Tanla Platforms Limited

April 01, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5.00 (Reduced from 50.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Positive (Single A; Outlook: Positive)
Short Term Bank Facilities	15.25 (Enhanced from 0.25)	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Facilities	**20.25 (Rs. Twenty Crore and Twenty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Tanla Platforms Limited (TPL) is on account of improved financial performance during FY20 (refers to the period April 01 to March 31) and 9MFY22, improvement in the company's operational and financial performance backed by synergies and benefits from recent acquisitions and strong net worth and favourable capital structure with robust debt coverage indicators. The ratings also derive strength from the experienced promoters & management team, long track record of the operation, established market position in Application to Person (A2P) messaging segment with tie-up in place for providing service for majority of telecom players operating in India, launch of two new platforms in FY21 and strong liquidity position and minimal threat from alternative communication platforms like OTT players (Over-the-Top). The ratings are, however, constrained by concentrated revenue profile, high technological obsolescence risk and regulatory risk.

Rating Sensitivities:

Positive Factors- Factors that could lead to positive rating action/upgrade:

- ✓ Total operating income improving to Rs 3000 crore or above, while maintaining operating margins at existing levels.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- × Increase in the overall gearing of the company over and above 0.50x.
- × Any notable deterioration in the liquidity position

Detailed description of the key rating drivers

Key Rating Strengths

Significant improvement in the total operating income and profitability margins during FY21

During FY21, the revenue of TPL grew by 20.57%, y-o-y over FY20 and it registered total operating income of Rs. 2353.88 crore as against Rs. 1952.23 crore in FY20 (Rs.1013.61 crore in FY19) mainly on account of increase in the revenues backed by increased customer base post acquisition and launch of new platforms and higher revenues from existing business. Overall growth is driven by both acquiring new customers as well as expanding within our existing customer base.

Backed by increase in scale of operations, the PBILDT margins improved from 10.20% in FY20 to 18.99% in FY21. The improvement in absolute PBILDT is due to an increase in gross margin and reduction in both sales & marketing expenses and general & administration expenses. This apart, FY21 was the first year of operations for the platform business which operates at high margins. Improvement in platform contribution mix in FY21 resulted in better profitability margins during FY21 as against FY20.

As the company has completed with the provision for accelerated depreciation; the capital charge was lower by around 90% in FY21. Improvement in PBILDT levels coupled with decline in the capital charge of the company and finance costs led to company reporting profits at PAT level. The PAT margins of the company grew to 15.13 % in FY21 as against net losses reported in FY20.

During 9MFY22 (Published), the company reported total operating income of Rs.2364.46 crore (9MFY21: Rs.1713.30 crore) with PBILDT of Rs.527.58 crore (9MFY21: Rs.350.14 crore).

Strong net worth and favourable capital structure with robust debt coverage indicators

The financial position of the company is strong backed by networth of Rs.893.10 crore as on March 31, 2021, and Rs.1042.12 crore as on September 30, 2021, coupled with nominal debt. On a consolidated basis, the overall gearing of the company was negligible as on March 31, 2020. The company does not have any external debt in the book apart from Lease liability as per the transition to IND AS 116. Strong cash accruals of Rs. 406.15 crore in FY21 (Rs.178.03 crore in FY20) with nominal debt levels have resulted in strong debt coverage indicators. Total debt to GCA stood at 0.01 times for FY21, while PBILDT interest coverage was 196.78 times for FY21. The average working capital utilization was **NIL** for the 12 months ended in February 2022.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Integrated capabilities arising out of calculated acquisitions
As a niche and specialist technology play, TPL converges integrated solutions. The company follows a 'string of pearl' approach wherein it acquired companies that will enhance the platform and ecosystem capabilities. During FY19, the company has done 2 such tuck-in acquisitions strengthening their customer proposition. TSL has completed its acquisition process of Karix Mobile Private Limited and its wholly-owned subsidiary Unicel from GSO Capital Partners, a Blackstone Company. TPL has also acquired Gamooga Softtech Private Limited (Gamooga).
Experienced promoters and professional management with long track record of operations
TPL has been promoted by Mr. Uday Kumar Reddy, the Chairman & CEO of the company. He is a management graduate with more than two decades of experience in Information Technology and Telecom Sector. He spearheads the company as the chief The company is also supported by other directors and experienced management team. The management team has been strengthened with addition of Chief Technology Officer (CTO) and Chief Financial Officer (CFO).

Established market position in Application to Person (A2P) messaging segment with tie-up in place for providing service for majority of telecom players operating in India
Founded in 1999, TPL was the first company to develop and deploy A2P SMSC in India. Today, as one of the world's largest CPaaS players, it processes more than 800 billion interactions annually. Furthermore, TPL had launched Trubloq, world's first block chain enabled commercial communications stack that empowers individual mobile subscribers to truly own, control and manage commercial communications. With Trubloq, the company launched a Governance, Risk and Compliance (GRC) platform capable of processing over two seventy billion interactions with 50,000 enterprise registrations and 62% volume market share since its introduction in September 2020. This apart, the company has recently announced the launch of Wisely on January 20, 2021, a blockchain-enabled communications platform-as-a-service (CPaaS) offering built on Microsoft Azure.

Successful launch of two new platforms during FY21
Launch of platform Trubloq: Tanla launched Trubloq, World's first block chain enabled commercial communications stack that empowers individual mobile subscribers to truly own, control and manage commercial communications.TPL would be the first company to comply with the TRAI regulations and adopt the block chain technology with the launch of Turbloq. Trubloq was commercially rolled out from September 01, 2020. Platform revenue grew by 83% in FY21, driven by launch of Trubloq, which created a completely new stream of revenue for the company.

Launch of Platform Wisely: Tanla Platforms Limited and Microsoft announced the launch of Wisely on January 20, 2021, a blockchain-enabled communications platform-as-a-service (CPaaS) offering built on Microsoft Azure. A unique marketplace for enterprises and suppliers. Wisely has been granted three patents in cryptography and blockchain processes by the United States Patents & Trademark Office(USPTO) and one patent by Indian Patent Office (IPO).

Minimal threat from alternative communication platforms like OTT players (Over-the-Top)
The OTT (Over-the-Top) services changed the way of communication in a broader sense and people have gradually shifted from P2P (Person to Person) messaging to OTT communication which uses the internet on the smartphone of the subscriber rather than using the service provider's network, directly. Users find OTT platform based applications like WhatsApp, Facebook messenger, Skype, Hike, etc. a cheaper way of communication than using P2P messaging which directly uses the mobile network, charged at a higher tariff rate. Hence, there had been a potential threat to the revenue of the company from P2P segment. However, the A2P segment is indirectly benefitted from OTT services. The OTT services require two-factor authentication which is a current standard layer of security e.g. creating an account requires SMS verification. While OTT may have replaced P2P SMS, it is also helping A2P SMS flourish as it acts as an indirect driver of A2P growth, which has helped SMS to become a defined channel for brand/business communications. Hence, the threat is expected to be minimal in A2P SMS segment and it will be a strong channel for brand and business communications to reach consumers directly.

Key Rating Weaknesses
High concentration of revenue in A2P messaging segment
Messaging revenue is the major business segment and continues to contribute about 96%-97% of the total revenue for past three years. The revenue contribution from this segment is around 96%-100% during FY19 – FY21.

Technological obsolescence risk
The OTT (Over-the-Top) services changed the way of communication in a broader sense and people has gradually shifted from P2P (Person to Person) messaging to OTT communication which uses the internet on the smartphone of the subscriber rather using the service providers network, directly. The A2P segment is indirectly benefitted from OTT services. Due to dynamic nature of technological innovation, the A2P business is exposed to obsolescence risk with better alternative mode of communication between enterprises and customers.

Susceptibility to regulatory risks
Telecom Regulatory Authority of India (TRAI) regulates all promotional and transactional messaging services in India. TPL derives a significant portion of its income from bulk messaging services and hence is susceptible to any change in regulatory policy impacting its operational revenue from that segment. However, TPL has been consistently diversifying its product portfolio thereby reducing the risk of revenue concentration from a particular segment.

Liquidity analysis – Strong
Liquidity is marked by strong accruals against negligible repayment obligations and liquid funds to the tune of Rs.554.78 crore as on March 31, 2021 and **Rs. 880.70 crore as on December 31, 2021**. Its unutilized bank lines which are more than adequate to meet its incremental working capital needs over the next one year. Average working capital utilization was **NIL** for the 12 months ended in February 2022.

Analytical approach – Consolidated
TPL, the Holding company, operates through 7 wholly owned subsidiaries, one JV with Zed Worldwide Holdings S.L. Spain and one associate. TPL along with its subsidiaries is engaged in the similar business activity with the subsidiaries set up to cater to different markets/regions.

Subsidiaries (wholly owned):
Tanla Mobile Asia Pacific Pte Ltd., Singapore
Capitalsiri Investments Pvt Ltd., India
Karix Mobile Private Limited (From April 10, 2019 – Formerly Tanla Corporation Pvt Ltd, India)
Unicel Technologies Private Limited (From April 10, 2019)
Gamooga Softech Private Limited (From October 24, 2019)
Tanla Digital Labs Private Limited (From December 18, 2019)
- Tanla Digital (India) Private Limited (Wholly owned subsidiary of Tanla Digital Labs Limited From July 02, 2021)

Tanla Foundation (From July 06, 2021)

Joint Venture
TZ Mobile Private Limited., India (Share Holding - 50%)

Associate
Jengatron Gaming India Pvt Ltd., India (Share Holding – 30%)

Entity Where Director is a Partner
Z-Axis Management Consultants and Strategic Advisors LLP (from October 01, 2019)

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[Criteria for Short term Instruments]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis – Non-Financial Sector]
[CARE's Policy on Default Recognition]
[Rating Methodology-Service Sector Companies]
[Rating Methodology-Consolidation]

About the Company
Tanla Solutions Limited (TSL), incorporated on July 28th, 1995 has been promoted by Mr. Uday Kumar Reddy. TSL has its headquarters and development facilities in Hyderabad, India and serves global customer base through its subsidiaries, JV with Zed Worldwide Holdings S.L. Spain and one associate. The company provides a range of services which includes product development and implementation in wireless communication industry, aggregator services and off-shore development services. The services can be classified into three major categories viz. Mobile Messaging [majorly into Application-to-Person (A2P)], Mobile Commerce and Mobile payments.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (P)
Total operating income	1952.23	2353.88	2364.46
PBILDT	199.16	447.06	527.58
PAT	-211.17	356.13	398.66
Overall gearing (times)	0.01	0.00	NA
Interest coverage (times)	26.60	196.79	517.23

A: Audited, P: Published, NA: Not Available

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE A+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	15.25	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	5.00	CARE A+; Stable	1)CARE A; Positive (06-Apr-21)	-	1)CARE A; Stable (21-Feb-20) 2)CARE A- (CWD) (11-Sep-19) 3)CARE A- (CWD) (02-Apr-19)	1)CARE A- (CWD) (27-Aug-18)
2	Non-fund-based - ST-Bank Guarantee	ST	15.25	CARE A1+	1)CARE A1 (06-Apr-21)	-	1)CARE A1 (21-Feb-20) 2)CARE A2+ (CWD) (11-Sep-19) 3)CARE A2+ (CWD) (02-Apr-19)	1)CARE A2+ (CWD) (27-Aug-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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