The Satyam Scam

India's answer to Enron

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No matter how much we snub, the bad luck has followed us right into the New Year. The show stopper this time around is our one time super star - Satyam. The company, once cajoled by investing community, revered by new IT aspirants and one of the more trusted IT partner, is no more than a fallen angel today.

Satyam, the fourth largest Indian IT company, with an employee strength of around 53,000 people, could have had a better story to tell, had not the promoters indulged into accounting malpractices and financial manipulations.

This fact came to light today, when the Satyam chairman and promoter, Mr. Ramalinga Raju, in his resignation letter to the capital market fraternity, brought to fore the mammoth scale at which the company has been manipulating its financial numbers over past eight years. It attributed all its recent actions as attempts to salvage the company from imminent fate.

In his letter to the entire financial market community, the chairman states that the company's profits had been manipulated over the last several years, with the balance sheet as on September 30, 2008 carrying inflated (non-existent) cash and bank balance of Rs 5,040 crore (as against Rs 5,361 crore reflected in the books), an accrued interest of Rs 376 crore which is non-existent, an understated liability of Rs 1,230 crore on account of funds arranged by the promoters and an over stated debtor position of Rs 490 crore (as against Rs 2651 reflected in the books).

Though Mr. Raju has clearly stated that none of the high level management has the idea of the brewing trouble; the board and the management cannot plead innocence on the basis of ignorance, when their prime duty is safeguarding the interest of Satyam and all the stakeholders of the company. This incident sent Indian equity markets in a tailspin, with Bombay's main benchmark index falling 7.3%. The stock price crashed to Rs. 30.70, a fall of 83% from the opening price of Rs. 179.10.

This is by no means seems to be the end to the Satyam saga, which has been unfolding since the last month. In the month of December 2008, the company, in an incomprehensible move, announced the acquisition of two of its promoter group companies – namely Maytas Properties (unlisted) and Maytas Infrastructure (listed); which the chairman in his letter acknowledges as a last attempt to fill the fictitious assets with real ones. The deal was called off within a space of 24 hours on strong opposition from the other stakeholders. This was followed by a suit filed against Satyam by a client – Upaid, a UK-based online and mobile payments enabler; which further maligning the company's corporate image. As if this wasn't enough, World Bank, one of the biggest clients of the company - imposed an 8-year ban on the IT Company from doing any offshore work with it on the reports of data theft. These string of mishappenings, raised serious Corporate Governance Issues for Satyam, and also raised concerns on the global level about the corporate governance ethos of India Inc. And now with the chairman having made a clean breast of fraud, things are only looking grimmer for the company. **At this point in time, the company seems to be lucrative acquisition target, with poor shareholding pattern, disappearing market faith and hopeless financial state.**

With all said and done, this incident will badly jolt the investors confidence in India Inc. FII investment would be impacted and technology stocks would be viewed sceptically, as the sector does not have much tangible assets to account for. As corporate governance and business ethics become increasingly elusive to the corporates, stringent measures need to be put in place, prevent such a fraudulent activities from happening.

The letter released by Mr. Ramalinga Raju is attached along with this mail for your reference.

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