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Satyam Computer: The Case Study of India's Biggest Corporate Fraud (2009) Revisited.

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Abstract

Learning outcome: Today, the economic crisis caused by scams and scandals has become a major problem for India. The way corporate frauds and accounting scandals are increasing in India's securities markets and banks; remains a cause of concern. Big accounting and corporate frauds like Satyam Computer and many banking frauds are largely influenced by human greed, ambition, and hunger for power, money, and fame. This teaching case enables the students of finance to delve into criminal accounting and helps them understand how it is practised.

Case Overview: B. Ramalinga Raju, the founder of Satyam Computer, acquired Maytas Properties and Maytas Infra. The controversy over the alleged breach of corporate governance laws began with this action with the perception that Investors will not profit from this transaction. Further, Satyam acquired many other companies that put pressure on it to maintain its liquidity and earnings and began manipulating the books several years ago to inflate earnings on the balance sheet.

Complexity Academic Level: It is useful for both undergraduate and Graduate students of Finance.

Keywords: Satyam computer, Corporate Governance, IT companies, Accounting fraud.

B. Ramalinga Raju founded the consulting and IT business Satyam Computer in Hyderabad, India, in 1987. The business, which offers IT services to numerous sectors, is listed on several stock exchanges both domestically and internationally, including the NSE, BSE, New York Stock Exchange, and Euro Next. It is ranked 1 in India and 4 globally among IT service providers. Nearly 67 nations are included in Satyam's business network. The corporation employs 40.000 people in the IT industry and has development hubs in India as well as the U.S., U.K., UAE, Canada, Hungary, Singapore, Malaysia, China, Japan, Egypt, and Australia. Additional development centres are located in Bangalore, Chennai, Pune, Mumbai, Nagpur, Delhi, Kolkata, Bhubaneswar, and Visakhapatnam in India. It provides services to over 654 international businesses, including 185 Fortune 500 companies. Around 50 companies strategically partner with Satyam in the marketing and technology sectors. Satyam Computers announced on December 16, 2008, that it would acquire Maytas Properties and Maytas Infra, two businesses belonging to the Maytas Group. The BOD of Satyam had approved the founder's proposal to buy a 51% share in Maytas Infrastructure and a 100% stake in Maytas Properties. It was anticipated that a total of US$ 1.6 bn would be spent on the two acquisitions, with US$ 1.3 bn going towards the purchase of Maytas Properties' entire equity and US$ 0.3 billion going towards Maytas Infra's 51% ownership. The controversy over the alleged breach of corporate governance laws began with this action. Investors will not profit from this transaction. They began to speak out against the deal as a result of this announcement. The failure of Satyam is the primary cause of Maytas Infra. The company owns a sizable amount of land, and the value of the real estate has significantly declined.

. The high price of Satyam's services led some to believe that it would be willing to forgo earnings to attract clients, but Satyam would prove to be a formidable competitor, quickly expanding outside. He occupied a space left empty by a top-tier international IT company when he opened his Sydney office a few years ago. But after Mr. Raju gave shares to the Indian public in 1992 and subsequently pursued a New York listing in 2001, he came under growing pressure to improve the performance of the company to compete with the market giants, Tata Consultancy Services, Infosys Technologies, and Wipro. The year ended March 31, 2008, with sales for Satyam of US$2.1 billion (S$3.1 billion). Satyam began manipulating the books several years ago to inflate earnings on the balance sheet as a result of the rising pressure to perform. The current events are a direct carryover from the past, according to Satyam.

The story is a decade old. For a staggering Rs 500 crore, Satyam Group Company, Satyam Infoway, purchased India World in late 1999, a relatively unknown internet company. It was not difficult to understand the anxiety that surrounded this transaction. The top line for India World was only Rs 1 crore, and the company made a meager Rs 25 lakh in net profit. In addition to purchasing India World for Rs 500 crore, Satyam Infoway, later known as Sify, also purchased many of the websites that came with it, including weresamachar.com, khel.com, and khoj.com. Neither the source of the money nor the amount that was returned to Ramalinga Raju was known. A few months later in 2000, Satyam's shareholders became furious. Shareholders alleged fraud during the company's annual general meeting (AGM) in May 2000 and accused Satyam of hiding information. This occurred following the merger of three subsidiaries with Satyam Enterprises: Satyam Enterprise Solutions (SESL), Satyam Renaissance Consulting, and Satyam Spark Solutions. C. Srinivasa Raju, who was then Satyam Computers' executive director, received 8 lakh shares of the combined company after the merger. Shareholders argued that SESL had issued 12 lakh shares at par in a rights offering just before this transaction. Satyam Computer purchased a third of it, and the other 8 lacs shares-which were renounced-went to Srinivasa Raju. Mr. Raju received 8 lakh shares at barely Rs 10 each when SESL owners were handed shares in Satyam Computers in a 1:1 ratio, even though the shares were trading for a staggering Rs 1,600. Nonetheless, Satyam Computers' management insisted that everything was legal despite shareholders' doubts. Before Ramalinga Raju's letter to the board on January 7, 2009, the roots of accounting fraud at Satyam had already been planted in numerous quarters. Shareholders of Satyam filed numerous complaints with the Department of company affairs (DCA) alleging the business had accounting irregularities in 2002 Where, it was claimed that Satyam's directors made rash investments in underperforming subsidiaries. This merely made it easier to evade taxes and use strategies like extensively writing off depreciation. Raju's statement to the board, in which he admits to inflating earnings, at first glance, looks to be an act of contrition by a man who was ready to stand up and take responsibility for his wrongdoings. If Raju was faking the numbers, it was merely to increase the company's valuation and keep it in the top tier of IT services. Raju was able to borrow additional money against his stake thanks to a better valuation as well.

Questions:

1. What do you think, is why Mr. Raju needed to manipulate financial statements?

2. Why did the company announce that it will acquire Maytas infra and Maytas properties?

3. What steps should you take as management to reform the company's performance?

4. Who is responsible for this biggest corporate fraud?