India's Tech Mahindra announces Satyam merger

March 21 2012, by Salil Panchal

India's Tech Mahindra announced its long-awaited buyout of IT outsourcer Satyam Computer on Wednesday, creating a new force in the sector with annual revenue of $2.26 billion.

Tech Mahindra bought a 42.7-percent stake in Hyderabad-based Satyam in April 2009 when it was on the verge of collapse following an accounting scandal.

The company has since operated under the name Mahindra Satyam and has emerged from the crisis profitable, posting a net gain of 3.08 billion rupees ($61 million) for the last quarter of 2011.

The takeover of the remaining stake will involve an exchange of stocks, with Satyam shareholders receiving one Tech Mahindra share for every 8.5 Satyam shares. The merger is expected to be completed in six to nine months.

The as yet unnamed group will be India's fifth-largest locally-listed software exporter by sales and have annual revenue of $2.26 billion, a market value of nearly $3.4 billion and 350 active clients.

Ankita Somani of Angel Broking said the merger created a diverse company with a presence in manufacturing, financial services, banking, telecom and retail.

Shares of both firms rose smartly after the announcement, with Tech

Mahindra closing up 5.48 percent at 683.9 rupees while Satyam ended up 4.59 percent to 77.55 on the Bombay Stock Exchange.

The merger comes as India's software industry is forecast to enter a period of slower growth, given the tough business conditions faced by clients in the United States and Europe, both key markets for Indian software firms.

Satyam stunned corporate India in 2009 when its founder B. Ramalinga Raju admitted he had for years overstated profits and inflated the firm's balance sheet by more than $1 billion.

The scandal nearly pushed Satyam into bankruptcy as clients and staff exited, but Tech Mahindra, part of Indian auto and farm equipment manufacturer Mahindra and Mahindra, came to the rescue.

Raju, once a star of India's software boom, is now on bail awaiting trial for conspiracy, cheating and forgery.

"Satyam has reached normalcy. We saw this as the right time to merge," Tech Mahindra's vice-chairman Vineet Nayyar told reporters in Mumbai on Wednesday.

Sanjeev Hota, analyst at Mumbai's Sharekhan, said the new company would have "the bite and strength to go for larger deals."

Satyam last year said it has settled most legal liabilities filed by shareholders against it, barring a $68 million Aberdeen suit and one from the income-tax department which are unresolved.

Officials said no decision has been taken to re-list the new firm on the New York Stock Exchange, which Satyam had exited from in 2010.

After the merger, British telecoms group BT will own 12.8 percent of the combined entity, the Mahindra group 26.3 percent, with 10.4 percent in treasury stock and the balance with the public.

Besides Satyam, four other wholly-owned Mahindra subsidiaries -- Venturbay Consultants, C and S System Technologies, CanvasM Technologies and Mahindra Logisoft Business Solutions -- were also fully integrated into Tech Mahindra.