

Tanla Solutions [+ Watchlist](#)

Tanla Platforms Limited- Forensic Review

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EXECUTIVE SUMMARY

Tanla Solutions (TANS IN) (now known as Tanla Platforms), is a tech company primarily engaged in cloud-based solutions. Its platforms are deployed with all major telecom operators in India, providing access to the entire subscriber base of the operators. The company also serves enterprise customers spread across a diverse spectrum of businesses including but not limited to BFSI, social media, e-commerce, government sector.

Through these insights, we highlight our preliminary forensic checks that hint out certain red flags which provide some kind of discomfort on the overall financial position of the company. It should also be noted that these checks are more like an overview and we do not dwell deep into the red flags.

DETAIL

The balance sheet is flooded with low forensic scores. Red flags range from instances of doubtful capital allocation to signs of aggressive revenue realization.

Impairment of goodwill and Investments

Tanla was on an acquisition spree in F20 when it had acquired the businesses of Karix and Unicel, which had boosted its enterprise revenue. This is the reason why consolidated books remain incomparable year on year. Nonetheless, the company had recognised a goodwill on acquisition worth INR 1.8 bn in F20, with more than 85% pertaining to Karix.

Amusingly, the company had decided to impair more than one-fourth of the goodwill i.e. INR 487 mn in the same year. This corresponded to 6.9% of the net-worth which was wiped off. Similarly, the aggregate amount of impairment in value of investments (including provision for diminution in investments) in F20 amounted to INR 516.7 mn i.e. 15.1% of gross investments (standalone level) (F19: 1.6%). When seen against the net worth, the carrying value of these investments form 7.7% of the equity viz a viz 0.1% in F19.

Furthermore, services rendered to Karix amounted to INR 4 bn in F20 which corresponded to 37% of standalone sales, while the company had also given a loan worth INR 3.1 mn to the same entity in F20. Additionally, provision for receivables also saw a huge jump from INR 9.4 mn to INR 143.5 mn in F20, arising mostly out of acquisitions. Provisions now stand at 4.4% of gross receivables

A large jump in impairments in both goodwill and investments, especially in the same year where the company had performed acquisitions is a major red flag regarding the capital allocation.

Accelerated Depreciation

Depreciation and amortization had increased by 415% in F20 to INR 3.8 bn from INR 732.3 mn in F19. The extraordinary increase was on account of accelerated depreciation charged in the year to the tune of INR 2.7 bn, predominantly due to revision in useful life of Platforms and Deployments. (It must also be known that platform and deployment line item has been shifted from tangible assets to intangible assets in F20.)

The accelerated depreciation means that D&A as a % of total net depreciable assets, and sales was calculated at 139.6% and 19.4% in F20. However, even if we put aside the unusual depreciation in F20, D&A ratios have also been high and fluctuating in the past. Accelerated depreciation also indirectly means that net-worth of the company has been bloated before, and is one of the prime reasons why total asset turnover had surged from 0.98x to 1.68x in F20. Removing the effect, asset turnover is calculated to be 1.5x in F20.

Nevertheless, this inconsistency in depreciation provides discomfort towards the forensic evaluation of both balance sheet and income statement.

Particulars (INR mn)	F14	F15	F16	F17	F18	F19	F20
D&A	840.5	756.8	529.5	195.9	573.3	732.3	3,778.0
Sales	1,046.0	2,424.9	4,315.5	5,793.0	7,916.1	10,039.6	19,428.4
%	80.4%	31.2%	12.3%	3.4%	7.2%	7.3%	19.4%
Total depreciable assets	5,179.8	4,597.6	5,504.5	4,868.6	4,519.9	3,554.7	2,706.5
%	16.2%	16.5%	9.6%	4.0%	12.7%	20.6%	139.6%

Source: Capital IQ

Wild changes in reserves

One of the signs of strong balance sheet is when PAT gets more or less transformed into similar change in equity, after adjusting for dividends and changes in share capital. Tanla however is no where close to the ideal ratio of around 100%; change in reserves% has been fluctuating wildly year on year which suggests that retained earnings has no firm grip on other equity.

Particulars (INR mn)	F14	F15	F16	F17	F18	F19	F20
Changes in Equity (Ex Change in Share Capital)	-135.0	194.5	337.1	8.7	308.5	375.7	-268.4
PAT (Net of Dividends)	-198.3	25.9	52.1	409.1	163.3	264.5	-2,162.0
Change in reserves %	68.1%	751.4%	646.8%	2.1%	188.9%	142.1%	12.4%

Source: Capital IQ

Accelerating Unbilled Revenues

Tanla had started recording unbilled revenues only in F18, however post which we are able to see a firing growth in unbilled revenues, much faster than the total revenues. Unbilled revenues represented 10.5% of revenues in F20, up from 7.7% two years earlier. A faster growth in unbilled revenues is often a sign of aggressive revenue recognition, and higher representation of revenues every year is very much a red flag and needs to be stressed upon.

Particulars (INR mn).	F18	F19	F20
Unbilled Revenues	610.1	886.5	2,031.2
Revenues	7,916.1	10,039.6	19,428.4
As a % of revenue	7.7%	8.8%	10.5%
Unbilled revenue y-o-y growth (A)		45.3%	129.1%
Revenue y-o-y growth (B)		26.8%	93.5%
A/B		1.69	1.38

Source: Capital IQ

Subpar Earnings Quality

Tanla is also subject to poor earnings quality, as there is a massive deviation between EBITDA and CFO. All the last seven years saw EBITDA (less tax) to CFO ratio fall beyond the acceptable range of 80-120%, while four years saw the ratio to be more than 150% which means that EBITDA is not generating the same levels of cash. Also, importance must be given on the fact that company has not paid cash taxes in any of the last seven years, which is highly perplexing to note.

Particulars (INR mn)	F14	F15	F16	F17	F18	F19	F20
EBITDA	646.5	803.8	691.3	551.6	650.5	1,023.8	4,466.4
Less: Cash Tax	-	-	-	-	-	-	-
EBITDA Less Tax	646.5	803.8	687.2	551.6	644.9	1,016.9	4,456.0
CFO	387.9	509.0	927.0	716.1	323.1	-304.2	2,391.5
EBITDA to CFO	166.7%	157.9%	74.1%	77.0%	199.6%	NA	186.3%

Source: Capital IQ

Other income driving profitability

While other income is not significant when seen against revenue from operations, however it becomes a very important driver of profitability. Over the years we see that PAT is heavily dependent on other/secondary sources of income which also depicts the ill-performance of core operations. The prime issue here is that these sources are not sustainable and fluctuate year on year; this is also a sign of poor earnings quality.

Particulars (INR mn)	F14	F15	F16	F17	F18	F19	F20
Other Income	316.6	52.3	10.6	24.9	47.6	106.1	123.6
PAT	-198.3	25.9	72.4	409.1	191.1	298.2	-2,111.7

% (absolute)	159.7%	202.1%	14.6%	6.1%	24.9%	35.6%	5.9%
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Source: Capital IQ

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SEBI Registered Research Analyst (INH000004725).

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— Nitin Mangal (18 December 2020)