

Satyam Situation



neoIT Recommendations

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INTELLIGENT
TRANSFORMATION

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Satyam Situation

Failed Acquisition Attempt

- On Dec 16, Satyam announced its intent to buy Maytas Properties and Maytas Infrastructure (infrastructure businesses unrelated to IT) for \$1.6B
- On Dec 17, Satyam calls off the deal because of widespread protests from investor community
- Investors felt that this was an ill-conceived plan to divert the cash (\$2B per Sept 30) from Satyam's books to Maytas group in which the Satyam Chairman, Ramalinga Raju's family had a majority stake

Public Relations

- On Dec 24, the World Bank announces its decision to bar Satyam for 8 years, starting September 2008 from bidding for any World Bank related contracts on account of fraud
- Dec 25 – 30: Several board members resign owning moral responsibility for not voting against the resolution related to acquisition of Maytas

Accounting Fraud

- On Jan 7, Raju admitted to misquoting revenue, cash balances and profit numbers on Satyam books for the past few years.
 - For Sept quarter, Satyam overstated the revenues by around \$120M and overstated operating margin by \$120M. Inflated cash and bank balances by over \$1B
 - Accrued interest of approximately \$100M which is non-existent
 - Understated liability of around \$240M & Overstated debtors position

Government of India Intervenes

- On January 9, Ministry of Corporate affairs disbands current board and appoints a new board on the 11th. New board to assess situation and make decisions

Repercussions for Satyam

Legal Action

- Regulatory action in India and U.S.*
- Possible criminal action (in India and the U.S.) against the CEO (Raju) for falsifying accounts
- Lawsuits / legal action against Satyam by the investor community both in India and the U.S.

Loss in Reputation

- Loss of investor confidence. Several investors have dumped the stock from their portfolio
- Loss of confidence by clients – expected that clients will re-evaluate and consider alternate vendors

Financial / Operational

- Lack of cash reserves will severely limit growth
- Working capital management will be constrained – ability to pay employees and vendors will be stretched
- Erosion in market capitalization of Satyam; Satyam stock fell by over 70% between January 6th and 7th and is expected to fall further
- Potential acquisition of Satyam. However, given the accounting scandal, acquisition will be dependant on the ability to separate core operations from the promoters and associated liabilities

Employee Morale

- Employee morale is hit. Several employees will look for alternate opportunities as well as be poached by rivals

*: *Satyam is listed on the Indian stock exchange as well as on NYSE*

Scenario 1a: Satyam gets Acquired (1/2)

Single entity acquires Satyam

Risks to Buyer

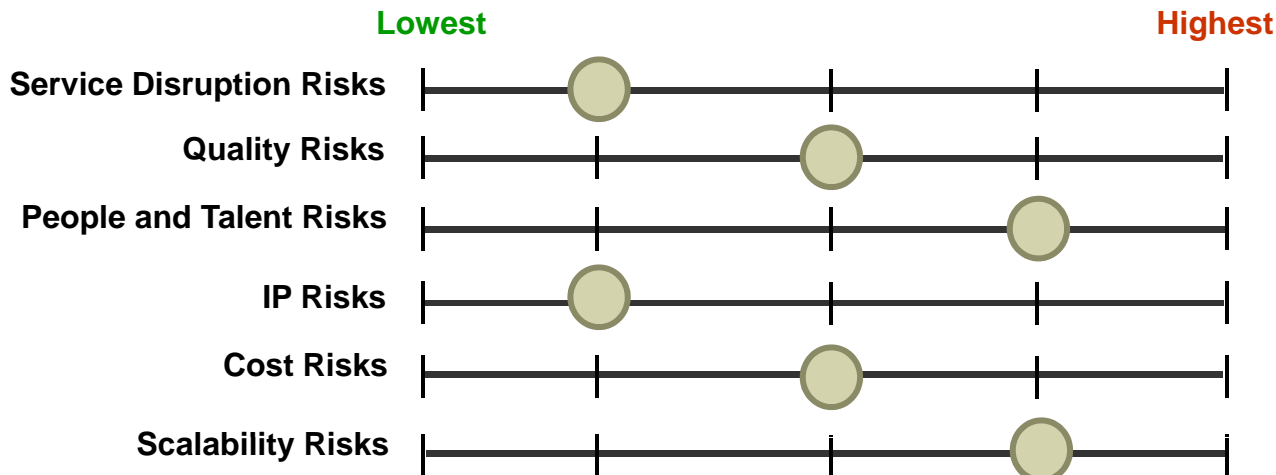
- Loss of negotiating leverage with the acquirer as compared with Satyam
- Loss of key personnel / senior management from Satyam may impact relationship
- Potential increase in cost of services for additional scope of work
- Scalability may become a challenge if the acquirer's business strategy is not aligned

Scenario Analysis

Probability	●
Impact	●
Timeframe	1 Quarter

High ● Medium ● Low ●

Impact of Risks



Scenario 1b: Satyam gets Acquired (2/2)

Satyam is split into multiple entities and acquired by more than one organization

Risks to Buyer

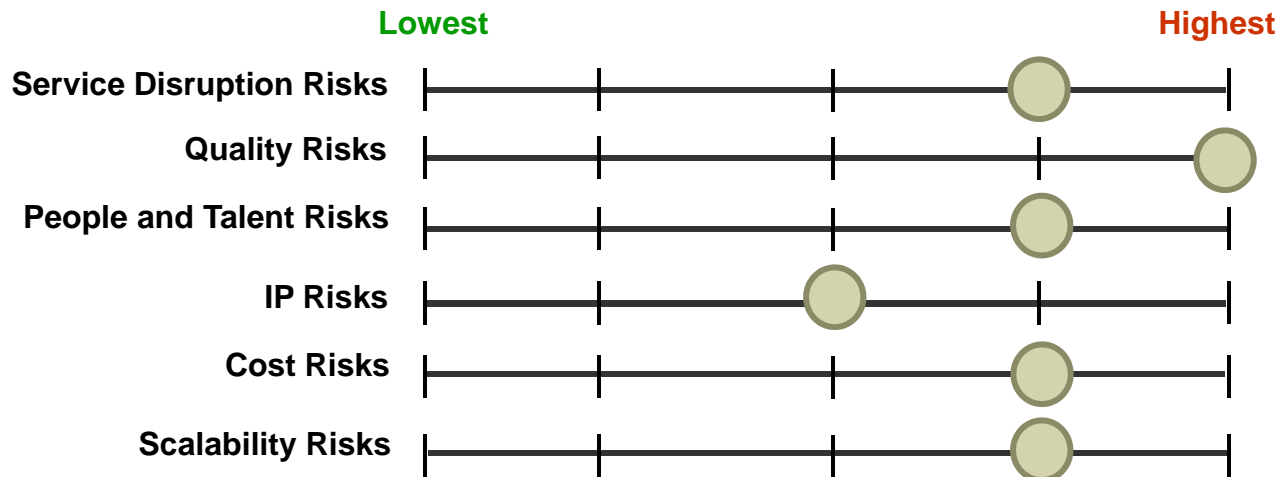
- Service delivery and quality will be impacted due to presence of multiple entities
- Loss of key personnel / senior management from Satyam may impact relationship
- Potential increase in cost of services for additional scope of work
- Scalability in future will be dependant on size and capability of each entity
- Increased challenges related to program management and governance

Scenario Analysis

Probability	● (Yellow)
Impact	● (Red)
Timeframe*	2-3 Quarters

High ● (Red) Medium ● (Yellow) Low ● (Green)

Impact of Risks



* Long drawn process to break Satyam into multiple 'attractive' units & find interested suitors for each of them

Scenario 2: Satyam Goes Bankrupt

Risks to Buyer

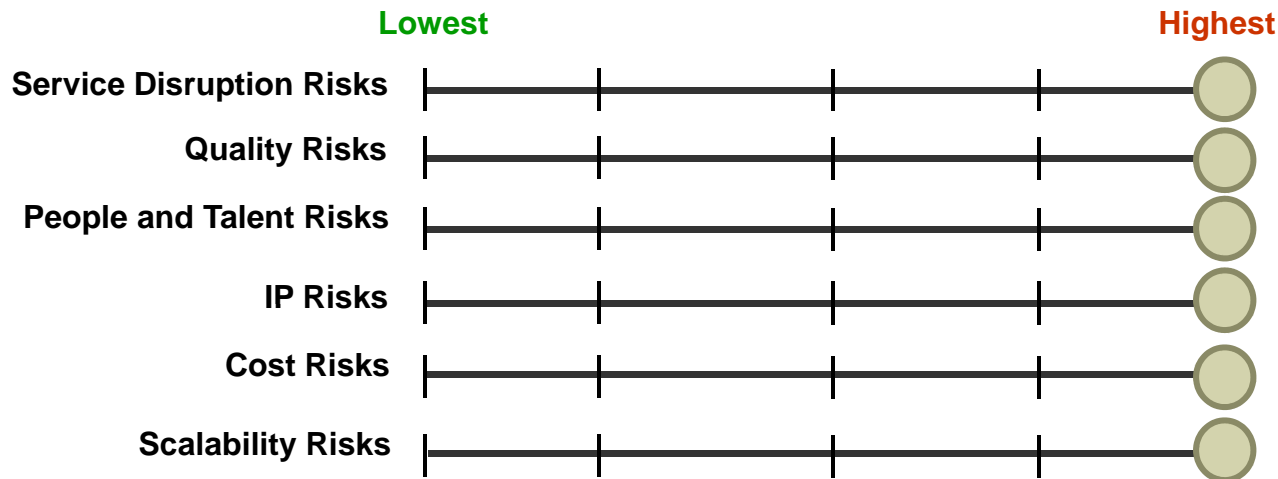
- Satyam will be unable to manage operations and pay its employees salaries
- Inability of Satyam to service requirements per contract will have significant impact on Buyer's business
- Moving to alternate provider will come at a cost and risks to Buyer

Scenario Analysis

Probability	●
Impact	●
Timeframe	1-2 Quarters

High ● Medium ● Low ●

Impact of Risks



Scenario 3: Satyam Continues to Exist as an Entity

Risks to Buyer

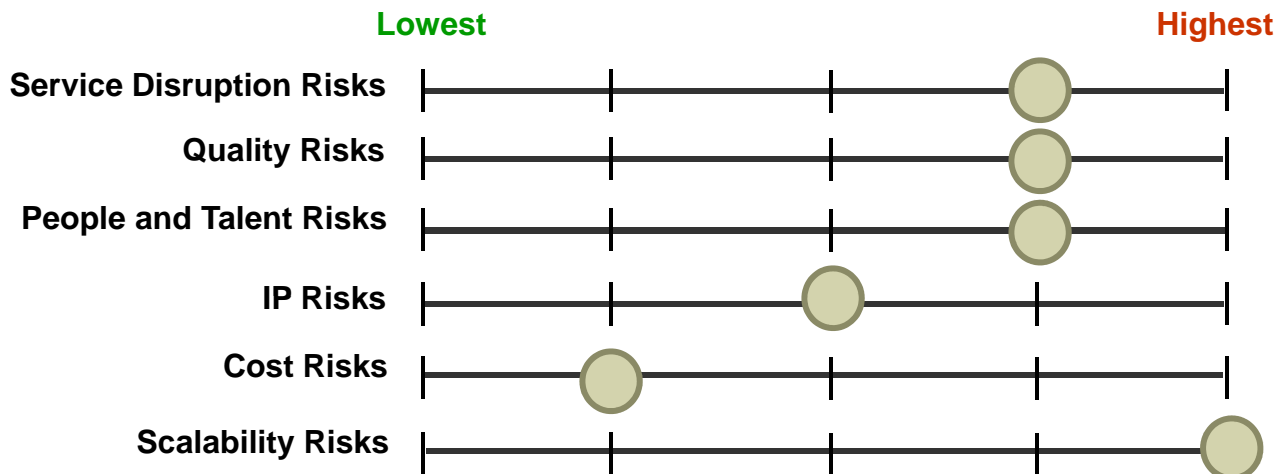
- Management changes at Satyam may be disruptive resulting in exodus of employees, key personnel and senior management
- Loss of goodwill with stakeholders (employees, investors and clients) will significantly impact Satyam's ability to gain business in future
- Ability to scale-up, retain & attract talent will be limited

Scenario Analysis

Probability	● (Low)
Impact	● (Medium)
Timeframe	2-3 Quarters

High ● (Red) Medium ● (Yellow) Low ● (Green)

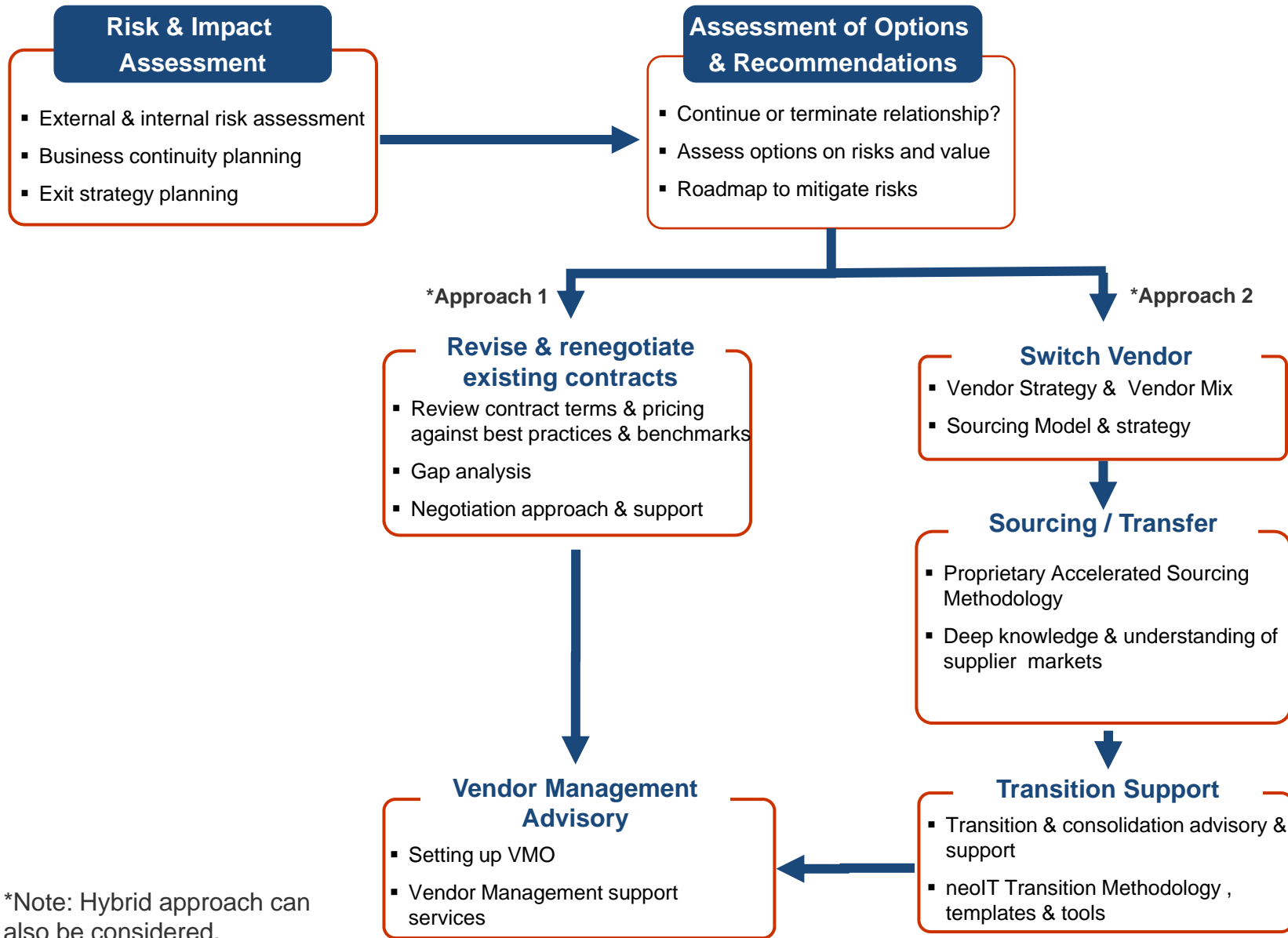
Impact of Risks



Recommendations for Organizational Preparedness

Scenario	Likely Impact	Preparation & Readiness Required
<p>Satyam gets acquired</p>	<p>Increased complexity in governance and vendor management</p> <p>Scalability Challenges</p>	<ul style="list-style-type: none"> • Risk assessment and prioritization of scope managed by Satyam • Review contract terms & assess de-risking procedures (badging, escrow etc) • Assess impact of change in ownership
<p>Satyam becomes insolvent</p>	<p>Disruption & negative impact on services</p> <p>Financial loss and impact on operations</p>	<ul style="list-style-type: none"> • Estimate business & financial costs/losses for this scenario • Develop Plan B – find potential alternate vendors to transfer scope of work from Satyam • Evaluate options to bring back certain services in-house temporarily • Evaluate options to hire Satyam staff
<p>Satyam continues as an entity</p>	<p>Business as usual</p> <p>Disruption & negative impact on services initially till Satyam becomes stable</p>	<ul style="list-style-type: none"> • Review & renegotiate contract terms with Satyam to reduce further exposure to risk • Form a joint team to regularly evaluate risks of similar nature for the engagement till the contract duration • Estimate switching costs (“Termination for Convenience”, as well as cost to move to alternative vendor) • Develop a roadmap for alternate sourcing strategy

How can neoIT help?



*Note: Hybrid approach can also be considered.

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