FEC-18
ANALYSIS OF FINANCIAL STATEMENTS

SATYAM SCAM ANALYSIS

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Satyam, a word in Sanskrit — an ancient Indian language — means truth. Ironically, a company by the same name was involved in one of the largest scandals in the history of the Indian corporate world. On January 7, 2009, B. Ramlinga Raju, chairman of Satyam Computer Services Ltd., wrote a letter to the company board in which he took responsibility for fraud of about 50 billion Indian rupees (INR).

INTRODUCTION

The fraud took the corporate world by surprise, not only due to its size but also because Satyam had been touted as a pioneer of corporate governance practices. Satyam won the Golden Peacock Global Award for Excellence in Corporate Governance given by the World Council for Corporate Governance in 2008, just three months before the scandal. Satyam also won the Golden Peacock National Award for Excellence in Corporate Governance in 2002, and was rated as having the best corporate governance practices by the Investor Relations Global Rankings (IRGR) for 2006 and 2007. In his letter, Raju acknowledged that the fraud had been going on for several years. As analysts tried to understand how a company with strong corporate governance practices could keep such a huge fraud under wraps, about 115 independent directors on the boards of listed Indian companies resigned in the one-month period following the Satyam scandal. Following the scandal, the big question facing the corporate world and the regulators was how to ensure good corporate governance, moving beyond the ceremonial adoption of best practices by firms.

HISTORY OF SATYAM

Satyam Computers Limited (Satyam) was India's fourth-largest software development and information technology (IT) consulting company based on 2008 figures. A private limited company incorporated by two brothers — B. Rama Raju and B. Ramalinga Raju — in 1987, Satyam's success became synonymous with the success of the Indian IT industry for the next 20 years. Satyam was converted from a private limited company to a public company in August 1991, issuing shares to the public in 1992. The money raised in the stock market was used to build a software technology park and a 100 percent export-oriented unit. In the following year, Satyam made its first global foray by entering into a joint venture with the U.S. company Dun and Bradstreet. In 1996, Satyam set up its first foreign office in the United States, followed by another one in Japan. It developed new business partnerships in several other countries including Australia, Canada and some European countries. Meanwhile, Satyam continued its growth initiatives in the domestic market, opening new offices and facilities in different parts of India, promoting four subsidiaries — Satyam Spark Solutions, Satyam Renaissance Consulting Ltd., Satyam Enterprise Solutions Pvt. Ltd. and

Satyam Infoway Pvt. Ltd. — and opening IT schools — the Indian Institutes of Information Technology (IIIT). The IIITs were a result of public-private partnership, with several of these schools being promoted by global corporations such as IBM, Microsoft and Oracle in different parts of India. In 1997, Satyam became the first Indian company to receive Information Technology Association of America (ITAA) certification for Y2K solutions.

Along with its phenomenal growth, Satyam and its employees also won several national and international awards and recognitions. In 2000, Satyam was named a Web Business 50/50 award winner for its corporate intranet. In the same year, Satyam won the national Human Resource Development (HRD) Award for its outstanding HRD efforts. Dataquest, a leading IT magazine, named Raju as IT Man of the Year for 2000. Hong Kong-based Far Eastern Economic Review ranked Satyam as one of the 10 most well-regarded companies in India, based on a survey conducted in 2000. Satyam also won the Frost & Sullivan market engineering award for competitive strategy in 2001, and the application service provider category IBM Lotus award for innovation in 2003. These awards and honours were clear reflections of Satyam's prestige and reputation amongst its clients, employees and society in general.

THE UNFOLDING OF CRISIS

On December 16, 2008, Satyam's board approved a 51 per cent stake acquisition of Maytas Infra, a listed company in the Bombay Stock Exchange for US$1.3 billion, and a 100 per cent stake in the unlisted firm Maytas Properties for US$300 million. The successful completion of the acquisition required borrowing US$300 million to add to the US$1.2 billion of cash that Satyam claimed to possess. Satyam justified the diversification into the real estate and property business on the grounds that real estate was a sunrise industry in India, and that diversification was essential given the sluggish growth of IT business in key markets such as the United States and Europe.

The investors reacted very negatively to this news, resulting in a 55 per cent decline in Satyam's ADRs. Following stiff resistance from investors in general and institutional investors in particular, Satyam called off the acquisition on December 17, 2008; however, this did not pacify the negative sentiments and share prices, which fell by 30 per cent on the Indian bourses. Given the significant related party transactions involved, investors and media also started raising doubts over the corporate governance practices at Satyam; to restore investor confidence, Satyam scheduled a board meeting to consider a share buyback on December 29, 2008.

On December 23, the World Bank suspended Satyam for eight years from doing any business with itself, on the grounds that Satyam was offering bribes to World Bank staff for obtaining lucrative contracts. While Satyam vehemently denied the allegations, its share prices continued to fall. On December 28, Satyam postponed the board meeting scheduled for December 29; on the same day, Infrastructure Leasing and Financial Services (IL&FS) Trust sold 4.41 million Satyam shares at INR139.83 in the open market. Raju and his family had pledged these shares in lieu of the loans obtained from IL&FS Trust; as a result, Raju and his family's stake in Satyam diluted to 5.13 per cent by late December, from a high of 8.65 per cent in September 2008.11 Satyam's market capitalization eroded by 40 per cent in just two weeks in the latter half of December 2008.

CONFESSION OF THE FRAUD

In one of the biggest frauds in India's corporate history, B. Ramalinga Raju, founder and CEO of Satyam Computers, announced all of a sudden on January 7, 2009 that his company had been falsifying its accounts and doctoring the books of accounts of the company for years. The self confession “with deep regret and burden on conscience” plunged all stakeholders into deep trouble with a completely dark future. As per the confessions, company’s financial statements had overstated cash reserves of Rs. 5040 crores which did not exist, accrued interest of Rs. 376 crores, debtors Rs. 2160 crores, and understated liabilities of Rs. 1230 crores. The scale of India’s biggest corporate fraud was estimated at around Rs. 7000 crores. Raju was compelled to admit to the fraud following an aborted attempt to have Satyam invest $1.6 billion in Maytas Properties and Maytas Infrastructure -- two firms promoted and controlled by his family members.

The Board of Directors of the company on December 16, 2008, cleared the deal of acquiring 100 percent stake in Maytas Properties and 51 percent stake in Maytas Infrastructure. Following the deal, institutional investors of the company who had 61.57 percent shareholding in the company (as on Sep. 30, 2008) questioned the propriety of using the software company’s cash pile to buy two infrastructure firms belonging to the promoters. The investors pummeled its stock on the New York Stock Exchange and Nasdaq. The board hurriedly reconvened the same day and the deal was aborted. The matter however didn't end there, as Raju might have hoped. In the next 48 hours, resignations streamed in from Satyam's independent directors. Resigning as Satyam's chairman and CEO, Raju said in the confession addressed to his board, the stock exchanges and the market regulator Securities and Exchange Board of India (SEBI) that 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.

BALANCE SHEET ORIGINAL V/S ADJUSTED

Sources Of Funds	Originally Given*	^Raju's Statement	Adjusted*
Shareholders' funds	Rs/Cr	Rs/Cr	Rs/Cr
Share Capital	134.70		134.70
Share application money	2.76		2.76
Reserves & Surplus	8392.23		1255.89
Loan funds Secured loans	30.49		30.49
Unsecured loans	234.80	1230	1464.80
TOTAL	**8794.98**		**2888.64**
APPLICATION OF FUNDS Net fixed assets	1381.10		1381.10
Investments	618.64		618.64
Deferred tax	118.75		118.75
CURRENT ASSETS Sundry debtors	2651.36	-490	2161.36
Cash & Bank	5312.62	-5040	272.62
Other current assets**	376.34	-376.34	0.00
Loan & Advances	502.22		502.22
	8842.54		2936.20
Less: Current Liabilities			0.00
Liabilities	1669.26		1669.26
Provisions	496.79		496.79
NET CURRENT ASSETS	6676.49		770.15
TOTAL	**8794.98**		**2888.64**
**INT ACCRUED	*As on 30.09.08	^ ADJUSTMENTS	

BALANCE SHEET (5 YEARS MERGED)

Particulars	Mar'12	Mar'11	Mar'10	Mar'09	Mar'08
Liabilities	12 Months	12 Months	12 Months	12 Months	12 Months
Share Capital	1465.80	1465.70	1465.70	1365.20	135.93
Reserves & Surplus	3078.80	1925.90	2061.70	-657.10	7221.71
Net Worth	**4544.60**	**3391.60**	**3527.40**	**708.10**	**7357.64**
Secured Loan	23.30	22.00	42.00	641.00	23.67
Unsecured Loan	.00	.00	.00	.00	.00
TOTAL LIABILITIES	**4567.90**	**3413.60**	**3569.40**	**1349.10**	**7381.31**
Assets					
Gross Block	2018.30	1849.40	1818.90	2155.30	1486.53
(-) Acc. Depreciation	1264.80	1235.70	1285.90	1404.40	1062.04
Net Block	**753.50**	**613.70**	**533.00**	**750.90**	**424.49**
Capital Work in Progress	200.00	240.80	373.00	389.50	458.63
Investments	238.30	532.10	726.60	93.00	493.80
Inventories	14.60	59.20	.00	1.00	.00
Sundry Debtors	1327.60	1049.50	850.50	1467.20	2223.41
Cash and Bank	2689.80	2641.60	2092.00	407.60	4461.68
Loans and Advances	1807.90	796.30	850.80	738.90	766.04
Total Current Assets	**5839.90**	**4546.60**	**3793.30**	**2614.70**	**7451.13**
Current Liabilities	1368.00	1462.70	789.00	1290.90	896.46
Provisions	1095.80	1056.90	1067.50	1208.10	550.28
Total Current Liabilities	**2463.80**	**2519.60**	**1856.50**	**2499.00**	**1446.74**
NET CURRENT ASSETS	**3376.10**	**2027.00**	**1936.80**	**115.70**	**6004.39**
Misc. Expenses	.00	.00	.00	.00	.00
TOTAL ASSETS(A+B+C+D+E)	**4567.90**	**3413.60**	**3569.40**	**1349.10**	**7381.31**

Rs (in Crores)

FINANCIAL & SHARE MARKET DATA

Year	2008	2007	2006	2005	2004	2003	2002	2001	2000
Equity paid-up	134.10	133.44	64.89	63.85	63.25	62.91	62.91	56.24	56.24
Networth	7,357.60	5,789.36	4,333.64	3,217.02	2,580.80	2,134.88	1,930.40	812.91	350.06
Capital employed	7,381.30	5,803.15	4,346.21	3,226.89	2,588.10	2,153.24	1,936.20	984.89	641.39
Gross block	1,486.50	1,280.40	1,153.16	937.70	838.80	775.89	739.24	545.85	418.55
Sales	8,137.30	6,228.47	4,634.31	3,464.22	2,541.50	2,023.65	1,731.90	1,220.00	672.81
PBIT	1,947.80	1,580.84	1,448.61	867.76	662.69	369.75	494.11	540.37	176.65
PAT	1,715.70	1,423.23	1,239.75	750.26	555.79	307.42	449.38	486.29	129.98
Market capitalization	26,453.00	31,259.30	27,552.30	13,041.40	9,281.90	5,565.96	8,418.90	6,577.30	24,907.00
EPS (annualized) (unit curr.)	24.99	20.77	37.22	22.85	17.06	9.49	14.24	17.17	22.86
Payout (%)	13.99	16.77	18.91	21.89	23.49	31.61	8.32	4.66	9.93
Cash flow from operating activities	1,370.90	1,039.06	786.81	638.66	416.55	501.14	594.38	222.86	161.81
Cash flow from investing activities	-641.22	-1,678.60	-53.85	-341.17	-240.28	-1,256.90	-147.98	-2.71	-147.19
Cash flow from financing activities	-227.79	34.10	-43.94	-103.58	-94.18	-50.79	500.20	-174.84	52.79
Key ratios									
ROG-sales (%)	30.65	34.40	33.78	36.30	25.59	16.84	41.96	81.33	77.93
Debt-equity ratio	0.00	0.00	0.00	0.00	0.01	0.01	0.06	0.40	1.04
Long-term debt-equity ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.28	0.72
Current ratio	5.41	5.91	6.50	7.12	6.42	6.15	5.30	2.81	2.02
Fixed assets ratio	5.88	5.12	4.43	3.90	3.15	2.67	2.70	2.53	1.89
Inventory ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debtors ratio	4.20	4.49	4.91	5.10	4.74	4.62	4.49	4.13	4.20
Interest cover ratio	327.91	207.73	436.25	1,141.79	883.59	699.88	51.47	10.73	4.34
Return on capital employed (%)	29.55	31.15	31.34	29.85	27.95	24.64	33.83	45.55	33.44
Return on net worth (%)	26.10	28.12	26.85	25.88	23.57	20.55	32.76	55.46	50.28

Date	Opening price	High price	Low price	Closing price	Average price	No. of trades	Market capitalization
Feb. 27, 2009	46.45	46.45	39.30	41.50	43.86	128,519	27.96
Feb. 20, 2009	48.00	50.90	44.50	45.45	47.90	266,951	30.62
Feb. 13, 2009	48.50	49.00	41.15	46.30	45.97	272,405	31.20
Feb. 6, 2009	53.10	61.00	45.35	47.40	51.02	520,114	31.94
Jan. 30, 2009	39.70	60.00	39.70	54.05	51.63	916,756	36.42
Jan. 23, 2009	24.90	39.30	23.05	38.85	29.70	632,440	26.17
Jan. 16, 2009	28.60	40.00	20.00	24.45	28.07	691,184	16.47
Jan. 9, 2009	180.00	188.70	11.50	23.85	102.45	1,114,151	16.07
Jan. 2, 2009	175.30	186.00	173.40	177.60	179.95	198,450	119.64
Dec. 31, 2008	133.00	176.40	129.60	170.20	159.67	546,502	114.65
Dec. 26, 2008	163.00	168.60	114.70	135.50	143.31	531,998	91.30
Dec. 19, 2008	225.00	231.90	153.80	162.80	188.42	461,004	109.70
Dec. 12, 2008	230.00	238.70	212.60	220.80	226.34	45,968	148.75
Dec. 5, 2008	246.00	251.00	222.00	224.40	231.19	41,595	151.21

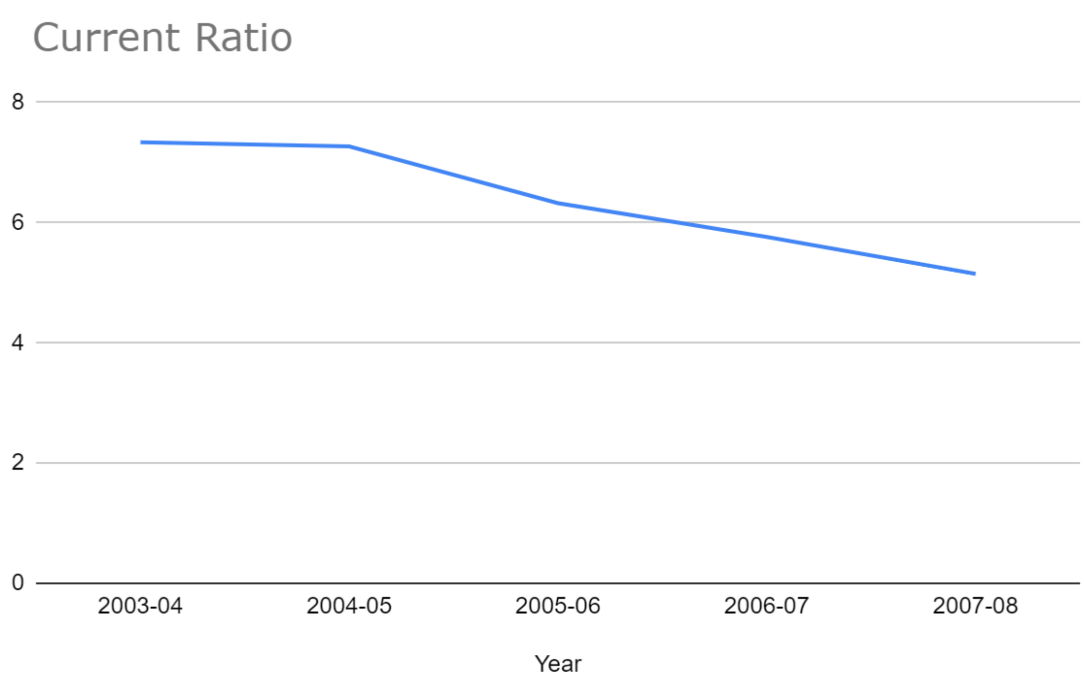
RATIO ANALYSIS BEFORE DISCLOSURE

1. CURRENT RATIO

Current Ratio = Current Assets / Current Liability

An indication of a company's ability to meet short-term debt obligations; the higher the ratio, the more liquid the company is. Current ratio is equal to current assets divided by current liabilities. If current liabilities exceed current assets, then the company may have problems meeting its short-term obligations.

Year	Current Assets (Rs. In Crores)	Current Liabilities (Rs. In Crores)	Current Ratio
2003-04	2,595.52	353.59	7.340479086
2004-05	3,283.53	451.64	7.270237357
2005-06	4,473.26	707.27	6.324685057
2006-07	6,003.75	1041.75	5.763138949
2007-08	7,451.13	1446.74	5.150289617



Interpretation:

Here, the current ratio fluctuates from year to year about the value of 6. If the current assets of a company are more than twice the current liabilities, then that company is generally considered to have good short-term financial strength. Thus, Satyam's balance sheets indicated good financial strength up till the year 2008.

2. QUICK RATIO

Liquid ratio is also known as 'quick' or 'Acid test 'ratio. Liquid assets refer to assets which are quickly convertible into cash. Current Assets, other stock and prepaid expenses are considered as quick assets. The ideal liquid ratio accepted 'norm' for liquid ratio '1'.

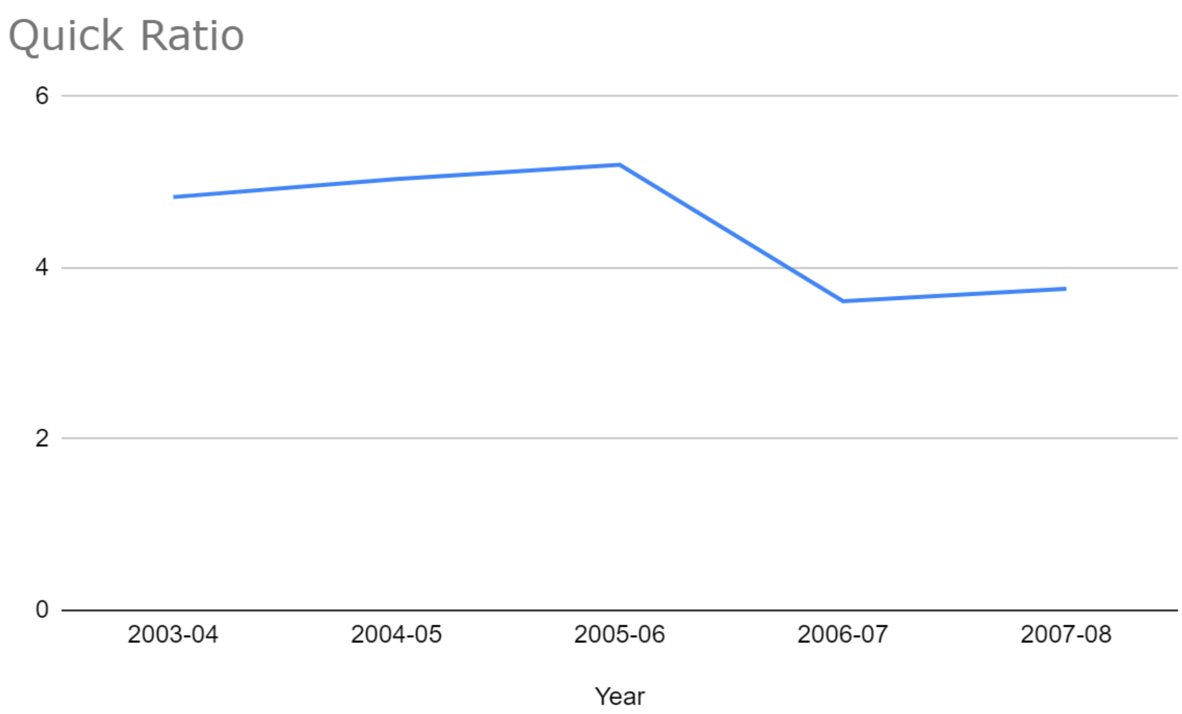
Quick Ratio = Total Quick Assets/ Total Current Liabilities

Quick Assets = Total Current Assets (minus) Inventory

Year	Quick Assets (Rs. In Crores)	Current Liabilities (Rs. In Crores)	Quick Ratio
2003-04	939.02	194.53	4.827121781
2004-05	1324.09	262.87	5.037052535
2005-06	2266.99	435.71	5.202979046
2006-07	2243.02	621.3	3.61020441
2007-08	3366.51	896.46	3.755337661

Interpretation:

Satyam, being a software company has zero inventories. Hence the current ratio is equal to the quick ratio for Satyam.

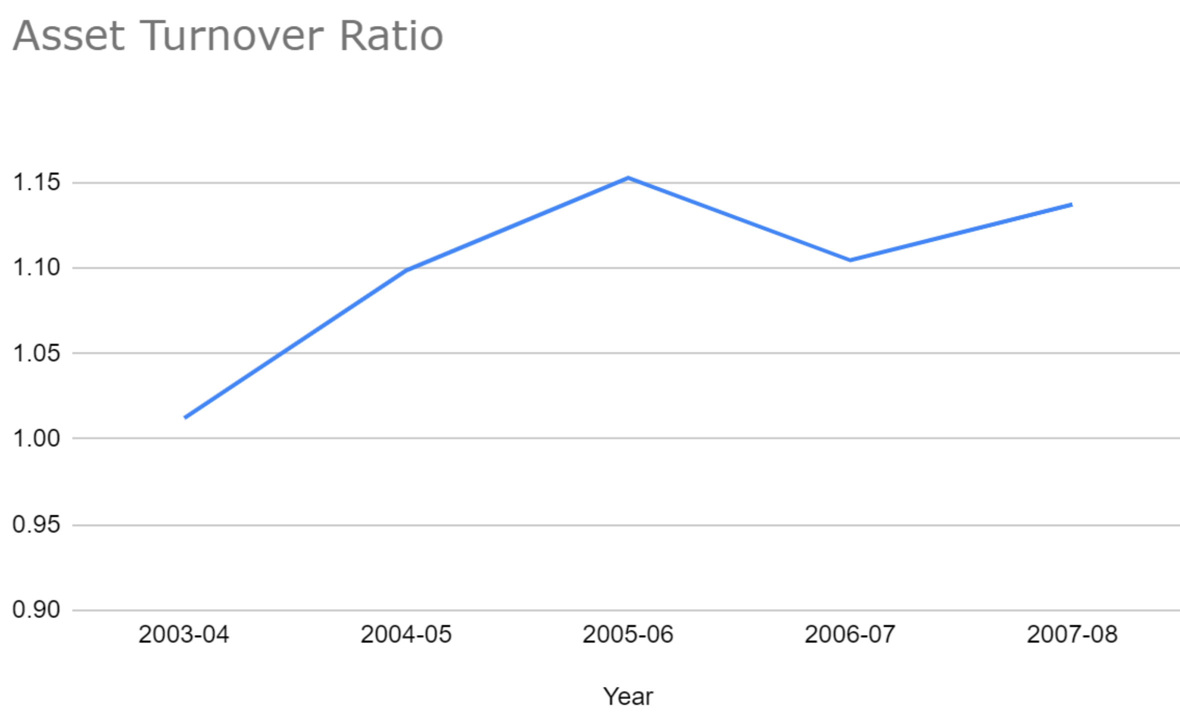


3. TURNOVER RATIO

Asset Management or Turnover Measure ratios are intended to describe how efficiently, or intensively, a firm uses its assets to generate sales.

Asset Turnover Ratio = Total Revenue / Total Assets

Year	Total Revenue (Rs. In Crores)	Total Assets Liabilities (Rs. In Crores)	Asset Turnover Ratio
2003-04	2620	2588.25	1.012266976
2004-05	3,545.19	3,227.34	1.098486679
2005-06	5,011.39	4,347.99	1.152576248
2006-07	6,409.29	5,803.15	1.104450169
2007-08	8,392.71	7,381.31	1.137021748



Interpretation:

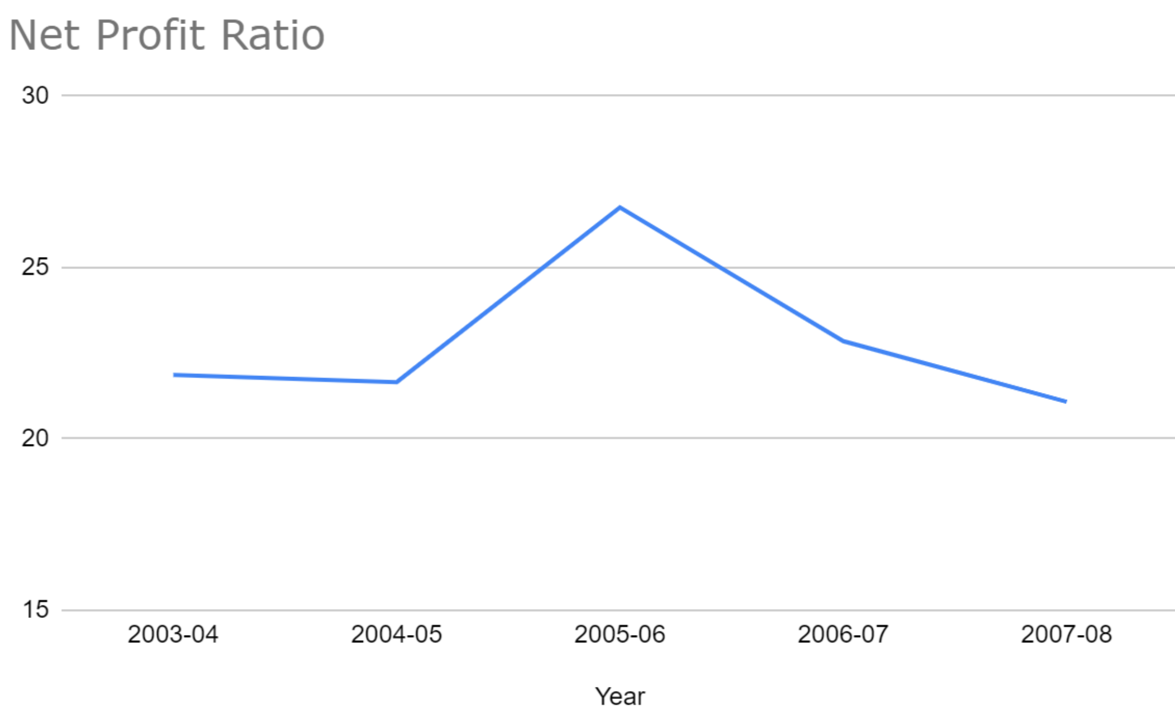
There has been a decline in the year 2006-07 but rising otherwise which indicates that the net fixed assets are used more effectively to increase the sales without additional investment in the period of study.

4. NET PROFIT MARGIN

This ratio helps in determining the efficiency with which affairs of the business are being managed. An increase in the ratio over the previous period indicates improvement in the operational efficiency of the business. The ratio is thus on effective measure to check the profitability of business. However, constant increase in the above ratio after year is a definite indication of improving conditions of the business.

Net Profit Margin = (Net Profit / Net Sales) * 100

Year	Net Profit (Rs. In Crores)	Net Sales (Rs. In Crores)	Net Profit Ratio
2003-04	555.79	2,541.55	21.86815132
2004-05	750.26	3,464.23	21.65733799
2005-06	1,239.75	4,634.31	26.75155525
2006-07	1,423.23	6,228.47	22.85039504
2007-08	1,715.74	8,137.28	21.08493256



Interpretation:

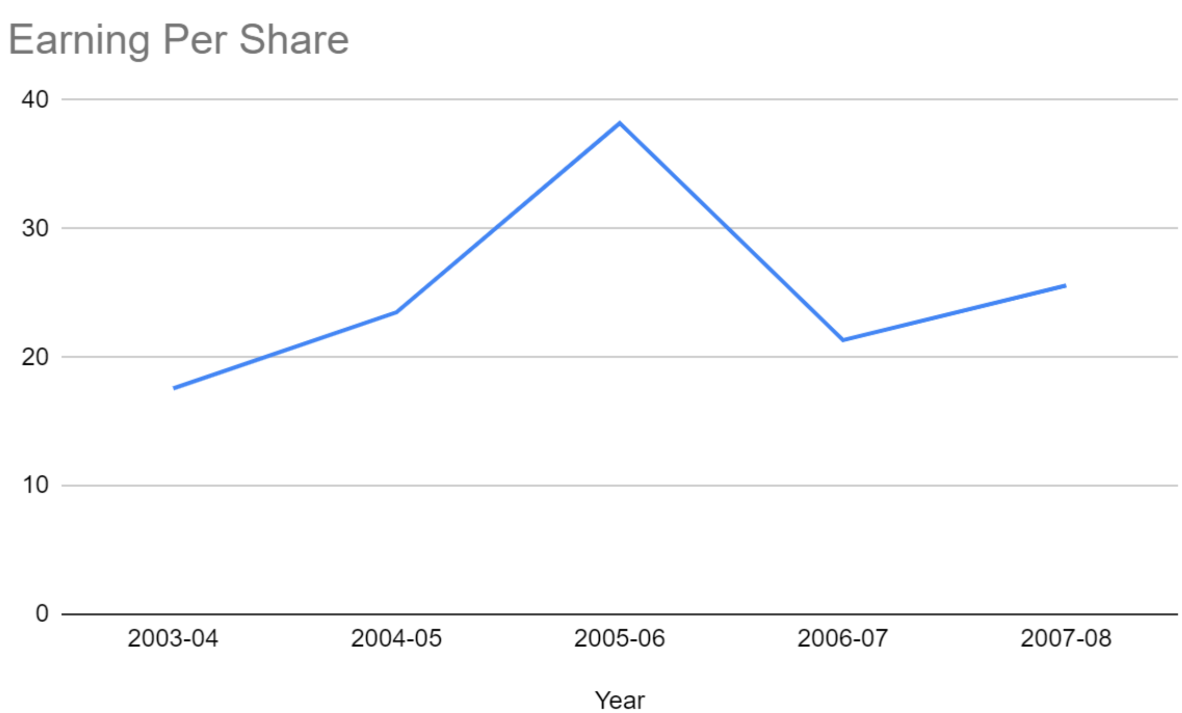
The profit margin was seen to be fluctuating around 23%. Since it was continuously positive, Satyam’s financial statements indicated a good profit margin.

5. EARNINGS PER SHARE

The overall profitability can also be judged by calculating earnings per share. The earnings per share measure helps in determining the market price of the equity shares of the company. A comparison of earning per share of the company with another will also help in deciding whether the equity share capital is being effectively used or not. It also helps in estimating the company's capacity to pay dividend to its equity shareholders.

Earning Per Equity Share = (Net Profit after Tax / Number of Equity Shares) * 100

Year	Net Profit (Rs. In Crores)	Share in Issue (Rs. In Crores)	Earning Per Share
2003-04	555.79	3,162.52	17.57427621
2004-05	750.26	3,192.65	23.49960065
2005-06	1,239.75	3,244.50	38.21081831
2006-07	1,423.23	6,671.96	21.33151278
2007-08	1,715.74	6,704.79	25.58976493



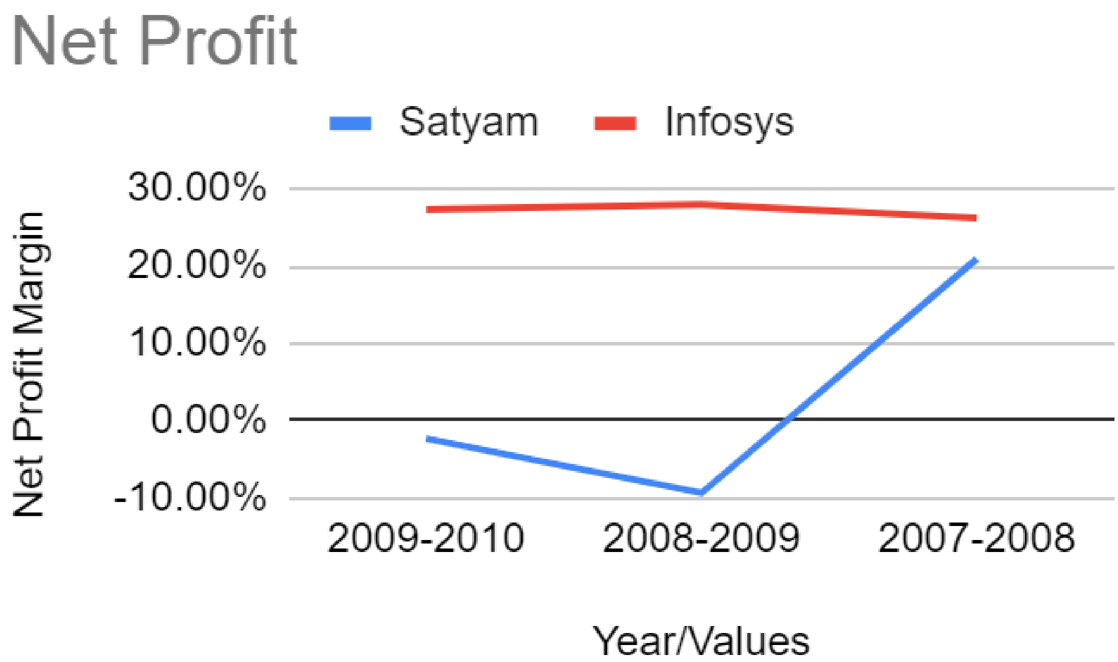
Interpretation:

Earnings Per share for the year 2005 is 150% higher than 2004 due to more Net Profit as the consequence of high sales value and low interest charges. In the year 2006 and 2007 earnings per share is comparatively less compared to 2005 due to economic conditions.

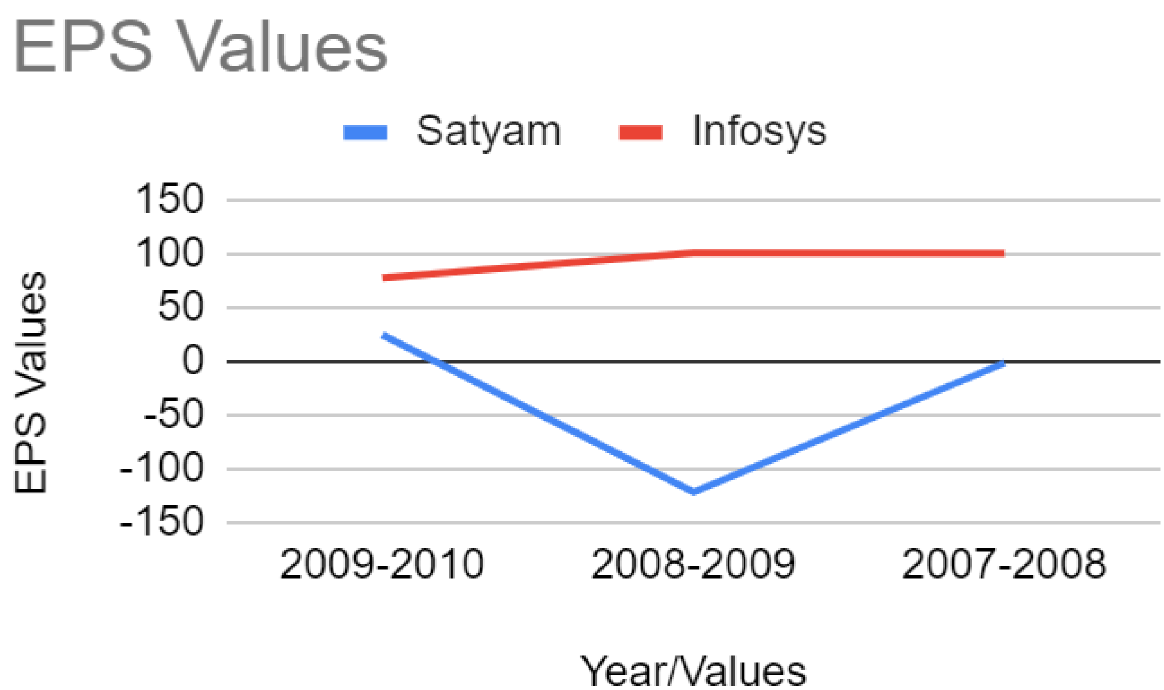
AFTER DISCLOSURE OF SCANDAL (in January 2009)

➔ **Comparison with earlier results and comparison with Infosys Technologies**

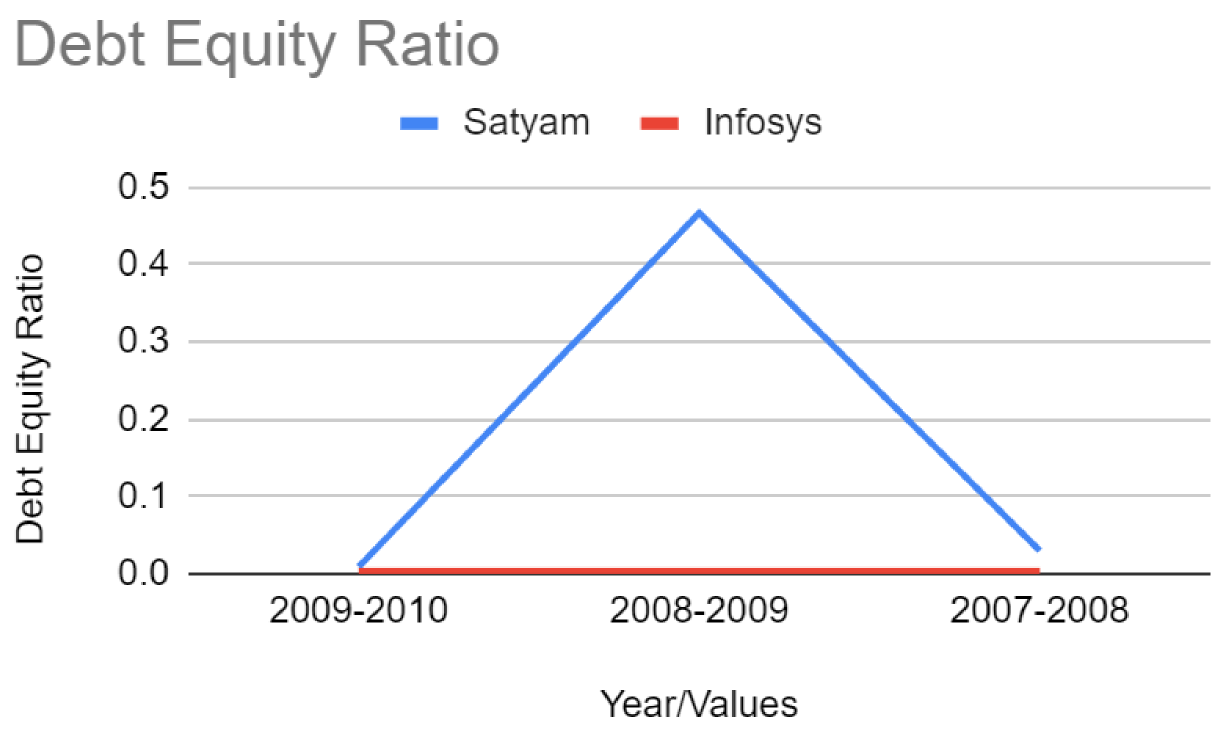
For Mahindra Satyam			
Year/Values	**Net Profit Margin**	**EPS Values**	**Debt Equity Ratio**
2009-2010	-2.26%	25.24	0.0091
2008-2009	-9.28%	-121.49	0.4667
2007-2008	21%	-1.14	0.0299
For Infosys Technologies			
Year/Values	**Net Profit Margin**	**EPS Values**	**Debt Equity Ratio**
2009-2010	27.37%	78.15	0
2008-2009	28.02%	101.58	0
2007-2008	26.26%	101.3	0



Net Profit
Satyam
Infosys
Net Profit Margin
30.00%
20.00%
10.00%
0.00%
-10.00%
2009-2010
2008-2009
2007-2008
Year/Values



EPS Values
Satyam
Infosys
EPS Values
150
100
50
0
-50
-100
-150
2009-2010
2008-2009
2007-2008
Year/Values



CONCLUSION

By watching the individual and comparative analysis of Satyam, both individually with its previous results and with Infosys Technologies, we find that the EPS, Debt-Equity Ratio and Profit Margin of Infosys is much higher than Satyam. Also the data and the graph shows that the values for Satyam drastically decreased in the year 2008-2009. This is a clear reflection of the effect of the scandal at Satyam which got revealed in January 2009. The leverage value (Debt-Equity ratio) for Satyam increased by 51 times in 2008-09. In comparison, Infosys has no leverage at all.

THE END