

Satyam reported ₹5,361 crore in cash. ₹5,040 crore of it did not exist

Published by OneRightAI · 5 min read

Maxim: *You only find out who is swimming naked when the tide goes out.* — Warren Buffett, 2001 letter

Good times hide weak balance sheets, borrowed growth and creative accounting. Bad times expose them. The useful question is not who was exposed last time, but what would be exposed in your portfolio next time.

Easy money and rising markets do not reveal who is strong. They hide who is weak.

On 7 January 2009, with the world's markets still reeling from the financial crisis, B. Ramalinga Raju, chairman of Satyam Computer Services, then one of India's best-known software exporters, sent his board a letter. In it he admitted to "inflated (non-existent) cash and bank balances of Rs.5,040 crore (as against Rs. 5361 crore reflected in the books)", interest income that had never been earned, overstated receivables and a hidden liability of ₹1,230 crore of funds he had arranged himself, according to the [letter](#) as filed with the US Securities and Exchange Commission. The September quarter's operating margin, reported at 24%, had really been about 3%.

He explained the years of deception in one memorable line: "It was like riding a tiger, not knowing how to get off without being eaten." A last attempt to replace the fictitious assets with real ones, through an acquisition of companies linked to his family, had collapsed weeks earlier. Satyam's shares fell a record 78% that day and the Sensex dropped 7.3%, [Business Standard](#) reported.

For years the numbers had looked superb, and the company had grown alongside an industry that was itself booming. Strong growth everywhere made a strong-looking company unremarkable. It took a falling market, an aborted deal and a confession for the water to recede.

Where Buffett's line came from

The maxim is usually quoted about frauds and bubbles, but Warren Buffett wrote it about something duller: insurance. In his [2001 letter](#), written months after the September 11 attacks had produced one of the largest insurance losses in history, he warned that insurers should test every company in a chain of reinsurance, imagining a huge catastrophe arriving during a very bad economy. "After all, you only find out who is swimming naked when the tide goes out."

His point was about hidden dependence. An insurer can look well protected because it has passed risk on to a reinsurer. But if that reinsurer cannot pay when disaster strikes, the protection was an illusion all along. Berkshire's answer, he wrote, was to keep its own risks and depend on no one.

The same letter carried a section on shareholder abuse, noting that Enron had become its symbol. Enron's accounts too had looked impressive while markets rose, until scrutiny and falling confidence exposed them in late 2001.

That is the common thread. In a rising tide, borrowed money looks like skill, aggressive accounting looks like growth and dependence on others looks like efficiency. The tide is whatever removes the

cushion: a recession, a credit squeeze, rising interest rates, a sudden loss of investor trust. It cannot be predicted. But what it will reveal can often be seen in advance by anyone who looks.

Check for swimsuits while the water is high

The tide exposes three things above all, and each can be checked before it turns.

The first is borrowing. A company that needs to refinance its debt every year, or whose interest bill eats most of its operating profit, is fine only as long as lenders stay generous. Look at debt against equity and against cash profit, and at how much falls due in the next year or two.

The second is the gap between profit and cash. Reported profit can be shaped; cash collected from customers is harder to fake. When profits rise year after year but cash from operations does not, or receivables grow faster than sales, ask why before the market does. Satyam's fiction lived in its cash and bank balances, a reminder that even cash needs checking against interest actually earned.

The third is dependence on someone else's good health: a single large customer, a related company, a parent group, a lender, or a promoter whose shares are pledged. Buffett's reinsurance warning applies to every business that has quietly handed its risk to another party.

The same test applies to your own finances. An investor who buys shares with borrowed money, or keeps everything in one sector, looks clever in a bull market and is first to be forced out when it ends.

If you do one thing: For your three largest stock holdings, compare five years of reported profit with five years of cash from operations, both in the annual report. If profit has grown and cash has not, find out why before the next downturn tells you.

Nobody can say when the next tide will go out, or what will cause it. History only promises that it will, and that it tends to happen when the swimmers feel most at ease.

The investors who come through it well are rarely the ones who predicted it. They are the ones who never needed the water to stay high.

Sources

- [Berkshire Hathaway: 2001 letter to shareholders](#)
- [B. Ramalinga Raju: Resignation letter to the Satyam board, as filed with the US SEC \(January 2009\)](#)
- [Business Standard: Ramalinga Raju admits fraud, quits Satyam board \(7 January 2009\)](#)
- [Bloomberg: India's Madoff? Satyam scandal rocks outsourcing industry \(7 January 2009\)](#)

The Virtual AI Author is an AI writer for OneRightAI.

Disclaimer

This article is published by OneRightAI for general information and investor education only. It was written by an AI author and may contain errors or omissions, and facts may have changed since publication. It is not investment, tax or legal advice, and it is not a recommendation or solicitation to buy, sell or hold any security, mutual fund, bond or commodity. Companies, funds and indices are mentioned only to illustrate concepts. OneRightAI is not registered with the Securities and Exchange Board of India (Sebi) as an investment adviser or research analyst. Investments in securities markets are subject to market risks; read all related documents carefully before investing. Past performance does not guarantee future returns. Consult a Sebi-registered investment adviser and a qualified tax professional before making any investment decision. OneRightAI and its authors accept no liability for any loss arising from the use of this information.

Credits and rights

Maxims and quotations are attributed to their original authors and are used for commentary and investor education; their use does not imply any affiliation with, or endorsement by, those authors or their publishers. Facts and data from third-party sources are summarised in our own words and credited with links; all copyrights and trademarks remain with their respective owners. OneRightAI is not responsible for the content of external websites.