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17/12-16



School of Management
Doon University, Dehradun
Semester End Examination, December 2016

Subject - Corporate Governance
Subject Code - IMBA 506
Course - IMBA

Max Marks - 50
Duration - 3 hrs
Semester - 5

Section - A

- Q1. Enlist the rights and privileges of Shareholders. 3
- Q2. Discuss the role of SEBI in promoting Corporate Governance. 3
- Q3. "Whistle Blowing is an important aspect of Corporate Governance." Elaborate. 3

Section - B

- Q1. What do you understand by the term "Corporate Governance"? While explaining the concept, discuss both "market model" and "control model". 8
- Q2. Discuss some of the prominent issues of Corporate Governance. Discuss the relevance of these issues with particular reference to Indian Corporate Sector. 7
- Q3. Justify the need and relevance of Corporate Governance for developing countries with particular reference to India. Support your answer with Corporate Governance model of India. 7
- Q4. Discuss critically the role of Board of Directors in ensuring Corporate Governance 7

Section –C

Case Study Satyam Computers

Satyam means truth but Rs 7000 crore scam is the largest corporate scam confessed by Satyam Computers. Satyam is the Country's fourth largest IT Company after TCS, Infosys and Wipro. It was cooking its books for last several years by inflating its revenues and profits. It boosted its cash and bank balance and showed interest income which did not actually exist and overstated its debtors to promote its sales figures.

Ramalinga Raju is the company's promoter Chairman based at Hyderabad. He kept lying the company's financial position to its shareholders, employees and public around the globe. On 7th January, 2008, Wednesday, the scam was unfolded when confession was made to SEBI which knocked down the stock market and created a blank shadow over the industrial sector, particularly the IT sector. Questions were raised about the Corporate Governance, role of auditors and independent directors.

Most of the shareholders made an exit from the share market and by the end of the day, massive sale by FIIS drove the stock market down by 78%.

Doubts over financial health and corporate governance of sensex constituents resulted in panic selling and experienced the 10th worst fall in the stock market index (*down by 749 points) since the 30 share index was launched in 1986.

In order to cover the misdeeds, Raju wanted to sell out \$1.6 billion to acquire his sons' companies, Maytas Properties and Maytas Infra. He wanted to make fictitious transfers to come out of the financial scam.

Merril Lynch, the company's financial advisor, terminated its agreement with Satyam to advise it on strategic options because of material accounting irregularities. By the end of Wednesday, there was huge hue and cry by investors to probe against Raju, Satyam and its auditors with SEBI, the Exchanges, ICAI and department of company.

In his letter to the Satyam Board, Ramalinga Raju said, "neither myself nor the management director, (including our spouses) sold any shares in the last eight years excepting for a small proportion declared and sold for philanthropic purposes." The promoters wanted to suggest that they have not sold the shares of the company for several years and therefore have not benefited from inflating the share price by overstating its performance. Despite the claim, however, the fact remained that promoters' holding fell to 8.2% of the total equity by June 2006 from 25.6% of the total shares of the company in March 2001. It fell from 7.2 crore shares to 3 crore shares during the same period. The promoters realized more than Rs 1000 crore from sale of shares at the time when average share price of the company was about Rs 700. The share price was about Rs 225 in mid- December, 2007 and on Wednesday, the 7th January, 2008 the share price fell to Rs 40. It becomes difficult to accept from these figures that Raju's have not gained from inflated results.

The Chairman, Rasmalinga Raju has admitted that the company had been cooking figures in its financial statements and showing higher revenues and lower liabilities. It has been overstating its profits and reserves. From September 2007 to December 2008, the company's bank balance was overstated by Rs 5,040 crore and accrued interest by Rs 376 crore. Liabilities were understated by Rs 1,720 crores. Thus overall financial statement was overstated by Rs 7,136 crore. The purpose of the scam was to keep the financial position of the company look good. As the promoters had a small percentage of equity, the poor performance of the company could result in a takeover. It was therefore important that the company was presented as a growing company.

Acquisition of Maytas, a real estate firm owned by Raju's family was seen as the last attempt to fill company's fictitious assets with real ones. Investors of Maytas viewed it as a good divestment opportunity. Maytas was proposed to be bought for about Rs 6,400 crore and turned into a wholly owned subsidiary of Satyam. It was hoped that payment to Maytas could be delayed. Since payment had to be made to Maytas, which was owned by Raju family, for its shares only on the paper, Rs 6,400 crore would move out from Satyam's books into Raju family's hands. Satyam would have acquired Maytas shares in turn. The payment was just a formality where Raju family technically received Rs 6,400 crore. This would result in Satyam's inflated reserves and surplus to come down to actual level without showing that the books were overstated. The Raju family would have actually got less than RS 6,400 crore but then, they would not complain and nobody but Raju family would know about this. It would only result in passing of non-existent reserve of Satyam to Maytas to deflate the inflated figures in Satyam's books.

However, investors created a furore over the proposed merger as they felt that Maytas was being purchased at an overvalued figure. This closed opportunity for Satyam to engage in bungling with Satyam's paper transfers.

The initial investigations by the Registrar of Companies into the Satyam scam has revealed large scale selling of company's shares by institutional investors just days ahead of Ramalinga Raju's confession of manipulating company accounts.

Highly placed official sources said, The Serious Fraud Investigating Office, (SFIO) would closely scrutinize some of these transactions since they have raised the suspicion of possible insider trading. The sales took place after the Satyam – Maytas merger fiasco which, too, might have encouraged these big players to exit the IT major.

The sources said five sales between December 23 and January 5, totaling 2.45 crore shares are particularly under the scanner. These sales were all involving shares pledged by the Raju family with various entities to raise loans.

QUESTIONS

Q1. Analyse the case in terms of requirements of Corporate Disclosure.

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Q2. What are the principles of Corporate Governance and how have they been violated by the Satyam Computers

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