

# Tanla Solutions (TANSOL)

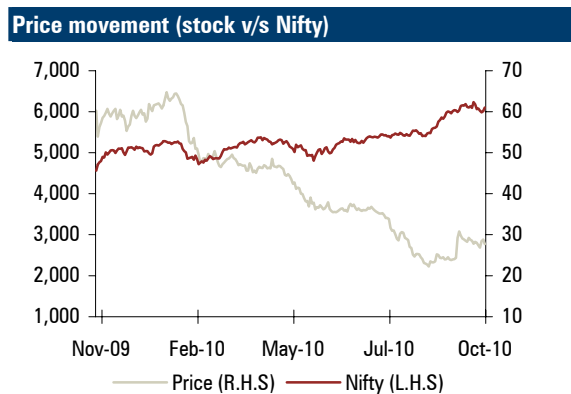
Rs. 29

Rating matrix	
Rating	: UNDER REVIEW
Target	: NA
Target Period	: NA
Potential Upside	: NA

Key financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	687.1	366.4	330.5	446.7
EBITDA	284.8	106.9	87.5	131.2
Net Profit	199.1	27.8	18.0	44.7
EPS	19.9	2.7	1.8	4.5

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	1.4	10.1	15.4	6.2
Target PE (x)	NA	NA	NA	NA
EV/EBITDA (x)	0.4	0.9	-0.1	0.5
P/BV (x)	0.3	0.3	0.3	0.3
RoNW (%)	22.4	3.0	1.9	4.7
RoCE (%)	24.4	2.3	1.7	5.0

Stock data	
Market Capitalisation	Rs 277.5 Crore
Debt-Cons. (FY10)	Rs 0 Crore
Cash & Invst.-Cons. (FY10)	Rs 188.7 Crore
EV	Rs 106.6 Crore
52 week H/L	78 / 27
Equity capital	Rs 10 Crore
Face value	Rs 1
MF Holding (%)	0.0
FII Holding (%)	17.0



Analyst's name	
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## WHAT'S CHANGED...

PRICE TARGET .....	UNDER REVIEW
EPS (FY11E) .....	Changed from Rs 4.3 to Rs 1.0
EPS (FY12E) .....	Changed from Rs 5.8 to Rs 3.7
RATING.....	UNDER REVIEW

## Disappointment – yet again...

Tanla Solutions once again reported disappointing set of numbers for Q2FY11. The top line stood at Rs 78.3 crore against our expectations of Rs 109.3 crore. Revenue declined 12.3% YoY while it improved by 3.5% QoQ. EBITDA declined 27.7% YoY and improved 5.1% QoQ to Rs 21.5 crore on the back of lower revenue realisation. EBITDA margin stood at 27.4%, declining 584 bps YoY. PAT for the quarter stood at Rs 3.2 crore aided by negative tax outgo.

### Highlights for the quarter

Tanla solutions have once again reported disappointing set of numbers though the company claims to have added new clients in this quarter as well. Mobile payments segment has further declined to due to lower transaction volumes from the Nokia license manager deal. Revenue from aggregation and product services stood at Rs 52.4 crore against Rs 47.8 crore in Q1FY11. Subscription and Mobile payments revenues improved to Rs 2.0 crore and Rs 15.0 crore vs Rs 1.3 crore and Rs 17.9 crore in Q1FY11, respectively.

The company has added nine new customers for providing billing and aggregation services in various geographies such as UK, South Africa and India. The company would also be handling spot messaging for the reality show KBC, revenues from same would kick in from Q3FY11E.

## Valuation

At the current market price of Rs 29 the stock is trading at 28.1x FY11E EPS of Rs 1.0 and 7.8x FY12E EPS of Rs 3.7. Company's performance has been quite erratic over the past few quarters. Though Tanla claims to add several new clients in VAS related services, the revenue growth does not reflect the same. The stock is under review and we advise our clients to avoid this stock until there is clarity on the performance of the company.

Exhibit 1: Valuation Metrics						
(Rs Crore)	Q2FY11	Q2FY11E	Q2FY10	Q1Y11	QoQ (Chg %)	YoY (Chg %)
Net Sales	78.3	109.3	89.3	75.6	3.5	-12.3
EBITDA	21.5	33.2	29.7	20.5	5.1	-27.7
EBITDA Margin (%)	27.5	30.4	33.3	27.0	41 bps	-584 bps
Depreciation	19.2	18.7	17.4	18.8	1.8	9.8
Interest	0.0	0.0	0.0	0.0	NA	NA
Reported PAT	3.2	12.5	10.5	2.1	56.5	-69.1
EPS (Rs)	0.3	1.2	1.0	0.2	56.5	-68.7

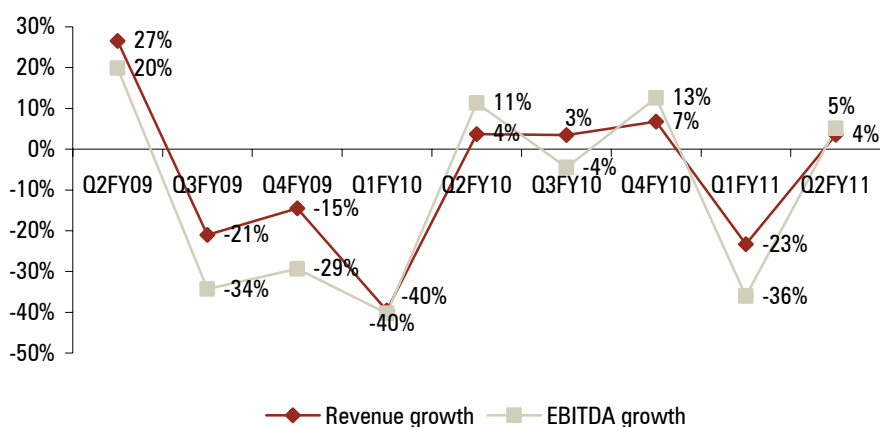
Source: Company, ICICIdirect.com Research

## Outlook

Company's performance has been quite erratic over the past few quarters. Premium SMS services revenue declined with economic scenario worsening in UK during FY09 and has not been able to recover since then. The company has also not been able to meet its guidance on the License manager deal with Nokia, as the mobile phone manufacturer is itself reeling under intense competition. Though Tanla claims to add several new clients in VAS related services, the revenue growth does not reflect the same.

The company has signed various new agreements in the domestic space for 3G related services. The management expects revenue to flow from these deals by the end of current fiscal. The stock is under review and we would revisit our estimates when further clarity emerges.

**Exhibit 2: Erratic Revenue and EBITDA growth**



Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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**Strong Buy: 20% or more;**  
**Buy: Between 10% and 20%;**  
**Add: Up to 10%;**  
**Reduce: Up to -10%**  
**Sell: -10% or more;**

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