

Tanla Solutions Limited

April 5, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	60	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	20	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	80 (Rupees 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 (TSL) continue to draw strength from the experienced promoters & management team, long track record of the operation, established market position in the 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 satisfactory liquidity profile with adequate free cash balance. The ratings also factor in growing scale of operation with increased volume of A2P business segment resulting in healthy growth in revenue in FY16 (refers to the period April 1 to March 31) and 9MFY17. The ratings are, however, constrained by declining trend in operating profit margin since last three years with change in revenue mix, reduced cash accruals, concentrated revenue profile and high technological obsolescence risk along with high value of assets under development from which the company is yet to derive any benefits.

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

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 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. It has considerable presence in the A2P messaging segment with market share of about 89%.

Healthy growth in operation performance FY16 and 9MFY17

In FY16, TSL processed around 67% of domestic A2P messaging resulting in the increase in volume in that segment which enabled the company to report almost 77% y-o-y growth in the revenue in FY16 and an annualized growth of about 25% in 9MFY17.

Comfortable financial and liquidity position

The financial position the company continued to remain strong as the company does not have any term debt in the books except for nominal amount of vehicle loans. The liquidity position has also been satisfactory with improvement in debtors' days and satisfactory free cash balance in hand.

Key Rating Weaknesses

Declining trend in operating profit margin and cash accruals during FY16 and 9MFY17

The PBILDT margin has been reducing significantly (by 1488 bps to 17.18%) in FY16 and further to 10.64% in 9MFY17, given the increasing contribution of low margin A2P messaging segment. The gross cash accrual also has been reducing y-o-y basis during FY15-9MFY16.

High concentration of revenue in A2P messaging segment

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 97% in FY16 and 9MFY17 against about 93% in FY15.

Significant investment towards assets under development

The company, over the years, has been investing relatively large sum in development of assets wherefrom it is yet to derive any benefit. As on March 31, 2016, it had tangible and intangible assets under development aggregating Rs.502.16 crore which is about 77% of the net worth as on the same date.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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.

Analytical approach: Consolidated

TSL, the Holding company, operates through its subsidiaries which are engaged in the similar business activity. They contributed about 35% of the total revenue (on a consolidated basis) in FY16. 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 Mufithumb Pvt Ltd which has a land bank of 6.8 acres in Vattinagulapally, near financial district of Hyderabad.

During FY16, TSL reported a total operating income of Rs.432.04 crore (FY15:Rs.244.14 crore) with PBILDT of Rs.74.25 crore (FY15:Rs.78.26 crore) and PAT of Rs.11.91 crore (FY15:Rs.2.59 crore).

During 9MFY17, TSL reported total operating income of Rs.404.05 crore with PBILDT of Rs.43.00 crore and PAT of Rs.25.60 crore.

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	60.00	CARE A-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	20.00	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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Cash Credit	LT	60.00	CARE A-; Stable	-	1)CARE A- (29-Jul-15)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	20.00	CARE A2+	-	1)CARE A2+ (29-Jul-15)	-	-

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