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Critical analysis of the Satyam Scandal: India's biggest Accounting Fraud

Swati Koul & Chahana Charles

INTRODUCTION

A class action suit is one where the shareholders of a company collectively institute a suit against the company. While such provision was inserted in CA (Companies Act)2013 at the time of its creation, it was only notified in June 2016.¹

The provision was long needed and its lack was felt harshly when Satyam Scam occurred in 2009. The Indian shareholders could not claim any money while US courts provided relief to the American investors through class action suits.

In a class action suit plaintiffs harmed by a common defender can all hold him liable in a single suit. Only one petitioner represents all of their rights and is required to be present at the court. Usually individual injuries are somewhat minor.

The concept of Class action suits did not originate in India. It stems from US, where it was introduced in the year 1983.

In S.245 and S. 246 of the Companies Act, 2013 class -action suits are dealt with. These arrangements license individuals and contributors (the two terms are as characterized under the Act) to approach the National Company Law Tribunal ("NCLT") on the off chance that they accept that the issues of the organization are being directed in a way inconvenient to the enthusiasm of the organization and its investors.

S.245 of the Act provides that a specific number of individuals or investors are qualified for bringing an activity before the NCLT in the event that they are of the notion that the administration or direct of the undertakings of the organization are being led in a way biased to the premiums of the organization or its individuals or contributors. It contains ten distinctive sub statements and gives the method just as the reliefs which can be looked for.

It provides that for a company a member holding a prescribed percentage, a prescribed percentage of members or a minimum 100 members whichever is less can bring forth a class action suit. If it's a company without share capital than at least 1/5th of its total members.

Its similar for depositors as well as notified by the Government on 8 May 2019.

¹“Class Action Suits: Notified Yet Ambiguous - Litigation, Mediation & Arbitration - India” (*Class Action Suits: Notified Yet Ambiguous - Litigation, Mediation & Arbitration - India*) <[http://www.mondaq.com/india/x/548850/Class-Actions/httpwwwmondaqcomcontentprarticleaspprid20550productid#targetText=Introduction,a suit against the company.](http://www.mondaq.com/india/x/548850/Class-Actions/httpwwwmondaqcomcontentprarticleaspprid20550productid#targetText=Introduction,a%20suit%20against%20the%20company.)> accessed September 22, 2019

Notice of the limits grants investors to record legal claims against organizations permitting minority investors and speculators to look for cures, for example, controlling the organization from submitting acts which either disregard or which are ultra vires of its sanction archives; limiting organizations from submitting acts in opposition to the Act; asserting harms or other proper activity from chiefs, inspectors, outer counsels or whatever other individual who owned off base expressions or who occupied with concealment of material realities or fake lead and so forth.

This redressal system secures little and minority investors and gives them an amazing asset to hold organizations under control. It might even bring about organizations and their outside evaluators, counsels and experts being increasingly persevering and cautious.

CONDITIONS TO FILE A CLASS ACTION SUIT

Conditions, as referenced beneath, are pursued as an essential to documenting a Class Action Suit.

- For organizations having an offer capital, or individuals –
- 100 individuals least of such organization can record the argument against that organization for a
- At any rate 10% of the all out individuals can record the body of evidence against the organization/the executives
- Part holding 10% of gave share capital can record the body of evidence against the organization/the executives

For organizations not having share capital –

- In any event 1/fifth of the individuals can document the objection against the organization under class activity suit for any unfortunate behavior of the board with respect to running the organization.

SATYAM CASE FACTS



B. Ramalinga Raju, established Satyam in Hyderabad, India in 1987, with less than 20 workers. Incidentally, Satyam signifies "truth" in the old Indian language Sanskrit. The organization has some expertise in data innovation, business administrations, PC programming, and is a driving re-appropriating organization in India. Satyam quickly experienced accomplishment after it gave a first sale of stock on the Bombay Stock Exchange in 1991. Set up on 24th June 1987 by B. Ramalinga Raju and his brother by marriage, D. V. S. Raju, Satyam Computer Services Limited was consolidated in 1991 as an open constrained organization and furthermore got its first Fortune 500 customer, Deere and Co. In a limited ability to focus time, it turned into a main worldwide counselling and IT administrations organization traversing 55 nations before adversary made up for lost time with it.

It was one of only a handful couple of Indian IT' administrations organizations recorded on the New York Stock Exchange. It was positioned as India's fourth biggest programming exporter, after TCS, Infosys and Wipro. The 1990s were a period of significant development for the organization. It likewise caused the development of various backup organizations such as Satyam Renaissance, Satyam Info way, Satyam Spark Solutions and Satyam Enterprise Arrangements; Satyam Info way (Sify) by chance turned into the primary Indian web organization to be recorded on the NASDAQ. Satyam gained a great deal of organizations and extended its tasks to numerous nations and marked MoUs with numerous worldwide organizations in the upcoming years.

Satyam added a great many plumes to its top by turning into the primary organization on the planet to begin a program known as the Customer-Oriented Global Organization preparing in May 2000, marking contracts with various global players, for example, Microsoft, Emirates, Advancements and Ford, asserting the benefit of being the first organization in the world affirmed by BVQI, and acquiring the name as a worldwide organization by opening workplaces in Singapore, Dubai and Sydney. In 2005, it procured a 100 percent stake in Singapore-based Learning Dynamix and 75 percent stake in London based Citisoft Plc. Satyam was an organization on the road to success to progress and has legitimately earned for itself a name for counselling in the territory of methodology directly through to executing IT answers for clients.

At the pinnacle of its business, Satyam utilized almost 50,000 representatives and worked in 67 nations. Satyam was for instance of India's developing achievement. Satyam won various honors for development, administration, and corporate responsibility. In 2007, Ernst and Young granted Mr. Raju with the Entrepreneur of the Year grant. On April 14, 2008, Satyam won honors from MZ Counsel's for being an innovator in India in corporate administration and responsibility. In September 2008, the World Council for Corporate Governance granted Satyam with the "Worldwide Peacock Grant" for worldwide greatness in corporate responsibility. Tragically, under five months subsequent to winning the Global Peacock Award, Satyam turned into the highlight of a gigantic bookkeeping extortion.

PROBLEM

Issues in Satyam start when on December sixteenth, 2008; its administrator Mr. Ramalinga Raju, in a shock move declared a \$1.6 billion offer for two Maytas organizations for example Maytas Infrastructure Ltd and Maytas Properties Ltd saying he needed to send the money accessible to assist financial specialists. The two organizations have been advanced and constrained by Raju's family. The thumb down given by financial specialists and the market constrained him to withdraw inside 12 hours.

Offer costs dives by 55% on worries about Sat yam's corporate administration. In an unexpected move, the World Bank declared on December 23, 2008 that Satyam has been banished from business with World Bank for a long time for furnishing Bank staff with —improper benefits‖ and accused of information burglary and influencing the staff. Offer costs fell another 14% to the most minimal in more than 4 years.

The one autonomous executive since 1991, US academician Mangalam Srinivasan, declared renunciation pursued by the abdication of three progressively free chiefs on December 28 for example Vinod K Dham (broadly known as dad of the Pentium and an ex Intel worker), M Rammohan Rao (Dean of the eminent Indian School of Business) and Krishna Palepu (educator at Harvard Business School).

Finally, on January 7, 2009, B. Ramalinga Raju reported admission of over Rs. 7800 crore budgetary extortion and he surrendered as administrator of Satyam. He uncovered in his letter that his endeavor to purchase Maytas organizations was his last endeavour to —fill invented resources with genuine ones. He conceded in his letter, it resembled riding a tiger without realizing how to get off without being eaten. Satyam's advertisers, two siblings B Ramalinga Raju and B Rama Raju were captured by the State of Andhra Pradesh police and the Focal government assumed responsibility for the polluted organization. The Raju siblings were reserved for criminal rapture of trust, conning, criminal connivance and imitation under the Indian Penal Code.

The Central Government reconstituted Satyam's board that included three-individuals, HDFC Executive, Deepak Parekh, Ex Nasscom director and IT master, Kiran Karnik and previous SEBI part C Achuthan. The Central Government added three additional executives to the reconstituted Board i.e., CII boss tutor Tarun Das, previous leader of the Institute for Chartered Bookkeepers (ICAI) TN Manoharan and LIC's S Balakrishnan. Seven days after Satyam organizer B Ramalinga Raju's shameful admission, Satyam's evaluators

Value Waterhouse at long last conceded that its review report wasn't right as it depended on wrong budget reports given by the Satyam's administration. On January 22, 2009, Satyam's CFO Srinivas Vadlamani admitted to having expanded the quantity of representatives by 10,000. He disclosed to CID authorities investigating him this aided in drawing around Rs 20 crore for each month from the related yet imaginary pay accounts.

Andhra Pradesh State CB-CID assaulted the place of Suryanarayana Raju, the most youthful kin of Ramalinga Raju who possessed 4.3 percent in Maytas Infra, and recouped 112 deal deeds of distinctive land buys and improvement understandings. Senior accomplices S Gopalakrishnan and Srinivas Talluri of the examining firm PricewaterhouseCoopers (PwC) were captured for their claimed job in the Satyam embarrassment. The State's CID police booked them, on charges of extortion (Area 420 of the IPC) and criminal connivance (120B).

VICTIMS OF FRAUD

- Workers of Satyam spent restless minutes and restless evenings as they confronted non-payment of pay rates, venture scratch-offs, cutbacks and similarly hopeless prospects of outside work. They were stranded from numerous points of view – ethically, monetarily, legitimately, and socially.
- Customers of Satyam communicated loss of trust and investigated their agreements liking to go with other contenders. Cisco, Telstra and World Bank dropped contracts with Satyam. —Customers were stunned and stressed over the venture congruity, secrecy, and cost invade.
- Investors lost their important ventures and there was question about restoration of India as a favoured speculation goal. The VC and MD of Mahindra, in an announcement, said that the improvement had "brought about boundless and unmerited harm to Brand India and Brand IT specifically."
- Brokers were worried about recuperation of budgetary and nonfinancial introduction and reviewed offices.
- Indian Government was stressed over its picture of the Nation and IT Sector influencing confidence to put or to work together in the nation.

ANALYSIS

BB Raju hid his true financial position to ensure his business runs smoothly and the takeovers are at bay. He wanted to acquire more funds and build an estate for which he siphoned those funds in other areas like land holdings estimated around 7 crore and held in Matyas firm. He did the same with many companies in Benami or in his own name.

He tried to bridge the gap between fictitious assets of Satyam with the real assets of Matyas.

Some of the senior management allowed certain employees to fake bills of the company which portrayed a wrong scenario. These invoices were then entered into the company's system and it was found around 5 crores worth of them were fake. The false invoices were forged as cash receipts and hence there were false bank statements.

Excel Portal was used for hiding the fake invoices, Satyam Project Repository was used to create project ids, Project Bill Management System for generating Bills , Operational Real time Management for creating and managing fake receipts, Invoice Management System for creating fake invoices all of these were apps used for the fraud.

CONCLUSION

As far as the suitability of class suits in India, at first under the steady gaze of the organization law 2013 was executed, it was hard to get a legal response in any such circumstances like Satyam, yet with the usage of organization law 2013, it has turned out to be entirely reasonable with regards to Indian Judicial Systems. Individuals have begun settling on these class suits since they have gotten an extra ground while battling against any maltreatment of forces by the organization the executives, against introductory days where the main response accessible was a common suit, which was not in any way feasible being profoundly time and cost devouring.

Despite the fact that it is a profoundly mind boggling situation, the courts must decide at first that the specific class activity suit was acquired great confidence, and second, it has a decent plausibility of achievement. It should handle the issue of the wronged party in normal way. Class Action Suits are still in arising stage and for the vast majority of the controllers from different Securities and Investments Commissions; Financial Service Authorities and European Union are confronting jurisdictional issues. These issues can emerge in India also, and courts must be cautious during the prosecutions under this demonstration.

Retail financial specialists who generally not take any plan of action under cases; presently have an incredible apparatus as class activity suits. This component enables financial specialists to look for cases on their speculations which may have been extreme Now since the beginning of organization law 2013, individuals or rather gathering of individuals will begin getting quicker activities and rapid transfer of cases which require prompt consideration. These cures are more compelling than

the previous ones offered under abuse and bungle. The cures are correctional and injunctive in nature.

Staunch punishments and detainment chances will likewise go about as an obstacle for the transgressors against any deceitful demonstrations. Speculators should be more vigil and caution against any mistakes of the executives. The speculator's affiliations need to show more activism, which has effectively prompted numerous corrections in the laws previously.

It will likewise effectively lessen the quantity of claims since it has enabled the gathering of individuals to document the argument against one respondent on normal grounds. This has likewise helped in expanding the effectiveness of the lawful procedure in India.

Class activities suits in India will turn into an exceptionally helpful spot for partners to raise protests if any against the administration for the unlawful and wrong acts, as it will go about as a redressal device for individuals having a typical enthusiasm against the forceful administration of organizations.

Nonetheless, on the contrary, such a thought might be available to abuse by deceptive minority investors in the duration of their personal stake along these lines blocking the best possible working of the organization. Remembering this, one might say that the administration neglected to consider the negative outcomes of class activity suit as it is clear by the truancy of arrangement to check its abuse.

Starting at now, joining of the idea of class activity suit is a profoundly invited venture for the advancement of the Indian culture as a rule and Indian corporate industry specifically, in any case, its triumph in the business is as yet vague, reason being the avoidance of key class of partners chiefly loan bosses, investors and debenture holders. Different reasons which have gone about as a deterrent for the network was the disposal of banking organizations from the extent of this Section as referenced before also. Further, even the administrative specialists have been kept out of the ambit of class activity suit as they are not qualified for document a case under this law, which has been broadly reprimanded all through India.

Other real challenges for the minority partners are the postpones seen during the constitution of NCLT, in light of which the genuine instances of the class activity were documented in the common courts, presently deferring those further because of long line in those courts.

On perusing the arrangement of this Section and further examining it, it very well may be said that the suit may in fact demonstrate to be a useful asset to keep a beware of the culpability of an organization and contain any reasonable predisposition against the minority and little investors.

It is additionally inferred that class activity suits will be an advantageous stage for little and minority investors to raise their complaint against the organization including its overseeing executive, chiefs, reviewers, experts, and so forth for acts or oversight that is improper and unlawful to the enthusiasm of the organization and its investors. Minority investors may embrace class activity suit as a redressal for those having a typical enthusiasm for the advancement of appropriate corporate administration.

Aside from the specialized and procedural feature, there are loads of changes required in protections laws on the off chance that class activities suits are to be effective in India. The present guidelines on different fronts, generally in territories, for example, insider exchanging and value control require offended parties to hold a moderately high weight of proof. Just by offering consolation to class activities alone may not be sufficient, and may require tending to a portion of the substantiate issues too.

Last yet not the least, however this class activity suit is by all accounts a weapon in the hands of the minority investors, the genuine quality must be estimated by giving it full impact upon the constitution of NCLT.

Till that point, it isn't legitimized to regard it as an appropriate advance towards a superior legitimate framework with respect to class activity suit. We as a whole ought to likewise recall that, an investor, class activity suit, would mean five to seven years of unique court (suit) trailed by an additional three years of division seat bid and pursued by an additional three years of advance in the Supreme Court which in absolute makes in at any rate an eleven years process if not more to get a last assurance.

Collectively we can dare to dream that class activities suits will act the hero of minority investors when they need it, to maintain a strategic distance from another Satyam-like disaster. It is still to be checked whether organizations in India are winding up increasingly cautious with regards to change in business and ensure that whatever in reality is should have been unveiled is done as such according to the law.