Tanla Solutions Limited

January 8, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	0.10 (reduced from Rs. 60.00 crore)	**CARE A-, Stable** **(Single A Minus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	79.90 (enhanced from Rs.20.00 crore)	**CARE A2+** **(A Two Plus)**	Reaffirmed
Total	**80.00** **(Rs. Eighty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Tanla Solutions Limited continue to draw 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, strong financial position with absence of debt in the books of accounts and adequate free cash balance. The ratings also factor in growing scale of operation with increased volume of A2P business segment resulting in growth in revenue in FY17 (FY refers to the period from April 1 to March 31) and H1FY18 (Un-audited) (refers to the period from April 1 to September 30), improved liquidity profile and capitalization of assets under development. The ratings are, however, constrained by declining trend in operating profit margin since last three years with change in revenue mix, reduced cash accruals albeit improved during H1FY18, concentrated revenue profile and high technological obsolescence risk and reduced revenue contribution from subsidiaries.

The ability of the company to improve its profitability margins while managing the expanding scale, derive benefits from capitalized intangible assets and manage the intense competition are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters and long track record of operations: TSL has been promoted by Mr Uday Kumar Reddy, the Chairman & Managing Director of the company, a management graduate with 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.

Established presence in overseas and domestic market with tie-up with major Telecom Operators and Short Message Service (SMS) aggregators: TSL has long standing relationship with global telecom players through their subsidiaries in Singapore and Dubai and has around 100 clients spread over 32 countries. In the domestic market, TSL has established relationship with major telecom Operators and content aggregators (deploys the technology at the telecom operators' end and provides SMS gateways platform to the aggregators). It has considerable presence in the A2P messaging segment.

Growth in operation performance FY17 and H1FY18: During FY17, the revenue of TSL grew by 34.60%, y-o-y over FY16 and it registered total operating income of Rs.581.14 crore (FY16: Rs. 432.04 crore) at the back of increase in volume of A2P messaging services from existing customers on domestic hub and addition of marquee clients on International Long Distance (ILD) hub. During H1FY18 (un-audited), the company reported total operating income of Rs.383.99 crore vis-à-vis 234.73 crore in H1FY17 (growth of 63.59%) with PBILDT of Rs.34.74 crore (H1FY17: Rs.26.70 crore) and PAT of Rs.19.22 crore (H1FY17:Rs.13.72 crore).

Strong financial and improved liquidity position: The financial position the company continued to remain strong as the company does not have any term debt in the books. The liquidity position further improved in FY17 with reduction in collection days to 61 days in FY17 (95 days in FY16) on account of timely collection of payments from customer and satisfactory free cash balance of around Rs.123.52 crore as March 31, 2017 and Rs.146.86 crore as on September 30, 2017.

Capitalization of assets under development: As on March 31, 2017, TSL capitalised Rs.474.68 crore from Capital Work In Progress (CWIP). The same was for installing servers at the aggregators' place of system to render the A2P services along with new Cloud Communication Technology which enabled the company, using single point Application programming interface (API) to connect more aggregators and enterprises through multiple mode of communication such as messaging,

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

voice, video and emails. The addition of this cloud technology has started reaping benefits and the company was able to register a turnover of Rs.383.99 crore during H1FY18 with an annualised growth of about 32% over FY17.

Key Rating Weaknesses

Declining trend in operating profit margin and reduced cash accruals during FY17 albeit improved in accruals in H1FY18: The PBILDT margin of TSL has been on an declining trend since FY15 . PBILDT margin further declined (by 683 bps to 10.09%) in FY17 vis-à-vis FY16 and further to 9.04% in H1FY18, given the increasing contribution of low margin A2P messaging segment. The gross cash accrual also has been decreasing on y-o-y basis during FY15-FY17 albeit improved during H1FY18 to Rs.42.88 crore (growth of 71%) vis-à-vis Rs.25.03 crore in H1FY17.

High concentration of revenue in A2P messaging segment: TSL remains exposed to revenue concentration risk. The Mobile VAS (Value Added Services), which consists of messaging, e-commerce and e-payments is the major revenue contributor with a revenue contribution of about 95-97% in FY17 and H1FY18.

Technological obsolescence risk: 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.

Reduced revenue contribution from overseas subsidiaries: The company has sold its wholly owned subsidiary UK based unit in September 2016. Further 3 step-down subsidiaries were also closed during the year resulting in discontinuation of operations on account of regulatory risks in overseas market. The revenue contribution from subsidiary sales reduced to Rs.81.11 crore (i.e.13.95% of the total revenue) from Rs.151.63 crore (i.e.35.10% of the total revenue during FY16) on consolidated basis in FY17.

Analytical approach: Consolidated

TSL, the Holding company, operates through its subsidiaries which are engaged in the similar business activity. They contributed about 13.95% of the total revenue (on a consolidated basis) in FY17. Hence, given the business and financial linkage, the consolidated financial profile of TSL and its subsidiaries has been considered for analysis purpose.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for Service Sector Companies
Financial ratios – Non-Financial Sector
CARE's Methodology for Factoring of Linkages in Ratings

About the Company

Tanla Solutions Ltd (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 located in Dubai and Singapore. The company provides a range of services which includes product development and implementation in the 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. Apart from telecom operations, TSL is also engaged in property development through its subsidiary Tanla Corporation Private Limited (Erstwhile Mufithumb Pvt Ltd) which has a land bank of 6.8 acres in Vattinagulapally, near financial district of Hyderabad.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	432.04	581.54
PBILDT	73.10	58.71
PAT	7.24	40.91
Overall gearing (times)	0.00	0.00
Interest coverage (times)	140.51	164.86

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.

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-Bank Overdraft	-	-	-	0.10	CARE A-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	79.90	CARE A2+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Bank Overdraft	LT	0.10	CARE A-; Stable	1)CARE A-; Stable (05-Apr-17)	-	1)CARE A- (29-Jul-15)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	79.90	CARE A2+	1)CARE A2+ (05-Apr-17)	-	1)CARE A2+ (29-Jul-15)	-

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