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Tech Mahindra and the Acquisition of Satyam Computers (A)

When we acquired Satyam, the deal made good business sense because of the obvious complementarities. But we also felt that our processes and reputation for good governance would be an important factor in reviving the company. We considered it a privilege to have an opportunity to correct an injustice.[1]

— Anand Mahindra, Chairman and Managing Director, The Mahindra Group

Anand Mahindra (HBS ’81), chairman and managing director of the Mahindra Group, and Vineet Nayyar, the vice chairman and managing director of Tech Mahindra and Vice Chairman of Mahindra Satyam, had just finished their daily call on Monday, April 13, 2009. Anand Mahindra and Nayyar were keen to ensure that they were on the same page about the next steps in their post-acquisition strategy.

Tech Mahindra was an information technology (IT) company within the Mahindra Group, an Indian multi-industry company with a diverse stable of businesses including automotives, farm equipment, and financial services. It had just gained a controlling stake in Satyam Computer Services Ltd. (Satyam), a troubled Indian IT company managed since January 2009 by a six-member government-appointed caretaker board (See **Exhibits 1** and **2** for financial statements for both).

Under the terms of the deal, Tech Mahindra would acquire 501.4 million shares of Satyam, representing a 42.7% holding in the company, for a total of $598 million. Tech Mahindra and the post-acquisition entity (Mahindra Satyam) would operate as separate legal entities.

Tech Mahindra was a niche player that derived 100% of its revenues from the telecom space. In September 2008, the board of Tech Mahindra took a strategic decision to start tracking potential targets for an acquisition. Nayyar explained, “I knew there was going to be pressure on the telecom sector. We could see that the prices were falling, earnings were disappearing, and many telecom companies were carrying huge debt. We were doing well, profits were good, but it’s when life is smooth that you need to start thinking.”[2] Anand Mahindra added, “The Board decided it was time to

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diversify; inorganic growth was the preferred option. We had looked at Patni, at Satyam…our choices were limited. How many big Indian companies were there which could give us immediate scale and reduce telecom to less than 50% of the business?”[3]

Prior to 2009, Hyderabad-based Satyam provided a wide range of IT services including enterprise business solutions, engineering solutions, infrastructure management, and consulting. It consistently ranked as the fourth largest Indian IT services company in terms of revenue, was publically listed in both the Indian and US stock exchanges, had over 50,000 employees with operations in 66 countries, and counted 185 Fortune 500 companies as customers. On January 7, 2009, the corporate world was shocked when the then Chairman and Founder of Satyam, Ramalinga Raju, confessed that the company’s accounts had been falsified for several years (See **Exhibit 3** for Raju’s confession letter). The Government of India’s Ministry of Corporate Affairs quickly intervened and provided a ‘managerial bailout’ to help Satyam find a strategic investor that would help put the troubled company back on track.

Anand Mahindra saw the acquisition of Satyam as a strategic opportunity to move to the next level of growth. The acquisition would allow the Group to diversify across verticals, customers, and geographies, market a wide range of services to Satyam’s strong customer base, and capitalize on common support systems in order to reduce operating costs and secure operational synergies. His brief to Nayyar was based on a set of clear principles: rectify the issues related to corporate governance; ensure an environment of trust where ethical conduct was valued; manage reputation risks by meeting customers and demonstrating the Mahindra Group’s commitment; and restore faith within customers through new found business models of delivery and engagements. Anand Mahindra ended by saying, “The key message here is: the past is, by definition, gone, so let’s pick up the pieces--the good ones—and start running.”[4]

As Nayyar reflected on Anand Mahindra’s words, he wondered what series of business decisions he would have to make in order to retain the good elements, throw out the bad pieces, regain trust, and trigger change within the newly anointed Mahindra Satyam.

The Mahindra Group

The Mahindra Group was one of the largest industrial houses in India with business interests in key sectors of the Indian economy. In 2008, the Mahindra Group was a $6.1 billion conglomerate with more than 50,000 employees and a market capitalization of $4.1 billion. Mahindra & Mahindra (M&M) was the name of the publicly listed holding and operating company of the Mahindra Group.

The Mahindra Group was founded in 1945 as a steel trading company. In the 1950’s and 1960’s, the group diversified into steel and tractors and consolidated its position in automobiles. Later, it forayed into Information Technology, Infrastructure Development, and Financial Services. By April 2008, the Group’s operations comprised of 98 companies grouped under eight verticals (Exhibit 4). In 2006, the Group was given the Golden Peacock Award by the Indian government for excellence in corporate governance.

Anand Mahindra was appointed Deputy Managing Director of the Mahindra Group in 1991. This was the same year in which the Government of India launched a phase of liberalization reforms for the Indian economy. He helped re-structure the group to cope with globalization, and it has since transitioned from a functional organization into a multi-business group of companies. He also identified four characteristics that successful companies share: “aspiration to be leaders in their businesses, global potential, innovation, and a ruthless focus on financial returns." Companies within the group were expected to be amongst the market leaders in their respective lines of business.

A unique feature of the group was its structure and the number of businesses it comprised. The Mahindra Group was set up as a federation of companies. The parent company provided capital at inception, set clear goals and targets, sought synergies, and implemented consistent corporate governance practices. Each company's president managed the operations of each company autonomously. Furthermore, some companies were even listed separately in the stock market. The Group's Executive Board derived senior managers from corporate and individual group companies. On the federation structure of the Group, Anand Mahindra said, "People often ask me, 'How does it work?' 'Aren't you trying to do too many things?' 'Do you have the bandwidth?' The fact that we are successful until now means that there is some validity in the model. The architecture is one of empowerment and one of creating fulfillment for those leaders who function within it."[5] Describing the benefits of the federation structure, Mahindra Group's Chief Financial Officer (CFO) Bharat Doshi said, "Each Company in the fold benefits from the reputation and synergy across the group, and this enhances delivery to the end customer. The companies, in turn, find a binding thread in the core values of the Group. This maximizes collaboration and leads to an enhancement of the brand."[6]

Though the Group's experience with Joint Ventures (JVs) and acquisitions was varied, Anand Mahindra believed that the lessons they had learned had benefited the overall Group (**Exhibit 5** for the Mahindra Group's Select Acquisitions). For example, the Group's JV with Ford Motors in the 1990s petered out when its first car, the Ford Escort, had an unsuccessful run in the market. Anand Mahindra viewed this setback as an invaluable lesson: "Everybody enters a joint venture with a what's–in-it-for-you and what's-in-it-for-me attitude. Before the JV with Ford, we had no experience in making a hardtop vehicle or in modern methods of manufacturing. However, the three hundred Mahindra people who put the Ford Escort together were the first ones to work on the Scorpio. It can be argued that we would not have been able to make the Scorpio[1] without the Ford JV."

The successful post-merger integration of Punjab Tractors Limited (PTL) in 2007 was an example of the Group's ability to turn a company around. PTL, once India's most profitable tractor company, had seen a sharp fall in shareholder and market value since 2003—primarily due to poor management. Anand Mahindra saw the acquisition as serving two purposes: gain market share in northern India, where PTL was dominant, and block the fast-paced growth of its main competitor, Chennai-based TAFE. Over the years following the acquisition, the Group's management team was successful in re-structuring PTL's operations–augmenting productivity and profitability. The combined market share of the Group's post-PTL acquisition stood at an impressive 42% and the Group's ability to turn PTL around was commended by many industry players.[7] A senior consultant at PricewaterhouseCoopers said, "In the PTL acquisition, the Mahindra Group never tried to kill the brand as is often done after acquisitions. Instead, the Group invested heavily in the people at PTL."[8] When explaining the rationale of growing through acquisitions, Anand Mahindra said, "The synergy comes from the ability to expand our range without having to attempt to play catch-up on our own."[9]

Anand Mahindra's dynamism and ability to negotiate tough situations had made him an admired and sought after corporate head both within the Mahindra Group and amongst the business community. He had been recognized as one of India's most dynamic business leaders and was acclaimed for his ability to take risk - evidenced in his re-structuring of the group and pursuit of inorganic growth through acquisitions. Anand Mahindra was conferred Business India's Businessman of the Year award in 2007, and the Harvard Business School Alumni Achievement

[1] The Scorpio was the extremely successful and affordable sports utility vehicle developed by the Group in 2002.

Award in 2008.[10] A management consultant who worked with Anand Mahindra said that he had not seen an Indian businessman with a "better left brain, right brain" combination: "creativity in business combined with a feel for numbers."[11] Under his stewardship, the Group's revenues rose from about $259 million in 1991 to $6.61 billion in 2008.[2] The company's market capitalization stood at $4.1 billion by 2008, and its 98 Group companies employed over 50,000 people.

Company Background- Tech Mahindra

Tech Mahindra was formed in 1986 as a joint venture between the Mahindra Group and British Telecommunications Plc. (BT), a leading telecom company in the United Kingdom. The Mahindra Group and BT held 60% and 40% of equity, respectively. This was the Group's first foray into the Indian IT industry and, in the years that followed, Tech Mahindra remained singularly focused on the telecom space. Vineet Nayyar explained, "When all the IT companies around us were expanding and diversifying into different verticals, we decided to break away from the crowd and be different. We said let us focus entirely on telecom and become a tier 1 player in that vertical."[12] By 2008, telecom had become one of the fastest growing verticals in Indian IT. Tech Mahindra was a publicly traded niche player with BT providing 65% of the company's revenues. In addition, over two-thirds of Tech Mahindra's revenue came from the European telecom market, largely because of BT's stake that provided significant go-to market opportunities in Europe. In the same year, the company posted revenues of $934.7 million, an operating profit of $205.3 million, and had close to 25,000 employees (please refer back to **Exhibit 1**).

By September 2008, however, Tech Mahindra had taken a strategic decision to move beyond telecom and diversify into new verticals, new markets, and new clients. Inorganic growth was seen as the preferred option. Manoj Bhatt, Vice President of Corporate Planning at Tech Mahindra, explained, "Given the landscape of the IT industry, it was absolutely critical to have some base—a minimum mass for each vertical—because building it from scratch, we would have wasted a lot of time and would not have made us competitive with the bigger players."[13] Tech Mahindra had started following Satyam's performance and its acquisition had come up in internal discussions. The company then hired an Indian investment banking firm to conduct due diligence. However, before further talks could be held, Ramalinga Raju, Chairman of Satyam Computers, chose to make his confession.

Satyam Computers: the Company and the Confession

Ramalinga Raju, the founder of Satyam Computer Services, was born in 1954 and raised in the southern Indian state of Andhra Pradesh. Raju went to the US to pursue his MBA, and, when he returned to India, decided to shift away from his family's farming business. After dabbling in the textiles and construction industries, Raju founded Satyam Computers in 1987. Based out of Hyderabad, the company offered a wide range of end-to-end IT solutions through alliances with technology vendors and system integrators. By being one of the first software service providers in liberalizing India, Satyam was able to experience rapid growth. In 1991, Satyam received its first offshore contract from the US. It grew rapidly over the next two decades to become the fourth largest IT Services Company, after Infosys, Tata Consultancy Services (TCS), and Wipro. The company listed its shares in the New York Stock Exchange (NYSE SAY) in 2001 and became the first IT company in the world to receive ISO certification that same year.

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[2] The Mahindra Group's 1991 and 2008 revenue figures are reported in Indian Rupees and have been converted at a constant 2008 exchange rate of $1=Rs. 40 in order to eliminate exchange rate variation over the specified period.

By 2008, Satyam had close to 53,000 employees and was spread across 65 countries. In addition, 185 of its 690 global customers were Fortune 500 companies. Satyam gained recognition for being one of the most successful IT companies in India. Raju was named Fortune Magazine's Entrepreneur of the year in 2003, and later won the Ernst and Young Entrepreneur in 2007.

On December 16, 2008, the board of Satyam met to review a proposal for Satyam to acquire a stake in Maytas Properties and Maytas Infrastructure--infrastructure companies owned by Raju's sons. At the board meeting, Raju said that he had learnt that IBM was planning to mount a bid on Satyam and posited that the proposed diversification would serve as a "poison-pill."[14] If Satyam took on a huge liability or acquired unrelated assets, it would detract potential investors from mounting an unwanted bid on the company. Following the board meeting, Raju announced that the board of Satyam had approved the purchase of a 100% stake in Maytas Properties and a 51% stake in Maytas Infrastructure with an investment of $1.3 billion and $0.3 billion, respectively. Maytas Properties was involved in the development of integrated townships and special economic zones, while Maytas Infrastructure was involved in building highways, metros, and ports. In a call with analysts, Raju said, "The two acquisitions pave the way for accelerated growth in additional market segments such as transportation, energy and, several infrastructure sectors for the core IT business. This would de-risk the core business by bootstrapping a new business' vertical in infrastructure."[15]

Investors were outraged by this announcement: the board had decided without the shareholders' consent and the diversification was unrelated to Satyam's core IT business. Satyam's stock price plummeted in both the Indian (30%) and US exchange markets (55%). The next day, the board called off the proposed investment, but skepticism from the financial community remained high. Analysts advised clients to stop doing business with Satyam due to fear of widespread fraud.

In a letter addressed to Satyam's board of directors on January 7, 2009, Raju confessed that he had overstated the receivables, understated the liabilities, and inflated cash balances for the second quarter ending September 2008. In addition, he also stated that, "profit has been inflated over a period of [the] last several years." Raju, describing his involvement in the misdemeanor, said, "It was like riding a tiger, not knowing how to get off without being eaten" (see **Exhibit 3**).

Raju's confession shocked corporate India and its ramifications were grave. Evidence of accounting irregularities in a highly respected, internationally traded company like Satyam could not only potentially diminish international confidence in the entire Indian technology sector, but also blunt India's competitiveness in a sector which had become a jewel in the crown of Indian economic liberalization. India's Ministry of Corporate Affairs quickly intervened and announced that, although there would be no financial bailout for Satyam, the government would provide a "managerial bailout" in order to pre-empt a collapse of the company. The government was also acutely aware that Satyam was the single largest employer in Andhra Pradesh, and an implosion of the company would be detrimental to the state's economy. The ministry then petitioned to the Company Law Board (CLB), an independent quasi-judicial body that had powers to oversee the actions of business organizations in India, for suspension of Satyam's board. On January 9, the ministry installed a three-member government-appointed board comprised of Deepak Parekh, Kiran Karnik, and C Achuthan—all veterans of the Indian corporate world—to replace Satyam's existing board. (See **Exhibit 6**). Karnik, describing his first few days as the that board as being "part of a bomb disposal squad, sent in not knowing too much about bombs, and then deciding whether to cut the red wire or the white wire."[16]

The Tech Mahindra Bid

On April 13 2009, Venturbay Consultants Pvt. Ltd. (Venturbay), a 100% subsidiary of Tech Mahindra, won the bid for Satyam Computers and was announced as the new owner. For the government-appointed interim board, this was the culmination of a three-month effort to stabilize the company's operations and manage its clients and employees. Although the Ministry of Corporate Affairs had wanted the interim board to work for 6 to 12 months, the conviction and persuasive powers of the board members succeeded in pushing through its demand to hand Satyam over to another player (See **Exhibit 7** for chronology of Satyam Scandal). On January 27, 2009, the board appointed Goldman Sachs & Avendus as investment bankers to identify strategic investors. Soon after, on February 19, the company's Law Board authorized the Board to pass a resolution to induct an investor through a transparent and competitive process. On March 6, SEBI approved the bidding process to acquire a 51% stake in the company. The bid had to be global and investors had to have total net assets exceeding US$150 million. Under the mechanism, Satyam would issue 31% shares to the winner, who would then have to make an open offer for the 20% balance.

Although 149 companies had registered themselves to acquire Satyam, only 10 submitted expressions of interest. Suitors, including IBM, Hinduja's, Mcorp Global Communication, and iGate dropped out along the way. Cognizant, which was in the fray until the end, did not post a financial bid on April 13, 2009. Eventually, only three companies—Larsen and Tubro (L&T), private equity player Wilbur Ross, and Tech Mahindra—put in final bids. Nayyar added, "L&T was the only company which showed serious interest, and they have oodles of money. So instead of trying to outdo L&T in a bidding war, we decided to bid at least 10% more than what we expected L&T to bid." Tech Mahindra's bid was the highest at $1.20 per share, as compared to L&T's bid of $0.95 per share and Wilbur Ross' of $0.41 per share. "Actually, our bid was significantly higher than the second bid, and the second bid was significantly higher than the third bid," explained Ulhas Yargop, Mahindra Group's President of the IT sector and chief technology officer.

Tech Mahindra had initially intended to acquire a 51% stake in Satyam for $598 million. An issue of 302.8 million shares at $1.20 per share was supposed to bring $362 million into Satyam's coffers. Funds from the open offer ($236 million) were to be paid to those shareholders who chose to tender their Satyam shares in the open offer. However, Tech Mahindra eventually ended up with a 42.7% holding stake in Satyam. In explaining why, Yargop said, "What actually happened was that the price of Satyam shares quickly appreciated beyond the open offer price of $1.20, and since the stock was now trading at around $1.60, only 0.4 million shares were tendered in the open offer." Satyam then issued 198.6 million more shares to Tech Mahindra at a price of $1.20. While the total amount of money invested by Tech Mahindra remained unchanged at $598 million, only $4.14 million was spent to buy existing shares in the open offer. Tech Mahindra ended up with a 42.7% holding in Satyam instead of 51% as a result of the increase in the number of new shares issued.

Once the news of the winner was announced it evoked diverse reactions from different constituents. Kiran Karnik, chairman of the government-appointed board, stated, "The takeover by Tech Mahindra, a much smaller company, did not come without its share of anxieties. But this is a classic case of a public-private partnership that worked well- not just in India- but anywhere in the world. The proactive role played by the government was really amazing." Satyamiites anxiously awaited the outcome of the bid. The mood in Satyam was described by A.S.Murthy, the interim CEO, who said, "Many of us, including myself, were not aware of a company called Tech Mahindra… Till that point of time we were never sure whether somebody would really come for the bidding. All said and done, there were so many complications, legal complications, fraud of unimaginable magnitude, it was a risky thing for a company to come and put a stake…It was a very bold step by Tech

Mahindra…"[17] Anand Mahindra defended some of the skepticism on the price paid for Satyam. He said, "When you are running in a race, you don't look behind who's chasing you. We believe our bid is rightly priced… We will work to restore the reputation of Satyam."[18]

Challenges Ahead

Sitting in his office, Nayyar reflected that winning the bid was just the first step. He knew it was going to be an uphill task for Tech Mahindra to clean up Satyam and make it profitable again, given its liabilities and reputational issues. He sifted through the challenges that were ahead of him.

Nayyar knew that in order to give Mahindra Satyam a fighting chance, a new Chief Executive Officer would have to be identified that could remove all traces of inertia that Satyam gathered in the post-scam days. He selected Tech Mahindra's Head of Global Operations- C.P. Gurnani- a long-standing IT veteran with past leadership positions at HCL Technologies, for the job. In describing Gurnani, Nayyar said, "Gurnani was a formidable sales guy who knew how to move at lightning speed. This, combined with his laser sharp focus and an inimitable leadership style, made him the right choice." Upon his appointment in June 2009 at the CEO of Mahindra Satyam, Gurnani said, "This Company has been through a lot of pain and anxiety. I want to make this a happy place to work and keep the company energized as we move ahead."[19]

Another challenge was to put high corporate governance standards in place so that there would be no further violations. Rakesh Soni, Chief Operating Officer of Mahindra Satyam, added, "A corporate asset which has taken the biggest hit at Satyam is trust. Everything else is a fallout. Restoring trust among various stakeholders is the need of the hour at Mahindra Satyam." In their board presentation, the Tech Mahindra leadership announced three immediate priorities in the realm of corporate governance: introduction of air-tight corporate best practices, review of key processes, and implementation of suggestions from forensic accounting and investigating authorities.

While Mahindra Satyam could certainly leverage the Mahindra Group's reputation for high integrity in restoring its own corporate governance, if there were any more violations, it would be detrimental not just to Mahindra Satyam, but would also tarnish the Group's reputation that it had worked so hard to build. While making these changes, Nayyar was also acutely aware of the potential tradeoff between tightening processes, corporate governance norms, and delivering growth. After all, Satyam's phenomenal pre-acquisition growth was largely due to its entrepreneurial and innovative spirit. Tech Mahindra would be taking considerable risk if it sacrificed that entrepreneurial culture.

Following the events of January 2009, the Satyam brand was tainted. It was widely referred to as the 'Enron of India' and it became important- from a corporate governance perspective- to downplay the brand.[20] However, it was also equally evident that, between Tech Mahindra and Satyam, Satyam was the larger entity. Satyam had more employees, larger revenues, a greater scale of operations, and was a bigger brand. Nayyar faced another trade-off: if he diluted the Satyam brand he would lose a great source of value creation. An industry analyst remarked, "Satyam is like a two-edged sword. It surely has the required execution capabilities and engineering skills because of which at least half its clients have still stuck around. But then, its founder has maligned the name. You can't wash out bad memories overnight."[21]

Tech Mahindra had acquired a larger target than itself, which could pose integration challenges. Satyam's expertise was in areas beyond Tech Mahindra's telecom niche. It included application development, consulting and enterprise business solutions, engineering solutions, and infrastructure management. It was competing in four business categories: - Indian IT firms, global IT outsourcing firms, divisions of large multinational technology firms, and global consulting firms. Describing Satyam's position, Rakesh Soni said, "Satyam was acknowledged as one of the better IT companies in terms of the delivery. It was known to have high quality, loyal human resources. And it had deep and strong relationships with its clients." Tech Mahindra would therefore have to act fast in order to benefit from Satyam's operational strengths. Ulhas Yargop added, "The truth was that this acquisition meant that Tech Mahindra would have to go up the learning curve very fast." However, the Mahindra group did have a track record of growing inorganically and, if the acquisition were to prove successful, it would play to Tech Mahindra's strategic interests of eventually being among the top three industry players in the IT Industry (Exhibit 8 for Competitive Landscape of IT industry).

While the interim board had contained customer attrition within the 5% ballpark, retention of large clients such as General Electric, Fujitsu, and Airbus would not be easy. Satyam's key customers were watching developments carefully to see what sort of clarity the Mahindra leadership would bring. One customer said, "One cannot just walk away from a multi-year engagement, but if things do not improve, there will be enough reasons to explore other options."[22] An industry analyst added, "The IT industry doesn't just make widgets. It's an intimate relationship where customers allow providers access to sensitive systems… there will be caution in the short term, skepticism, and questioning. After all, no one wants to do business with a known fraudster."[23] Client attrition was compounded by the fact that the banking and finance sectors, a key client base for Satyam, were reeling under the onslaught of the 2008 U.S. mortgage crisis, which caused a number of banks to reduce IT spending and postpone projects. Recessionary conditions were also pushing Satyam's competitors to poach its clients. Nayyar understood that senior management would have to engage actively with Satyam's clients in the early months to restore customer confidence. Rakesh Soni explained, "We would have to pack our bags, visit client sites, and assure our customers that we believed in the highest ethical practices—after all, not only was the credibility of Mahindra Satyam being questioned, but also of the entire Mahindra Group." He was also concerned about how they would tackle this along with the many fires back at headquarters, which also required management attention.

Issues relating to employee attrition, fear, uncertainty, and morale needed to be addressed. The Satyam workforce—who, at 52,865, was more than double that of Tech Mahindra's employee count—was known to be very loyal. Any re-structuring or reduction had to be handled sensitively. Satyam employees' were fiercely proud of their organization, but the scandal had shaken their confidence and morale. A software engineer at Satyam said, "I can't deny that I'm in a dilemma. I have been a Satyamite for 10 years and I feel a certain affiliation to the organization. But I also worry about my future."[24] Post-acquisition, Tech Mahindra had to take measures to restore employee confidence. Hari T., Chief Marketing Officer and Chief People Officer at Mahindra Satyam, added, "Before the acquisition went through, the attrition patterns at Satyam were very low because employees felt that they had a role to play in holding the company together—it was them versus the world. Once the acquisition was announced, once the safe landing happened, that's when employees started asking 'okay what is in it for me now.'" There were reports of business rivals trying to poach Satyam's employees, which could make it harder for the company to retain good talent. In parallel to restoring employee confidence and retaining top talent, Tech Mahindra also had to right-size Satyam's headcount, which was believed to be in excess of about 10,000 employees. A possible way to do this would be to adopt a mass-layoff approach. However, this would be challenging for two reasons: Satyam was one of the largest private employers in the state of Andhra Pradesh and issuing sweeping lay-offs was a political non-starter in India, as labor unions were often organized along party lines. Another option was to implement a 'Virtual Pool Program' (VPP) that allowed employees in India who had not been part of revenue-earning assignments for the past three months to take time-off, for up to six months on a reduced pay structure while retaining their employment with the company. During this time, they would receive medical insurance coverage and have access to Satyam office facilities and mentoring resources. While the VPP was viewed by Gurnani as the "least painful" way of reducing staff, some wondered if this slower approach could prolong uncertainty amongst an already de-motivated and insecure work force, and reduce overall employee productivity.

The company also needed to deal with unknown liabilities including lawsuits, regulatory demands, and unexpected tax liabilities. The uncertainty behind these liabilities troubled Tech Mahindra. Bharat Doshi explained, "We knew that we would have to deal with several liabilities, but their quantification was unknown. It was not easy to carry the risk of what was unknown." There were several lawsuits filed against Satyam. Following the scandal, US-based law firms, on behalf of Satyam's US shareholders, securities, and anti-trust firms, filed a total of 12 class action suits against the IT company in the United States. Upaid, a UK-based mobile payment solutions provider, initiated the most prominent of these lawsuits. It alleged fraud, forgery, and a breach of contract involving the transfer of intellectual property rights. Upaid sought damages of at least $1 billion for the cumulative losses it claimed to have suffered as a result of Satyam's actions. Initial reports suggested that Satyam's legal troubles could cost Tech Mahindra close to $1.7 billion in settlements.[25] Manoj Bhatt said, "We needed to immediately start researching the merits and demerits of each case to determine potential liability. This would be an expensive process, but we couldn't run the risk of losing a multi-million dollar case in court." The company would also have to deal with the India's numerous regulatory authorities. Nayyar said, "Until the acquisition, the Indian government had acted extremely swiftly and had allowed us to focus on critical issues full time." However, now that the acquisition was complete, some wondered whether the government would continue to act as an enabling agent. Gurnani added, "We are concerned with government agencies such as the Income Tax Department and the Enforcement Directorate because of the interpretation of tax laws, and we consider this issue as an overhang from Satyam's past." [26]

Senior management at Tech Mahindra understood that they would have to tread with caution and execute clear corporate governance policies to prevent a new fraud from occurring under their watch. At the same time, they needed to restore honesty, integrity, and transparency back into the Satyam culture. This turnaround strategy would then have to be clearly communicated to Satyam's investors, customers, employees, and regulators as a confidence-building exercise. Flanked by Anand Mahindra's vision of building an Indian IT powerhouse, Vineet Nayyar and C.P. Gurnani were determined to steer Mahindra Satyam in the right direction.

Exhibit 1 Tech Mahindra Consolidated Financials (2006-2008) ($ millions)

	Mar-06	Mar-07	Mar-08
Equity Share Capital	4.67	27.88	30.26
Reserves	133.42	183.39	283.10
Total Debt	na	na	na
Secured Loans	-	2.30	-
Unsecured Loans	-	1.62	7.48
Sundry Debtors	98.22	189.03	273.31
Cash & bank balances	17.05	15.37	24.33
Loans & Advances	9.90	35.82	89.83
Current Liabilities	41.20	113.17	162.14
Total CL & Provisions	88.37	148.51	231.01
Revenue	286.48	675.65	964.73
Major Expenses			
- People	126.20	255.22	388.81
- Premises	1.92	2.85	5.06
- Travel	40.75	80.39	126.17
Profit Before Tax	58.81	157.97	210.44
Exceptional Items	-	120.76	109.70

Source: Tech Mahindra Annual Reports, 2006-2008; Datastream (Exchange Rates), accessed February 22, 2013.

Exhibit 2 Mahindra Satyam Key Financials (2008-2009) ($ millions)

	Mar-08	Mar-09
Equity Share Capital	30.09	31.01
Reserves	1,593.92	370.34
Total Debt		
Secured Loans	48.60	187.32
Unsecured Loans	-	-
Sundry Debtors	531.87	356.98
Cash & bank balances	1,010.30	115.24
Loans & Advances	87.94	107.28
Current Liabilities	201.44	319.61
Total CL & Provisions	324.90	659.73
Total Revenue	1,961.34	2,042.03
Major Expenses		
Personnel	1,180.19	1,397.38
Operating & Admin	308.94	676.29
Provisions for Contingencies & Diminution in Value of Investments	123.46	340.11
Exceptional Items	-	-
Profit/ (Loss) Before Tax	430.45	(1,844.15)
Shareholding Pattern		
Employees	51,000	na
Customers	654	na

Source: Mahindra Satyam Annual Reports, 2008-2009; Datastream (Exchange Rates), accessed February 22, 2013.

Note: March FY 2009 would be the restated results.

Exhibit 3 Satyam Computer's Chairman Ramalinga Raju's Confession Letter- January 2009

To the Board of Directors

Satyam Computer Services Ltd.

From B. Ramalinga Raju

Chairman, Satyam Computer Services Ltd. January 7, 2009

Dear Board Members,

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:

1. The Balance Sheet carries as of September 30, 2008

a. Inflated (non-existent) cash and bank balances of 50.40 billion rupees ($1.04 billion) (as against 53.61 billion reflected in the books).

b. An accrued interest of 3.76 billion rupees which is non-existent.

c. An understated liability of 12.30 billion rupees on account of funds arranged by me.

d. An overstated debtors position of 4.90 billion rupees (as against 26.51 billion reflected in the books)

2. For the September quarter (Q2) we reported a revenue of 27.00 billion rupees and an operating margin of 6.49 billion rupees (24 pct of revenues) as against the actual revenues of 21.12 billion rupees and an actual operating margin of 610 million rupees (3 percent of revenues). This has resulted in artificial cash and bank balances going up by 5.88 billion rupees in Q2 alone.

The gap in the Balance Sheet has arisen purely on account of inflated profits over a period of last several years (limited only to Satyam standalone, books of subsidiaries reflecting true performance). What started as a marginal gap between actual operating profit and the one reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions as the size of company operations grew significantly (annualized revenue run rate of 112.76 billion rupees in the September quarter, 2008, and official reserves of 83.92 billion rupees). The differential in the real profits and the one reflected in the books was further accentuated by the fact that the company had to carry additional resources and assets to justify higher level of operations -- thereby significantly increasing the costs.

Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance would result in a take-over, thereby exposing the gap. It was like riding a tiger, not knowing how to get off without being eaten.

The aborted Maytas acquisition deal was the last attempt to fill the fictitious assets with real ones. Maytas' investors were convinced that this is a good divestment opportunity and a strategic fit. Once Satyam's problem was solved, it was hoped that Maytas' payments can be delayed. But that was not to be. What followed in the last several days is common knowledge. I would like the Board to know:

1. That neither myself, nor the Managing Director (including our spouses) sold any shares in the last eight years -- excepting for a small proportion declared and sold for philanthropic purposes.

2. That in the last two years a net amount of 12.30 billion rupees was arranged to Satyam (not reflected in the books of Satyam) to keep the operations going by resorting to pledging all the promoter shares and raising funds from known sources by giving all kinds of assurances (Statement enclosed, only to the members of the board). Significant dividend payments, acquisitions, capital expenditure to provide for growth did not help matters. Every attempt was made to keep the wheel moving and to ensure prompt payment of salaries to the associates. The last straw was the selling of most of the pledged share by the lenders on account of margin triggers.

Exhibit 3 (continued)

3. That neither me, nor the Managing Director took even one rupee/dollar from the company and have not benefitted in financial terms on account of the inflated results.

4. None of the board members, past or present, had any knowledge of the situation in which the company is placed. Even business leaders and senior executives in the company, such as, Ram Mynampati, Subu D, T.R. Anand, Keshab Panda, Virender Agarwal, A.S. Murthy, Hari T, S.V. Krishnan, Vijay Prasad, Manish Mehta, Murali V, Sriram Papani, Kiran Kavale, Joe Lagiola, Ravindra Penumetsa; Jayaraman and Prabhakar Gupta are unaware of the real situation as against the books of accounts. None of my or Managing Director's immediate or extended family members has any idea about these issues.

Having put these facts before you, I leave it to the wisdom of the board to take the matters forward. However, I am also taking the liberty to recommend the following steps:

1. A Task Force has been formed in the last few days to address the situation arising out of the failed Maytas acquisition attempt. This consists of some of the most accomplished leaders of Satyam:, Subu D, T.R. Anand, Keshab Panda and Virender Agarwal, representing business functions, and A.S. Murthy, Hari T and Murali V representing support functions. I suggest that Ram Mynampati be made the Chairman of this Task Force to immediately address some of the operational matters on hand. Ram can also act as an interim CEO reporting to the board.

2. Merrill Lynch can be entrusted with the task of quickly exploring some Merger opportunities.

3. You may have a restatement of accounts' prepared by the auditors in light of the facts that I have placed before you.

I have promoted and have been associated with Satyam for well over twenty years now. I have seen it grow from few people to 53,000 people, with 185 Fortune 500 companies as customers and operations in 66 countries. Satyam has established an excellent leadership and competency base at all levels. I sincerely apologize to all Satyamites and stakeholders, who have made Satyam a special organization, for the current situation. I am confident they will stand by the company in this hour of crisis.

In light of the above, I fervently appeal to the board to hold together to take some important steps. Mr. T.R. Prasad is well placed to mobilize support from the government at this crucial time. With the hope that members of the Task Force and the financial advisor, Merrill Lynch (now Bank of America) will stand by the company at this crucial hour, I am marking copies of this statement to them as well.

Under the circumstances, I am tendering my resignation as the chairman of Satyam and shall continue in this position only till such time the current board is expanded. My continuance is just to ensure enhancement of the board over the next several days or as early as possible.

l am now prepared to subject myself to the laws of the land and face consequences thereof.

(B. Ramalinga Raju)

Copies marked to:

1. Chairman SEBI

2. Stock Exchanges ($1=48.6 rupees)

Source: Satyam company documents.

Exhibit 4 Mahindra & Mahindra- Business Verticals (April 2008)

Infrastructure Development	Farm Equipment	Systech	Automotive	Information Technology	Trade, Retail, Logistics	Financial Services	After Market
•SEZs •Time Share resorts •Water supply •Mahindra Lifespace Developers	•Tractors, seeds, pesticides •M&M, Punjab Tractors	•Automotive technologies & components •MUSCO	•Utility Vehicles, CVs, small cars •M&M	•Telecom, supply chain •Tech Mahindra, Bristlecone	•Agricultural produce, exports •logistics, steel imports •Mahindra Intertrade	•Rural consumer finance & insurance •Mahindra Finance	•Used cars, spares •Mahindra First Choice

Source: Company documents.

Exhibit 5 The Mahindra Group's Select Acquisitions (2005-2008)

Year	Target	Headquarters	Industry Segment	Deal Size (Million $)
2004	Bristlecone Inc.	US	IT	7
2005	SARS Transmissions	India	Gears	3.2
2005	Amforge	India	Forging	30.4
2005	Plexion	US	Engineering Services	10
2006	Stokes Group Ltd.	UK	Forging	17
2006	Jeco Holding AG	Germany	Forging	121
2006	DGP Hinoday Industries	India	Ferrites & Casting	-
2007	Schoneweiss & Co GmbH	Germany	Forging	72
2007	Punjab Tractors ltd.	India	Farm Equipments	213
2008	Jiangsu Yueda Yancheng Tractor Mfg Co	China	Farm Equipment	26

Source: Mahindra & Mahindra Annual Reports (2005-2008).

Exhibit 6 Brief Profile of Satyam Computers Government Appointed Board

Name	Designation/Board Appointments	Awards/Recognition
Deepak Parekh	Chairman, Infrastructure Development Finance Company (IDFC) Senior Advisor of Warburg Pincus LLC Advisor of IDFC Private Equity Former CEO of Housing Development Finance Corp. Ltd. (HDFC)	Recipient of the 'Padma Bhushan' in 2006 '*Finance Asia* Lifetime Achievement Award' in 2008 '*Best Non Executive Director 2006'* by the Asian Centre for Corporate Governance 'Economic Times Lifetime Achievement Award' in 2003 'JRD Corporate Leadership Award' in 1997 'Businessman of the Year' by Business India in 1996
Kiran S Karnik	President of the National Association of Software and Service Companies (NASSCOM) Managing Director and Chief Executive Officer of Discovery Networks in India Chairman of Satyam Computer Services Ltd. from January 2009 to July 2009	Received the 'Padma Shri' in 2007 DATAQUEST IT Person of the Year 2005 Forbes magazine's Face of the Year 2003 Awarded the Frank Malina medal for Space Education by the International Astronautical Federation (1998)
C. Achuthan	Member of the Securities & Exchange Board of India Chairman of the Securities Appellate Tribunal Member of the Law Commission of India Advisory Board of BNP Paribas Group, India Trustee of ING Mutual Fund.	
Tarun Das	Chief Mentor of the Confederation of Indian Industry (CII) and was its Chief Executive from 1974 to 2004 Served as the Co-Chair of the Indo-US Strategic Dialogue and of Indo-US-Japan Strategic Dialogue	Recipient of the 'Blackwill Award' by the US India Business Council Awarded the 'Padma Bhushan' in 2006
T. N. Manoharan	President of The Institute of Chartered Accountants of India (ICAI) Served as the Vice-President of ICAI (Institute of Corporate Affairs of India) Member of the Advisory Board of the Central Vigilance Commission. Member of an accounting standards board of the International Federation of Accountants.	
S B Mainak	Chief of Investment - Central Office at the Life Insurance Corporation of India. Director of the National Stock Exchange of India Ltd. Member of the Executive Committee at the National Commodity And Derivatives Exchange Limited	

Source: Satyam Computer Services Ltd, Company Profile. Bloomberg Businessweek Online edition, http://investing.businessweek.com/research/stocks/people/committees.asp?ticker=SCS:IN, accessed March 2013

Exhibit 7 Satyam Computers Scandal- Chronology of Events

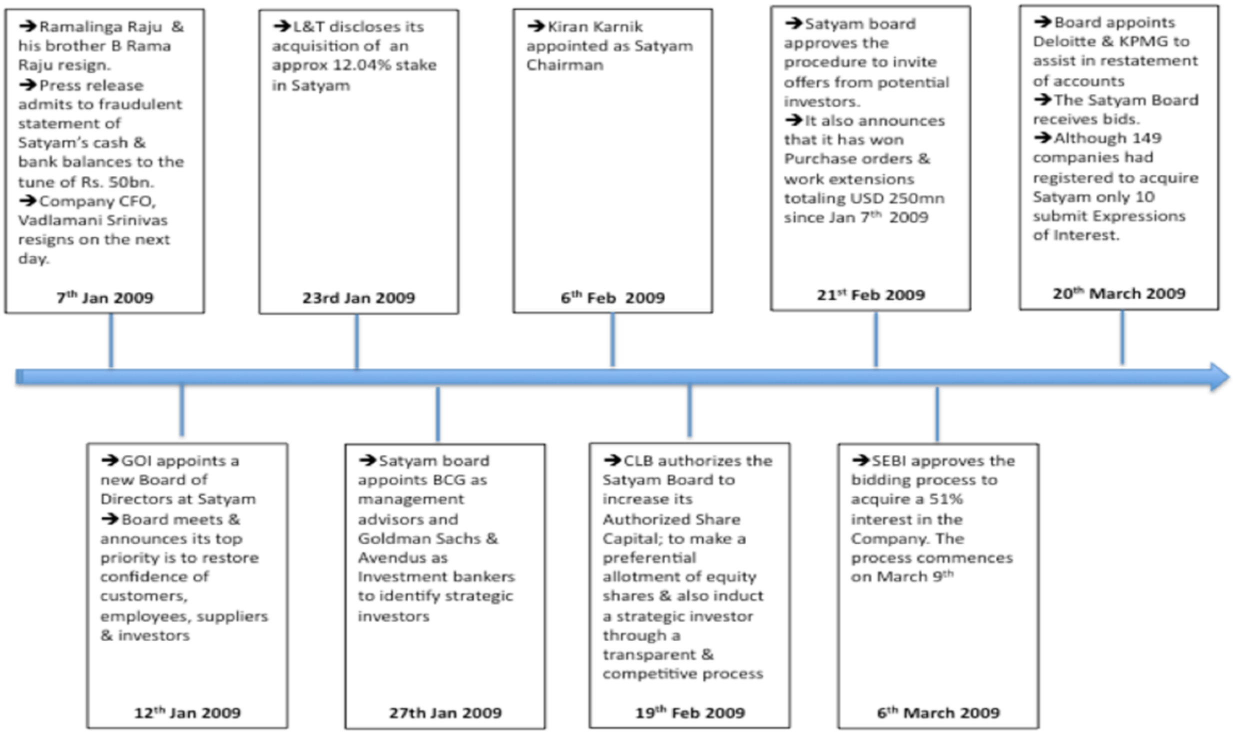

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Exhibit 8 Competitive landscape of IT industry (2008)

Key Financials- 2008 (Million $)	Satyam	Infosys	TCS	Wipro	Tech Mahindra
Revenue (% of year on year growth)	2120 (31%)	4176 (20%)	5720 (23%)	4939 (32%)	935 (44.0%)
EBITDA (EBIDTA Margins)	459 (21.7%)	1310 (31.4%)	1342 (23.5%)	859 (17.4%)	205 (21.9%)
PAT (PAT Margins)	422 (19.9%)	1135 (27.2%)	1266 (22.1%)	801 (16.2%)	192 (41.2%)
Verticals as a Percentage of Revenue					
BFSI	23%	35%	42%	26%	
Manufacturing	24%	18%	11%	19%	
TIMES	22%	21%	17%	30%	
Retail, Transport & Logistics	8%	15%	14%	17%	
Healthcare & Pharma	8%		5%		
Others	15%	13%	12%	8%	100%
Geographies					
US	60%	62%	54%	59%	20%
Europe	21%	28%	31%	27%	70%
Rest of World	19%	10%	15%	14%	10%
Client Concentration					
Top client / total revenue	5%	8%		3%	64%
Top 10 clients/total revenue	33%	28%	27%	20%	
# of active clients	649	586	920	906	107
Employees Strength	52865	100,306	121,610	97,552	22,884

Source: Satyam Annual Report (2008), Infosys Annual Report (2008), TCS Annual Report (2008), Wipro Annual Report (2008), Tech Mahindra Annual Report (2008).

Endnotes

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