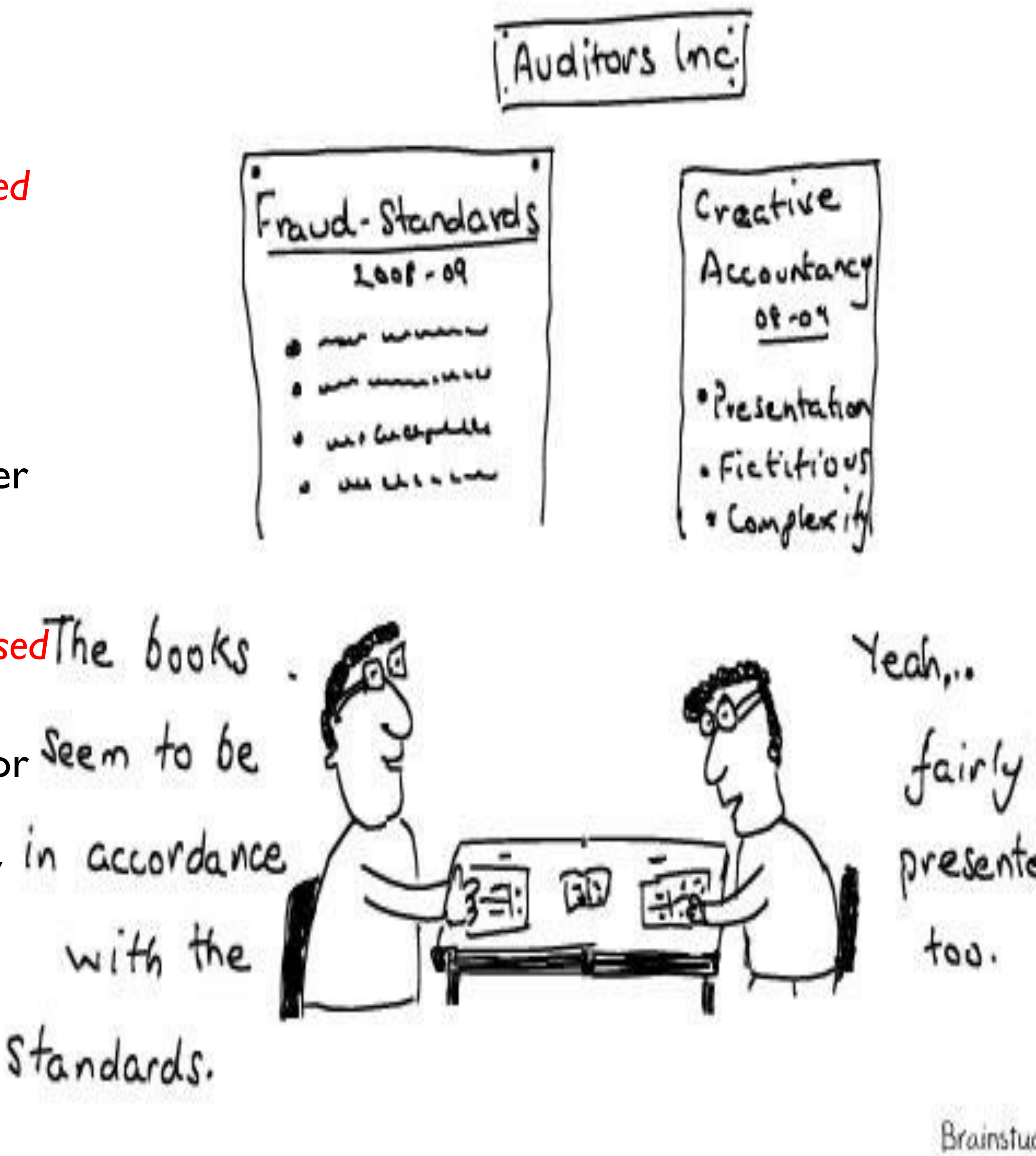
•UNCONVINCED ROLE OF INDEPENDENT DIRECTORS

- ‘*Chairman friendly*’ directors
- Each was on invitation of Raju
- ‘***As individuals they were all solid bricks but they didn’t make for a solid wall because the mortar that held them(Raju) was weak***‘
- Raised only technical and procedural questions about SEBI guidelines and valuation of maytas shares

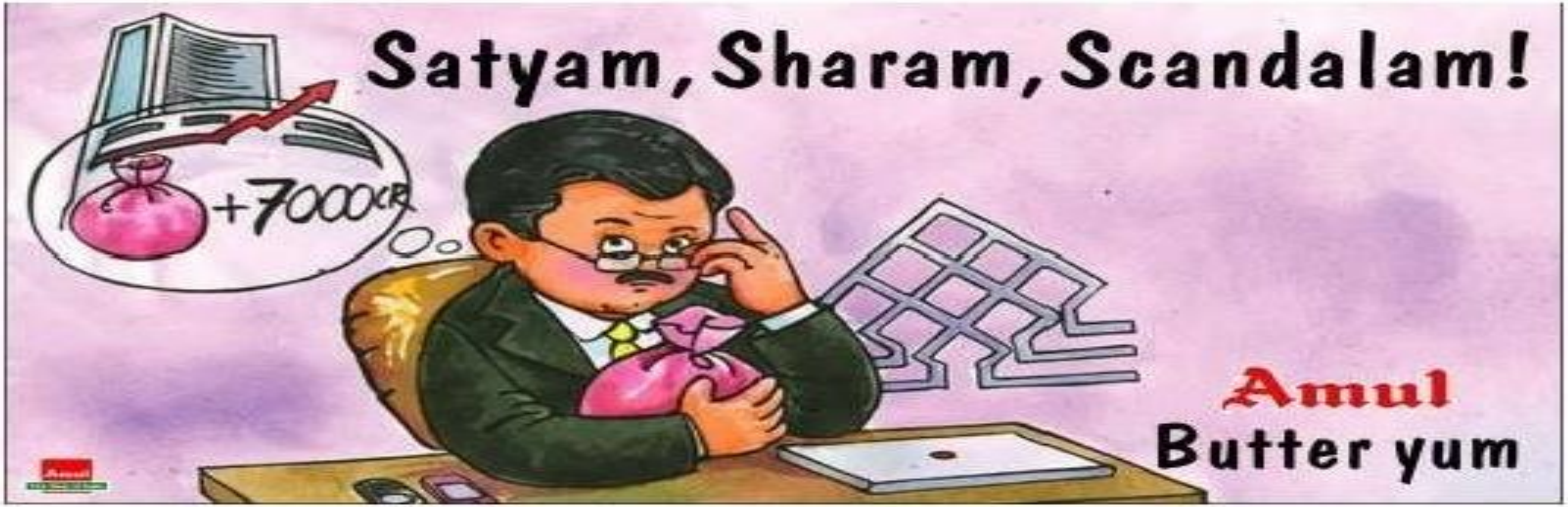


•FAKE AUDIT

- *PWC* auditor of the firm since 2001.
- Instead of using an independent testing mechanism *used Satyam's investigative tools*
- Despite having observed *control deficiencies* in the Information Systems and the *risk of exposure to frauds*, PwC chose to keep silent
- Did not check even one per cent of the *invoices*, neither did they pay enough attention to *verification of sundry debtors*
- Between 2003- 2008, *audit fee* from Satyam had *increased three times*.
- Price Waterhouse received an annual *fee of 4.3 crore* for financial year 2007-2008, which is *almost twice* as what Satyam peers i.e. TCS, Infosys, Wipro, on an average pay their auditors



Financial details of the scam.



Financial statements for the qtr ended September 30th 2008 – Misstatements

Fudging Numbers - As of Sept 30 2008

(Rs Cr)

	Actual	Reported	Difference
Cash and Bank Balances	321	5,361	5,040
Accrued Interest on bank FDs	Nil	376.5	376
Understated Liability	1,230	None	1230
Overstated Debtors	2,161	2,651	490
Total	-	-	7,136
Revenues(Q2FY09)	2,112	2,700	588
Operating Profits	61	649	588

Other Details

- Number of employees inflated by 13000.
- Salary payable to them was diverted to the personal accounts of Mr. Raju .
- Main responsible parties:-
  - **Ramalinga Raju** - Satyam former chairman
  - **B. Rama Raju** - Brother of Raju
  - **V. Srinivas** - Ex chief-financial Officer
  - **S. Gopalakrishnan** - PwC auditor
  - **Talluri Srinivas** - PwC auditor

Probable reasons for the Scam

PRESSURE TO MEET THE EXPECTATION

- After the end of the one-time Y2K phenomenon the profits had actually come down suddenly which was normal. Fear that this might lead to the crash of share prices and the image of the company may tarnish lead Raju to inflate the profits and cook his account books.

- The growing competition

- Fear of being overtaken

OVERCONFIDENCE ON HIS ABILITIES

- Raju had seen very high profits and quite a great success during the abnormal onetime Y2K phenomenon.

- He was confident that once the books are cooked, in the span of some quarters he would be able to set all things to the right place but this could not be achieved

PERSONAL PROFITS

- Mr. Raju initially asserted that he did not divert any of the money to his personal accounts and that the company was not as profitable as it had reported; however, during later interrogations, Mr. Raju revealed that he had diverted a large amount of cash to other firms that he owned and that he had been doing this since 2004.

- Salary of non-existent 13,000 employees: Raju had the salary of the 13,000 non-existent employees transferred to his accounts. This lead to increase in his income.

Role of Auditors and Board of Directors

- Global Auditing Firm Price Waterhouse Coopers ("Pwc") Audited Satyams Books From June 2000 Until The Discovery Of The Fraud. Pwc Audited The Company For Nearly 9 Years And Did Not Uncover The Fraud, Whereas Merrill Lynch Discovered The Fraud As Part Of Its Due Diligence In Merely 10 Days. This Implied Either That The Pwc Auditors Were Grossly Inept Or In Collusion With The Company In Committing The Fraud
- The Botched Satyam-maytas Deal Provided The Investors With The Impression That The Board Was Not Actively Monitoring Satyam. Furthermore, The Board Should Have Caught Some Of The Red Flags That The Auditor, Pwc, Missed.

MAYTAS ACQUISITION:ATTEMPT TO CONCEAL THE FRAUD

- The Explanation, Provided For The Said Deal Was To De-risk The Business Model Of The Company. Ramalinga Raju Said That Satyam Would Be Using Its Liquid Assets To Build The Infra Business As He Believes It Has Potential.
- However The Investors Held An Opposite View. The Reason Being, Had The Deal Gone Through, The Acquisitions Would Have Netted The Raju Family $570 Million (They Hold A 35 Per Cent Stake In Maytas Properties And 36 Per Cent In Maytas Infra), While Exhausting Satyams Cash Reserves And Leading It To Raise $400 Million Of Debt.
- Shareholders Viewed The Transactions As An Attempt To Siphon Money Out Of Satyam Into The Hands Of The Raju Family.

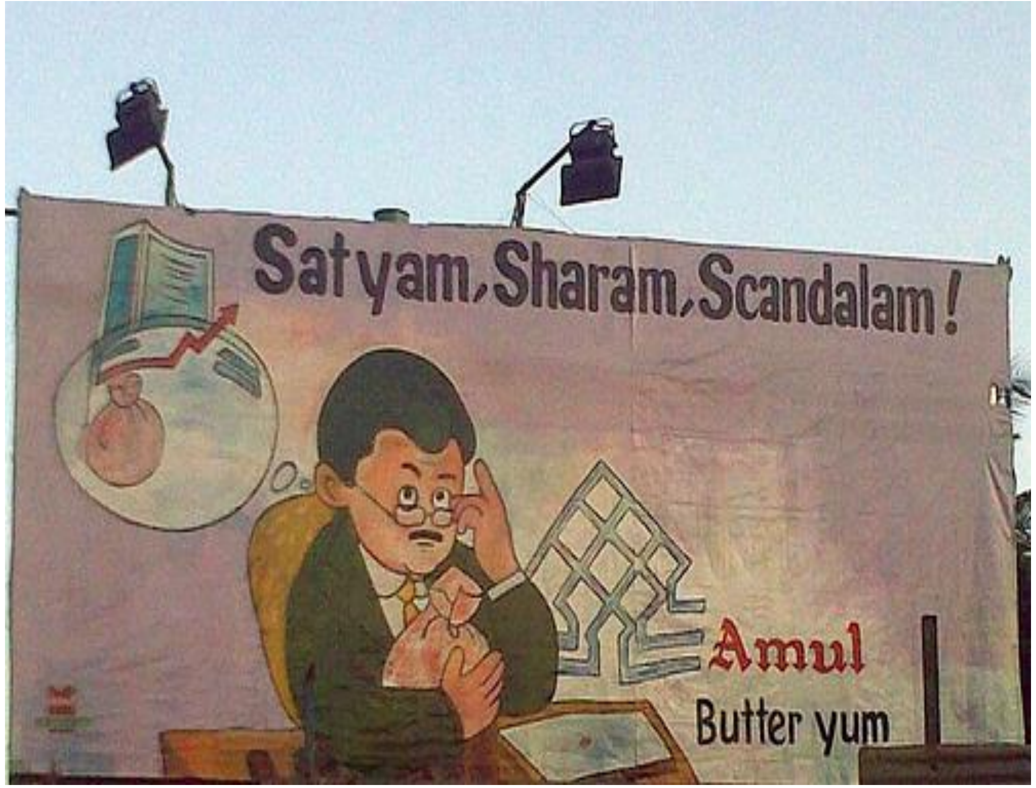
THE DEAL WAS CALLED OFF: DEC 17, 2008

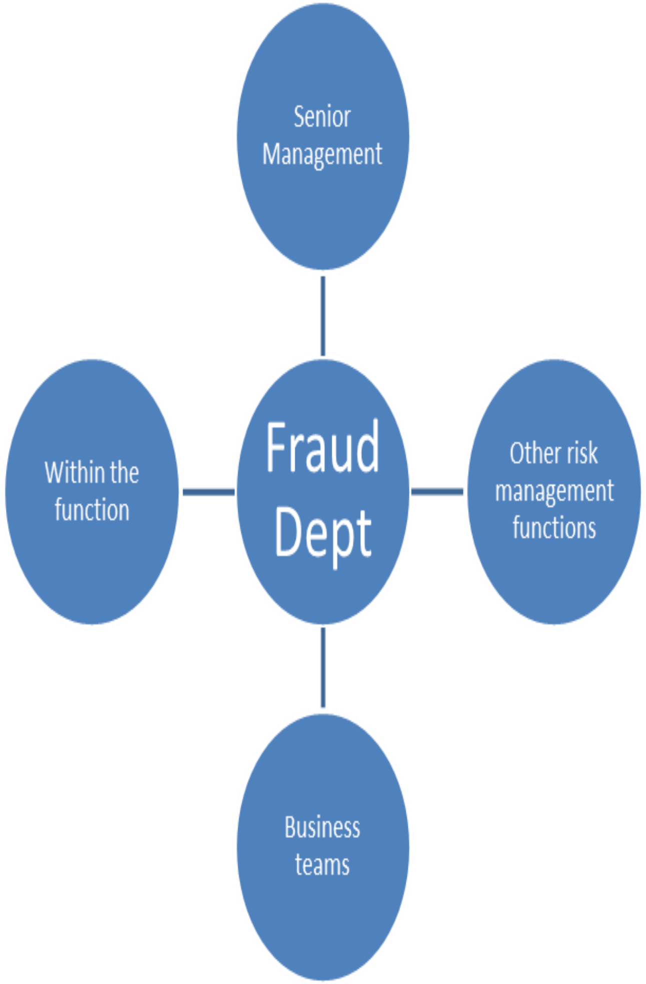
- Shareholders Forced The Board To Call-off The Deal.
- They Suspected There Was More Than That Which Met The Eye Since Raju's Sons Were On The Boards Of Both The Companies Which Were Being Bought - Maytas Infra And Maytas Properties.
- This Reasons Showed That Raju Clearly Tried To Fill The Fictitious Assets With Real Ones Through The Deal.

RESULTS OF THE DEAL

- The Share Prices Of Satyam Dipped By 30 Per Cent On December 17, 2008.
- Satyam Investors Lost Around Rs 3,400 Crore (Rs 34 Billion) In The Panic Selling.
- Satyams Stock Fell 55 Per Cent On The New York Stock Exchange As Well.
- Questions Of Bad Corporate Governance Were Raised.
- Hence, This Decision Was The Starting Point Of The Downward Trend In The Fortunes Of Satyam.
- Raju Revealed In His Letter That This Deal Was The “Last Attempt To Fill The Fictitious Assets With Real Ones...”

Effects of the Scam





Effects of the Scam on Satyam

- Satyam's shares collapsed by 73%(Rs. 175), leading the Sensex index on the Bombay Stock Exchange (BSE) down to 7.3%. This was the highest fall in one day for BSE.
- The New York Stock Exchange (NYSE) halted trading in Satyam immediately after the revelation.
- Analysts believed investor confidence had shattered completely as the company was operating its business based on entirely false balance sheet.
- Potential bidders for Satyam such as Tech Mahindra, L&T, Spice and iGate were readying their strategy for taking over a majority stake in Satyam.

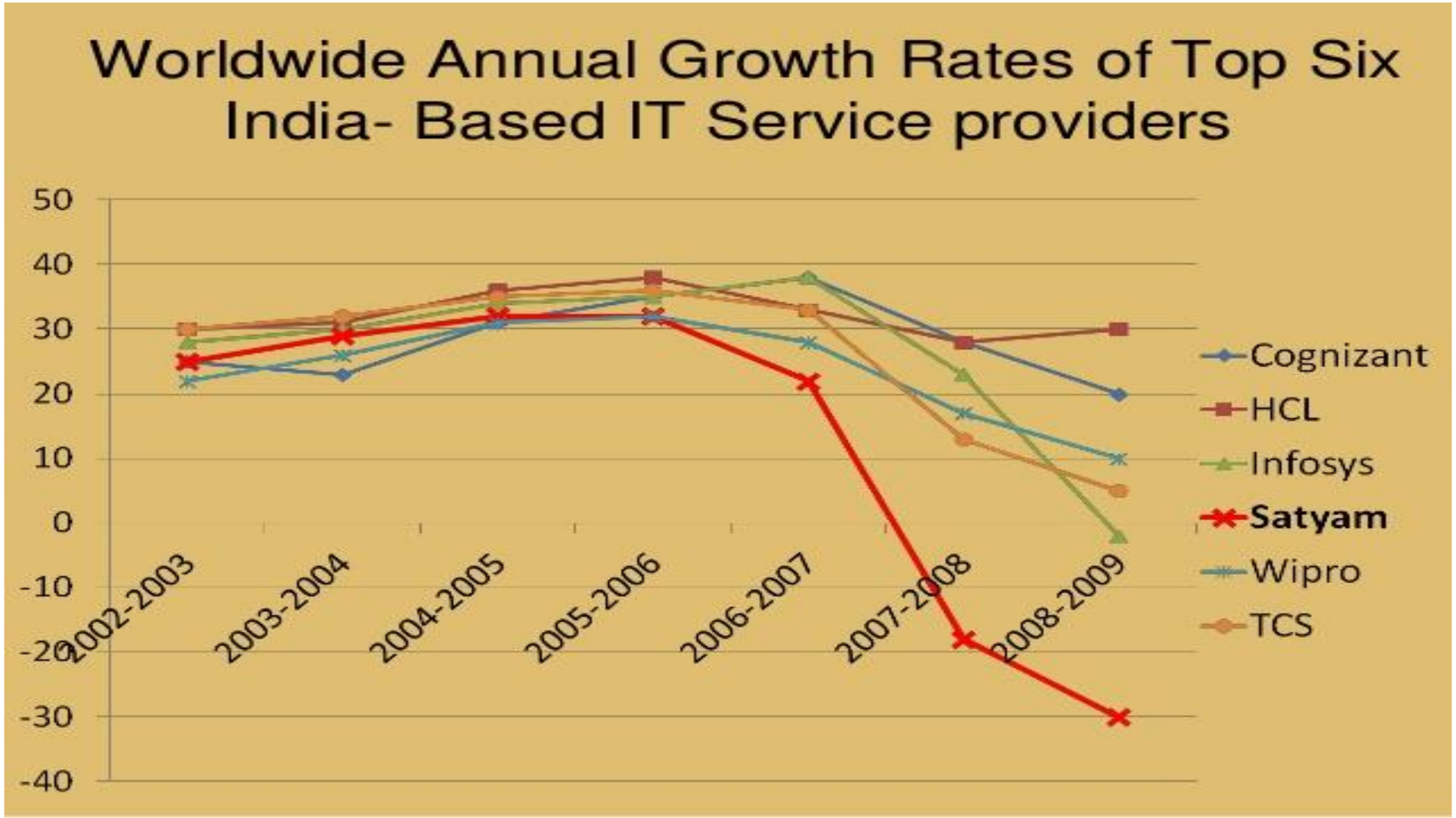
TechMahindra overtakes Satyam

- April 13, 2009: Tech Mahindra won the race for the takeover of Satyam Computer Services by paying $1.13 per share.
- Satyam is now known as Mahindra Satyam.

Effects of Scam on IT Industry of India

- Satyam is the fourth Largest IT firm in India carrying India’s outsourcing image globally.
- India’s IT sector suffered downturn as it’s image was tarnished Globally.
- Jobs of over around 50,000 technocrats were at risk.
- Satyam Loses 46 Customers to rival tech firms such as TCS, Wipro, IBM and Accenture, ever since the company's founder and chairman Ramalinga Raju admitted to a financial fraud of over $1 billion.

Worldwide Annual Growth Rates of Top Six India- Based IT Service providers



Effects of Satyam on Indian Economy

- Country's booming economy feared slight collapse as the GDP fell down by estimated 0.4%.
- Serious damage to the reputation of Indian Corporate sector and the regulatory mechanism in the eyes of the world.
- U.S.-listed stocks of other Indian companies had started taking a severe beating.

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- April 13, 2009: Tech Mahindra won the race for the takeover of Satyam Computer Services by paying $1.13 per share.
- Satyam is now known as Mahindra Satyam.

Greed vs Inner conscious

THANK YOU


OK, boys under the new system at the accounts, it is decided that one plus one will once again be two and not eleven...