

## India's IT bellwether Satyam admits financial fraud; directors quit

In a development that sent shockwaves through India Inc., the chairman of one of the country's top IT companies, Satyam Computer, Wednesday admitted to a Rs.65.92-billion (Rs.6,592-crore) fraud and sent its stock crashing.

The announcement of Satyam founder chairman B. Ramalinga Raju and managing director B. Rama Raju resigning from the board after admitting to non-existing, inflated profits led to a free fall of the blue chip's shares on the Indian bourses, as institutional and retail investors alike dumped the scrip from the first hour of trading.

'It is with deep regret and tremendous burden that I am carrying on my conscience, that I would like to bring the following facts to your notice,' Raju said in a regulatory statement, and listed out the 'facts' that led to his decision to quit the company he founded.

'What started as a marginal gap between actual operating profits and the one reflected in the books of accounts has attained unmanageable proportions,' said Raju.

According to Raju's statement, Satyam had shown an 'inflated (non-existent) cash and bank balances of Rs.5,040 crore (Rs.50.4 billion)' over several years. In addition to this, the company had shown non-existent accrued interest of Rs.376 crore, inflated operationing profit of Rs.588 crore, and non-existent interest on operating profit of Rs.588 crore for the second quarter.

Raju's stunning admission caught corporate India unawares and confirmed the worst fears aired by World Bank last month about its business practices.

The Washington-based development bank had debarred the software vendor from doing business with it for eight years from September 2008 on the charges of alleged data theft and bribing its officials for the lucrative deals.

Said Rajeev Chandrasekhar, president of the Federation of Indian Chambers of Commerce and Industry: 'Satyam was always seen as one of the top Indian IT companies and often represented as shining example of Indian liberalisation and entrepreneurship. This fraud on the investors and employees of the company shows a systemic breakdown in audit and board oversight of the company.'

Nasscom, the apex body of the IT-BPO industry in India, also expressed shock, saying: 'While the law will take its course, this incident is particularly unfortunate as the Indian IT-BPO industry had set very high standards of ethics and corporate governance.'

According to Kapil Dev Singh, country manager of IDC India, leading provider of advisory services for IT sector, 'The term 'business ethics' has never been so badly abused in India as this incident'.

'It will make every stakeholder - investor, customer and employee - demand inviolable corporate governance policies and even more stringent enforcement mechanism,' Singh said.

Satyam - among India's largest IT companies that are known worldwide alongside TCS, Infosys and Wipro - boasts of a client base of over 600 companies worldwide. The crisis snowballed after Raju

made an aborted bid to acquire Maytas Infra and Maytas Properties, two cash-strapped firms run by his two sons, for \$1.6 billion to bolster his fictitious assets - a move that enraged investors.

As a result of the biggest corporate scam, Satyam stock crashed to a historic low of Rs.39.95 on the Bombay Stock Exchange (BSE) from the opening price of Rs.179.10, a record decline of 78 percent. A whopping 143,009,827 shares were sold in a matter of six hours.

In a related development, the ministry of company affairs started an investigation into the way Satyam had cooked its balance sheets for years.

'We have received a communication with regards to this. The authenticity of the communication has to be established; once we have clear information, action will be taken,' said Corporate Affairs Minister Prem Chand Gupta.

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