

Tanla Solutions Limited

Sirshendu Basu

+91 22 26593135

sirshendu.basu@investsmartindia.com

Shareholding (%)

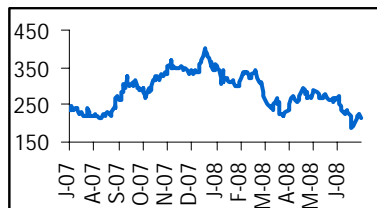
Promoters	35.8
FII's	37.4
MFs	4.4
Others	22.4

Share price performance

52-week high/low (Rs)	425/182		
	-1m	-3m	-12m
Abs (%)	-20.6	-8.6	-9.4
Rel* (%)	-9.0	8.7	1.1

*to Nifty

Stock chart



Robust growth outlook: 'Buy' maintained

Tanla Solutions Limited's (Tanla's) Q1FY09 performance was better than our expectations. The quarter was marked by a 16.2% QoQ revenue growth to Rs1.66bn and a net profit growth of 13% QoQ to Rs564mn. During the quarter, Tanla started experiencing benefits of its integration with Openbit, a company that it acquired recently and also gained from 8% depreciation of INR vis-à-vis EURO.

Currently, the stock is quoting at FY09E PER of 10x. We maintain a 'Buy' rating on the stock with a price target of Rs398, 18x FY09E earnings. Our recommendation is supported by the company's expected revenue growth of 33% and EPS growth of 36% during FY09E.

Key highlights of Q4FY08 results:

- Aggregator business continues to drive growth:** During Q1FY09, Tanla's aggregator revenues grew 17% QoQ, from Rs1.11bn in Q4FY08 to Rs1.3bn in Q1FY09. With this growth, the share of revenues from the aggregator business increased sequentially from 77.5% to 78.1%.
- Insignificant drop in EBITDA margins:** During Q1FY09, Tanla's EBITDA margins dropped by 20bps on the back of a thin drop in the margins of its products business.
- Status of the Openbit integration:** Tanla had acquired an 85% stake in the Finland-based Openbit for US\$15.81mn at a total valuation of US\$18.60mn. Openbit registered strong traction during Q1FY09; the company recorded installations in 1.4mn handsets during June 2008 alone. This enabled Openbit to record revenues of Rs74mn and PAT of Rs16mn (revenue recognised for the month of June 2008 only). The EBITDA margin increased significantly from 7% to 22% during one month of operation post integration.
- Entry into new geographies to provide continuous momentum:** During Q1FY09, Tanla entered into connectivity agreements with all operators in Spain, South Africa, Dubai, and Singapore; the revenues from these tie-ups would start flowing in from Q2FY09 onwards. Further, Tanla signed up BSNL for setting up voice portals in all 23 circles in India, covering both GSM & PSTN networks; these services, to be made live across the country in Q2FY09, would cater to over 35mn BSNL subscribers. Tanla also entered into a tie-up with Bharti Airtel for premium SMS services and mobile radio services.

Buy

Rs216

14 July 2008

Market cap

Rs bn 21.8

US\$ mn 515

Avg 3m daily volume

133,378

Avg 3m daily value

Rs mn 34

Shares outstanding (mn)

100

Reuters/Bloomberg

TNSL.BO/TANS.IN

NSE/BSE

TANLA/532790

Sensex

13,331

Nifty

4,040

Tanla Solutions

▲ **Valuations:** Currently, the stock is quoting at FY09E PER of 10x. We maintain a 'Buy' rating on the stock with a price target of Rs398, 18x FY09E earnings. Our recommendation is supported by:

- ✓ expected revenue growth of 33% during FY09E,
- ✓ EPS growth of 36% during FY09E,
- ✓ the potential upside offered by Tanla's entry into new markets, and
- ✓ the recent acquisition of Openbit.

Table 1. Quarterly result table

Rs mn	Q1FY09	Q4FY08	QoQ (%)	Q1FY08	YoY (%)
Revenues	1,669	1,436	16.2%	895	86.5%
Cost of Revenues	684	583	17.3%	438	56.3%
Gross Profit	984	853	15.4%	457	115.5%
GPM	59.0%	59.40%		51.1%	
Operating expenses	180	158	14.1%	61	197.9%
EBITDA	804	695	15.7%	396	102.9%
EBITDA Margin	48.2%	48.40%		44.3%	
Depreciation	124	107	15.6%	33	272.8%
EBIT	681	588	15.7%	363	87.4%
EBIT Margin	40.8%	41.00%		40.6%	
Interest and Other income	20	36	-44.2%	51	-60.3%
PBT	701	624	12.3%	414	69.3%
Provision for Tax	137	124	10.1%	81	68.1%
Tax rate	19.5%	19.90%		19.6%	
PAT	564	500	12.8%	333	69.6%
NPM	33.8%	34.80%		37.2%	

Source: IISL research, company

Financials

Profit & Loss

Rs mn	FY06	FY07	FY08	FY09E
Net Sales	630	2,218	4,598	6,113
<i>joy</i>	<i>25.6%</i>	<i>252.0%</i>	<i>107.2%</i>	<i>33.0%</i>
<i>Cost of Services</i>	<i>214</i>	<i>986</i>	<i>2,012</i>	<i>2,695</i>
<i>% of revenue</i>	<i>34.0%</i>	<i>44.5%</i>	<i>43.8%</i>	<i>44.1%</i>
Gross Profit	416	1,232	2,585	3,418
<i>GPM</i>	<i>66.0%</i>	<i>55.5%</i>	<i>56.2%</i>	<i>55.9%</i>
<i>S,G and A exps</i>	<i>65</i>	<i>127</i>	<i>432</i>	<i>537</i>
<i>% of revenue</i>	<i>10.3%</i>	<i>5.7%</i>	<i>9.4%</i>	<i>8.8%</i>
EBIDTA	351	1,105	2,153	2,882
<i>joy</i>	<i>1518.7%</i>	<i>214.9%</i>	<i>94.9%</i>	<i>33.8%</i>
<i>EBIDTA margin %</i>	<i>55.7%</i>	<i>49.8%</i>	<i>46.8%</i>	<i>47.1%</i>
Depreciation	8	80	235	242
EBIT	343	1,025	1,918	2,640
Other Income	1	74	174	255
PBT	344	1,098	2,093	2,895
(-) Tax	42	170	462	726
<i>Tax rate</i>	<i>12.1%</i>	<i>15.5%</i>	<i>22.1%</i>	<i>25.1%</i>
PAT	302	928	1,631	2,169

Key ratios

	FY06	FY07	FY08	FY09E
EPS (Rs)	6.0	18.6	16.3	21.7
CEPS (Rs)	6.2	20.2	18.4	23.6
Mkt Cap (Rs mn)			21,600	
Book value (Rs)	5.9	59.0	62.1	79.9
Dividend per share (Rs)	0.5	2.0	2.0	2.0
ROCE	68.8%	115.1%	34.6%	30.5%
ROE	64.1%	102.9%	31.6%	26.3%
Valuation at Rs			216.0	
PE (x)	35.7	11.6	13.2	10.0
P/EBIT (x)	0.6	0.2	0.1	0.1
Cash PE (x)	34.8	10.7	11.8	11.2
P/BV (x)	36.8	3.7	4.3	3.3
Div. Yield (%)	0.2%	0.9%	0.9%	0.9%
P/Sales (x)	34.3	9.7	4.7	3.5
EV/Sales (x)	34.0	8.0	4.9	3.3
EV/EBITDA (x)	61.0	16.0	10.6	7.1

Balance sheet

Rs mn	FY06	FY07	FY08	FY09E
Equity Capital	68	100	100	100
Reserves	367	5,362	6,855	8,925
Net Worth	435	5,462	6,955	9,025
Total Borrowings	-	-	-	-
Deferred tax liability	7	22	22	22
Total Liabilities	442	5,484	6,978	9,047
Gross block	111	529	1,652	1,720
Less: Acc. deprn.	15	48	235	429
Net block	95	481	1,417	1,291
CWIP	5	212	5	5
Goodwill	30	30	30	30
Investments	-	2,651	2,651	2,651
Current Assets	428	2,203	3,031	5,324
Debtors	237	790	1,494	1,868
Cash	181	1,260	1,497	3,416
Loans & Advances	11	153	40	40
Current Liabilities	119	284	300	350
Net curr. assets	309	1,919	2,731	4,974
Misc. expenditure	4	192	144	96
Total Assets	442	5,484	6,977	9,047

Cash flow

Rs mn	FY06	FY07	FY08	FY09E
Net profit before tax	344	1,098	2,093	2,895
Depn & w/o	8	80	235	242
Tax paid	(8)	(23)	(499)	(726)
Change in WC	(125)	(639)	(575)	(324)
Others	(5)	(73)	-	-
Operating Cash Flow	214	443	1,253	2,087
Change in Gross Block	(82)	(626)	(916)	(68)
Others	1	(2,577)	-	-
Investing Cash Flow	(80)	(3,203)	(916)	(68)
Dividend Paid	(12)	(133)	(100)	(100)
Public issue	-	4,210	-	-
Others	(5)	(236)	-	-
Financing Cash Flow	(17)	3,840	(100)	(100)
Net inc/(dec) in cash	116	1,079	237	1,919
Opening cash	64	181	1,260	1,497
Closing cash	181	1,260	1,497	3,416

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