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Indian Company Fights to Survive

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NEW DELHI — The Indian outsourcing company Satyam was struggling on Thursday to determine the extent of a financial fraud that has left it fighting for survival as investors began to search for ways to recoup their loses.

"We have launched a process to ascertain Satyam's financial condition, particularly its liquidity position," the interim chief executive, Ram Mynampati, said, a day after Satyam's chairman, B. Ramalinga Raju, admitted to overstating profits as well as overstating the amount of money owed to the company.

Mr. Mynampati said Satyam was working to find enough cash to pay its employees, suppliers and creditors. Satyam's "liquidity is not very encouraging at this point," he said, and it was working to collect money owed from customers.

Analysts at First Global Securities, a broker firm, said in a report that Satyam did not have enough cash to pay salaries at the end of the month. "With Satyam's operations failing to generate the required amount of cash, we believe that it will be impossible for the company to continue its operations," the report said.

While the company's founder may have admitted committing the largest corporate fraud in Indian history when he said he made up $1 billion out of thin air, Satyam's auditor, PricewaterhouseCoopers, could pay the price.

Investors are expected to go to court to recoup some of the billions of dollars in equity destroyed. Most are not expected to go after the company, they are aiming at Satyam's auditor.

"Pricewaterhouse has signed the balance sheets, and so they are responsible if there has been a falsification," said Ravi Nath, a lawyer with the Rajinder Narain law firm in New Delhi. The firm has been contacted by several investors looking to sue the auditor.

"If you're an auditing company and your client says they have $1 billion in cash, you do check with the bank," said Hugh Young, the head of equities for Aberdeen Asset Management, which was a Satyam investor until it sold its holdings as problems came to light.

Mr. Nath said that while auditors were dependent on information they got from a company's management, "they do have to verify that information."

Pricewaterhouse audited Satyam for at least eight years, and signed off on its filings with securities regulators in the United States, Europe and India. The company has drawn criticism from Indian officials.

“We will soon take coordinated action in the strictest possible manner against erring company officials and auditors,” P. C. Gupta, India’s corporate affairs minister, said in a televised interview.

Pricewaterhouse said Thursday in a statement that it had applied appropriate accounting standards to Satyam’s books. It said it would cooperate with regulators.

Price Waterhouse, which merged with Coopers & Lybrand in 1998 to form PricewaterhouseCoopers, has been doing business in India for more than 100 years. It is the only major accounting firm that does business under its name. Foreign auditors are barred from signing off on balance sheets of Indian companies by an act passed in 1949, but Pricewaterhouse’s presence predates that act.

On Thursday, at a news conference, Mr. Mynampati said Satyam had not yet talked with Pricewaterhouse about why it might not have caught the financial misstatements.

Taking the accounting firm to court may be investors’ only chance to recoup losses. Satyam, which serves as the back office for hundreds of corporations, providing everything from billing to technology support, is virtually out of cash and is expected to be sold, whole or in parts.

The company’s physical assets, like computer networks and desks, are tied to the companies that Satyam serves and would be worth little on the open market. And its work force of more than 50,000 could scatter.

Mr. Mynampati said Satyam would engage a new investment bank to explore the possibility of a sale or merger of all or part of the company. In late December, the company had engaged the investment bank Merrill Lynch to advise it on “strategic options,” but Merrill Lynch terminated its relationship with the company a day before Mr. Raju’s revelations.

Accounting firms can take the hit when their clients falsify numbers — most notably, Arthur Andersen imploded after its involvement with the energy company Enron. The firm was sued and convicted by a Texas jury for its involvement in the Enron fraud. That suit was overturned years later, but Arthur Andersen lost customers and businesses, and was forced to close.

Enron and other financial frauds relied on dizzying arrays of off-balance-sheet partnerships and complicated circular trades with willing outside institutions to deceive investors. But the Satyam fraud was absurdly simple: The company said it had about $1.1 billion in cash and bank balances. But, in fact, it had less than $100 million.

At the news conference, Mr. Mynampati sought to reassure investors and customers that the business would continue. “You can rest assured that our only aim at this time is to ensure the business continues uninterrupted and the challenges if any are minimized or neutralized,” he said.

Satyam has reached out to its customers, he said, particularly its 100 largest customers, from which Satyam derives 80 percent of its revenue — to assure them of its ability to continue to provide them with critical services.

Mr. Mynampati confirmed reports that in addition to Mr. Raju, Satyam’s chief financial officer, Srinivas Vadlamani, had submitted his resignation, although the board had not yet accepted it.

Mr. Mynampati, who was president of Satyam's commercial and health care business before to being named interim chief, is one of only three directors who has not resigned. He said that he and other directors had relied on the assurances made by the auditor in assessing the company's financial condition and that he had no personal knowledge of the problems before reading Mr. Raju's letter.

He said the company did not know the whereabouts of Mr. Raju, but that it assumed he was still in Hyderabad. There have been reports in the Indian media that Mr. Raju was missing and may have fled the country, although these have not been confirmed.

Throughout the news conference, Mr. Mynampati asked Satyam's investors "to be patient" and said he was sure the company would soon be able to provide enough transparency into its books to reassure them that it would be able to survive and continue to serve its customers.