

## Tanla Solutions Limited

August 27, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	0.10	<b>CARE A-</b> [Single A Minus;] <b>(Credit watch with developing implications)</b>	Placed on credit watch with developing implications
Short-term Bank Facilities	79.90	<b>CARE A2+</b> [A Two Plus] <b>(Credit watch with developing implications)</b>	Placed on credit watch with developing implications
<b>Total Facilities</b>	<b>80.00</b> <b>(Rs. Eighty crore only)</b>		

*Details of instruments/facilities in Annexure-1*

CARE has placed the ratings assigned to the bank facilities of Tanla Solutions Limited (Tanla) on 'Credit watch with developing implications' on recent announcement made by Tanla Solutions Limited entered into a definitive agreement to acquire 100% of Karix Mobile Private Limited (Karix) and its wholly owned subsidiary Unicel from GSO Capital Partners, a Blackstone Company, at an enterprise value of Rs. 340 crore on a cash cum stock transaction.

*CARE is in the process of evaluating the impact of the above developments on the credit quality of Tanla Solutions Limited and would take a view on the rating when the exact implications of the above are clear.*

### 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.

### 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

[CARE's Policy on Default Recognition](#)

[Criteria for placing rating on credit watch](#)

[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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

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

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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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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-Bank Overdraft	-	-	-	0.10	CARE A- (Under Credit watch with Developing Implications)
Non-fund-based - ST-Bank Guarantees	-	-	-	79.90	CARE A2+ (Under Credit watch with Developing Implications)

**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Bank Overdraft	LT	0.10	CARE A- (Under Credit watch with Developing Implications)	-	1) CARE A-; Stable (08-Jan-18) 2) CARE A-; Stable (05-Apr-17)	-	1) CARE A- (29-Jul-15)
2.	Non-fund-based - ST-Bank Guarantees	ST	79.90	CARE A2+ (Under Credit watch with Developing Implications)	-	1) CARE A2+ (08-Jan-18) 2) CARE A2+ (05-Apr-17)	-	1) CARE A2+ (29-Jul-15)

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