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Sub: Q4 FY18 Earnings Conference Call Transcript.

TANLA SOLUTIONS LIMITED

 



Tanla Solutions Limited
Q4 & FY18 Earnings Conference Call
May 18, 2018

Moderator Ladies and Gentlemen, good day and welcome to Tanla Solutions Limited's Q4 & FY2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, sir.

Nishid Solanki Thank you. Good afternoon and welcome to Tanla Solutions' Q4 & FY18 Earnings Conference Call. Today, we are joined by senior members of the management team including Mr. Uday Reddy - Chairman and Managing Director, Mr. Srinivas G. K. - Chief Financial Officer, Mrs. Seshanuradha Chava - Company Secretary, Mr. Rajesh N - Head Accounts and Mr. Ashok D - Business Controller.

We will begin the call with opening remarks from the management following which we will open the forum for question and answers. Before we begin, I would like to highlight that certain statements made in today's conference call would be forward looking in nature and a disclaimer to this effect has been included in the investor update shared with you earlier. The Company does not undertake to update them publicly.

I would now hand the conference over to Mr. Uday Reddy for his initial remarks.

Uday Reddy Thanks, Nishid. Good afternoon, everyone. Welcome to the Q4 & FY18 call. I am sure you got a chance to go through the results. The investor update has also been uploaded on the exchanges. We are quite pleased with our last year performance. So, in terms of revenues, we have almost clocked Rs. 800 crore with EBITDA of Rs. 65 crore. So, we have grown almost 40% year-on-year in terms of revenues and around 16% in terms of EBITDA. In terms of cash and cash equivalents, we were at Rs. 133 crore last year and we have closed with Rs. 165 crore this year. With that, we have almost achieved 25% increase.

And in terms of business, I must say that the reason for me to say that we are pleased with performance and the numbers is we have achieved these numbers with the same CAPEX that we have deployed almost couple of years ago and with the same team that we have since the last couple of years. So, in terms of the CAPEX, we spent around Rs. 1.5 crore last year and the salary bill is also same and under the same team and with same deployment, we have achieved these numbers.

So, in terms of the business updates, we did discuss about one of the large gateway or hub is gone live with one of the large Telcos in India. So, we went live, and we



have seen the traction. So, in terms of both revenues as well the margins are in line with our expectation that is how we have recovered from the revenues that we lost in Q3. With this deployment, we have recovered fully whatever we have lost in Q3. And the hub in Singapore is now connected with more than 150 mobile carriers globally. This is a big achievement from our team and of course we have announced a 30% dividend.

With this, I would like to now hand it over to Mr. G. K. Srinivas, who is going to run us through the numbers in detail.

G. K. Srinivas

Good afternoon, everybody. Basically, I would like to touch upon the quarterly numbers first. We have grown in revenue by 4% from Rs. 200 crore to Rs. 208 crore in the current quarter and as far as the annual figures are concerned, we have grown at 37% from Rs. 579 crore to Rs. 792 crore. Business revenue was up by 3% quarter-on-quarter to Rs. 198 crore from Rs. 193 crore and business revenue year-on-year was up by 37% to Rs. 763 crore from Rs. 566 crore. We have an EBITDA growth of 16% over the previous year. Current year, EBITDA stands at Rs. 65.2 crore and net profit stood at Rs. 19 crore. Basically, we have a final year ending earnings per share of Rs. 1.7.

As Mr. Uday was mentioning earlier, we have generated cash balance of Rs. 165 crore that is cash and bank balances, cash and cash equivalents. We hold this in some of the top banks in India and overseas and out of the total balances, we have about Rs. 109 crore in fixed deposit and Rs. 56 crore in the form of current deposits, current accounts which is basically used for working capital. So, the surplus funds have been invested in fixed deposit. The full details of the cash and cash equivalents have been included in the investor update and we earn average rate of 5% per annum on fixed deposit. What we have done subsequently that is as on date, we have moved most of the fixed deposits into liquid funds where the returns are much higher that is around average of 7% to 7.25%. So, as on date, we have Rs. 120 crore invested in top rated mutual funds, liquid funds basically, these are funds available as and when we require them with a one-day notice. So, this is as far as the cash and bank balances are concerned. And like I have explained we have a growth in EBITDA, we have a net profit of Rs. 19 crore and an EPS of Rs. 1.70 as on today.

With that, I would like to hand over the session to Mr. Nishid for Q&A.

Moderator

Thank you. Ladies and gentlemen, we will now begin with the question-answer session. We will take the first question from the line of Sri Sankar from Prabhudas Liladher. Please go ahead.

Sri Sankar

Uday, my first question is towards you. You mentioned that you have got a cash and cash equivalents of Rs. 165 crore and of which over Rs. 100 crore is actually in liquid funds or mutual funds, is that correct?

Uday Reddy

I said Rs. 165 crore is in the bank, but that was on 31st March, 2018. Later, some part of these funds have been moved to liquid funds to the extent of Rs. 120 crore.

Sri Sankar

And the remaining ones are remaining in bank deposits, correct?

Uday Reddy

Yes, Rs. 45 crore still in the bank account, yes.

Sri Sankar

Second question is towards your growth and profit. Can you give us some idea of, I mean you have not done any kind of CAPEX over the last few years. But what we

see is your cash in hand and cash flow has been improving quite a lot which effectively means that you probably have been writing-off some of the intangibles in your books and everything that has been happening around. With the current level of work force and infrastructure that you have, what extent we think that we will be able to grow our business that is number one. And number two, your cash in hand is up your market cap right now, little less than half your market cap. So, what is the kind of cash generation that one can expect going forward with the kind of growth and cash generation?

Uday Reddy

I think Sri, very interesting question. This is what I stated in the beginning. So, with the current deployment and with the current assets that we own, we should be able to generate, we can scale up the business quite quickly that is how we got the connectivity for our Singapore hub recently and with the same team, this business is quite scalable. So, the second point is our cash, you are talking about cash detailing right of EBITDA?

Sri Sankar

Your free cash generation as well as your cash in hand?

Uday Reddy

So, I told you Rs. 165 crore is the cash in hand as on date and we should be able to retain probably upwards of 85% of our EBITDA going forward. So, we do not have any CAPEX plans because we have kind of enough assets, enough deployments for us to generate revenue going forward, yes.

Sri Sankar

My question is even if we are going to grow new businesses, you expect to come in, you do not need to make large investments that is what you are saying, correct?

Uday Reddy

Absolutely. In fact if you look at last year, we have invested only one and half crore towards the CAPEX. So, we have been using our existing assets to generate these revenues and the cash.

Moderator

Thank you. We take the next question from the line of Tejas Shah from Unique Stock Broking. Please go ahead.

Tejas Shah

About the depreciation, I missed your first thing what you have said, I joined late. How much is the depreciation that you have been claiming, how does it work out?

G. K. Srinivas

See Tejas, we have mentioned this earlier also, the assets are basically software platforms which are deployed with various operators and clients depending on the business requirements. These are depreciated based on their useful life. You have a higher depreciation charge for the current year basically because this is the first full year after capitalization. You had a lower depreciation last year because it was basically only for a small portion of the year. Going forward, this would be the depreciation for the remaining useful life of these assets. This is the basis that we are using. This is the acceptable practice as per Indian Companies Act.

Tejas Shah

That is okay, but are we saying that we are going to claim Rs. 21 crore of depreciation every quarter?

G. K. Srinivas

No, it is not that we are going to claim Rs. 20 crore every quarter. It is basically that we have a depreciation of Rs. 57 crore for the whole year based on our usage and on the life of the asset that is it.

Tejas Shah

Now, can we understand how much of assets do we own?

G. K. Srinivas Basically, we have currently around Rs. 451 crore of net assets that is what we have as of today.

Tejas Shah Now, we are depreciating it by around Rs. 57 crore this year. So, every year we will be having the same run rate or it will be more or less?

G. K. Srinivas It depends on the usual life of the assets. See, every year as per Ind AS we need to reassess the useful life and depreciate the assets accordingly.

Tejas Shah Operationally also, I think we made a loss this time?

G. K. Srinivas We have operating profit of Rs. 65 crore EBITDA.

Tejas Shah No, I think because what I saw one number was in cloud communication service, segment revenue you are saying for the quarter is Rs. 198 crore and segment profit and loss you are saying negative Rs. 6 crore and 23 lakhs.

G. K. Srinivas That is because of the depreciation right. See, for the property development we do not use too much of assets. Basically, most of the assets are used for the cloud communication segment and that is the reason why you seeing a negative number.

Tejas Shah If you knock up the depreciation part, so what is the profit that you made on the cloud communication service?

G. K. Srinivas Cloud communication service for the full year it is about Rs. 59 crore, for the quarter if you look at it, it will be around Rs. 16 to 17 crore for the quarter. If you look at the depreciation, most of the depreciation is for the cloud communication business.

Tejas Shah And are we looking at any buybacks or no?

G. K. Srinivas No, there is no buyback proposal as of now.

Tejas Shah And any progress on this NBFC registration?

Uday Reddy I think it is progressing well. I mean we have been updating RBI on timely basis but we are yet to receive final nod from the RBI.

Moderator Thank you. We take the next question from the line of Harshall Khosla from Cordinate Real Estate. Please go ahead.

Harshall Khosla Just wanted to know from an investors perspective, I am a shareholder in the company. Would you call Tanla shareholder friendly company, I mean with a cash reserve of over Rs. 150 crore, debt-free company and dividend you declared is Re. 30 paisa. So, my first question would be, if there is no buybacks, still low dividend and my second question would be is there any chance of the Directors increasing the equity in the business, I mean the equity got diluted, now is there any corporate actions as far as buying more equity by the owners please?

Uday Reddy Mr. Harshall, Uday here. So yes, I did contribute to warrants last couple of years back. So, I have received my stake in company and yes, I believe in the story and I believe in the company. Yes, if I have the money, definitely I would love to increase my stake in the company. So, in terms of the cash, that is with the company around Rs. 165 crore, yes we have generated good amount of cash in the last couple of

years and we also need to appreciate the fact that we pay the dividend for 8 years earlier, just had a break of 2 years in between. But we have been paying the dividend for the last couple of years. So, we announced 30% this year. So, we want to maintain some kind of like steadiness, I do not want situation where we announce exuberant percentages and wherein I cannot maintain the same percentage next year. So, we would like to be very steady.

Harshall Khosla

Uday, I really appreciate the fact that you believe in the story and I mean, the fact that we investors also believe in the story that is why we are in the story. But the question is would you let the market believe in the story because last 2 years, I have seen the stock price either stagnate or fall backwards. For a company where the bottom-line, the topline is growing massively, I do not see it being reflected in the market price. Is the company doing something to help the investors who have put their money expecting return? We are not getting the return, what can you say about that?

Uday Reddy

It is difficult to answer. I think we are doing what we have been trying to do with the last couple of years. We never had any investor calls earlier, but we had quarter-on-quarter investor calls for the last probably more than 10 quarters and as and when somebody seeks any clarification from any minority shareholders, we go all out and give the comfort to any other shareholders like you. Yes, I also strongly believe that our company's market cap should be better than what it is right now. We are also quite concerned on that front. So, probably we have to do more than what we are doing right now. Probably, I hope we will do something this year.

Harshall Khosla

We hope for the markets to rally and the price to be more reflective of what this organization stands properly because it is not just a matter of money. So, it is also matter of pride for you and the board of directors.

Moderator

Thank you. We take the next question from the line of Aditya Kumar, individual investor. Please go ahead.

Aditya Kumar

I have been in this Company for the last 2 years now and either the market cap is absolutely stagnant or it has given negative returns. So, my question here to you is that if I go back to the transcript of the past 4 or 5 calls, you have always mentioned that you look forward to engaging with the broking community. So, my question is that, what is the progress you have made? How many analysts and investors you have met? There are companies who have grown from Rs. 50 crore market capital to Rs. 500 crore to Rs. 5,000 crore market cap just by engaging with the community by bringing in big mutual funds, big houses inside coming on the TV, doing their advertisement, coming on business news channel. So, why is not our company doing anything for investors? The market has rallied, the indexes are at record highs but from the last 2 years we are just where we started?

Uday Reddy

Mr. Aditya, I just answered the previous participant on this. We are also quite concerned about stock price, like any other investors we are also quite concerned. We will do more than what we are doing right now to improve upon this.

Moderator

Thank you. We take the next question from the line of Bhavesh Jain from Envision Capital.

Bhavesh Jain

Sir, our topline, business revenues have grown by 40% but EBITDA only grew by around 16%. Ideally, all this business should have operating leverage. So, the cost of services is also growing in-line. So, why we are not seeing any operating leverage in this business?

Uday Reddy See, on one side, we have messaging which is cloud communication business and also we also have a mobile payment business. In addition to small money coming from property and that we have terminated meaning we have liquidated all the assets of company before end of March last year and we got full consideration. So, coming back to your question, our margin in mobile payment is relatively higher than in messaging. But the growth, which is topline is coming from the messaging business or the cloud communication business where our margin is relatively lower. So, in other words the revenue mix between the mobile payments and the messaging is the reason why we are not able to grow EBITDA as much as we grow the topline.

Bhavesh Jain Sir, is it possible to share the revenue mix as well as the margins on this both mobile payment and messaging services for FY18?

Uday Reddy Yes, can you please send a mail to investorhelp@tanla.com and we are more than happy to help you to with that.

Bhavesh Jain And, how do you see this cloud communication services business over next 2 to 3 years? Are we doing or adding any new products, new services?

Uday Reddy Yes. I think if you look at globally, right we normally ride on the Telco platforms, which is partly driven by the Telco environment and partly by the enterprise needs. If you look at very advanced market, be it Europe market, Americas, our cloud communication I can mention half a dozen companies whose market cap is upwards of course to \$10 billion, they have grown in the last 4-5 years because it is the function of the ecosystem, the regulatory environment and also enterprise needs. So, when it comes to India where we are mostly present, most of our revenues do come from India, I strongly believe that it started picking up, regulators also showed couple of white papers in and around enterprises using the voice. So, I think we can see a few shift in terms of cloud communication in India in the coming years. That is what my personal guess.

Bhavesh Jain And, with so much cash are we looking for any acquisition, are we actively looking for some acquisitions, small acquisition around Rs. 20 to 25 crore topline companies?

Uday Reddy See, we always look for acquisition. We want to grow either in the form of organic or inorganic side. We always look for opportunities. But as and when we find a right fit, probably we will look at it seriously and we will definitely update you as and when it happens.

Bhavesh Jain And, the last one book keeping question. Do we pay any taxes, any cash outflow in form of taxes?

Uday Reddy Yes. We have upwards of probably Rs. 10 crore towards the TDS and probably in terms of the MAT, I think we already paid upwards of Rs. 4 crore this year.

Bhavesh Jain Because in FY17, there was no tax outflow?

Uday Reddy But we have the TDS which is Rs. 6.5 crore towards the TDS last year also.

Bhavesh Jain But when I am looking at our cash flow, I am not seeing that particular entry, anyways I will check.

Moderator Thank you. We take the next question from the line of Manish Yadav, individual investor. Please go ahead.

Manish Yadav So, my question is Vodafone and Idea is getting merged into one entity. So, will that impact your margins because you will be using Idea servers for sending SMS to Vodafone customers and in that case, you need to pay IUC charges. So, post-merger you will not have to pay these charges. So, will that increase your margins?

Uday Reddy Technically speaking, yes. That is like off net, whenever we do on net we do not need to pay interconnect charges. But whenever you do off net, we have to pay Re. 7 paisa towards off net interconnect charges. But I cannot really comment on Vodafone-Idea merger because it is beyond my wisdom. So, it is not fair in my part to really comment on that. But as I told you, yes our intent is to do more of on net rather off net business.

Manish Yadav And also I would like to take this opportunity to tell my fellow shareholders that I have seen Tanla working on increasing their visibility on social media like LinkedIn and Twitter. So, I would also urge other shareholders to comment, like and share those posts posted by Tanla.

Uday Reddy Manish, thanks a lot, thanks for good word.

Moderator Thank you. We take the next question from the line of Tejas Shah from Unique Stock. Please go ahead.

Tejas Shah Coming on the business front, I think your biggest client is Vodafone. Have we done anything with Reliance Jio?

Uday Reddy We do not do much with Reliance Jio as on day. But our intention is to work with Jio. But we do not do much as on today.

Tejas Shah Can we understand what is the outstanding amount as on today, outstanding debtors?

Uday Reddy Debtor outstanding is Rs. 266 crore.

Tejas Shah Is the money coming from this people, means what is the billing cycle or what is the credit cycle, working days cycle?

Uday Reddy Our net working capital is, what is the net working capital?

Tejas Shah No, I am saying is let us say you did bill to Vodafone, than in how many days do you receive the money?

Uday Reddy No, I will tell you how it works. We collect from the enterprises, reseller and aggregators. And that means we raise the invoices on our reseller. We collect the full amount and we keep our revenue share and pass on the remaining amount to Telco. So, that is the flow. So, to answer your question slightly differently, we get a credit term from Telcos on an average around 50 days, but we receive from our resellers probably around upwards of around 75 to 80 days. So, effectively we are funding around 20-30 days depending on the month, depending on the season.

Tejas Shah So, 20 to 30 days is what we are looking at.

Uday Reddy Yes.

Tejas Shah And are we able to see much traction from the volume side, this is peak on this?

Uday Reddy Mr. Tejas, let me add one thing here. For example, last year we have collected more than Rs. 840 crore towards our collection. So, we have collected more than our revenues.

Tejas Shah Is the scalability still there in our business or this is more or less peak because topline is more or less now stagnant at Rs. 200 crore odd on an average.

Uday Reddy No, this is what I answered in the beginning itself in the sense like if you look at last year our CAPEX, we have spent only Rs. 1.5 crore towards our deployments. So, in other words, we have been using our current deployments with a same thing that is being there with for quite some time. So, this business is quite scalable. That is the reason we call it cloud communication.

Tejas Shah I know, but fundamentally I am saying the topline will it grow, scalability is always there because everybody is going to login in. So, there is no additional machinery or anything which we need to do.

Uday Reddy Yes, to answer your question I do not think we are using probably half of capacities of our deployments. Technically speaking we have the Phase-II to ramp up the numbers. Whether we will ramp up the number that yes, we would love to do that. But in terms of capacity, yes we do have the capacities. Our platform has got the capacity to handle more traffic, more traction.

Moderator Thank you. We take the next question from the line of Muthu, individual investor. Please go ahead.

Muthu R I have some basic question related to our business model. So, I used to see the Tanla website, so I have seen couple of, even I tried to use your services it says talk to our sales team. So, when I see your site like Twilio on others right they will give some trial versions so that I can just try to use their APIs. So, even I am developing an application, so I just wanted to try to integrate with Tanla right. So, sometimes speaking to sales, people will hesitate to do it. So, why cannot you provide some service like trial period kind of thing so that everyone will come to try and use Tanla service so that our popularity will get improved, right?

Uday Reddy Muthu, I am happy to talk to you, at the end of the day I am talking to one from the developers' side. So, if you look at, Muthu like if we look at the Twilio, their business model is though the backend technology, backend connectivity is more or less same, we ride in Telco network, they are also ride in Telco network but their end users or end customers or app developers like you. But our target customers, our target market is enterprise, large enterprise. Wherein they do not come to our side, they do not just simply use APIs and start using the services. I cannot really name but I am more than happy to drop some name here like Facebook, LinkedIn, Twitter, Amazon, Flipkart, so business cycle is quite large. It is we need to give them, they need to test our routes, so they do not come on to site and integrate on their own. So, we have to go, sit with them, we have to help them integrate with our servers, our platform before they go live. Yes, our target markets are different, though the backend technology and the infrastructure is same.

Muthu R

Because I have recently seen one of my friends is developing an application for an enterprise. So, they have some features like providing a phone call, cloud phone call which Tanla is already providing it. So, I was wondering if they could give an option for try and error kind of thing. So, that they will also be happy to use it. So, that is one of my suggestions and thanks for your answer.

Moderator

Thank you. We take the next question from the line of Bijoy Babu, individual investor. Please go ahead.

Bijoy Babu

I just wanted to ask you like the cloud communication services and what are the value-added services and how are we differentiating? How are we adding value to our customers or more clearly like what are the kinds of customers that we are focusing and how are we differentiating?