

RESULT UPDATE ✓

Tanla Solution (TANSOL)

WHAT'S CHANGED...

PRICE TARGET.....	Changed from Rs 109 to Rs 38
EPS (FY09E).....	Changed from Rs 27.17 to Rs 22.08
EPS (FY10E).....	Changed from Rs 31.95 to Rs 19.06
RATING.....	Changed from OUTPERFORMER to HOLD

Current Price Rs 40	Target Price Rs 38
Potential upside -6 %	Time Frame 12 months

HOLD

Karan Mittal

karan.mittal@icicidirect.com

Naval Seth

naval.seth@icicidirect.com

Tough times ahead...

Tanla reported disappointing results for Q3FY09. The company reported a topline of Rs 166.7 crore, growing 40% YoY while it witnessed de-growth of 21.1% QoQ. The EBITDA margin declined 964 bps YoY and 768 bps QoQ. The decline was due to the high operating expenditure incurred by the company. Depreciation grew 201% YoY and 10% QoQ. This led to a 38%QoQ decline in PAT. The company reported PAT of Rs 43.95 crore.

Highlight of the quarter

Q3FY09 remained a subdued quarter for the company. Regulatory change in the UK, recessionary trend in several markets and a weak British pound lead to the QoQ de-growth of 21% in the topline. Administrative expenses have increased from 4.8% of sales to 9.6% of sales. This was primarily due to the company shifting all its platforms to Dubai.

Valuations

At the CMP of Rs 40, the stock is trading at 1.8x its FY09E EPS of Rs 22.1 and 2.1x its FY10E EPS of Rs 19.1. We value the stock at 2 x FY10E EPS and arrive at a target price of Rs 38. We downgrade the stock from OUTPERFORMER to HOLD.

Stock data....

Market Cap.	Rs 404.5 crore
Debt (FY08)	-
Cash (FY08)	Rs 183.8 crore
EV	Rs 220.7 crore
52 week H/L (Rs)	362/38
Equity capital	Rs 10.0 crore
Face value (Rs)	Rs 1
MF Holding (%)	4.6
FII Holding (%)	36.0

Price performance...

	Returns (%)			
	1M	3M	6M	12M
Tanla Solution:	-44.4	-49.0	-81.0	-87.4
OnMobile	-1.2	-9.2	-58.9	NA

Exhibit 1: Key Financials

	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr	QoQ Gr	YTD09	FY09E	FY10E
Net Sales	166.7	220.1	119.3	211.2	39.7%	-21.1%	544.7	730.4	791.0
EBIDTA	63.3	99.3	56.8	96.4	11.4%	-34.3%	240.1	312.1	299.7
EBIDTA Margin (%)	37.98%	45.12%	47.62%	45.66%	-964 bps	-768 bps	44.1%	42.7%	37.9%
Depreciation	15.1	14.3	5.0	13.7	200.5%	10.4%	41.1	56.9	75.0
Interest	0.0	0.0	0.0	0.0	NA	NA	0.0	0.0	0.0
Other Income/Extraordinary item	1.5	1.5	4.7	1.3	-67.7%	19.6%	4.8	6.0	5.0
Reported PAT	44.8	71.0	43.3	70.5	3.6%	-36.5%	170.9	220.8	190.6
EPS (Rs)	4.5	7.1	4.3	7.1	3.6%	-36.5%	17.2	22.1	19.1
Valuation									
PE	-	-	-	-	-	-	-	1.8	2.1
Target PE	-	-	-	-	-	-	-	1.7	2.0
EV to EBIDTA	-	-	-	-	-	-	-	0.9	0.9
Price to book	-	-	-	-	-	-	-	0.4	0.4
RoNW %	-	-	-	-	-	-	-	24.4	17.8
RoCE %	-	-	-	-	-	-	-	28.3	21.0

Source: Company, ICICIdirect.com Research

Result Analysis

Recessionary trend in all geographies

Tanla has expanded its footprints in most geographies across the globe. However, the company is facing a tough time in almost all the markets it operates in. Usage of premium VAS services declined in the UK resulting in a decline in revenue generation from all segments except Openbit. Moreover, roll out of services in new markets like Spain and the US is taking longer than expected for the company. The management expects revenues from the Spanish market to kick off from Q4FY09.

Regulatory change in UK detrimental

A new regulation was enforced in the UK wef January 1 2009 wherein any operator charging a customer more than £4.5 per week for a particular service (like Video call, Premium SMS, Voice SMS, Mobile Internet, etc) needs prior approval from the regulator. This had led to a fall in usage of premium messaging services (PMS) from 1.36 crore in Q209 to 0.9 crore in Q309, resulting in revenue decline. The management had taken steps in advance to comply with this regulation and about 75% of the operators have already taken the approval. The company is confident of getting back on track in terms of PMS usage by the first quarter of next year.

Openbit – adding value

The company derived Rs 31.8 crore of revenue from Openbit in Q3FY09 as against Rs 22.3 crore in the last quarter. The revenue from Openbit grew 42.7% as the total number of smart-phones shipped with embedded license manager increased from 59 lakh in Q2 to 72 lakh in this quarter. The company has tied up with six new operators all over the world for this product. In India, the company has already rolled out this product with Airtel and BPL Mobile, while it is in the deployment stage for Vodafone.

Risk & concerns

The company faces the risk of reduced usage of premium services in its key markets. It would be challenging for the company to maintain its topline growth if the trend continues in the next fiscal.

Valuations

Tanla is reeling under low usage of premium services in its key markets. As a result of this, overall revenue declined 21% QoQ. We believe the recessionary trend would continue in FY10 across its major markets resulting in lower tendency to use premium VAS services. Although the company would expand into newer markets and revenues from India would grow despite the overall slowdown, we may not see earnings growing as much as anticipated earlier.

In the wake of the current results and update from the management we have negatively revised our estimates. We expect the margin to decline as Tanla expands into new regions. They would be further impacted by lower revenue generation in products and services, which traditionally has high margins.

Exhibit 2: Revised Estimates

Particulars	FY09E			FY10E		
	Old	New	% Change	Old	New	% Change
Revenue	824.8	730.4	-11.4%	1025.9	791.0	-22.9%
EBITDA	378.4	312.1	-17.5%	454.3	299.7	-34.0%
PAT	271.7	219.1	-19.4%	311.5	184.9	-40.6%
EPS	27.2	22.1	-18.7%	31.2	19.1	-38.8%

Source: ICICIdirect.com Research

Exhibit 3: PE Chart



Source: Company, ICICIdirect.com Research

At the CMP of Rs 40, the stock is trading at 1.8x its FY09E EPS of Rs 22.1 and 2.1x its FY10E EPS of Rs 19.1. We value the stock at 2x FY10E EPS and arrive at a target price of Rs 38. We downgrade the stock from OUTPERFORMER to **HOLD**.

Exhibit 4: Valuation Table

	Sales (Rs Cr)	Sales Growth	EPS (Rs)	EPS Growth	PE	EV/EBITDA
FY08	459.7	107.2%	33.3	258.9%	1.2	1.0
FY09E	730.4	58.9%	22.1	-33.7%	1.8	0.9
FY10E	791.0	8.3%	19.1	-13.6%	2.1	0.9

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Exhibit 5: Valuation Matrix

OnMobile Global				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)	
Idirect Code	ONMGLO	CMP	216.0	FY08	261.8	10.5	20.6	7.4	29.8%	13.0%
		Target	317.5	FY09E	412.7	14.7	14.7	6.3	13.9%	12.8%
MCap (Rs Cr)	1,246.5	% Upside	47.0%	FY10E	570.7	19.6	11.0	4.0	16.3%	15.3%

Tanla Solution				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)	
Idirect Code	TANSOL	CMP	40.5	FY08	459.7	33.3	1.2	1.0	23.8%	27.7%
		Target	38.1	FY09E	730.4	22.1	1.8	0.9	24.4%	28.3%
MCap (Rs Cr)	404.5	% Upside	-5.7%	FY10E	791.0	19.1	2.1	0.9	17.8%	21.0%

Source: Company, ICICIdirect.com Research

Peer Valuation

Exhibit 6: Valuation Matrix

	CMP	TP	M Cap Rs Cr.	EPS			P/E (x)			EV/EBIDTA (x)			ROCE			RONW		
				FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10
OnMobile	216.0	317.5	1246.5	10.5	14.7	19.6	20.6	14.7	11.0	7.4	6.3	4.0	13.0%	12.8%	15.3%	9.9%	12.2%	14.0%
Tanla Solutions	40.5	38.1	404.5	33.3	22.1	19.1	1.2	1.8	2.1	1.0	0.9	0.9	27.7%	28.3%	21.0%	23.8%	24.4%	17.8%

Source: Company, ICICIdirect.com Research

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

Underperformer (U): -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicidirect.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
Gr. Floor, Mafatlal House,
163, HT Parekh Marg,
Backbay Reclamation
Churchgate,
Mumbai – 400 020**

research@icicidirect.com

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