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SATYAM COMPUTER SERVICES LIMITED
FIRST INFORMATION REPORT

"It was like riding a tiger, not knowing how to get off without being eaten" – *B. Ramalinga Raju, Chairman, Satyam Computers*

The Satyam issue which began with the aborted acquisition attempt of Maytas Infrastructure has now snowballed into a major corporate governance issue and into a serious accounting fraud perpetrated over a number of years, as per the statement of its Chairman, Mr. B. Ramalinga Raju. This is indeed a sentiment denting development for the markets as a whole. While the other big IT players have distanced themselves from the incident citing it as a Satyam specific event, the repercussions are likely to be felt for quite sometime, by the IT industry as well as the markets as a whole. Just when the markets were beginning to see a ray of hope for a recovery, there comes this development which has the potential of upsetting calculations.

The whole issue can be divided into 3 segments:

The Satyam Crisis

1. The admission by Satyam's Chairman that this crisis had been continuing since the last few years makes it all the more significant. Investors might lose faith on the earnings reports of companies and view them with suspicion. This might lead to a de-rating of stocks as investors will now start applying hair cuts to the earnings reported by companies.

2. **The following are the revelations from Mr. Ramalinga Raju:**

   a. Cash & Bank balances overstated by Rs. 5040 cr to Rs. 5361cr in books.
   b. Accrued interest of Rs. 376cr shown in books is non-existent
   c. Liabilities understated by Rs. 1230cr
   d. Debtors overstated by Rs. 490cr
   e. September 2009 quarter revenues and operating profits overstated at Rs. 2700cr and Rs. 649cr as against actual figures of Rs. 2112cr and Rs. 61cr resp. This resulted in artificial cash & bank balances going up by Rs. 588cr in Quarter 2 alone.
   f. **The above facts mean that the book value (Networth) of Satyam should come down by Rs. 7136cr. The latest reported Q2FY09 results showed Satyam's Networth at Rs. 8527cr. It now stands at Rs. 1391cr. in light of the above. In terms of book value per share, it has now fallen from Rs. 126.5 per share to Rs. 20.5 per share, a fall of 84%. No doubt Satyam's share price tanked today by approx. 80%. And this is on the basis of Raju's revelations. The fraud might run even deeper.**

The Ramifications

1. Loss of faith from global as well as domestic investors; might result in de-rating of companies which are managed by the promoters and their families. Companies with a professional and independent management such as L&T, IVRCL, ICICI Bank, HDFC & HDFC Bank, etc. will now trade at a premium.
2. Investors would be more inclined to invest in PSUs.
3. Corporate governance will assume more significance and so will the role of auditors. Companies having high degree of transparency and good corporate governance record will henceforth fetch higher premium.
4. **For the IT industry**: Global Clients will start asking more questions, may seek more reassurance and resort to more due diligence before tying up with Indian IT players; some of the top clients of

Satyam might look for new partners which should benefit the other top Indian IT players such as Infosys, TCS and Wipro

5. The event marks a new low in the Indian IT software industry which has been recently hit by fears of loss of business on the back of a recession in the developed world. **Short term outlook remains negative as the IT index can fall by another 10-20%. Much now depends on the Q3 earnings report to be declared this month by the IT heavyweights.**

Outlook for the stock of Satyam Computers – What should investors do?

1. The stock has touched a low of Rs. 30 per share today and closed at Rs. 41, down 77% from yesterday's close. Chances of a dip below Rs. 30 seem low in the near term. However, bottom fishing, on false hopes of a revival or finding value, should be strictly avoided in the stock.
2. **As reported by Satyam, it had 53000 employees on board. It will thus be a priority for the Government to save Satyam to prevent large scale layoffs in the current scenario.** Large IT majors such as Infosys, Wipro & TCS might be willing to takeover Satyam due to its skilled staff strength and current business contracts. But this is not going to happen anytime soon as a potential buyer will have difficulty in determining the true value of the company at a time when there is a question mark on the veracity of the accounts as a whole.
3. Investors are advised to stay away from the stock. The stock is likely to remain extremely volatile and might see sharp short-covering rallies (it may touch levels between Rs. 55-65) which might induce investors to create fresh longs. Such rallies to Rs. 55-65 levels should however be used to get out of long positions rather than creating fresh ones.
4. Investors holding the stock should not sell it at present levels. They should rather look at selling it on bounce backs to the Rs. 55-65 range.

Impact on Equity Markets

This event seems to have dented chances of a recovery in the markets. Nifty looks poised to test the 2830 level shortly. It might even fall to 2700 levels in case the correction gets protracted. A fall below the 2700 level hopes will have the effect of denting hopes of a rally to 3600 levels (as expected before the Satyam issue) in the near term.

Investors are thus advised to exercise caution while creating fresh longs in equities at present. A systematic approach of staggering investments through the SIP or STP mode is advisable at the present juncture.

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