

India's fraud-hit Satyam posts loss but is on the mend

September 29 2010, by Salil Panchal

India's fraud-hit Satyam announced Wednesday a loss of 27.6 million dollars for the last fiscal year as it reported its first earnings since an accounting scandal pushed the firm to the edge of bankruptcy.

The outsourcing company, rebranded Mahindra Satyam, posted a net loss of 1.24 billion rupees (28 million dollars) for the 12 months ended March on 54.8 billion rupees revenue -- in line with market expectations.

The figures gave the first financial glimpse of the company since January 2009, when its former chairman B. Ramalinga Raju said he had for years overstated profits and inflated the balance sheet by over a billion dollars.

"The patient has been revived and is convalescing. But it could be a year or two before the company will be healthy and running again," Mahindra Satyam chairman Vineet Nayar told a news conference.

The net loss was higher for the previous full-year ended March 2009 at 81.76 billion rupees, the Hyderabad-based company said.

Satyam was taken over in April by mid-sized software outsourcer Tech Mahindra, a unit of the tractors-to-holidays conglomerate Mahindra and Mahindra, which paid nearly 600 million dollars for a majority share.

Before the scandal broke, Satyam reported net profit for the quarter ending December 2008 of 1.81 billion rupees (38 million dollars).

Satyam shares rose 3.6 percent during the day on earnings optimism but ended the day flat at 98.9 rupees.

The company is in the process of restating its accounts for the last half dozen years.

"We saw a huge exodus of clients after the scam broke," Nayyar said.

In March 2009, Satyam had 500 clients and it now has 350.

Former chairman Raju, who faces a slew of charges including conspiracy, cheating and forgery over the scandal, was released on bail on health grounds.

Analysts have been divided about Satyam's future, with some saying the worst is over while others argue it could take a "few quarters or even years" of uphill struggle to fully emerge from the scandal.

Satyam's stock plunged more than 90 percent when the scandal broke but recovered when a government-appointed board took charge and later chose Tech Mahindra as the new owners through a bidding process.

Satyam's shares, however, are still around 45 percent below their pre-crisis levels.

Investors have been waiting for signs of recovery, particularly after the firm said last week it would delist from the New York stock exchange amid fears it might not meet US reporting deadlines for its restated accounts.

Satyam has struggled to retain staff in face of stiff competition from rivals such as Tata Consultancy Services and Infosys Technologies, which have both ramped up recruitment as demand for outsourcing

increases.

Staff numbers have slumped by 40 percent since the scandal and now stands at 27,000.

"With predatory competition, client and staff attrition, and a damaged reputation, the combined entity faces an uphill struggle over the next few quarters, if not years," CLSA analysts said in a recent report.

Satyam, ranked as India's fourth-largest outsourcer by revenue before the scandal, acts as a back office for some of the world's biggest companies including Nestle, General Electric and General Motors.

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