

THE MANAGEMENT OUTLOOK

SATYAM- THE TRUTH TURNED INTO LIE



B Ramalinga Raju

**The disgraced
founder of Satyam
Computer Services**

Satyam Computers, the Indian IT company, the 4th largest services exporter in India with B. Ramalinga Raju as its founder and Chairman disclosed financial bungling worth thousands of crores. The Chairman resigned & admitted Satyam's financials were being inflated over the past years to the tune of about Rs 7,000 crore, in its balance sheet and financial results. The actual Operating Profit was around 10%

of the reported amount & in cash flow statement the discrepancy was over 95%, the balance sheet was riddled with fictitious assets and non-existent cash of around \$1 billion. Raju also tried to play with the mislead financial figures of Satyam by announcing an attempt to acquire Maytas Infrast and Maytas Properties for \$1.6 billion, a real estate firm run by another of Mr. Raju's sons. Raju has relieved the burden on his conscience by bringing to light one of the biggest-ever frauds in Indian corporate history.

Price Waterhouse, the statutory auditor to Satyam Computers would be blacklisted as an audit firm if the Institute of Chartered Accountants of India would be convinced by its involvement in the falsification of the Company accounts. The former Satyam Chairman has been arrested, booked for non-bailable offences under the Indian Penal Code which could put him behind bars for years. This Scandal has sent the company's shares plunging nearly 84 per cent, the impact of Mr. Raju's misdeeds was visible on the Indian stock markets and the damage is not limited to the technology sector, it is more on India Inc's credibility, rather than brand India IT, as it is a wider problem and not sector specific.

India Inc expressed "deep shock" and "disbelief" at the Satyam saga stating that loopholes must be plugged in regulation, audit and governance to restore the confidence of the stakeholders in corporate firms. The Government stepped in to save the company from the brink of a feared collapse by sacking and replacing the remnants of Satyam's discredited Board of Directors. The top agenda for the newly appointed board of Satyam Computer Services would be restoring the investor confidence and protecting the interests of over 50,000 employees, restructuring the financial statements and appointment of key managerial personnel, especially the Chief Finance Officer (CFO). The Satyam financial scandal is a remarkable questionable episode on India's Corporate Governance and regulatory framework.

FISCAL STIMULUS PACKAGE EASES INDIA'S ACCESS TO MONEY

A Fiscal Stimulus Package is the introduction of combination of effective fiscal tools- tax cuts & increase in levels of government spending, to increase the aggregate demand and levels of economic activity in the short run. It aims at stimulating the growth of the economy. The Centre's second stimulus package, announced on 2nd January of this year, almost a month after the first on December 7 last year. It covers a series of measures aimed at easing credit delivery to sectors impacted most by the economic slowdown, but contains limited deficit-financed government spending. The second installment liberalized overseas borrowing norms, restored benefits to exporters, set up an alternative channel of finance for non-banking finance companies and allowed state-run India Infrastructure Finance Company Ltd (IIFCL) to issue additional tax-free bonds. The combination of monetary and fiscal steps taken this fiscal would result in additional credit of Rs 56,000 crore in the fourth quarter.

More importantly are the implications of the joint fiscal stimulus package and central bank rate cuts. The moves were widely expected by the market, although the extent of the interest rate cuts was marginally ahead of expectations. Although the moves are positive, we do not think they materially alter the growth outlook for the Indian economy. We continue to expect GDP growth to slow to 6.7% in FY09 and 5.8% in FY10. The package contained a reduction in the central VAT rate by 4 percentage points (from 14% to 10%), and sops for the exports, textiles, housing, and infrastructure sectors. We expect the reduction in the VAT to be passed on to consumers and help in supporting consumer demand. Incentives for other sectors are also positive. We expect the package to cost an additional US \$6.4 billion (0.6% of GDP). Our estimate of the fiscal deficit to be unchanged from our previous estimate of 8.4% of GDP in FY09, with the increase from the announcements on being offset by the reductions in the oil and

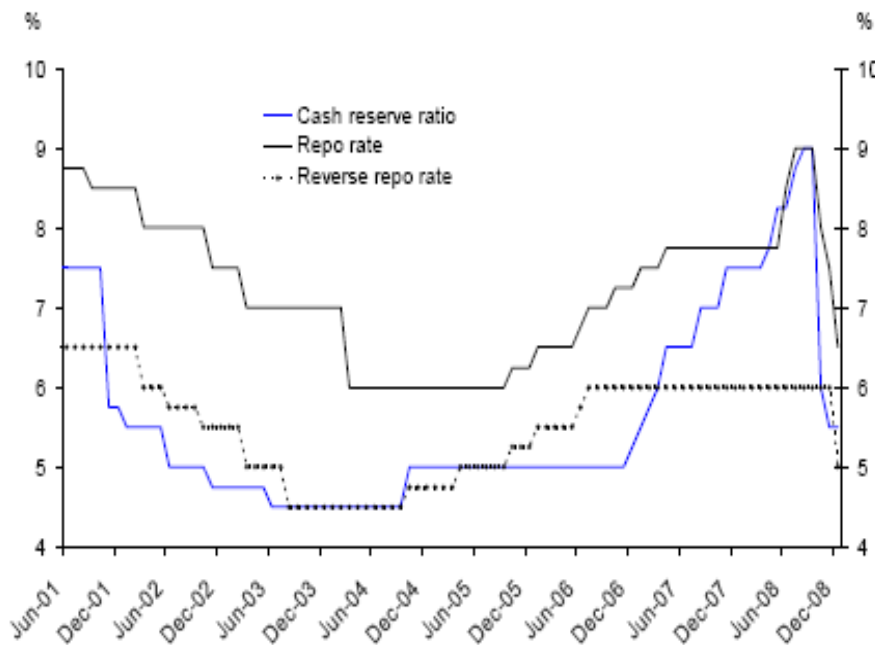
fertilizer subsidy bill due to falling commodity prices. Although the stimulus will help specific sectors in coping with the downturn, we do not think it is material enough to significantly alter the aggregate demand slowdown. We continue to believe that India does not have the fiscal space to substantially boost slowing.

The central bank also announced a slew of other measures to improve liquidity in cash-starved sectors such as housing, real estate, exports, and small enterprises. We think the RBI's move will lead to some lowering of interest rates by banks. The reverse repo rate cut is aimed at encouraging banks to start lending instead of keeping liquidity in the reverse repo window. The repo cut is clearly aimed at encouraging banks to start lowering deposit and lending rates. In the coming weeks, we expect banks to follow through by lowering lending rates 50-75 bp. The largest private bank, ICICI already announced some cuts on housing loans, while HDFC Bank and HSBC have cut deposit rates. The liquidity situation is improving. Overnight call money rates remained at the lower end of the repo – reverse repo corridor at about 6% this week, while banks have been parking excess liquidity with the central bank.

We continue to expect more rate cuts by the RBI. We had been expecting the central bank to cut the repo rate by 250 bp by mid-2009, most of which front-loaded. Inflation is on a downward trajectory, and we expect it to continue to fall sharply going into next year. The risks are clearly towards even more aggressive cuts as growth continues to falter and inflation declines rapidly. We expect near-term pressures on the rupee (INR) to weaken, given the global deleveraging and India's current account deficit. However, we do not think that the rate cuts, which were largely expected, would impart significant additional weakening pressures, given the rate cuts globally. Our 3, 6, and 12-month targets for the INR remain at 50.5, 48 and 46.9 respectively.

ANALYZER

Exhibit 1: RBI cuts the repo and the reverse repo rates by 100 bp each



"The Central Bank slashed the repurchase rate and the reverse repurchase rate by one percentage point to 5.50% and 4%, respectively. The cash reserve ratio, or the proportion of deposits banks must set aside as cash, will be trimmed by a half-point to 5% for the two weeks beginning Jan. 17, which will free up 200 billion rupees (\$4.16 billion) in the banking system. It is expected that the reduction in the policy interest rates and the CRR will further enable banks to provide credit for productive purposes at appropriate interest rates, the central bank said."

Comment on the above statement and Exhibit 1 based on Article 2 in less than 100 words !!!

SEND YOUR COMMENTS TO Ms. SHEENA MANCHANDA, RESEARCH ASSOCIATE OF JAGAN INSTITUTE OF MANAGEMENT STUDIES AT

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