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Tanla Solutions Ltd.**(CMP: Rs 288, FY09E- EPS Rs 21.2, P/E 13.6x, BUY, Target Price: Rs 450)****Consolidated Financials:**

Rs Mn.	Q4FY08	Q3FY08	QoQ%	Q4FY07	YoY%	FY08	FY07	YoY%
Net Sales	1436.4	1193.4	20.4	780.4	52.9	4597.6	2218.5	107.2
Other income	35.7	46.9	-23.9	72.9	-35.6	174.2	73.6	136.6
Total Expenditure	741.1	625.1	18.6	418.1	49.5	2444.3	1113.4	119.5
EBITDA	695.2	568.3	22.3	362.3	56.9	2153.2	1105.0	94.9
EBITDA%	48.4	47.6	80 bps	46.4	200 bps	46.8	49.8	(300 bps)
Depreciation	106.8	50.2	112.5	56.9	-11.7	234.7	80.4	192.1
PBT	624.2	565.0	10.5	378.3	49.4	2092.7	1098.3	90.5
Tax	124.2	132.3	-6.1	37.8	250.0	461.6	170.2	171.2
PAT	500.0	432.7	15.6	340.5	27.1	1631.1	928.1	75.8
EPS	10.0	8.7	15.6	6.8	27.1	32.6	18.6	75.8
Equity	100.0	100.0	0.0	100.0	0.0	100.0	100.0	0.0

Source: Company, Face Value: Rs 2

Q4FY08: Results in line with expectations- Aggregator business drives the topline

TSL ended the fourth quarter with 20.4% QoQ increase in consolidated sales.

Tanla Solutions Ltd. (TSL) ended the fourth quarter with 20.4% QoQ increase and 52.9% YoY increase in consolidated revenues to Rs 1436.4 mn in Q4FY08 backed by strong 21.1% QoQ growth in aggregator business which contributed 77.5% to the overall revenues. Products business contributed 10.7% whereas offshore business contributed about 11.8% to the total revenues of the company. For FY08, TSL reported net sales of Rs 4597.6 mn (up 107.2%) which was in line with our expectations.

Revenue Metrics:

Business (Rs mn)	Q4FY08	Q3FY08	QoQ%
Aggregators	1113.2	919.2	21.1
Products	154.0	132.0	16.6
Offshore	169.2	142.2	19.0

Source: Emkay Private Client Research, Company

Decreased cost of sales and increased platform capabilities for aggregator business leads to higher EBITDA margins

EBITDA margins increased by 80 bps QoQ as a result of a decline in cost of sales.

EBITDA margins (on a consolidated basis) increased by 80 bps from 47.6% in Dec 07 quarter to 48.4% in Mar 08 quarter on account of decline in cost of sales which fell from 43% (as a percentage of sales) in Q3FY08 to 40.6% in Q4FY08 on account of increased platform capabilities for aggregator business. For FY08, TSL reported EBITDA margin of 46.8% which was in line with our estimates.

Other income decreased by 23.9% QoQ to Rs 35.7 mn in Q4FY08 mainly on account of lower interest and dividend from investment in deposits and mutual funds from un-utilized IPO proceeds and internal accruals. Depreciation increased by 112.5% QoQ from Rs 50.2 mn in Q3FY08 to Rs 106.8 mn in Q4FY08 as a result of amortization of R&D expenses that TSL had capitalized earlier.

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TSL recorded 15.6% QoQ increase in consolidated PAT to Rs 500 mn for Q4FY08.

Effective tax rate decreased from 23.4% in Dec 07 quarter to 19.9% in Mar 08 quarter as a result of decrease in tax rates in certain geographies. This led TSL to record 15.6% QoQ increase in consolidated PAT to Rs 500 mn for Q4FY08. For FY08, net profit stood at Rs 1,631.1 mn which was in line with our expectations.

TSL looking for inorganic expansion

TSL is currently looking at an acquisition in US which could get finalized by Q1FY09. TSL is targeting mid-sized companies which are extremely focused towards niche areas. The acquisition could be funded by internal accruals.

The company added about 30 new customers in Q4FY08 taking the total number of accounts to 200+ at the end of FY08.

Business Outlook and Valuation:

TSL is experiencing a strong demand for its services from different vertical markets. Going forward, TSL would be laying emphasis on global network connectivity and product development both in existing and newer geographies. Further, inorganic expansion could help TSL boost the topline and bottomline.

We maintain our estimates for FY09E and would introduce our new estimates for FY10 after the first quarter results. We expect TSL's revenue and net profit to grow at a CAGR of 66.3% and 51.4% respectively over FY07A- 09E.

Year Ended	FY08E	FY08A	Change%	FY09E
Net Sales (Rs Mn)	4251.7	4597.6	8.1	6122.5
EBITDA (Rs Mn)	1951.5	2153.2	10.3	2828.6
EBTDA%	45.9	46.8	2.0	46.2
Net Profit (Rs Mn)	1550.0	1631.1	5.2	2118.6
EPS (Rs)	31.0	32.6	5.2	42.4
Adj EPS (post-split)	15.5	16.3	5.2	21.2
P/E (x) @ Rs 288	18.6	17.7		13.6

*Face value subdivided from Rs 2 to Re 1
Source: Company, Emkay PCG Research

BUY with a target price of Rs 450.

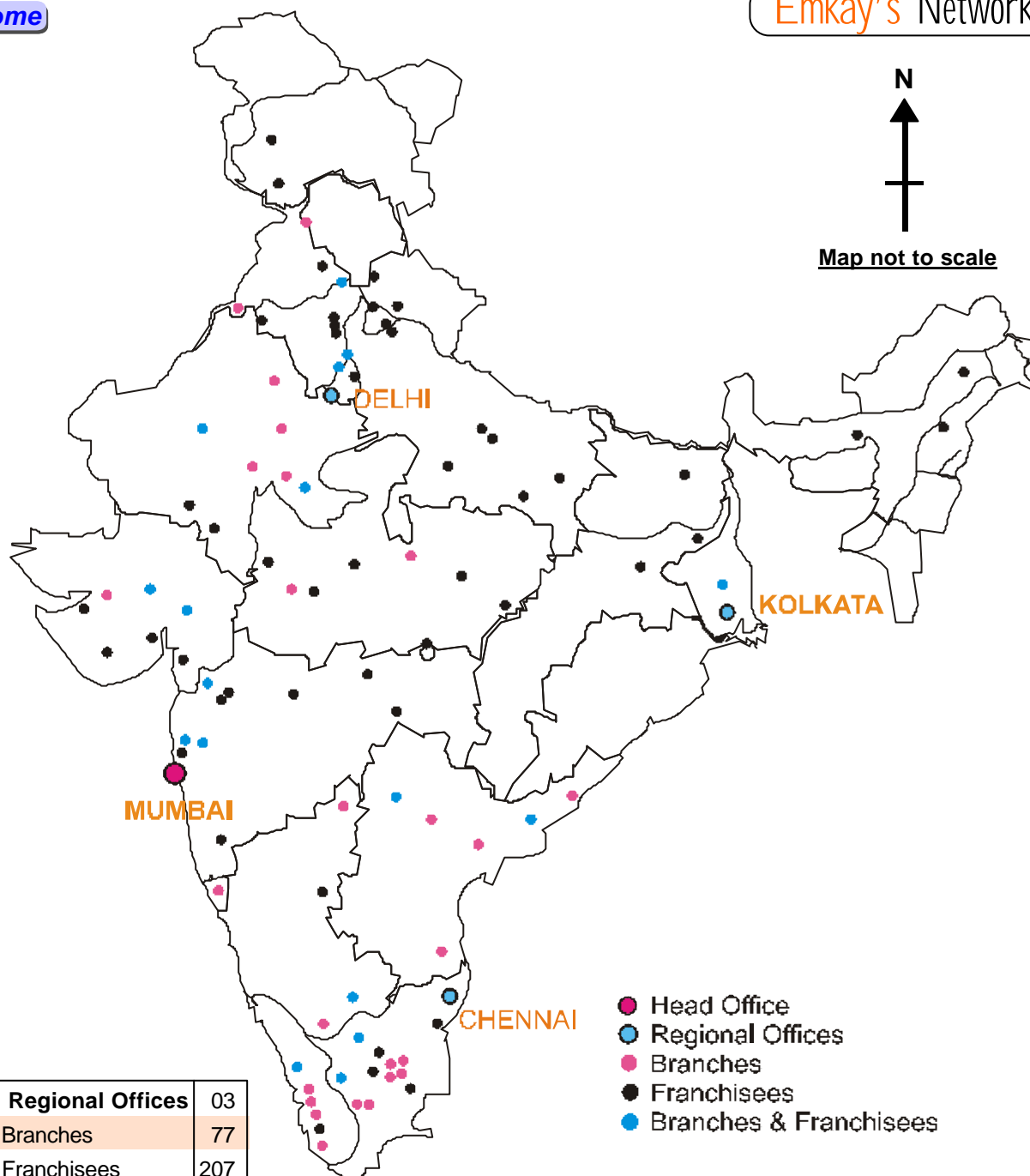
At current market price of Rs 288, TSL trades at a PE multiple of 13.6x on FY09E earnings. We maintain "BUY" on the stock with a post-split target price of Rs 450. At our target price, the stock will be valued at 21.2x FY09E earnings.

[Home](#)

Emkay's Network



Map not to scale



Total Regional Offices	03
Total Branches	77
Total Franchisees	207

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[Home](#)

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