Analysis of Geodesic Ltd and a few observations

Background:

Geodesic Limited (NSE: GEODESIC) is a publicly listed firm growing at 55% and 46% annually in turnover and net profits from FY 2004 – 05 to FY 2010 – 11. However the firm extended its accounting year to 15 months for FY 2012 and was under pressure due to redemption of its convertible dollar bonds due 18 January 2013, as was evident from the investor conference calls after its quarterly results. This led the author, an investor, to analyze the publicly available accounts as also on request, which showed some findings that may be of interest to current and prospective investors. These observations are only from the study of accounts as described below.

Key findings:

Analysis of annual reports and books of account of Geodesic Limited and its subsidiaries leads to the following observations / conclusions:

1. Cash / Bank balance of about Rs 312 crores are provided by "Loans" by fellow subsidiaries. These loans, however, do not exist in the latter's books.
2. Investments by the subsidiaries of Geodesic Limited, as shown in their books, do not exist in the consolidated books of Geodesic Ltd.
3. Geodesic Ltd.'s transactions with its marketing subsidiary do not follow its normal course and seem like funding its own revenues; while there are also accounting inconsistencies.
4. Some of the company's overseas transactions are not captured in RBI's publicly available records as sourced from the internet.

Note: I cannot guarantee there are no errors in the numbers though every effort has been made to verify them. If there are any please bring them to my notice immediately.

Source of analysis:

All information has been sourced from the websites here:

http://www.geodesic.com/investors/financials
http://stage.geodesic.com/about/subsidiaries

A word on published accounts: None of the financial statements of foreign subsidiaries obtained from the above website have been signed by management or auditors, which is unusual in itself. Attempts to secure audited statements of the larger Hong Kong subsidiary were declined citing client confidentiality (I am not a shareholder).

Detailed findings:

Each of the above findings in explained in detail below:

1. Cash / Bank balance of about Rs 312 crores are provided by "Loans" by fellow subsidiaries. These loans, however, do not exist in the latter's books.

Cash / Bank balance is shown in one subsidiary due to loan received from another subsidiary. This is added up to obtain foreign subsidiaries' cash & bank balances shown in the Annual Report FY 2011 (page 102 as current and deposit accounts). But the other loan carrying subsidiary does not show any such loan. This has lead to inflation in balances without a corresponding entry to balance this cash. In other words cash / bank balance is unbalanced and higher by 312 crores when the accounts trail is followed and reconciled across subsidiaries.

Detailed computation and reasoning is attached *(Cash balance recon.pdf)*.

2. **Investments by the subsidiaries of Geodesic Limited, as shown in their books, do not exist in the consolidated books of Geodesic Ltd.**

Investments by 100% overseas subsidiaries of Geodesic Limited should show up in the Consolidated Books of account, unless there are cross-holdings with the parent that leads to eliminate the investments upon consolidation. The latter is not permissible, in which case the investments as shown in each subsidiary's account should add-up and show in the consolidated books. Another extreme case of not showing up could be that the investments in the subsidiaries are cross-holdings amongst themselves, but that's not the case as these are 100% held by Geodesic Ltd.

The extent of investments that are not showing up as attached in the document *(Invstmnts in subs.pdf)*

3. **Geodesic Ltd.'s transactions with its marketing subsidiary do not follow its normal course and seem like funding its own revenues; while there are also accounting inconsistencies.**

Geodesic's biggest subsidiary (ostensibly just a marketing entity of its parent), gets almost 100% of what it owes its parent, funded by the Geodesic group itself.

Geodesic Ltd (as the India parent is called) had set-up a Hong Kong subsidiary (Geodesic Technology Solutions Limited - GTSL) on 21 Nov 2006 "*for progressive marketing of Geodesic products*", meaning that products will be sold via GTSL to various customers. Thus GTSL will source products & services from Geodesic Ltd, will sell them to customers all over the world and provide bulk of the proceeds to Geodesic Limited which has all the "*all the operating facilities*". This is usually the case as also seen by the revenues over the years below.

Table 1 - Revenue contribution of GTSL, HK to Geodesic group

Year (ending 31 March)	Total Geodesic group revenues (Rs crores)	Revenues of GTSL HK (Rs crores)*	Revenues as %age of total
2008	330	168 (approximated to what GTSL provided to Geodesic)	51%
2009	659	750	114%**
2010	637	529	81%
2011	888	747	84%

* Turnover shown as per Sec 212 of Companies Act. Taken to be approximately equal to revenue
** I do not understand how this was possible unless a lot of stocks were sold without recognizing revenue

Thus the normal course would have been for GTSL, on realizing cash from its sales to send it to Geodesic Ltd. But that's not the case. GTSL outstanding to Geodesic Ltd. is swelling over the years even as Geodesic Ltd and other subsidiary provide loans to it. This is shown in Table 2.

Table 2 – GTSL, HK at the end of FY 2011 had taken loans from various entities of Geodesic equal to about 95% of its due to Geodesic Ltd

Year (ending 31 March)	Revenue earned by Geodesic from GTSL(Rs crores)	Outstanding balance GTSL, HK (Rs crores)	Loans from Geodesic Ltd (Rs crores)	Total Loans incl. from others (Rs crores)
2008	168	94	80	Not available
2009	465	335	102	293
2010	420	353	0	93
2011	583	542	201	510

This is suspicious because it could tantamount to showing revenues by borrowing instead of by selling products and services.

Further there are accounting inconsistencies between Geodesic Limited and GTSL, HK. Geodesic Limited Annual Reports' figures of GTSL are inconsistent with the "financials" of GTSL.

a. Loan given by the holding company Geodesic Ltd, of about 261 crores to GSTL (page 63 of AR 2011), HK, shown in Geodesic Ltd's books does not appear in the financial statements of GTSL.
b. GTSL shows about Rs 255 crores of "Share application money due from holding company" (Page 2 of GTSL accounts. HK dollars converted at yearend rate used by Geodesic). This is not shown in the books of Geodesic Ltd.
c. The outstanding due from GTSL to Geodesic Ltd has grown from Rs 352 crores to Rs 542 crores over 2010 - 11 as per the books of Geodesic Ltd (page 71 of AR 2011). But in the books of GTSL the nearest equivalent head on the "financials" of Trade creditors shows a decrease from Rs 290 crores to Rs 286 crores (Page 2 of GTSL accounts. HK dollars converted at yearend rate used by Geodesic). Thus the claim of Geodesic Limited towards GTSL is not reflected by GTSL in its statements.

4. Some of the company's overseas transactions are not captured in RBI's publicly available records as sourced from the internet.

Loans from Geodesic Ltd., an Indian entity to GTSL requires to be notified to RBI. But these loans do not appear in the RBI Overseas Direct Investment data released (Excel sheets) as sourced from the internet, raising doubts on whether these transactions were notified. Further these loans are also free from interest as there is no interest accrual shown towards Geodesic Ltd from GTSL. This will thus not be seen as an arm's length relationship and is likely to attract various provisions of Income Tax Act and FEMA.

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