

# The satyam scandal and company

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The Satyam case is more popularly being titled as the ' Indian Enron'. Satyam is one of the leading IT and BPO firms in India, and has strong contracts with several corporate in the US and Europe. The word " Satyam" in Sanskrit (an ancient Indian language) means " the truth". But what Satyam did was more, can make it unpopular and give it the title " Asatyam" (lies). Satyam mislead several parties including the government, shareholders, investors, customers and employees regarding the revenues, assets and the profits made.

Company CEO and founder announced on January 7<sup>th</sup> 2009, that the company had falsified its accounts over the years by over one billion dollars, making it the highest financial scam so far in the history of India. The Company's ChiefFinanceOfficer Srinivas Vadlamani had resigned from his job earlier due to the stinking financial scam. The newly appointed CEO of the company Ram Myanampati had said the financial situation of the company was very poor at this point of time, and the best way in which the company could be helped at the moment would be to ensure that it carries on its business.

The Ex-CEO and his brother who was also the managing director of the company were arrested by the government due to the huge financial scam. The government constituted a new board that would that would make decisions for the company and ensure it gets back on track. The government has done everything to help the company recover, but did not provide it with funds and in this way did not completely bailout the company (India Knowledge at Wharton, 2009).

The investigation of the financial scam is being carried out by an organisation that controls the Indian public companies namely the “Securities and Exchange Board of India”. Satyam has its stocks listed in the Bombay Stock Exchange and the New York Stock Exchange. If international and USA laws have been broken by the company, then a major international investigation initiative would be launched. Several US companies have had deals with Satyam, and a huge proportion of these want to have lawsuits to sue the company.

However, the investors of the company may be not able to clear the debts. At one stage, Satyam has a business corporate was doing well with business and outsourcing deals with several western companies. It has suddenly disappeared from the outsourcing and the IT market, which could have a serious impact for India as a business destination. Satyam was on the path to recovery even though it had sensed that there was an economic crisis. Merrill Lynch has tried to partner with Satyam to endeavour a strategic deal.

However, once Merrill Lynch smelled fraud in the company, it withdrew. The company's involvement in Fraud and scamming has resulted in the western world really being sceptical about outsourcing to India (India Knowledge at Wharton, 2009). People do not know the consequences of this scam that is going to follow.

Some people suggest that several other companies such as Infosys, Wipro, TCS, Birla, etc, could benefit as all the clients and customers of Satyam would now be diverted to these companies (Bhushan, 2009). Other suggest that the entire outsourcing business would be in tandem as the western world may try to perform all these tasks at home in order to encourage

greater amount of security and transparency in the work. Several of the work that are being sent to India for information processing, contain sensitive data (personal and financial information) that can be misused considering the Satyam scandal (India Knowledge at Wharton, 2009).

Satyam at one stage was the fourth largest software company in India (Bhushan, 2009). The trouble actually started when Maytas Groups (one of Satyam's family controlled businesses) required an investment of 1.6 billion dollars in real estate business. The board had given clearance for the investment, but there was huge opposition from the investors.

However, there were huge problems as several personnel from the senior management including directors, consultants and advisors had given their resignation due to queries from the investors and the general public. The issue went on with resignations and revelations and on January 8, 2009, the founder of the company Raju admitted to fraud and stepped down. He claimed that the company showed inflated profits over the years. This was done mainly to bring in investors and to route the money for other causes including personal interests (India Knowledge at Wharton, 2009). Raju claimed that the balance sheets of the company were all fictitious.

More than 1.5 billion dollars did not exist and was shown as misstatements. In 2008, the second quarter revenues were inflated four times, from 122 million dollars to 563 million dollars. The opening margins of the company was actually 10% was what was given. The debtor position of the company was overstated to Rs. 490 crores when it was reflected as Rs. 2651 crores (Bhushan, 2009). The company showed inflated profits over the years to bring in investors and clients.

Earlier these inflated figures were manageable, but soon they began to become more and more unmanageable. The company had to bear additional costs in terms of additional resources and assets. They made moves to cut this gap, but with poor performance of the company, things were becoming more and more obvious. Raju himself described the situation as "Riding a tiger". He considered it very difficult to dismount the tiger and prevent being eaten up (India Knowledge at Wharton, 2009).

Following this revelation, the shares of Satyam fell down from more than 10 dollars at one stage in 2008 to about one-fifth of a dollar in January 2009. Many of the banks, healthcare organisations and media companies located in India and other parts of the world depend on Satyam, and also suffered huge economic losses. Some of the clients of Satyam include the World Bank, General Electric, General Motors, Nestle, the Federal Government, Cisco, etc; also have had their shares in the stock market fall down, once the fraud scam of Satyam was exposed. However, many of these companies (clients and associates) have come out to establish confidence.

The NASSCOM could have disqualified Satyam from the Stock Market based on the fraudulent nature of the companies accounts, but is trying to help the company during this transition period. Any move by other parties to hurt Satyam, would result in the more than 50, 000 employees employed in the company from facing a greater amount of turmoil (Bhushan, 2009).