# Tanla Platforms Limited

April 06, 2021

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 50.00 | CARE A; Positive (Single A; Outlook: Positive ) | Reaffirmed; Outlook revised from Stable |
| Short Term Bank Facilities | 0.25 | CARE A1 (A One ) | Reaffirmed |
| **Total Bank Facilities** | **50.25 (Rs. Fifty Crore and Twenty-Five Lakhs Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Tanla Platforms Limited (TPL) is on account of 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, improved financial performance during FY20 (refers to the period April 01 to March 31), strong capital structure with robust debt coverage indicators and strong liquidity position and minimal threat from alternative communication platforms like OTT players (Over-the-Top). The ratings are, however, constrained by net losses incurred in FY20, concentrated revenue profile, high technological obsolescence risk and regulatory risk.

**Rating Sensitivities:**

<u>**Positive Factors:**</u> *Factors that could lead to positive rating action/upgrade:*

- ✓ Consistent improvement in the scale and PBILDT margin increasing to above 20%

<u>**Negative Factors**</u>**:** *Factors that could lead to negative rating action/downgrade:*

- × Increase in the overall gearing of the company over and above 0.50x
- × Withdrawal of funds by way of buy-back or dividend exceeding the profits for the given year.
- × Any notable deterioration in the liquidity position

<u>**Outlook: Positive**</u>

The ‘Positive’ outlook on the rating is on account of significant improvement in the financial performance of the company during 9MFY21. CARE expects steady improvement in company’s operational and financial performance backed by synergies and benefits from recent acquisitions, in coming years.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Experienced promoters and professional management with long track record of operations***

TPL has been promoted by Mr. Uday Kumar Reddy, the Chairman & Managing Director of the company. He is a management graduate with more than two decades of experience in Information Technology and Telecom Sector. He enabled the company transition from a products-based solution provider to one of the largest publicly traded Mobile Value Added Services (VAS) software companies, specializing in wireless data services for mobile messaging and billing. The company is also supported by other directors and experienced management team. The company has recently on-boarded 4 Independent Directors and 1 non-executive director.

***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***

TPL operates in majorly two segments; Mobile VAS (Value Added Services) (which consists of messaging, e-commerce and e-payments) & Software and Property Development. Over the years, the company has established itself with major telecom operators and content aggregators. 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. Trubloq was commercially rolled out from September 01, 2020 and by Q2FY21, trubloq has handled 70% of the total DLT (distributed Ledger Technology) traffic and by Q3FY21 trubloq platform has registered 6,278

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

enterprises. 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.

***Synergy from acquisition of Karix, Unicel and Gamooga***

***<u>Karix Mobile Private Limited (Karix)</u>***

TPL has completed its acquisition process of Karix Mobile Private Limited and it's wholly owned subsidiary Unicel from GSO Capital Partners, a Blackstone Company. Karix is a leading business cloud communications provider with reach to over 1,500 enterprise clients in various industries across the country. With this transaction, the combined company envisages to be one of India's leading enterprise cloud communications providers with marquee customers in banking, insurance, automotive, DTH, retail, consumer products, e-commerce, m-commerce, and the government.

***<u>Gamooga Softtech Private Limited (Gamooga):</u>***

Gamooga is a big data and AI driven omni-channel marketing automation platform which enables businesses personally engage with their users across channels including email, SMS, voice, website, apps, and other leading channels. Gamooga is a Marketing Automation Service Provider for B2C companies. It is expected to help TPL in developing tools for market research based on AI and various analysis.

***Improvement in total operating income (TOI) during FY20 and 9MFY21***

During FY20, the revenue of TPL grew by 92.60%, y-o-y over FY19 and it registered total operating income of Rs. 1952.23 crore as against Rs.1013.61 crore in FY19 mainly on account of increase in the revenues backed by increased customer base post acquisition and higher revenues from existing business. Furthermore, TPL's Total operating income (TOI) improved by ~20% in 9MFY21 as against 9MFY20 mainly on account of increase in the revenues backed by increased customer base post acquisition and higher revenues from existing business. The PBILDT level of the company improved by more than 100% during 9MFY21 vis-à-vis 9MFY20. The PBILDT margin of the company improved from 18.67% in 9MFY21 vis-à-vis 9.33% in 9MFY20. The PAT margins of the company improved significantly to 14.80% in 9MFY21 (losses during 9MFY20).

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

The financial position of the company is strong backed by networth of Rs.701.73 crore as on March 31, 2020, and Rs.698.99 crore as on September 30, 2020, coupled with nominal debt. On a consolidated basis, the overall gearing of the company was 0.01x as on March 31, 2020 and 0.01x as on September 30, 2020 vis-à-vis was 0.08x as on March 31, 2019 and 0.07x as on September 30, 2019. Strong cash accruals of Rs. 178.03 crore in FY20 (Rs.105.84 crore in FY19) with nominal debt levels have resulted in strong debt coverage indicators. Total debt to GCA stood at 0.03 times for FY20, while PBILDT interest coverage was 26.60 times for FY20. The average working capital utilization was low at around 0.5% for the 12 months ended in February 2021.

***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.

***Stable industry outlook***

According to World Bank, global economy growth is projected to soften to 2.9% in 2019, amid rising downside risks in the coming months and with the Indian IT industry being largely export driven, any adverse changes in the global macro-environment is bound to have an impact on its revenues. Increasing restrictions on H-1B visas in the US and rising cost of delivering on-site services shall impact margins in FY20.

**Key Rating Weaknesses**

***Net Losses during FY20***

The company booked net losses in FY20 as against FY19 amounting to Rs. 211.17 crore mainly on account of exceptional item charge amounting to Rs. 48.73 crore and Provision for loss of investment in liquid funds of Rs. 3.67 crore coupled with higher amortization and depreciation costs. However, company reported cash profits of Rs. 129.30 crore in FY20 as against Rs. 105.84 crore in FY19.

***High concentration of revenue in A2P messaging segment***

VAS is the major business segment and continues to contribute about 96%-97% of the total revenue for past three years. The revenue contribution from Mobile VAS segment is around 96%-100% during FY18 – FY19.

***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 indicator – Strong**

Liquidity is marked by strong accruals against negligible repayment obligations and liquid funds to the tune of Rs.171.04 crore as on March 31, 2020 and **Rs. 197.41 crore as on September 30, 2020**. 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 low at around 0.5% for the 12 months ended in February 2021. The company has not availed moratorium for any of its debt facilities.

**Analytical approach:** Consolidated

CARE has taken a consolidated view on TSL and its subsidiaries/associate/JV as all the entities have synergies in operations, exhibit cash flow fungibility, are owned and managed by common promoters. TSL along with its subsidiaries is engaged in the similar business activity with the subsidiaries set up to cater to different markets/regions.

Subsidiaries:

Tanla Mobile Asia Pacific Pte Ltd., Singapore
Tanla Corporation Pvt Ltd, India
Capitalsiri Investments Pvt Ltd., India
Karix Mobile Private Limited (From April 10, 2019)
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)

Joint Venture:

TZ Mobile Private Limited., India (TSL holds 50%)

Associate:

Jengatron Gaming India Pvt Ltd., India (TSL holds 30%)

**Applicable Criteria**

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation
Rating Methodology - Service Sector Companies
Rating Methodology: Notching by factoring linkages in Ratings
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities

**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)- Consolidated | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 1013.61 | 1952.23 |
| PBILDT | 109.99 | 199.16 |
| PAT | 29.82 | -211.17 |
| Overall gearing (times) | 0.08 | 0.01 |
| Interest coverage (times) | 223.06 | 26.60 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**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*

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | - | - | - | 50.00 | CARE A; Positive |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 0.25 | 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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Cash Credit | LT | 50.00 | CARE A; Positive | - | 1)CARE A; Stable (21-Feb-20)<br>2)CARE A- (CWD) (11-Sep-19)<br>3)CARE A- (CWD) (02-Apr-19) | 1)CARE A- (CWD) (27-Aug-18) | 1)CARE A-; Stable (08-Jan-18)<br>2)CARE A-; Stable (05-Apr-17) |
| 2. | Non-fund-based - ST-Bank Guarantees | ST | 0.25 | CARE A1 | - | 1)CARE A1 (21-Feb-20)<br>2)CARE A2+ (CWD) (11-Sep-19)<br>3)CARE A2+ (CWD) (02-Apr-19) | 1)CARE A2+ (CWD) (27-Aug-18) | 1)CARE A2+ (08-Jan-18)<br>2)CARE A2+ (05-Apr-17) |

**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 the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Non-fund-based - ST-Bank Guarantees | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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