

## Corporate Governance which made SATYAM to MAHINDRA SATYAM

Corporate governance which can be defined narrowly as the relationship of a company to its shareholders or, more broadly, as its relationship to society is very important for any organisation. The best example of lack of corporate governance, we had seen recently in start of this year 2009, is the failure of one of the top software company of India—Satyam Computer Services, where the chairman of the company, Mr. B. Ramalinga Raju, had accepted the misrepresentation of data in final accounts on January 7, 2009.

Satyam Computer Services was founded in 1987 and headquartered in Hyderabad, was a leading player in the global IT consulting, outsourcing solutions and integrated IT solutions industry. Satyam also had a BPO known as Nipuna Services Limited. It also had various subsidiaries and joint ventures. It had more than 49,200 professionals working for it.

Satyam offered a wide range of IT solutions to meet complex business challenges. The depth and breadth of its solution offerings is enabled by strategic alliances with technology vendors and system integrators.

### Satyam Alliances

It had an alliance with a number of top leading companies, they were:





**Financial soundness of company:**

**Annual Income Statements**

All amounts in millions of US Dollars

Year	Revenue	Gross Profit	Operating Income	Total Net Income	Diluted EPS (Net Income)
Mar 08	2,138.1	778.9	474.9	417.0	1.22
Mar 07	1,461.4	523.8	331.8	298.4	0.90
Mar 06	1,096.3	407.3	289.1	249.4	0.75

## Satyam Acquisitions

The companies which acquired by Satyam were:



In **April 2005**, Satyam acquired **Citisoft**, a highly specialized business and systems consulting firm of a guaranteed payment of \$23.2mn payable over a three-year period and an additional performance based payment of up to \$15.5m, to be paid over a three-year period.

In **July 2005**, Satyam acquired Singapore-based Knowledge Dynamics Pte. Ltd., a high-end consulting solutions provider in Business Intelligence. The acquisition was an all-cash deal involving a consideration of US\$ 3.3 mn.

In **October 2007**, Satyam had acquired Nitor Global Solutions Limited (“NITOR”) of the UK, in GBP 2.76m (US\$ 5.5M) in cash.

In **Jan 2008**, Satyam Computer Services Ltd. acquired Bridge Strategy Group, a Chicago, Ill.-based management consulting firm. In making the \$35 million, all-cash purchase

In **April 2008**, Satyam Computer Services Ltd. acquired S&V Management Consultants, a Ghent, Belgium-based supply chain management (SCM) consulting firm. The \$35.5 million, all-cash purchase.

## History of Satyam Computer Services

The story of Satyam starts with a farmer's son B. Ramlinga Raju who had passed the B.Com from India and after that he had done MBA from Ohio University and founded Satyam computer services in Hyderabad.

### **1987**

- Incorporated as private limited company

### **1991**

- Offshore software project with John Deere & Co.—Satyam’s first Fortune 500 customer—announced
- Recognized as a public limited company; debuts on the Bombay Stock Exchange (BSE)
- IPO oversubscribed by 17 times

### **1993**

- Satyam signs joint venture with Dun & Bradstreet for IT Services
- Awarded ISO 9001 Certification

- Satyam Technology Center (STC) inaugurated
- Joint venture with GE announced

## **1999**

- Assessed at SEI CMM® Level 5
- Satyam Infoway (Sify) becomes the first Indian Internet company listed on NASDAQ
- Satyam forms joint venture with TRW Inc.
- Presence established in 30 countries

## **2000**

- Associate count reaches 10,000
- Satyam receives National HRD Award from Indian government

## **2001**

- Satyam becomes world's first ISO 9001:2000 company to be certified by BVQI
- Listed on the NYSE (SAY)
- APAC headquarters established in Singapore

## **2002**

- Satyam BPO launched in Hyderabad
- First Customer Summit conducted

## **2005**

- FLC framework launched across the entire organization
- Largest global development center outside India (in Melbourne) begins operation
- Citisoft and Knowledge Dynamics acquired

## **2006**

- Sets up the first “Global Innovation Hub” in Singapore
- Sets up operations in Guangzhou, China

## **2007**

- Becomes the Official IT Services Provider for the FIFA World Cups, 2010 (South Africa) and 2014 (Brazil)
- Announces acquisition of UK-based Nitor Global Solutions Limited
- Opens Global Development Center (GDC) in Malaysia
- Opens Development Center in Vizag, India
- Becomes the first Asian company to feature in the Training Magazine's list of Top 125 companies for learning

## **2008**

- Adopts new tagline “Business Transformation. Together.”

- Enters agreement to acquire S&V Management Consultants, a Ghent, Belgium-based supply chain management (SCM) consulting firm
- Becomes the first company to launch a secondary listing on Euronext Amsterdam under NYSE Euronext's new "Fast Path" process for cross listings in New York and Europe
- Becomes the first company to be invited by the National Stock Exchange (NSE) to ring the opening bell
- Enters into a definitive agreement to acquire Chicago-based Bridge Strategy Group

## 2009

### January 7

Ramalinga Raju, MD and Chairman of Satyam Computer has resigned from his post and accepted that he has done fraud in the balance sheet of the company. Value of stock of Satyam lost near about 80% from its opening and closed on 40 even it opened on Rs.180.

Satyam Computers Chairman Ramalinga Raju resigned from Satyam Board and accepted huge fraud in Satyam Books. This was the biggest scam in the history of corporate India. State Government ordered for CBCID enquiry.

Satyam ADR lost 99.89% of value in NASDAQ. Satyam was replaced by Reliance Capital in the Nifty INDIA. BSE removed Satyam Computers from Sensex and replaced it with Sun Pharma. Many Companies was reviewing Satyam contracts on daily basis. Vianale (Satyam ADR holder) already filed a lawsuit in USA. Many FIIs and Mutual funds along with Companies like L&T lost crores of money in Satyam stock. It was difficult to control investors' reaction when all these news came out with exact amount of losses. No one expected this magnitude of fraud in Satyam Computers books.

Ramalinga Raju was became new "Harshad Mehta" in Indian stock market.

Many experts were thinking that total scam was around Rs 7,000 crore. They inflated bank balance and cash reserves for so many years. Satyam management conducted press meeting in the next 24 hours.

Company reported operating margin of Rs 640 crore against Rs 64 crore. Raju himself said that we committed this fraud to save us from the scam in Satyam books which was done over many years.

### **Mutual funds that might have lost huge money in Satyam Computers:**

1. Sundaram BNP Paribas.
2. ICICI Mutual fund.
3. HDFC Mutual Fund
4. Tata Mutual Fund
5. Franklin Templeton Mutual Fund

## Satyam Stock prices:

Satyam Stock lost 77% of value and is ended the day at 40.14 crore shares were traded in the BSE Sensex while 33 crore shares were traded in the Nifty. Satyam stock was trading at a P/E of 1.5. IL and FS trust sold the pledged shares (by management) and promoters now hold just 1.3% stake in the Company.



## Satyam ADR in NASDAQ:

It was ended at 0.01 (lost 99.89% of value) in NASDAQ.



Source: Google Finance.

## Basic unwritten rule in stock markets:

“Never hold even a single stock when a fraud was broken out in a Company. Exit immediately even with big losses”. That's why Swiss Finance exited from Satyam with Rs 500 crore losses. That's why Aberdeen Investments exited with more than Rs 1,000 crore losses (estimates).

BSE Sensex lost 750 points (7.2%) in just 3 hours after the Satyam fraud news was broke out. Nifty lost 6% of value and ended the day at 2920. Infosys, BEL and HUL are some major stocks that ended in the green. Real Estate and IT stocks suffer major losses. BSE IT index lost 9% of value. Many real estate stocks lost 15-18% of values.

## **January 8**

Satyam Computer Services Limited said to its top leaders have pledged to remain in the company and work jointly to steer the organization through shocking disclosures by its founder and chairman Mr. Ramalinga Raju of financial irregularities.

Ten of the most senior executives of Satyam, including interim CEO Mr. Ram Mynampati, gathered at its headquarters in Hyderabad, had collectively committed not to resign from the company which had approximately 53,000 associates. Approximately 40 other top managers from various geographical regions – known as the “Leadership Council” – have also given their commitment to remain in the company.

The immediate action plans announced were collectively decided based on an initial assessment of the key challenges faced.

## **January 9**

Satyam Computer Services Limited had received a notification from the Company Law Board, Government of India to appoint 10 nominees as directors of the company to replace the current board.

*“We welcome this decision which will ensure uninterrupted operations and restore the confidence of all employees, customers and shareholders across the globe,”* the company said.

## **January 11**

### **New Board of Directors Appointed at Satyam**

Satyam Computer Services Limited said that it welcomes the Ministry of Corporate Affairs’ appointment of three distinguished members to a newly formed Board of Directors for the company.

The members are:

- **Mr. Deepak S. Parekh**, Chairman of HDFC
- **Mr. Kiran Karnik**, former President of NASSCOM
- **Mr. C. Achuthan**, Director at the National Stock Exchange, former Member of SEBI, and former Chairman of Securities Appellate Tribunal.

### **Outcome of the Board Meeting**

The top priority of the board was to restore confidence of the customers, employees, suppliers and investors by ensuring business continuity. The Board constituted by the Central Government had concluded the preliminary discussions of the first meeting.

The government had planned to appoint a few more Board members soon, immediately after which the full board will be able to decide the appointment of the Chairman.

## **January 14**

The Board of Directors of Satyam had announced the appointment of Deloitte and KPMG to assist the Board in the restatement of accounts and launched to identify candidates for the positions of Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of Satyam in order to fill the vacancies resulting from the resignations of Rama Raju, Satyam's former CEO, and Srinivas Vadlamani, Satyam's former CFO.

Satyam Computer Services Ltd. also announced that its Board of Directors received on January 13, 2009 a letter from Satyam's statutory auditors, Price Waterhouse, stating that Price Waterhouse performed audits of Satyam from the quarter ended June 30, 2000 until the quarter ended September 30, 2008 (the "Audit Period"), and notifying the Board that in view of the contents of the resignation letter of B. Ramalinga Raju, former Chairman of Board of Directors of Satyam, Price Waterhouse's audit reports and opinions in relation to Satyam's financial statements for the Audit Period should no longer be relied upon.

## **January 15**

Satyam also had to clarify about its executives – specifically, Ram Mynampati, Virender Aggarwal and Keshab Panda that they had not left the country as there was news in media that they had left the country to avoid interacting with investigating authorities. Satyam stated that it generate 97% of its revenues from outside of India. These executives were currently meeting with customers in their regions to personally assure them of our ongoing commitment.

## **January 16**

Satyam Computer Services Limited welcomed the appointment by the Ministry of Corporate Affairs, Government of India, of three additional members to the company's board of directors.

The newly appointed members are:

- **Mr. T.N. Manoharan**, a former president of the Institute of Chartered Accountants of India;
- **Mr. Tarun Das** of the Confederation of Indian Industry (CII), a leading business association;
- **Mr. S Balakrishna Mainak** of the Life Insurance Corp. of India.

The appointments bring to six the number of board members named by the Ministry of Corporate Affairs.

*"The addition of these new members to the Board of Directors signals the beginning of a strong new foundation for Satyam. We embrace the new board members and look forward to working closely with them,"* a Satyam spokesperson added.

## **January 19**

Board members had discussed ways to enhance liquidity, leadership issues and customer concerns. Until India's Central Government appointed a chairman (in accordance with

directions of the Company Law Board), Board members took turns chairing meetings. The Board's search for a chief executive officer and chief financial officer continued. The Board confirmed that the new CEO will be a leader of global renown and uniquely qualified to lead Satyam during this transition period.

*"This is a crucial decision for the company and its stakeholders," said Das. "We fully recognize the urgency and importance of having the right person with the right experience and abilities steer Satyam through these turbulent times."*

### **January 27**

The Board of Directors had appointed Goldman Sachs and Avendus as investment bankers to help the board explore several strategic options, including identification of strategic investors; obtaining expressions of interest; and ensuring a fair and transparent approach to the process.

The board also appointed Boston Consulting Group (BCG) as management advisors. Three senior BCG representatives will work closely with Satyam's board and leadership team to spearhead the organization's revival. *"It is important to note that BCG will not charge a fee for their services. This reflects their commitment to the task on hand,"* said **Satyam Board Member Deepak Parekh**.

### **February 05**

Satyam Computer Services Limited appointed A.S. Murthy as CEO. Murthy, a 15-year veteran of the organization, begins immediately.

*"Extensive board discussions over the past few weeks made it clear that the new CEO should come from within,"* said **Satyam Board Member Deepak Parekh**. *"ASM, an extraordinary executive with widespread support among all stakeholders—internal and external—will do an exceptional job leading Satyam at this critical juncture."*

In another significant development, the board confirmed that it had secured approximately \$130 million in financing, which had been directed toward working capital requirements.

### **February 19**

Board of Directors had received authorization from the Company Law Board (CLB) to increase its authorized equity, to make a preferential allotment of shares, and to induct strategic investor(s) into the company.

*"Satyam welcomes this move, which serves the interests of all its stakeholders,"* said a company spokesperson.

### **March 6**

Satyam had received approval from the Securities and Exchange Board of India (SEBI) to facilitate a global competitive bidding process which, subject to receipt of all approvals, contemplates the selection of an investor to acquire a 51% interest in the Company.

### **March 9**

Satyam was commencing a competitive bidding process which, subject to receipt of all approvals, contemplates the selection of an investor to acquire a 51% equity interest in the Company.

### **March 13**

Satyam had received adequate response from Indian and international bidders, including private equity firms. Satyam's Board of Directors announced that it had taken steps to release the Request for Proposals (RFP) in the course of the day to all registered bidders.

The Board had requested the Former Chief Justice of India, Mr. S.P. Bharucha, to oversee and guide the Board throughout the selection process and he has kindly agreed. The Board met with Mr Bharucha on March 11, 2009 in Mumbai and discussed the proposed process for the induction of a strategic investor.

### **March 24**

Satyam had submitted a letter (the "SEBI Letter") to the SEBI relating to the process to be followed by the Company pursuant to Regulation 29A of the SEBI Takeover Regulations to select an investor and the in-principle exemptions/relaxations granted by SEBI from applicable SEBI regulations and guidelines.

### **April 13**

Satyam stated that the bidding process had been completed.

Justice S.P. Bharucha who has supervised the entire process said that "the process of selection of a strategic investor by way of a competitive price bid auction is now complete. The process was overseen by me. It was fair, transparent and open as required."

### **April 14**

Satyam had filed an application for delisting from NYSE Euronext, the regulated market of Euronext Amsterdam, of its American Depositary Shares (ADSs).

### **April 16**

Hon'ble Company Law Board had passed an order dated April 16, 2009 approving the selection of Venturbay Consultants Private Limited, a subsidiary controlled by Tech Mahindra Limited as the successful bidder to acquire a controlling stake in the Company.

The Hon'ble Company Law Board, by its order, also granted Tech Mahindra the right to appoint no more than 4 of its nominees as directors on the Company's board.

*"I would like to welcome the Satyam family to the Mahindra Group and thank all its stakeholders for standing by the company during this difficult period. The Mahindra Group*

*is recognized for its resilience, tenacity and focus on customer centricity, and together with Satyam associates, we will work to quickly reinforce confidence in the company and build a better future,” said, Anand Mahindra, Vice Chairman and Managing Director, Mahindra Group and Chairman of Tech Mahindra.*

**Kiran Karnik, Chairman of Satyam,** said, *“The Board and the Indian government worked together to induct a strategic investor in record time. I am pleased to learn that Tech Mahindra is eager to maintain that pace. They’ve lost no time in moving onto next steps”.*

Mr. Mahindra and his colleagues toured Satyam’s Hyderabad campus and addressed associates globally through a live telecast and met with key leaders.

### **About Tech Mahindra**

Tech Mahindra is a leading provider of solutions and services to the telecommunications industry, majority stake owned by Mahindra & Mahindra Limited, in partnership with British Telecommunications plc. With total revenues of Rs 37,661 million in the year ended March 31, 2008, Tech Mahindra is India’s 6th largest software exporter, and serves telecom service providers, equipment manufacturers, software vendors and systems integrators.

### **April 21**

Euronext Amsterdam N.V. approved the Company’s application for delisting from NYSE Euronext, the regulated market of Euronext Amsterdam of its American Depositary Shares (ADSs).

### **May 5**

Venturbay Consultants Private Limited, a subsidiary controlled by Tech Mahindra Limited had been allotted 30,27,64,327 (Thirty Crores Twenty Seven Lakhs Sixty Four Thousand Three Hundred and Twenty Seven Only) shares of the Company (the “**Initial Shares**”), or thirty one percent (31%) of the share capital of the Company after giving effect to the issuance of the Initial Shares (the “**Enhanced Share Capital**”).

### **June 21**

Satyam unveiled its new brand identity, “**Mahindra Satyam**”. This strategic move paves the way for the emergence of a robust brand, which draws from the core values of the Mahindra Group and the inherent strength of the Satyam brand. The logo will be adopted from the Mahindra Group.

Speaking on the rebranding initiative, Mr. **Anand Mahindra, Vice Chairman & Managing Director, Mahindra Group,** said, *“Customer centricity, high standards of corporate governance, and unimpeachable ethics form the cornerstones of the Mahindra Group. This rebranding exercise symbolizes an amalgamation of the Mahindra Group’s values with Satyam’s renowned expertise, even as it retains that part of Satyam’s identity which signifies commitment, purpose and proficiency of the organization and its people.”*



**Vineet Nayyar, Executive Vice Chairman, Satyam Board**, commenting on the new identity, *“This is a significant milestone towards the recovery of the company. We are optimistic that this new brand will re-energize the organization and will be well received by all our stakeholders. With this initiative, we will witness steps by the management to adopt and inculcate the values of ‘performance and customer first’, and ‘good corporate governance and*

*citizenship’, which are drawn from the Mahindra Group. With this synergistic approach, Mahindra Satyam will learn from the best management practices of the Mahindra Group while focusing on nurturing Satyam’s innate skills and capabilities.”*

### **Overview of Mahindra Satyam core values:**

#### ***Good Corporate Citizenship***

As in the past, we will continue to seek long-term success in alignment with our country’s needs. We will do this without compromising ethical business standards.

#### ***Professionalism***

We have always sought the best people for the job and given them the freedom and the opportunity to grow. We will continue to do so. We will support innovation and well reasoned risk taking, but will demand performance.

#### ***Customer First***

We exist and prosper only because of the customer. We will respond to the changing needs and expectations of our customers speedily, courteously and effectively.

#### ***Quality Focus***

Quality is the key to delivering value for money to our customers. We will make quality a driving value in our work, in our products and in our interactions with others. We will do it “First Time Right”.

#### ***Dignity of the Individual***

We will value individual dignity, uphold the right to express disagreement and respect the time and efforts of others. Through our actions, we will nurture fairness, trust and transparency.

### **June 23**

In a landmark development, Tech Mahindra Limited and Satyam Computer Service Limited announced the executive appointments of Sanjay Kalra as CEO, Tech Mahindra and CP Gurnani as CEO, Mahindra Satyam (the new brand identity of Satyam Computer Services Limited). Another notable appointment is of S Durga Shankar, who had been appointed as the CFO of Mahindra Satyam

Speaking on the new appointments, **Mr. Anand Mahindra, Chairman, Tech Mahindra Limited** said, “I am delighted to announce the appointment of Mr. Vineet Nayyar as the Executive Vice-Chairman for Tech Mahindra and Mahindra Satyam, and the induction of Sanjay Kalra and CP Gurnani as the respective CEOs of Tech Mahindra and Mahindra Satyam. These executive appointments will help the respective companies leverage their immense global experience across different verticals, in their quest to take an unassailable lead.”

“Both CP and Sanjay are accomplished leaders, with extensive experience in managing global business operations. In their executive roles, they will ensure swift and effective execution of the go to market strategy envisaged by both organisations,” **commented Vineet Nayyar, Executive Vice Chairman of Mahindra Satyam’s Board of Directors.**

### **About Mahindra Satyam**

Mahindra Satyam (the new brand identity of Satyam Computer Services Ltd.), a leading global business and information technology services company, delivers consulting, systems integration, and outsourcing solutions to clients in numerous industries across the globe. Mahindra Satyam leverages deep industry and functional expertise, leading technology practices, and an advanced, global delivery model to help clients transform their highest-value business processes and improve their business performance. The company's professionals excel in engineering and product development, supply chain management, client relationship management, business process quality, business intelligence, enterprise integration, and infrastructure management, among other key capabilities.

Mahindra Satyam development and delivery centers in the US, Canada, Brazil, the UK, Hungary, Egypt, UAE, India, China, Malaysia, Singapore, and Australia serve numerous clients, including many Fortune 500 organizations.

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