



Satyam Scam and Governance

Satyam Computer Services Ltd.:

History

- On 24th June 1987, company was incorporated as a Private Limited Co.
- On 26th August 1991, it was converted into a Public Limited Company.
- In 1992, the Company went in for a Public Issue of Equity shares for setting up a software technology park and a 100 percent export oriented unit.

- In 1993, company entered into a joint venture agreement with Dun & Bradstreet Corp., U.S.A.
- In 1996, two offices were set up, one in USA and other in Japan. And the company has added new business partners in Australia, Canada, Japan and Europe.

Board Structure



B. Rama Raju
Promoter and CEO



B. Ramalinga Raju
Promoter and Chairman



Ram Mynampati
Whole time Executive
Director



Srinivas Vadlamani
Chief Financial Officer

Board Structure(cont'd)

Independent Directors

Dr. M Srinivasan

- Management Consultant and Visiting Professor at several US universities

Vinod K Dham

- Acknowledged as Father of the Pentium Processor

Krishna G. Palepu

- Professor at Harvard Business School

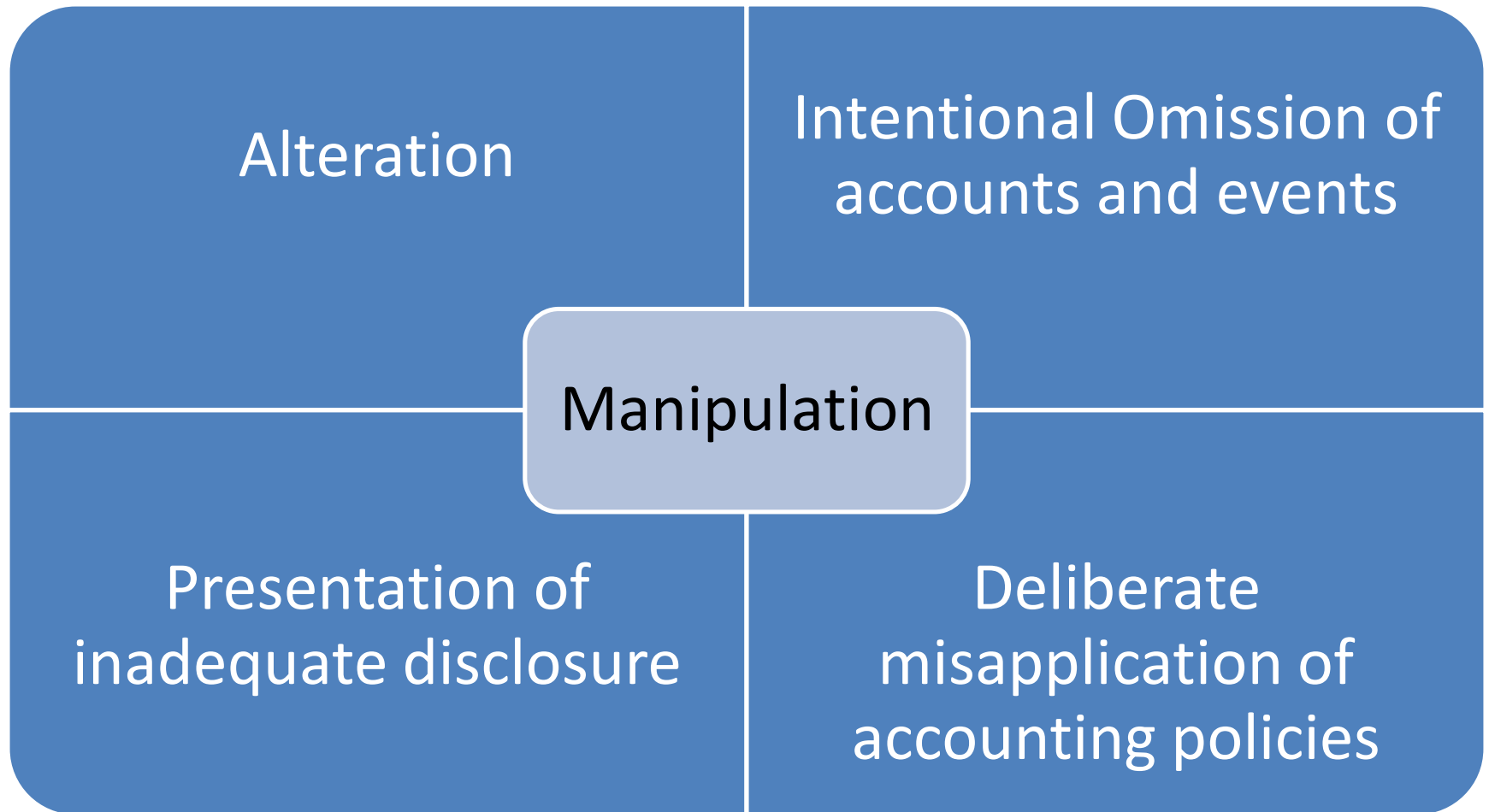
M. Rammohan Rao

- Dean, Indian School of Business

T. R. Prasad

- Former Cabinet Secretary

What went wrong with Satyam?



Responsible Parties behind Scam

- Mr. Raju and Company Insiders
- Auditor (Price WaterCooper)
- Board of Directors
- Pyramid structure

Pyramid structure involves owning several different business lines and treating the different businesses as one entity, transferring funds from one entity to another as needed which is a challenge for effective corporate governance.

Satyam Saga

- **22 September 2008:** Won the Golden Peacock Global Award for excellence in corporate governance.
- **16 December 2008:** Announced to acquire 100% of unlisted Maytas Properties for \$1.3 billion and 51% of construction firm Maytas Infra for \$300 million. Raju promoted the deal by saying it would de-risk Satyam's core business in IT services. (As B Ramalinga Raju and other insiders held 36% in Maytas Infra and 35% in Maytas Properties).
- * The acquisitions **made little sense** at a time when technology outsourcing companies are preserving cash to cope with slowing outsourcing business.

- **17 December 2008:** Because of negative investor reaction its Stock slumped 30.22% to end at Rs *158.05*.
- **18 December 2008:** Shares Price increased to Rs *169.35* after the company said that its board will meet on 29 December 2008 to consider buyback of shares.
- **19 December 2008:** UK-based online and mobile payment services player Upaid Systems filed a motion against Satyam in a state court, in connection with Satyam's failed attempt to strip all surplus cash from Satyam to buy two closely held companies.

Upaid and Satyam are locked in a forgery case (2000) filed by Upaid seeking damages of over \$1 billion as Satyam was working on a contract job for U-paid.

On that day, the Share Price reduced to Rs *162.80*.

- **23 December 2008:** The World Bank confirmed that it has barred Satyam Computer from doing business with it for eight years, starting September 2008, due to data theft and paying bribes to its staff.

On that day, the Satyam stock slipped to Rs *140.40*.

- **26 December 2008:** Satyam announced that Mangalam Srinivasan, non-executive and independent director of Satyam resigned from the company effective 25 December 2008. That day, the satyam stock ended at Rs *135.50*.
- **29 December 2008:** Satyam announced that Two more independent directors Krishna G Palepu and Vinod K Dham resigned from the company effective 28 December 2008.

Same day, the company said in a statement

- a) its board would consider moves to strengthen the firm's governance structure, including increasing the size and altering the composition of the board.
- b) It had hired Merrill Lynch to review the company's 'strategic options' to enhance shareholder value. On that day, the satyam stock ended at Rs *148.25*.

- **31 December 2008:** Media reports suggested US-based HP computers may buy a stake in Satyam. That day, the satyam stock ended at Rs *170.15*.
- **3 January 2009:** Founder-promoters stake declined from 8.64% to 5.13% as financial institutions with whom the entire stake was pledged dumped the shares.
- **6 January 2009:** Satyam announced that the share of promoters' has been sold to IL&FS reducing the promoter's stake to 3.6%. That day, the stock ended at Rs *179.10*.

- **The Night before 7th Jan:** Merrill Lynch discovered serious irregularities in books of accounts and approached SEBI for further course of action.
- **7 January 2009:** Satyam's chairman Ramalinga Raju resigned the company and admitted fraud of reporting inflated figures in the accounts of the firm. On that day, the satyam stock ended at Rs 39.95.
- **11 January 2009:** The government then set up a three-member board in a bid to restore confidence in the outsourcing company rocked by India's biggest corporate scandal.

- **23 January 2009:** Larsen & Toubro raised its holding in Satyam Computer Services to 12% from 4% earlier. But this time, the acquisition price dipped to Rs. 80 per share from the Rs 174, it paid earlier.
- **27 January 2009:** The 3-member board of Satyam appointed the Boston Consulting Group (BCG) and Goldman Sachs as the management advisor and investment banker to support the organization.

- **13 February 2009:** SEBI relaxed takeover regulations for companies whose boards have been superseded and replaced by the Government authority.
- **19 February 2009:** The Company Law Board allowed the government-appointed board of Satyam to bring in a strategic investor through an open bidding process.
- **6 March 2009:** SEBI approved selling 51% stake in Satyam through global bidding process. The bidders are expected to have total net assets in excess of \$150 million.

- **9 March 2009:** Satyam commenced a competitive bidding process. Interested bidders were asked to submit a detailed expression of interest and the proof of availability of at least Rs 1500 crore by 20 March 2009.
- **4 April 2009:** The new appointed board extended the deadline for submitting financial bids for acquiring a controlling stake in the firm to 13 April 2009.

- **13 April 2009:** Tech Mahindra was declared as the winning bidder for a majority stake in Satyam Computer with a winning bid of Rs 58 a share.
- **20 April 2009:** Tech Mahindra deposited Rs 1750 million for taking the majority stake (31% preferential allotment) in Satyam Computers and would then make an open offer for a further 20% of Satyam.

- **21 June 2009:** Satyam Computer Services has been renamed Mahindra Satyam, two months after being taken over by Bangalore-based Tech Mahindra

Fabricated Income Statement

Fudging Numbers-As per Sept 30 2008

Particulars	Actual	Reported	Difference (Rs Crore)
Cash & Bank balance	321	5,361	5,040
Accrued Interest on Bank FD	Nil	376	376
Understated Liabilities	1,230	None	1,230
Overstated Debtors	2,161	2,651	490
Total	-----	-----	7,136
Revenues	2,112	2,700	588
Operating Profits	61	649	588

Regulatory Reforms after Scam

- Disclosure of Pledged Securities: SEBI increased disclosure obligations of promoters and controlling shareholders. Now promoters are required to disclose to investors if they had pledged their stock.
- Governance Reform: SEBI proposed creating a law that provides whistleblowers with protection for reporting fraudulent activity.

- **Increased Financial Accounting Disclosures:**
The SEBI also recently proposed requiring companies to disclose their balance sheet positions twice a year.
- **IFRS (Adoption of International Standards):**
Adopting IFRS will facilitate investor comparisons of financial performance across country lines and will increase confidence in the accounting numbers.