

Tanla Solutions

Ashish Aggarwal

+91 22 67069925

ashish.aggarwal@investsmartindia.com

Sanket Dalvi

+91 22 67069921

sanket.dalvi@investsmartindia.com

Shareholding (%)

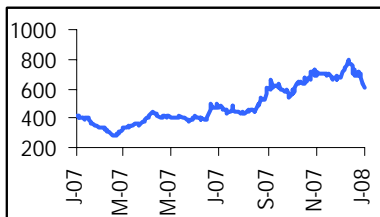
Promoters	35.8
FII's	38.0
MFs	3.0
Others	23.2

Share price performance

52-week high/low (Rs)	850/271		
	-1m	-3m	-12m
Abs (%)	-10.9	7.0	44.9
Rel* (%)	3.9	12.5	25.5

*to Nifty

Stock chart



Strong Growth continues

Tanla Solutions (Tanla) reported robust performance for yet another quarter; Q3FY08 was marked by a revenue growth of 11.2% QoQ to Rs 1.19bn and net profit growth of 18.3% QoQ to Rs 433mn. The company entered the Middle-East market during the quarter and expects to enter India and the U.S. in Q4FY08E.

We are increasing our FY08E and FY09E EPS estimates by 2.1% and 2.7%, to Rs 32.3 and Rs 43.3, respectively. However, we are not building in the revenues from the new geographies entered by the company.

Currently, the stock is quoting at FY08E and FY09E PER of 18.8x and 14.0x respectively. We maintain a 'Buy' rating on the stock with a price target of Rs 815, 18.8x FY09E earnings. Our recommendation is supported by the company's expected revenue growth of 52.8% CAGR during the next two years, and the potential upside offered by its entry into new markets.

Key highlights of Q3FY08 results:

- Aggregator business drives growth:** During Q3FY08, Tanla's aggregator revenues grew 12.0% QoQ, from Rs 822mn in Q2FY08 to Rs 921mn in Q3FY08. With this growth, the share of revenues from the aggregator business increased from 76.6% to 77.1% during the same period. It, however, may be noted that the growth in these revenues could have been higher as rupee appreciated by about 4.8% against GBP during Q3FY08. Tanla also started its Dubai operations in Q3FY08 and booked aggregator revenues of Rs 34.1mn from this market.
- EBITDA margins expand by 150bps:** During Q3FY08, Tanla's EBITDA margins increased 150bps, despite the increasing revenue share of the aggregator business. We believe that the expansion in EBITDA margins was primarily driven by the enhancement of the aggregator platform resulting in cost savings on the delivery front. The EBITDA margins of the aggregator business increased from 37.6% in Q2FY08 to 39.7% in Q3FY08.

Buy

Rs607

22 January 2008

Market cap

Rs bn 30

US\$ mn 768

Avg 3m daily volume

55,905

Avg 3m daily value

Rs mn 38

Shares outstanding (mn)

50

Reuters/Bloomberg

TNSL.BO/TANS IN

NSE/BSE

TANLA/532790

Sensex

16,730

Nifty

4,899

Tanla Solutions

- ▲ **Entry into new geographies to provide further impetus to growth:** Tanla entered Middle-East during Q3FY08 and booked revenues of Rs 34.1mn from its Dubai operations. The company plans to enter India in Q4FY08E and has signed billing and messaging agreements with service providers such as Airtel, BSNL, Idea, Reliance, and Vodafone. We believe that Tanla's entry into India, one of the fastest growing telecom markets in the world, would help the company in growing at a faster rate in the future. The company also plans to enter the U.S. in the mid of Q4FY08E. Tanla plans to initially enter this market as a secondary aggregator; we believe that it would take at least two quarters for Tanla to sign agreements with the telecom operators in the U.S. and become a primary aggregator.
- ▲ **Forecast:** We are increasing our FY08E and FY09E EPS estimates by 2.1% and 2.7%, to Rs 32.3 and Rs 43.3, respectively, a two-year EPS CAGR of 52.8%. We, however, have not factored in the growth from its entry into new geographies, India and US. We may revise our estimates upwards when the company starts booking revenues from these markets.
- ▲ **Valuations:** Currently, Tanla is quoting at FY08E and FY09E PER of 18.8x and 14.0x respectively. We believe that the current valuations are not expensive, as the company is expected to post a two-year EPS CAGR of 52.8% and is likely to benefit from its entry into new geographies. Therefore, we maintain our **'BUY'** rating on the stock with a price target of Rs 815, 18.8x FY09E earnings.

Tanla Solutions

Table 1. Quarterly result table

Rs mn	Q3FY08	Q2FY08	QoQ (%)	Q3FY07	YoY (%)
Revenues	1,193	1,073	11.2%	567	110.4%
Cost of Revenues	513	478	7.2%	241	112.4%
Gross Profit	681	595	14.4%	326	109.0%
GPM	57.0%	55.4%		57.4%	
Operating expenses	112	101	10.7%	29	282.0%
EBITDA	568	493	15.2%	296	91.8%
EBITDA Margin	47.6%	46.0%		52.2%	
Depreciation	50	45	12.8%	10	379.9%
EBIT	518	449	15.4%	286	81.3%
EBIT Margin	43.4%	41.8%		50.4%	
Interest and Other income	47	41	14.7%	0	22354.1%
PBT	565	490	15.4%	286	97.5%
Provision for Tax	132	124	6.8%	52	153.0%
Tax rate	23.4%	25.3%		18.3%	
PAT	433	366	18.3%	234	85.1%
NPM	36.3%	34.1%		41.2%	

Source: IISL research, company

Financials

Profit & Loss					Balance Sheet				
Rs mn	FY06	FY07	FY08E	FY09E	Rs mn	FY06	FY07	FY08E	FY09E
Net Sales	630	2,218	4,481	6,113	Equity Capital	68	100	100	100
<i>yoY</i>	<i>25.6%</i>	<i>252.0%</i>	<i>102.0%</i>	<i>36.4%</i>	Reserves	367	5,362	6,854	8,921
<i>Cost of Services</i>	<i>214</i>	<i>986</i>	<i>1,983</i>	<i>2,695</i>	Net Worth	435	5,462	6,954	9,021
<i>% of revenue</i>	<i>34.0%</i>	<i>44.5%</i>	<i>44.3%</i>	<i>44.1%</i>	Total Borrowings	-	-	-	-
Gross Profit	416	1,232	2,498	3,418	Deferred tax liability	7	22	22	22
<i>GPM</i>	<i>66.0%</i>	<i>55.5%</i>	<i>55.7%</i>	<i>55.9%</i>	Total Liabilities	442	5,484	6,976	9,043
<i>S,G and A exps</i>	<i>65</i>	<i>127</i>	<i>392</i>	<i>537</i>	Gross block	111	529	1,652	1,720
<i>% of revenue</i>	<i>10.3%</i>	<i>5.7%</i>	<i>8.8%</i>	<i>8.8%</i>	Less: Acc. depn.	15	48	181	375
EBIDTA	351	1,105	2,106	2,882	Net block	95	481	1,471	1,345
<i>yoY</i>	<i>1518.7%</i>	<i>214.9%</i>	<i>90.6%</i>	<i>36.8%</i>	CWIP	5	212	5	5
<i>EBIDTA margin %</i>	<i>55.7%</i>	<i>49.8%</i>	<i>47.0%</i>	<i>47.1%</i>	Goodwill	30	30	30	30
Depreciation	8	80	181	242	Investments	-	2,651	2,651	2,651
EBIT	343	1,025	1,925	2,640	Current Assets	428	2,203	2,976	5,266
Other Income	1	74	190	253	Debtors	237	790	1,494	1,868
PBT	344	1,098	2,115	2,892	Cash	181	1,260	1,442	3,358
(-) Tax	42	170	499	726	Loans & Advances	11	153	40	40
<i>Tax rate</i>	<i>12.1%</i>	<i>15.5%</i>	<i>23.6%</i>	<i>25.1%</i>	Current Liabilities	119	284	300	350
PAT	302	928	1,616	2,167	Net curr. assets	309	1,919	2,676	4,916
Key ratios	FY06	FY07	FY08E	FY09E	Misc. expenditure	4	192	144	96
EPS (Rs)	6.0	18.6	32.3	43.3	Total Assets	442	5,484	6,976	9,043
CEPS (Rs)	6.2	20.2	36.4	47.2	Cash flow	FY06	FY07	FY08E	FY09E
Mkt Cap (Rs mn)			30,358		Rs mn				
Book value (Rs)	5.9	59.0	124.2	159.8	Net profit before tax	344	1,098	2,091	2,892
Dividend per share (Rs)	0.5	2.0	2.0	2.0	Depn & w/o	8	80	181	242
ROCE	68.8%	115.1%	34.6%	30.5%	Tax paid	(8)	(23)	(499)	(726)
ROE	64.1%	102.9%	31.6%	26.0%	Change in WC	(125)	(639)	(575)	(324)
Valuation at Rs			607.2		Others	(5)	(73)	-	-
PE (x)	100.4	32.6	18.8	14.0	Operating Cash Flow	214	443	1,198	2,084
P/EBIT (x)	1.8	0.6	0.3	0.2	Change in Gross Block	(82)	(626)	(916)	(68)
Cash PE (x)	97.8	30.0	16.7	12.9	Others	1	(2,577)	-	-
P/BV (x)	103.3	10.3	4.9	3.8	Investing Cash Flow	(80)	(3,203)	(916)	(68)
Div. Yield (%)	0.1%	0.3%	0.3%	0.3%	Dividend Paid	(12)	(133)	(100)	(100)
P/Sales (x)	48.2	13.7	6.8	5.0	Public issue	-	4,210	-	-
EV/Sales (x)	47.9	11.9	5.9	4.0	Others	(5)	(236)	-	-
EV/EBITDA (x)	86.0	23.9	12.5	8.4	Financing Cash Flow	(17)	3,840	(100)	(100)
					Net inc/(dec) in cash	116	1,079	182	1,916
					Opening cash	64	181	1,260	1,442
					Closing cash	181	1,260	1,442	3,358

IL&FS Investsmart Securities Limited (IISL) and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report or may make sale or purchase or other deals in the securities from time to time or may deal in other securities of the companies/ organizations described in this report

Certification of Research Analyst

We, Ashish Aggarwal & Sanket Dalvi, hereby certify that: the views expressed in the attached research report accurately reflect our personal views about Tanla Solutions and its securities, and our compensation is not directly or indirectly, related to the specific views or recommendations expressed in the research report.

Disclaimer Clause

This report has been prepared by the Research Department of IL&FS Investsmart Securities Limited (IISL). E*TRADE Financial Corporation holds an equity interest in IISL. E*TRADE and the asterisk logo are registered trademarks of E*TRADE Financial Corporation or its subsidiaries and are used with permission.

The information and opinions contained herein have been compiled or arrived at based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guarantee, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This report has been produced independently of any company or companies mentioned herein, and forward looking statements, opinions and expectations contained herein are entirely those of IISL and given as part of its normal research activity and not as a Manager or Underwriter of any Offering or as an agent of the subject company (the "Company") or any other person. Accordingly if any such Company should at any time commence an Offering of securities, any decision to invest in any such Offer or invitation to subscribe for or acquire securities of any such Company must be based wholly on the information contained in the Final Prospectus issued or to be issued by any such Company in connection with any such Offer or invitation and not on the contents hereof. This document is for information purposes only and is provided on an "as is" basis. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. We are not soliciting any action based on this research report.

IISL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of the shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or would subject IISL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purpose without prior written approval of IISL.

Foreign currency denominated securities, if any, wherever mentioned are subject to exchange rate fluctuations which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs or GDRs, the values of which are influenced by foreign currencies effectively assume currency risk. Certain transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors.

This research report is for the general information and does not take into account the particular investment objectives, financial situation or needs of any individual customer, and it does not constitute a personalized recommendation of any particular security or investment strategy. Before acting on any advice or recommendation in this research report, a customer should consider whether it is suitable given the customer's particular circumstances and, if necessary, seek professional advice. Certain transactions, including those involving futures, options, and high yield securities, give rise to substantial risk and are not suitable for all investors.

E*TRADE Capital Markets, LLC, E*TRADE Canada Securities Corporation, E*TRADE Securities Limited and E*TRADE Securities (Hong Kong) Limited (together with E*TRADE Financial Corporation and collectively "E*TRADE") do not represent or endorse the accuracy or reliability of any of the information or content of the research report and reliance upon it is at your own risk. E*TRADE expressly disclaims any and all warranties, express or implied, including without limitation warranties of merchantability and fitness for a particular purpose with respect to the research report and any information in it. E*TRADE shall not be liable for any direct, indirect, incidental, punitive or consequential damages of any kind with respect to the research report.

Distribution of this report into the United States is intended to be solely to "major U.S. institutional investors" pursuant to Rule 15a-6 under the U.S. Securities Exchange Act 1934, as amended. All U.S. persons that receive this report, by their acceptance thereof, represent and agree that they are a major U.S. institutional investor and understand the risks associated in executing transactions in securities. U.S. persons wishing to obtain further information or effect transactions in any securities mentioned in the attached report should contact E*TRADE Capital Markets, LLC, 135 East 57th Street, 14th Floor, New York, NY 10022, Telephone Number- 646-840-8730, Fax - 646-840-8701.

Research, analysis, charting, reports, estimates, commentary, information, data, views, opinions, news and other content (collectively, the "Research") provided to you by E*TRADE Canada Securities Corporation ("E*TRADE Canada") is for informational purposes only. The Research provided herein by E*TRADE Canada has been prepared by IISL, but such research has been prepared independently from E*TRADE Canada and its employees. Accordingly, the Research may not have been, and no representation is made that such Research has been, prepared in accordance with Canadian disclosure requirements. Neither the Research nor the profiles of the third party research providers have been endorsed or approved by E*TRADE Canada, and E*TRADE Canada is not responsible for the content thereof or for any third party products or services. Some Research may contain financial information, but nothing in the Research constitutes a recommendation by E*TRADE Canada to buy, sell or hold any security discussed therein, and the Research neither is, nor should it be construed as, an offer or a solicitation of an offer to buy or sell securities by E*TRADE Canada. E*TRADE Canada does not provide investment advice or recommendations of any kind, nor advice regarding the suitability or profitability of any investment. You are fully responsible for any investment decisions that you make and any profits or losses that may result. Any opinions, views, advice, services or other content provided by a third party are solely those of such third party, and E*TRADE Canada neither endorses nor accepts any liability in respect thereof.

E*TRADE Securities Limited is a company registered in Scotland No. SC103238 with its principal place of business at 42nd Floor, One Canada Square, London E14 5AA, United Kingdom. Registered Office: 24 Great King Street, Edinburgh EH3 6QN, United Kingdom. E*TRADE Securities Limited is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority.

E*TRADE Securities (Hong Kong) Limited is licensed by the Hong Kong Securities & Futures Commission under Central Entity Number: ACT 764. Registered Office: Suite 2401-12 Two Pacific Place, 88 Queensway, Admiralty, Hong Kong.