

Dear Students

I am sending you these e resources on the topics I wanted to cover during the present week. Please use these along with voice memos I have shared in your class group.

You are free to contact me over the medium of your choice. Stay indoor and safe.

Best wishes
Aruna Jha

**THESE PPTS ARE FOR STUDENTS OF
SECTION A AND G, SEMESTER 6, SRCC**



Cases of Corporate Governance Failure in India



Satyam Scam

Background

- Satyam Computer Services Limited set up by B. Ramalinga Raju in 1987.
- Quickly established itself as a major IT player specializing in outsourcing.
- In 1991 successful debut on BSE, in 1995 launched SIFY to offer back office services to clients in US and Europe. In 2001 listed on NYSE.
- B. Ramalinga Raju made Satyam India's fourth largest IT company.
- In 1988 Raju founded Maytas group along with his family members and in 2008 proposed that Satyam should buy out the Maytas group. The proposal fell through. Share prices crashed and Raju confessed to accounting frauds.

Description of the crisis

- Raju maintained two sub accounts under a single bank account.
- Fake invoices in the name of genuine clients and fictitious debtors existed in the books of account.
- Fake FDRs
- Insider trading by promoters.
- Web of 356 group companies used to divert funds from Satyam in the form of inter corporate loans and investments.
- Ghost workers.

Major Governance Failures

- Complied with all Regulations and had eminent people on Board and reputed international auditor yet there were lapses at Satyam with regard to corporate governance



Aftermath

- GOI appointed independent directors.
- Satyam purchased by Tech Mahindra.
- Raju and associates sentenced to imprisonment.
- PWC fined by SEC and four auditors of PWC debarred by ICAI.
- SEBI and GOI took a slew of measures to improve corporate governance in India.



Harshad Mehta Scam

Background

- Before 1991, Indian financial system was heavily regulated.
- No on-line trading in securities markets. Brokers played an important role in bringing together buyers and sellers.
- Banks were not free to use a large percentage of their time and demand deposits due to CRR, SLR and priority sector lending.
- In 1991, financial sector reforms were introduced as a part of broad economic reforms and suddenly profitability became important for banks.
- Banks were dealing in government securities through brokers.
- Harshad Mehta, a broker at BSE, saw this as an opportunity to make quick profits.

Description of Crisis

- Mehta squeezed money out of the banking system through ready forward deals and diverted it to stock market.
- Mehta, the Big Bull, speculated in select securities and BSE Sensex rose to record heights.
- Profits were shared with Banks.
- Fake bank receipts were used to siphon off funds from banks.
- Sucheta Dalal, an investigative journalist of TOI, exposed the scam through her column.
- The Janakiraman Committee set up by the RBI estimated that banks and investors lost more than ₹ 4,000 crore due to scam.



Kingfisher Airlines

Background

- Incorporated in 2003 and started operations in 2005.
- Subsidiary of UB group. Chairman was Vijay Mallaya.
- In 2007 acquired stake in Air Deccan along with its international flying rights.
- In September 2008 KFA started international operations.
- By 2011 KFA was serving 63 domestic destinations and 8 international destinations.
- Received national and international awards for its services.

Description of Crisis

- Diversified into all types of carrier services.
- Financed expansion through loans as KFA never earned any profit since inception.
- Global melt down and high aviation turbine fuel (ATF) added to airline's problems.
- Debt restructuring done in 2010 by lenders and in November 2011 lenders refused to extend credit lines
- Employees went on strike.
- DGCA suspended its flying license October 2012.
- In February 2016, SBI led consortium moved debt recovery tribunal (DRT). Mallaya fled in March, 2016.

Major Governance Failures

Family run
Business

Absence of
checks and
balances

Remuneration
Structure

No heed to
audit objections

Unethical
conduct

- Lack of Professional Management. Mallaya had no experience of aviation industry.
- BoDs were not independent in fact and most of the directors held multiple directorships.
- Excessive remuneration to employees.
- GAAP was not being followed.
- Diversion of funds to unrelated purposes.

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