

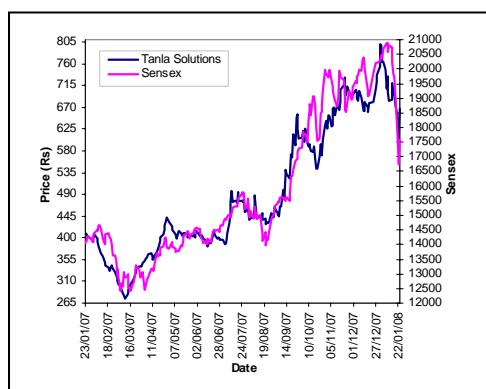
Tanla Solutions

CMP: Rs611
Buy
**Target Price: Rs784
(12 Months)**
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Sector	IT
Market Cap (Rs cr)	3,057
Beta	0.6
52 WK High / Low	820 / 270
Avg Daily Volume	69280
Face Value (Rs)	2
BSE Sensex	17,222
Nifty	5,033
BSE Code	532790
NSE Code	TANLA
Reuters Code	TNSL.BO
Bloomberg Code	TANS IN

Shareholding Pattern (%)

Promoters	35.8
MF/Banks/Indian FIs	3.2
FII/ NRIs/ OCBs	38.9
Indian Public/ Others	22.1

Share Price Vs Sensex

3QFY2008 Result Update
Performance Highlights

■ **Global expansion, marketshare gains power Topline:** Tanla Solutions recorded a strong 11.2% qoq Topline growth in 3QFY2008. On a yoy basis, Topline more than doubled growing by over 110%. Tanla expanded its global operations in the last fiscal and this quarter. The company commenced commercial operations in Dubai and set up strategic partnership with mobile messaging and payment partners in Spain and South Africa. Thus, this far in FY2008, the company moved beyond the UK market into Ireland, Singapore, Dubai, Spain and South Africa. Tanla also spread its operations in the Indian market through signing agreements with Airtel, BSNL, Vodafone-Essar, Reliance Communications (RCOM) and Idea.

Segment-wise, the Aggregator business once again drove revenues growing by 12% qoq. Geographical expansion has been the chief driver of Topline for this business. The company in the UK market has increased its marketshare to 4.5%. The Products and Offshore businesses of the company grew by 10.2% qoq and 6.9% qoq, respectively.

■ **Lower Cost of Sales, SG&A leverage boost Margins:** Tanla recorded a strong 165bp qoq rise in EBITDA Margins in 3QFY2008. This was a result of lower Cost of Sales, which fell as a percentage of sales, by 161bp qoq. The company saw some stability in the percentage of SG&A costs to sales after making significant investments in brand-building over the past couple of quarters. In fact, in 1QFY2008 and 2QFY2008, SG&A costs had increased by 123.7% qoq and 62.4% qoq, respectively. Thus, this time round, the company has leveraged on these investments, with SG&A expenses falling slightly by 4bp qoq as a percentage of sales.

■ **Higher Margins, lower Taxes boost Bottomline:** Tanla recorded a strong 18.3% qoq rise in Bottom-line during the quarter on the back of Margin expansion and lower effective tax rate (23.4% this quarter v/s 25.3% in 2QFY2008). On a yoy basis, the growth was a strong 87.8%.

Exhibit 1: Key Financials

Y/E March (Rs cr)	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	222	450	641	833
% chg	252.0	102.9	42.4	29.9
EBITDA Margin (%)	49.8	45.3	44.1	42.7
Net Profit	93	158	206	245
% chg	206.8	70.0	30.4	19.1
EPS (Rs)	18.6	31.5	41.1	49.0
P/E (x)	32.9	19.4	14.9	12.5
P/BV (x)	5.9	4.8	3.8	3.0
RoE (%)	32.6	26.6	27.7	26.4
RoCE (%)	20.8	31.2	33.2	33.1
Sales/GFA (x)	4.2	2.1	1.6	1.5
EV/EBITDA (x)	26.5	14.5	10.5	8.2

Source: Company, Angel Research

Aggregator business continues to power ahead on geographic expansion

During 3QFY2008, Tanla's Aggregator business clocked a robust 12% qoq growth. One of the key strategies that the company is executing to drive Revenue growth going ahead is geographic expansion. Tanla during 3QFY2008 expanded its reach to Dubai, Spain and South Africa. In Spain and South Africa, the company is working through the partnership route and the business will be primarily wholesale in nature, involving buying bulk minutes and SMS from operators and selling it to resellers in these markets. This business will thus be primarily volume driven. Going ahead, in 4QFY2008, the company will start booking Revenues from the US market as well. The company's expansion into Ireland and Singapore has also proceeded well.

Tanla also expanded its marketshare in the UK Aggregation market to 4.5%. This is driving growth in that market. The company is also witnessing strong traction in the mobile payment service that it launched, *PayFort*, with increased interest being shown by all major UK mobile operators such as 3, O2, Vodafone, T-Mobile, Virgin Media and Orange.

During 3QFY2008, Tanla also increased its focus on the Indian market signing messaging and billing agreements with Airtel, BSNL, RCOM, Vodafone-Essar and Idea Cellular. Thus, going ahead, revenue visibility is very strong in the Aggregator business and we expect this to be the key growth driver of Topline. Other businesses of the company, viz. Offshore and Products, also clocked decent growth of 6.9% qoq and 10.2% qoq, respectively.

Exhibit 2: Segment-wise Revenue break-up			Rs cr
Segment	2QFY2008	3QFY2008	% chg qoq
Aggregator	82	92	12.0
Offshore	13	14	6.9
Products	12	13	10.2
Total Revenues	107	119	11.2

Source: Company, Angel Research

Lower Cost of Sales, SG&A leverage drive Margins

Tanla recorded an impressive 165bp qoq rise in EBITDA Margins in 3QFY2008. This was primarily a result of lower Cost of Sales, which fell as a percentage of sales by 161bp qoq. The company also leveraged on recent investments made on the SG&A front, with SG&A costs falling slightly as a percentage of sales by 4bp qoq. It should be noted that Tanla had made significant investments in SG&A over the past couple of quarters to drive its geographical expansion and set up its marketing network. Thus, its expansion in Ireland, Singapore, Dubai and the US necessitated these investments and brand-building efforts were also undertaken. Thus, after making these initial investments, Tanla has reaped the benefits this quarter through higher sales.

Exhibit 3: Break-up of Operating expenses					Rs cr
Particulars	3QFY2007	2QFY2008	3QFY2008	chg qoq (%)	chg yoy (%)
Cost of Revenues	24	48	51	7.2	113.4
% of Sales	42.4	44.6	43.0	(1.6)	(0.6)
S&M Expenses	2	7	7	7.6	286.7
% of Sales	3.3	6.2	6.0	(0.2)	2.7
G&A Expenses	1	3	4	16.8	235.6
% of Sales	2.1	3.2	3.4	0.2	1.3
Total Operating Expenses	27	58	63	7.8	130.7
% of Sales	47.8	54.0	52.4	(1.7)	4.6
EBIDTA	30	49	57	15.2	91.8
EBIDTA Margin (%)	52.2	46.0	47.6	1.7	(4.6)

Source: Company, Angel Research

Higher Margins, lower Taxes power Bottom-line

Tanla recorded a strong 18.3% qoq rise in Bottom-line during 3QFY2008 due to the higher Margins and lower effective Tax rate (23.4% this quarter v/s 25.3% in 2QFY2008). On a yoy basis, the growth was an impressive 87.8%.

Exhibit 4: Segment-wise EBITDA Margins

Particulars	EBITDA (Rs cr)		EBITDA Margins (%)		chg qoq (%)
	2QFY2008	3QFY2008	2QFY2008	3QFY2008	
Aggregator	31	37	37.4	39.7	18.9
Offshore	8	9	62.5	62.8	7.3
Products	10	11	86.8	86.9	10.3
Total Revenues	49	57	46.0	47.6	15.2

Source: Company, Angel Research

Outlook and Valuation

Going forward, we expect Tanla to maintain a 55.4% CAGR growth in Topline over FY2007-10E, while Bottomline is expected to clock a 38.2% CAGR growth in the mentioned period. We expect EBITDA Margins to decline from 49.8% in FY2007 to 42.7% in FY2010. We expect Tanla to be a major beneficiary of the strong growth being witnessed in the global non-voice market, with the increasing use of value-added services (VAS) by both the corporate and retail users. Visibility for Tanla's Aggregator business appears strong with its entry into newer markets like the UK, Singapore, Dubai, Spain, South Africa and the US. In its Products business too, Tanla is scheduled to launch new products that will likely boost Topline growth for the segment.

At the CMP, the stock trades at 12.5x FY2010E EPS. We believe that these valuations are reasonable given the strong growth expected in EPS over the next few years. **We maintain a Buy on the stock, with a 12-month Target Price of Rs784.**

Exhibit 5: 3QFY2008 Performance

Y/E March (Rs cr)	FY2008			FY2007			9MFY2008	9MFY2007	% chg
	3Q	2Q	% chg (qoq)	3Q	% chg (yoy)				
Net Revenues	119	107	11.2	57	110.4	316	144	119.8	
Cost of Sales	51	48	7.2	24	113.4	143	60	137.3	
Gross Profit	68	59	14.4	33	108.2	173	84	107.2	
SG&A Expenses	11	10	10.7	3	266.6	27	9	194.0	
EBITDA	57	49	15.2	30	91.8	146	74	96.3	
Other Income	5	4	14.7	0	22,354.1	14	0	17,674.3	
Depreciation	5	4	12.8	1	379.9	13	2	444.6	
Income before Income Tax	56	49	15.4	29	97.5	147	72	104.0	
Tax	13	12	6.8	6	137.8	34	13	154.7	
Net Income	43	37	18.3	23	87.8	113	59	92.5	
Diluted EPS (Rs)	8.7	7.3	18.2	6.7	30.1	22.6	17.2	31.4	
Gross Profit Margin (%)	57.0	55.4		57.6		54.8	58.1		
EBITDA Margin (%)	47.6	46.0		52.2		46.1	51.6		
Net Profit Margin (%)	36.3	34.1		40.6		35.8	40.9		

Source: Company, Angel Research



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