



“Tanla Solutions Limited Q3 & Nine Months FY 2017 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Tanla Solutions Limited Q3 & Nine Months FY 2017 Earnings Conference Call.

We are joined by the Senior Management Team of Tanla Solutions Limited. Mr. Uday Reddy – Chairman and Managing Director; Mr. Gautam Sabharwal – Director (Global Business Development); Mr. G.K. Srinivas – Chief Financial Officer; and Mrs. Seshanuradha Chava – AVP (Legal) and Company Secretary.

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 Management's commentary. 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 like to hand the conference over to Mr. Uday Reddy for his initial remarks. Thank you and over to you, Mr. Reddy.

Uday Reddy: Thanks, Karuna. Good afternoon everyone and thank you for attending our Investor Call. I am pleased with our performance, the last quarter showing impressive top-line and profit growth.

Our position as a leading provider of A2P Messaging in India naturally resulted in us benefiting from a number of one-off communications that were initiated as a result of demonetization. Demonetization will have a positive an effect on our domestic A2P business. However, this will take a few quarters to fully materialize. We have also seen growth in our mobile Payments business in the last quarter as the new contracts we have entered into post-restructuring this business are now beginning to show the results.

Our Cloud Communications Platform went live in the month of October last year and is growing steadily as per our expectations and we are in the process of increasing our capacity on this platform. In addition, we deployed a new SMSC with one of the Indian Telcos in month of November and I am happy to report that 26% of our additional revenue was delivered through that SMSC which amounts to around Rs. 8 crores over the last two months. This will ramp-up in the months to come and so we are continuing to pursue our domestic as well as international growth and we are in the process of closing new deployments for our Cloud and A2P platforms. This will further add to our momentum in the quarters.

Thank you once again. I would like to now hand over to Gautam.

Gautam Sabharwal: Thanks, Uday. So, as Uday mentioned, we had a good quarter in terms of A2P Messaging. I would like to just start by giving you a little bit of break-up of how our revenues break-up in our different segments.

Messaging contributed roughly about Rs. 143 crores in revenues last quarter and now I am talking at the gross margin level we got about Rs. 17.5 crores in gross margin in Messaging.

This shows that despite the volume growth we are still being able to maintain our margins in the A2P Messaging business.

In addition, our Payments business grew quite impressively last quarter. It generated about Rs. 18.5 crores in revenue with Rs. 3.5 crores margin which is standard for this business. Where we had suffered a little bit in terms of gross margin was our Cloud Communications business. This as you know the platform went live in October last year and in order to penetrate certain large enterprises, we had to offer free minutes for the first few months in order for them to get familiar with our platform. This resulted in about Rs. 2 crores in top-line from the Cloud Communications platform but a Rs. 1.5 crores loss at the gross margin level.

And finally, from the Property segment – our revenues were about Rs. 5 crores with Rs. 2.3 crores in gross margin. So, overall, the gross margin came in at Rs. 21.7 crores but it would have been better without the loss in the Cloud business. But that will set itself off in the coming quarter once these new enterprises that we have boarded start actually providing commercial revenue to us.

That is it. I will hand you over to Mr. Srinivas, to take you through some of our financial numbers.

G.K. Srinivas:

Good evening, everyone. I just like to touch upon a few figures that would be relevant to the question-and-answer session that we are going to have now.

Our fixed assets figure as of 31st of December, 2016 stands at approximately Rs. 528 crores comprising of Rs. 116 crores in fixed asset per se and about Rs. 411 crores in capital work-in-progress, consisting mainly of stacks, software development kits, software platforms, and which are basically used to write up Tanla's software for new verticals and new deployments.

The cash figure as of 31st December stands at Rs. 75 crores and debtor days are at 85 days slightly higher than the 77 days which was in quarter two basically because of the increased turnover level and the additional sales that workout. And the CAPEX to cash accruals conversion has been very good. We had a CAPEX addition of only Rs. 43 lakhs from cash against Rs. 1.5 crores in the previous quarter and the PAT-to-cash conversion percentage grew from 85% last quarter to 96% in the current quarter.

These are the basic numbers I wanted to share and we will now have the question-and-answer session if that is okay with all.

Seshanuradha Chava:

Yes, Karuna, we can go ahead with the questions.

Moderator:

Sure, thank you very much, ma'am. Ladies and gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Tejash Shah from Unique Stock Broking. Please go ahead.

- Tejash Shah:** We have gone through your results. Every quarter normally we get the property development charge. How long do you think we will be continuing with that? Second is, next quarter projections what we see is a little less and how much growth are we expecting due to the government's digital push? Thank you.
- G.K. Srinivas:** There was certain land holding of the company which was given in joint development and this was to primary unlock the value of the asset that was lying in the company. We have had reasonably good sales in the last year and the current year. In the current quarter, we have done about Rs. 5 crores of property revenues, against Rs. 5 crores in the previous quarter. The consolidated figure stands at about Rs. 12 crores. We expect to see further sales during the next few quarters and expect that by 30th September of next year, we would most probably be able to realize the entire value of this particular land asset that we have.
- Tejash Shah:** If you can elaborate what will be the realizable value which is still pending, I think you are saying two quarters, correct, September it will close-down?
- G.K. Srinivas:** Yes, we have three quarters now, that will be around Rs. 15 crores.
- Tejash Shah:** So basically, we can consider Rs. 5 crores on an average per quarter?
- G.K. Srinivas:** Yes, on an average we will have another Rs. 5 crores per quarter for the next three quarters.
- Tejash Shah:** And again that will have the same profit base of Rs. 2 crores - Rs. 2.5 crores?
- G.K. Srinivas:** That will be the average.
- Tejash Shah:** Okay. And how do you look forward for the other benefits which are from the digital push? And even from the Payments what do you say how much benefit you will get in terms of the growth numbers?
- Gautam Sabharwal:** Our Payments business is not really affected by the demonetization. Our Payments business is very much carrier led content delivery business. So, we do payments of carrier-based mobile payments for digital content. So, it has not really made any impact due to demonetization. Whereas on the A2P business, it is certainly in the last quarter what we saw was a large amount of one-off communications from both the government as well as banks regarding demonetization so the communication was likely you need to come and change your money or you need to within such time, etc., So, that was a large contributor last quarter. We did see some increase in Transactional Messaging and OTP messaging but that was offset a little bit because of demonetization there was a drop-off in certain parts like e-Commerce and things where message volumes dropped off a little bit. But over the coming quarters we will see these other segments normalize as well as growth in OTP and transactional messaging due to demonetization. Yes, there will be an impact, a bit early to tell exactly how much that will be is the answer.

- Moderator:** Thank you. Next question is from the line of Deepak Chokhani, Individual Investor. Please go ahead.
- Deepak Chokhani:** The revenues for the quarters are Rs. 20 crores higher compare to the guidance given whereas, EBITDA is more or less the same. I wanted to know whether this Rs. 20 crores top-line has not sort of contributed anything to the EBITDA and what is the strategy going forward to increase the EBITDA because consistently the top-line has been growing. Unfortunately, the EBITDA is more or less static so, what is your strategy going forward?
- Gautam Sabharwal:** I think, I answered this question when I explained the break-up and revenues. Our main business of A2P Messaging which is a largest contributor of revenue so the hit was more at the gross margin level and the reason it was at the gross margin level was because in the Cloud business because being a new business we have to offer certain incentives to our clients to start using our platforms, some free minutes, etc., and that cost us revenue resulted in loss of Rs. 1.5 crores in the Cloud business, right. Whereas in A2P our margins remained standard so, because if we add that back we will see that the margins were similar to last quarter.
- Deepak Chokhani:** Basically, the guidance for the next quarter is again the top-line is more or less the same as this quarter Rs. 160 crores versus Rs. 169 crores this quarter. However, the EBITDA still remains the same broadly. So, are you saying that next quarter also there will be loss in Cloud business which is why the EBITDA for next quarter is also pretty much static?
- Gautam Sabharwal:** It is a business we are still in investment phase. So, we are trying to open-up large accounts in this business and we do see a marginal loss in Cloud in Q4 as well. But going forward this will be a big contributor to margins.
- Moderator:** Thank you. Next question is from the line of Abhishek Agarwal from Moneyore. Please go ahead.
- Abhishek Agarwal:** Sir, basically I have few questions. First of all, as the government is planning to launch BHIM Payment App, what risks and opportunity do you perceive for the company because of this?
- Gautam Sabharwal:** We play part in two things, one is in user authentication and password delivery and the other in transactional alerts. So, when the government launches the payment app it is likely they will require both of these services and we see some increase in volumes in our Messaging business due to that.
- Abhishek Agarwal:** Okay. And sir, I believe you must be benefited from the demonetization?
- Gautam Sabharwal:** I think I have addressed that question twice already. But for your benefit yes, we have seen a little bit of benefit in last quarter both in terms of one-off communications as well as some increase in transactional traffic but there was a little bit of drop off in e-commerce because of demonetization. But all of this will normalize over the next few quarters and transactions will

pick-up. So, yes, we will see some benefit. How much that is, is yet to be determined, a bit early to tell.

Abhishek Agarwal: And sir, we have entered in to two new deals during the year. Can you brief me about this deals and what is our revenue potential from these two deals? And what can be the EBITDA margin in these? And do we have any new deals in the pipeline?

Gautam Sabharwal: So, our EBITDA and gross margins will be standard as they are. So, as we can see that from one of the deals we have generated about Rs. 8 crores in the last quarter, it went live in November last year. So two months of revenue generated Rs. 8 crores. So, we forecast about Rs. 100 crores from that deployment which we are on track to deliver. And from the second deployment which was Cloud Communications, we are still in the investment phase and we expect this to be fully live in the next quarter once we have our clients on board and then our forecast is roughly about Rs. 60 crores in revenue.

Abhishek Agarwal: Rs. 60 crores for full year?

Gautam Sabharwal: Yes.

Abhishek Agarwal: And sir, we have capital WIP of Rs. 360 crores-odd and intangible asset under development of Rs. 140 crores-odd. So, out of this how much will be capitalized in this FY 2017 and what will be the average depreciable life of it?

G.K. Srinivas: Basically, we capitalize assets and deploy them only when there is a new product or a new vertical that is launched. So, as of now we cannot foresee how much we will be deploying in the new verticals or the new deployment that we have but as and when they came they will appear in those particular quarters only right now we cannot say how it will be capitalized.

Abhishek Agarwal: So, sir you mean to say because of new deals which happens we are not going to capitalize any of WIP?

G.K. Srinivas: As of now nothing because we have already capitalized whatever was required for the current year and if there is a new vertical only it will be done again. Nothing before 31st March 2017

Abhishek Agarwal: Okay, sir. And sir, what is normal maintenance CAPEX?

G.K. Srinivas: We do not have any specific maintenance CAPEX as such. It is all for platform requirements only.

Abhishek Agarwal: And sir, what the revenue growth we are expecting apart from this new deal on FY 2017 and FY 2018? And what will the EBITDA margin we are targeting in FY 2017-18?

Gautam Sabharwal: Okay. We are still working on our operating plans for FY 2017-18, once we confirm them we will release a guidance to the market.

Abhishek Agarwal: Okay. Sir, we are very positive because of demonetization and most of the business is moving to cashless. So, we are not perceiving any growth in revenue in our existing business?

Gautam Sabharwal: I do not think we have ever said that.

Abhishek Agarwal: I have few data required. So, whom should I can contact?

Gautam Sabharwal: Please write to investorhelp@tanla.com.

Moderator: Thank you, sir. Next question is from the line of Pradeep Kumar, Individual Investor. Please go ahead.

Pradeep Kumar: My first question is in the last call it was mentioned that most of the banks are with us. So, are we even targeting the payments bank some of which are live now and others which will go live soon?

Gautam Sabharwal: Of course, natural, they all require OTP services, they all require transaction alert services, so yes, and they will be very much in our radar and we will be hopefully in theirs.

Pradeep Kumar: Okay, fine. Which are the other industries that we are targeting other than the banking ones?

Gautam Sabharwal: We work across industry sector, so right from logistics, to e-commerce, to banks, to government, we work across all industry sectors.

Pradeep Kumar: And since the government's push for Digital India and the OTP business is growing good. Are we looking to expand the workforce so that the growth is not hampered in the short-term or in the longer-term?

Gautam Sabharwal: We are looking to recruit resources very strategically whenever required, there is no massive expansion in the workforce, so it will be very nominal.

Pradeep Kumar: And about not the short-term but the long-run, let us say three years to five years, right now we have India as a very big opportunity but let us say we conquered India as such we have 65% to 70% market share there but then in the long-run let us say three years to five years, we are targeting emerging markets or APAC countries where A2P is going to grow a lot?

Gautam Sabharwal: Yes, that is a corner stone of our strategy is to look for deployments and we are constantly working on getting new deployments in other markets and as Uday mentioned in his initial speech that we are working on that and this will add further to our growth in the quarters to come.

Pradeep Kumar: About the Mobile Payments business, so how does it generate revenue and are we looking at demonetization to enter...

- Gautam Sabharwal:** Demonetization is not going to benefit that business of ours.
- Pradeep Kumar:** Yes. But as of now we do not have that but are you looking at capitalizing on this opportunity because India is also going to be a huge market in Mobile Payments.
- Gautam Sabharwal:** I think we are a very carrier-driven business. On the one side, we work with carriers, on the other side we work with enterprises that is our strength and we want to stay in that zone. Spreading ourselves too thin is never a good idea.
- Pradeep Kumar:** Okay. And about the Cloud Communications business, so how much share are we targeting over here? I do understand that we have just started on it but is there any strategy of any percentage share which we are going to target for the market?
- Gautam Sabharwal:** See, overall, market is quite nascent. So, if I tell you that I want to quantify the market but it is a fast-growing area. Yes, we are looking to be the dominant player similar to how we are in A2P Messaging.
- Pradeep Kumar:** Okay. And about the deals which we have signed, so about Rs. 100 crores deals was implemented in Q3 I believe, is that right?
- Gautam Sabharwal:** Right.
- Pradeep Kumar:** Yes. And Rs. 60 crores deals is going to be implemented in Q4, right?
- Gautam Sabharwal:** No, it is the Cloud Communication platform that we have talked about. Our forecast for the full financial year is roughly around Rs. 60 crores. But this takes a little bit of time to ramp up as we said we are in the process of boarding some large enterprise clients and we will start to see some strong revenues over the coming quarters.
- Pradeep Kumar:** Okay. And in the last call, you mentioned that we will be looking to increase the margins as the main target for the next around 6 months to 12 months. So, you mentioned about two deals which you will be getting executed by March. So, what is the status on that? Last time you gave a guidance of you have visibility of 60% to 70% on that.
- Gautam Sabharwal:** I think, we have said last quarter that our focus is to try and do as much of our business on-net as opposed to offnet. So, when I say on-net is when we are delivering messages for a particular operator we try to deliver it through that same operator, in which case our margins are better, in the other case our margins are lower. So, our constant endeavor is to continue to increase that on-net percentage so that we can continue to improve our margins. And some of the deployments that we have done, the one that we did last quarter is going to marginally improve our margin going forward.
- Pradeep Kumar:** Okay. And you were to going share one client's name which you were going to get in the future. So, do we have that ready on this call?

- Gautam Sabharwal:** I think what we have learnt from the past is sometimes giving too much information in terms of our clients can backfire. So, we would like to reserve names wherever possible and Telco names yes, but enterprise names we are in certain cases under non-disclosure agreements where we cannot reveal those names.
- Moderator:** Thank you. Next question is from the line of Nivesh Jain, Individual Investor. Please go ahead.
- Nivesh Jain:** The basic question is sir there is no provision for tax being charged for this consecutive Q1 and Q2 and again Q3. Could you please explain why is it so? And the next question is going to be like is there any chance of raising further capital by way of preferential share or any other thing?
- G.K. Srinivas:** Just wanted to tell you on the taxation. We are currently under MAT tax and for the year you do not see any tax charge in the P&L basically because the deferred tax is a negative and the tax payable on MAT account is a positive and both of them ultimately knock off and you do not have a tax charge in the P&L account, that is the basic reason.
- Nivesh Jain:** Sir, second question is there any plans to raise further equity or further capital by way of preferential allotment or something?
- G.K. Srinivas:** We do not have any plans to raise any further equity as of now and we have no funding needs.
- Moderator:** Thank you. Next question is from the line of Dhiral Shah from GEPL Capital. Please go ahead.
- Dhiral Shah:** Sir, as we see your Q3 revenue was up 25% on a quarter-on-quarter basis so, how much growth is because of demonetization?
- Gautam Sabharwal:** See, a lot it was one-off campaign driven. So, if we look in the messaging business, the growth was roughly Rs. 20 crores of which Rs. 6 crores or Rs. 7 crores would have been as a result of demonetization.
- Dhiral Shah:** Rs. 6 crores to Rs. 7 crores, this is from A2P business, right?
- Uday Reddy:** Correct.
- Dhiral Shah:** Okay. And sir, how much positive impact you envisage in your A2P business because of this demonetization going ahead?
- Gautam Sabharwal:** We definitely see a positive impact but it is a bit early to tell it all depends on how quickly the cashless economy really gather space. Yes, we are seeing a lot more transactions but there is large percentage of population that still is yet to come into that net of having cards and I am actually using them to make transactions. So, yes, we do see an impact and we do see a positive impact, how much that is and how quickly that will materialize is something it is a bit early to tell.

Dhiral Shah: And sir, do you feel this Q3 message processing volume is a kind of peak one for you?

Gautam Sabharwal: In terms of peak compare to our previous history yes, it is the highest volume of messages we had and is this at top of 29.00 our definitely not.

Dhiral Shah: So, do you expect further growth in this A2P volumes like this in coming quarters?

Gautam Sabharwal: We are working on our plans for the next financial year and as and when they are finalized we will share full guidance for next year. So, to answer your question yes, we do see growth ahead which is why we are all here and what are our plans for next year? Will be revealed to you shortly.

Dhiral Shah: And sir, can you give me your revenue mix as in terms of how much is from Government, how much is BFSI or Retail or e-logistic.

Gautam Sabharwal: That is not something that we release but we are giving you our revenue mix in terms of our segment which is Messaging, Voice, Payment, Property but in terms of how that breaks up in messaging it's not something we have released to market as yet.

Dhiral Shah: Okay. And sir, you are talking about Cloud Communication, what kind of margin you envisage from this, this is currently gross margin negative.

Gautam Sabharwal: Because we are in the growth phase and we are in the launch stage there. But overall, there will be standard as per in line with our A2P business.

Dhiral Shah: Okay. And sir, do you expect, there is further band to expand your margins going ahead?

Gautam Sabharwal: There is a lot of solutioning requirements in Cloud which could result in slightly higher margins.

Dhiral Shah: And sir, when do you expect this Cloud business to get sustainable going ahead by which quarter?

Gautam Sabharwal: I think, it is better you wait for our guidance for next year. I do not want to commit anything just yet. We are working on our plans but it will be profitable at an operational level very soon.

Dhiral Shah: And sir, any new order you bagged?

Gautam Sabharwal: We have no new deployments this quarter but on the enterprise side yes, we have some wins.

Moderator: Thank you. Next question is from the line of Tejash Shah from Unique Stock Broking. Please go ahead.

Tejash Shah: How many Telcos do we have in terms of this thing? And do we have Reliance Jio also on board or no?

Gautam Sabharwal: We do not have Jio on board just yet but in some shape or form we are working with all the others.

Tejash Shah: Will Jio come into this thing or it is difficult?

Gautam Sabharwal: Yes, it will but it is a bit early and we will be having discussion with them.

Tejash Shah: Okay. Another thing is how is the competition affecting us, there are only I think two players or three players in our industry for this A2P?

Gautam Sabharwal: In terms of platform we actually provide platform to the Telcos we are the largest but there are downstream players whether it is a more competitive environment.

Tejash Shah: Okay. Basically, what I am trying to understand is let us say I think On Mobile is same?

Gautam Sabharwal: On Mobile is not in our business.

Tejash Shah: Okay. That is not in your business and what about Sonata Software?

Gautam Sabharwal: No.

Tejash Shah: That is also not into your business.

Moderator: Thank you. Next question is from the line of Jessie Chinni, Individual Investor. Please go ahead.

Jessie Chinni: Gautam, a couple of questions out here. In the last call, you had mentioned that your two sales channel were going direct to Telcos and then Direct-to-Enterprise, right.

Gautam Sabharwal: Let me clarify. So, in our Cloud Communication business we deploy our platform with the Telco and then we take advantage of Telco idea is that we in some cases white label platform with the Telco and then Telco uses the sales channel to reach out to their enterprise customers that they have. And in other cases, we get our own connectivity and we reach out to enterprises directly. So, roughly because where we are sacrificing a little bit in revenue share with the Telco on the Telco channel side we are incurring cost on the other side in terms of procuring connectivity and things. So, at the end of the day the margins boil down to roughly the same.

Jessie Chinni: Okay. So fair margins or similar margins, okay. On the total message flow that we have OTP messages are what percentage of your total volume right now?

- Gautam Sabharwal:** OTP messaging is roughly is around 5% of our overall messaging volume. So, there are number of different categories, there is transactional alerts, OTP messaging, two factor authentications and in terms of how that exactly breaks down I do not have that number with me just at the moment. But OTP represents roughly about 5%.
- Jessie Chinni:** Roughly, 5%, okay. And the reason I asked the question was just in case eventually this finger scanning or the retina scan kind of stuff comes together over the next few years whether that business is going to get impacted or not?
- Gautam Sabharwal:** Even as we speak alternative channels for OTPs but voice is also considered quite a growing channel for OTP delivery and two-factor authentication delivery which is an area that we are targeting through our Cloud Communications platform but somewhere in future that could be an area that retina scan could eat some of that but I do not see a near to medium-term impact.
- Jessie Chinni:** Okay. One of the things what was stated in the last call and seems to be a little reduced in this call, last time the emphasis on focus on increase in margin and the thing about getting your SMSC platforms with the biggest Telco so that basically things were on net and we basically had higher margin. Somehow has that reduced or is that.
- Gautam Sabharwal:** That strategy is still very much the central strategy of A2P Messaging business.
- Jessie Chinni:** Okay. So, your timeline that was given last time so, that is still on track for another two quarters to three quarters?
- Gautam Sabharwal:** Yes, we are still working on that and we will keep you updated as and when we close new deployments which will impact margins.
- Jessie Chinni:** So, which are the Telcos Gautam that basically have the dedicated SMSC solutions deployed?
- Gautam Sabharwal:** I think, most people know this but it is not something I really want to share just yet. But as I said besides Jio we are working in some shape or form with all the Telcos.
- Jessie Chinni:** Yes, that you mentioned last time also, right and Vodafone was other thing you talked about but right now you are not sharing it.
- Gautam Sabharwal:** Yes, Vodafone is our partner the others are growing as well.
- Jessie Chinni:** Okay. You also mentioned about your A2P Messaging platform being used by Vodafone's 26 different entities or 26 different properties, is that on track? And what is the time line of the deployment?
- Gautam Sabharwal:** What we mentioned was that we are in talks with them for this so, it is not something that we closed or confirm by any means.

- Jessie Chinni:** Okay. The two contracts that you talked about right, one was a Rs. 100 crores, one was Rs. 60 crores. If I remember correctly, in the last call, the margin numbers that were given was Rs. 8 crores for the Rs. 100 crores deal and around Rs. 24 crores for the Rs. 60 crores deal, right. So, the margins were dramatically different. What is the future of this spend? Most of the contracts are going to be like the Rs. 60 crores deals
- Gautam Sabharwal:** I think we are definitely on track on both of them. In A2P messaging, in one the deployments as we said we have generated Rs. 8 crores in the last two months in the Rs. 100 crores that you talked about and the other one is our Cloud Communications deployment which is taking a little bit of time to scale up but it is meeting our expectations in terms of the growth curves. So, we are boarding clients and we will hit our numbers.
- Jessie Chinni:** Yes, my question was more around the margin stuff Gautam on that one.
- Gautam Sabharwal:** The margins are on track for the messaging deployment whereas it is early days in the cloud deployment, so it will take a little bit more time for margins to start coming in the cloud deployment. So, margins are definitely there.
- Moderator:** Thank you. Next question is from the line of Piyush Jain, Individual Investor. Please go ahead.
- Piyush Jain:** Last quarter six months' result, we had a Rs. 70 crores cash was there with the company. So, I assume current quarter there is definitely addition of cash would be there. We do not know exactly the number because balance sheet number is not given this quarter. So, what is the current cash position right now available? And what will be the future deployment of this cash whether there will be some acquisition is there, planning or some deployment is there with respect to messaging hub or something any usage
- Uday Reddy:** So, the current cash available is Rs. 75 crores and we may grow that to Rs. 100 crores that is what we have given guidance also. And what we are going to do with Rs. 100 crores we have not really thought so, because we are trying to add as much as possible cash that is our top priority.
- Piyush Jain:** Okay. But any usage of this cash will be? I mean, what you will do of Rs. 100 crores of something?
- Uday Reddy:** No, we have not really discussed anything in the board, as and when we have any plans, we will definitely share it with you.
- Piyush Jain:** Okay. So, there is no acquisition in the offing or something? Some acquisition or deployment right now there is not an offing but maybe company will be around by the end of the year or something we will be around Rs. 100 crores cash.
- Uday Reddy:** Yes, a couple of things. You mentioned acquisition and CAPEX right, so acquisition is big no right now. Second one is even for CAPEX as Gautam mentioned, we are trying to use our

existing infrastructure even for new deployments. So, we are not expecting any new CAPEX I mean, there is no need to for us to spend any money from the cash for any new deployment. If you look at this year CAPEX last quarter, we spent around Rs. 45 lakhs towards that new deployment and rest we use it from the existing assets. And the CAPEX, what we suppose to spend from the cash is absolutely under control.

- Piyush Jain:** What would be the margin percentage you are seeing in the next two years to three years span of time? Currently the margin levels are around 10% to 15% in the range of that. But the history of Tanla is having a very high margin in 2008, 2009 period and 2010 time.
- Uday Reddy:** Yes, our priority is to push the margins that is what we have been working towards that and yes, I do not know long it is going to take but we are working towards that.
- Piyush Jain:** Any estimate number for the coming one year or two year?
- Uday Reddy:** As Gautam mentioned we are working at annual operating plan as they speak and we will definitely share the guidance as soon as possible for the next year.
- Piyush Jain:** Your top-line is growing every quarter so, the benefit of scale is definitely so that will improve help the margin in the coming quarter?
- Uday Reddy:** Why don't you please wait for the guidance?
- Piyush Jain:** Okay.
- Uday Reddy:** Our top priority is to achieve this year's guidance.
- Piyush Jain:** The guidance of Q4 is more or less in line with the Q3 number you have not given any further increment or any possibility of fresh business for this Q4 at least.
- Gautam:** Yes, we do not expect any drastic change in this quarter. However, we are working on a long-term growth for our business.
- Uday Reddy:** See, to answer your question slightly differently in a sense like for this kind of business for messaging or voice October, November, December is the biggest month, even for Telcos or even for somebody like us because we have too many festivals like we have too many offers coming up and we had demonetization also. So, because of which we have grown the way we are right now our top priority is to retain our growth.
- Piyush Jain:** Just to conclude it whether we can say that this is the best quarter of Tanla because of demonetization or we can still expect the same type of result can be possible in future?
- Uday Reddy:** I told you, we have given the guidance for fourth quarter. We are yet to release the guidance of next quarter why do not you please wait for some time before we release the guidance.

- Moderator:** Thank you. Next question is from the line of Amit Mishra, Individual Investor. Please go ahead.
- Amit Mishra:** I just have couple of questions one is on margins. Our revenue growth was very good this quarter but margin seems to be only half of the growth revenue. So, can you please or put some light and also what we can do to improve the margins going forward?
- Gautam Sabharwal:** Amit, this question has been asked before.
- Amit Mishra:** Sorry, I lately joined actually.
- Gautam Sabharwal:** Okay. Basically, there are four lines of revenue within Tanla there is no margin pressure in any of them except for the new business which is Cloud Communication where we had which we went live in middle of October and we did loose Rs. 1.5 crores at the gross margin level in Cloud Communications. So, if you remove that you will see that the margins and EBITDA would have grown in line with revenue.
- Amit Mishra:** That is okay. So, going forward, will we be following the proportion?
- Gautam Sabharwal:** we do see another quarter of pressure in the Cloud Communication but once we have enough clients using this then we should be positive at operating level even in cloud.
- Amit Mishra:** Sir, what are the levers right now with you to increase this margin? Okay, this I understand, you started something in October and probably that was ramping-up but going forward some existing margins, the normal margins on the deals which are running for some time what are the levers to increase those?
- Uday Reddy:** So, the levers as Gautam mentioned, we would like to have more deployments with Telcos so that will bring us on net. So, we always have better margins on...
- Amit Mishra:** Okay. So, it is off net to on net basically. How much is the percentage of off net right now with you because you have been doing this for last two quarters, three quarters I think transition from off net to on net deployments.
- Uday Reddy:** So, as of today, our on net business is 20%.
- Amit Mishra:** Okay. So, still a large portion is on off net so, there are good opportunities for us to see increase in margin side.
- Uday Reddy:** Yes but it is also difficult to close the deals with Telco so, I just want to warn you on that.
- Amit Mishra:** Okay, understand. Another question sir if I may, the shareholding pattern. It does not show any Mutual Fund, this is away from your performance, it is a side question but do you see interest for mutual funds increasing shareholding in Tanla?

- Uday Reddy:** I think you should ask the question to the mutual fund rather than asking us ...
- Amit Mishra:** I know, sorry, to push on this. But is it not something you do in your company to make presentations and to attract investors who are anchor investors basically because right now what I see is Mr. Uday who is promoter has considerable holdings rest all are retail investors but not many institutions are there. So, our company is not looking for making fact presentation to potential investors who are anchor investors, are they not interested? What is the reason basically? Some of the reasons I see, speculative trading in our stock a large retail portion.
- Uday Reddy:** See, our focus has been in the last couple of years is to generate the revenues and yes, we have come to the level where we are right now. Next year probably there will be aggressively I mean concentrating on road shows etc., and we are still working on annual operating plan, we are more than happy to share the guidance as soon as possible. So, to answer your question yes, we will be concentrating on the investor engagement soon.
- Amit Mishra:** Okay. So, sir, more or less we are very impressed on the performance side, it is very good last three quarters, four quarters we are doing very good, so very happy. I just wanted to share. I hope that we can continue that.
- Moderator:** Thank you. Next question is from the line of Srikant Reddy, Individual Investor. Please go ahead.
- Srikant Reddy:** So who are our main competitors and may I know what is the entry barrier in this business?
- Uday Reddy:** Srikant, we do not have much competition coming from India. We have couple of large competitors in international market. So, we being the major player in Indian market, we are not really worried about the competitors. Yes, when we enter into the international market, we may face a bit of competition with the large players.
- Srikant Reddy:** Okay. What are the entry barriers?
- Uday Reddy:** Enter barrier is like we have history of deploying our all home grown SMSC, so we have deployments with Vodafone and other Telcos in India. So, we have proved to the market including Telcos that we can handle bigger volumes less complaints, platforms have to be up and running all the time because for example, one of the campaigns that we handled in the month of November if I remember correctly like we handle more than 350 million messages. So, that is not easy to handle that kind of volumes so, we have learnt over a decade so that is really helping us to do what we are doing right now.
- Gautam:** I just like to add to that. Basically, we are working with Telco, Telcos are more protective about their network. So they do not allow just anybody to enter the network. So, you have to have stronger reference, a strong operating history to be able to go and deploy your

infrastructure within a Telco's network. So, I see that as really the biggest barrier of entry for anybody.

Moderator: Thank you. Next question is from the line of Jessie Chinni, Individual Investor. Please go ahead.

Jessie Chinni: Uday, one question, follow-on to previous questions. This was about what you have on balance sheet the Rs. 400 odd crores and they are supposed to be intangible assets so whether it is software development kits or whatever they are and I think last time Uday said that you have been building some of the stuffs in 2007. Now, technology has a shelf life any danger of some write-offs on any of the assets that you have?

Uday Reddy: See, we do not buy the complete off-shelf product from the market. The way it works is we buy the hardware from third-party and we write up a software on top of the hardware. So, we have been spending a lot of our moneys and energies on building different products and solutions like. So, I do not see any issue with the current asset base that we have.

Jessie Chinni: Okay. So, no danger of any impairments on the balance sheet or anything to that end, right?

Uday Reddy: Absolutely, no. We always use the assets in one of our businesses/subsidiaries when we are moving from one subsidiary to another like we may see valuation difference like but we do not have any intention to sell these assets and secondly, they are all usable assets. So, for example, we have not spent more than Rs. 3 crores to Rs. 4 crores towards our deployments this year because we use most of the existing assets. Even going forward next year the deployments that we are planning for the next one year, we do not have any intention spend from our PAT. We should able to use 90% - 95% of our existing assets and 5% probably we need to buy from market.

Moderator: Thank you. Next question is from the line of Deepak Chokhani, Individual Investor. Please go ahead.

Deepak Chokhani: Just heard that we do not have much competition in India. So, why cannot we increase our margins or is that you mentioned that we have competition from overseas which is why we cannot increase our margins?

Uday Reddy: Good question Deepak in the sense like see we have deployment with only couple of Telcos in India. So, other Telcos should allow us to deploy our platforms with them, okay. So, probably once we have the deployment with all the Telcos probably we should able to increase the price but till the time no.

Deepak Chokhani: Understand. And there have been a lot of sort of consolidation hopefully going forward Telco is sort of merging with each other. So, let us say we have one client and that client acquires another Telco does it mean that the other Telcos revenue or the business will straight away move to our company?

Uday Reddy: If that happens, yes.

Deepak Chokhani: Okay. And my last question is when do we expect guidance for the next year? Will it be release along with the March quarter numbers?

Uday Reddy: Okay, good question. When you think, we should issue the guidance?

Deepak Chokhani: Tomorrow.

Uday Reddy: Tomorrow, okay. We have been trying to issue in last ten days. So, just wait for some time we will definitely issue as soon as possible.

Deepak Chokhani: You think somewhere in February?

Uday Reddy: Not that, we thought we could release in April because our concentration is to deliver what we are committed to deliver and before you release the next year guidance.

Deepak Chokhani: Yes, the reason why I am asking is I mean a lot of individual investors and naturally you must be targeting mutual funds, FIIs and we can see some FIIs entering into the stock. I guess the release of the next fiscal quarter will play a very important role in of course attracting new investors overall share price so, which is why I was trying to know that.

Uday Reddy: Yes, Deepak we appreciate you are trying to say but the issue is each one of us on the call I have been discussing about demonetization I do not know anybody has got any clue about demonetization in terms of transactions. So, we want to experience the momentum right before I release the guidance.

Deepak Chokhani: Okay. Just one more question before I conclude. A lot of in the past two months, three months' post demonetization a lot of small software companies we are doing a little bit work in Aadhaar the payment related issues, given the cash we have which will be around Rs. 100 crores do not you think it just make sense to target these companies so that going forward Aadhaar being the main say of the government we can target those kind of revenue streams as well?

Uday Reddy: As of today, we do not have any plans to acquire any company right now. Our top priority is to grow what we are doing and when we have cash and when we have I mean opportunity then we will think, definitely not this year.

Moderator: Thank you. Next question is from the line of Amit Mishra, Individual Investor. Please go ahead.

Amit Mishra: Few months back we had this notice that our company is going to merge all the subsidiaries worldwide. What is the progress on that?

Uday Reddy: Yes, we have I think shared note on the restructuring so, we have only one subsidiary which is in Singapore right now and all the subsidiaries are closed and I think we have shared this note with all of you guys.

Amit Mishra: Okay. So, I must have missed that. concerning any dividend is it under consideration for any interim dividend if you have something in mind right now considering the cash with us?

Uday Reddy: Definitely we would like to pay the dividend but having said that we are not we should able to discuss the dividend in the next board meeting which is when we meet sometime in May.

Amit Mishra: Yes, I was just asking because institutions, I think my perception is they kind of like that and probably you would attract more investors so, if you increase the dividend going forward.

Uday Reddy: So, definitely we will consider your inputs Amit. We will definitely look forward to do that.

Amit Mishra: Okay. The viability of this messaging I heard many questions on that and are we going in other streams as well, okay we are the leaders in A2P but what happens if suddenly tech change some new things comes and it becomes redundant not quickly but slowly. Like we entered the Cloud Communication, are we looking for other streams as well vertical in tech where we can grow and wealth creator.

Uday Reddy: For messaging if you read any report published from last six months, everybody is gung-ho about A2P Messaging it is growing globally. Whereas P2P is not growing but A2P is growing globally. So, we do not see any threat over there and secondly like our Cloud Communication side we are quite high gung-ho because if you look at a couple of companies which are being listed in NASDAQ recently they are quite being valued quite high.

Amit Mishra: Right. And what is the size, I missed the earlier part, if you can repeat sir?

Uday Reddy: Size?

Amit Mishra: Our revenue stream from Cloud Communication, you just started I know...

Uday Reddy: Yes, we started so we will release in the guidance, Amit. Karuna, we can close it.

Moderator: Sure, sir. The participant has moved out of the queue. If you would like to add your closing comments before we conclude sir?

Gautam: I think, thank you very much everybody for taking time to join us in this call. Much appreciated. We look forward to seeing you all again over the next quarters and thank you for your support. Hopefully, we can continue to deliver results on the same lines. Thank you.



Tanla Solutions Limited
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Moderator:

Thank you very much, sir. Ladies and gentlemen, on behalf of Tanla Solutions Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.