



Tanla Solutions

Q4 FY17 Earnings Conference Call Transcript May 19, 2017

Moderator Ladies and Gentlemen, good day and welcome to the Tanla Solutions Q4 FY17 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 * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now 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 and FY17 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 may be forward-looking in nature and a disclaimer to this effect has been included in the investor update sent to you earlier. The company does not undertake to update them publicly. I now hand the conference over to Mr. Uday Reddy for his initial remarks.

Uday Reddy Thanks Nishid. Good afternoon everyone. Thank you for being here. I am joined with Mr. G. K. Srinivas, he is our CFO, and Anuradha is the company secretary, and head of accounts, Rajesh, is also here, and of course Ashok, he is our business controller, he has also joined on the call. I would like to start with last year's performance.

As each one of us know that we have shared the guidance and then we published the actual results. Let me read out what the guidance versus actual is like. In terms of top line, we have given the guidance around Rs. 520 crore, but in terms of actual, we did around Rs. 580 crore. In terms of EBITDA, we have given the guidance of around Rs. 60 crore but the EBITDA we have achieved around Rs. 56 crore, so there is a shortfall of around Rs. 3.7 crore and in terms of PAT, we were expecting Rs. 33 crore, but we could able to close with Rs. 40 crore. In terms of the balance sheet items, in terms of cash, we were expecting Rs. 96 crore, but we have closed at Rs. 133 crore.

In terms of CAPEX, I did give a lot of explanation last year same time saying that we are going to use existing assets, existing deployment and the existing hardware and software, and there is no reason for us to spend any more CAPEX. We were expecting around Rs. 5 crore, but we could able to manage with Rs. 3.9 crore last



year. In terms of all items, I think we have done fairly well and I would like to thank my team here who have really supported me.

In terms of the business, last quarter, we have closed one deal with one of the large telcos in India. The deal is to bring A2P message into India, at the same time this deployment also takes care of P2P SMS, both for termination as well as origination from India. In other words, we are the one who is going to carry the messages coming from outside India to India and also from India to outside India for this mobile carrier in India. The deployment has already started. We expect to complete the deployment around August or mid of September, so then probably we will see the traction coming around end of September. We have been following on this deal for the last at least two years, we were able to close the deals with good margins, so this is the business development update of the last quarter.

We have given the regular updates in terms of business development across all quarters. We have done couple of large deployments with the Indian telcos and then we see the traction that is how we were able to achieve our numbers. One of our major deployments is around cloud communication. We have seen fair success around the cloud communication with one of the large Indian Telco's Vodafone, but there is a long way. We will see good traction this year, that is what we are working towards. We got delayed though the deployment went on well on time, business development is taking bit longer than what we expected, but this year we hope to generate revenues on our cloud communication platform. In terms of the guidance, yes, we have given guidance last year and we could overachieve most of the cases. We are very happy about it.

This year what we decided is of course, now we brought in E&Y internal auditor and we are in touch with various consultants and we were advised to stay away from the guidance for the fact that is what most of the companies do in India, they are staying away from sharing guidance for different reasons, but having said that I am more than happy to give you some directional guidance this year both mainly in terms of business and probably in couple of areas and the balance sheet items. Our strategy this year is we expect to maintain the momentum in domestic market. We are the market leaders in India. We continue to hold our position. We are the number one in India and then we launched the cloud communication, we expect to gain the momentum this year, and third one is, we would like to move into the international markets. We have already recruited the teams. We are strengthening the teams in Dubai office as well as in UK office; couple of senior guys have joined from Vodafone, other telcos, which we have already informed through our investors update.

Our story in international market is we would like to repeat the success. What we have achieved in India, we would like to do the same thing with international telcos. For the last six months, we have been in touch with large international telcos, so we expect to close good deployment this year in international market, as and when we close the deals, we do inform to the market.

In terms of the depreciation and in terms of CAPEX, what I can promise you is that there is no reason for us to spend any additional CAPEX from our cash going forward; probably we have capitalized most of the assets this year, so we will continue to use our existing assets for our new deployments. Probably, we have budgeted around again Rs. 5 crore this year, but our intention is to keep much below Rs. 5 crore in terms of CAPEX this year in addition to what the existing assets that we have.

In terms of depreciation, we are expecting not anything more than Rs. 20 crore per annum, the depreciation line which I will request Mr. G. K. Srinivas to run through



how we arrived 24, etc. The net target in terms of cash, as I told you earlier, we have around Rs. 133 crore cash available with the company and our intention is to take it to the next level this year. So, in other words we are not expecting any more cash outflows this year in terms of CAPEX and the depreciation will be under control and if you look at our debtor days, we are trying to bring down the debtor days' quarter-on-quarter which is quite visible if you look it has come down from 77 days to 72. We are very, very gung-ho about international market and let us hope for that.

Now, I would like to hand over to Mr. G. K. Srinivas to run us through the last year

G. K. Srinivas

Hello everybody, thanks for giving me this opportunity to be able to speak to you. I just like to quickly run you through the numbers. If you look at the overall revenue, year-on-year, we moved from Rs. 431 crore last year to Rs. 579 crore this year, and if you look at only the business revenue that is net of the property revenue, it is from Rs. 417 crore to Rs. 556 crore. The PAT has grown substantially. It has moved from Rs. 7.2 crore to Rs. 40.9 crore and the earnings per share is at Rs. 3.81 for the current year against 71 paise for the previous year. If you look at the numbers that reflect this thing in the AFR that we have presented, the movement in the expenditure has been guided by two things. One is the depreciation and two is other expenses. If you look at the depreciation, we are basically guided by our auditor and are following the industry best practices and production norms for depreciation, and what we have done is during the year is , we have capitalized all the assets and we have intangible assets sitting in our balance sheet. Now, to depreciate these assets, we are following the systematic allocation of cost method and the CWIP and the products under development are totally capitalized under the intangible assets.

We carry a very small portion under capital working progress, which will be capitalized as and when we have further deployments. The depreciation is on the systematic allocation of cost method under IndAS standard 38, which we have adopted and we are following the IndAS standards for disclosure of our financials also. This ensures that the depreciation is in control as has been explained by Mr. Uday and we expect that we will not be going beyond the numbers as we have as of now. It will be a very small change, even if it is there. This is basically the explanation as far as the depreciation is concerned.

For the other expenses, if you look at it, there has been a drop from around Rs. 33 crore last year to Rs. 9.6 crore this year. This is basically because on account of the reclassification of expenses under the IndAS method and those expenses have been reclassified and they have affected the balance sheet for the profit and loss for 15-16, but similar expenses do not occur under the current year profit and loss accounts. That has been a saving and then we have ended up in higher profit of around Rs. 40.91 crore The other expenses basically comprise of professional charges and promotions last year which we have made. Then there was a provision for bad and doubtful debts of about Rs. 8.5 crore. There was loss on sales on discarding of assets, which was around Rs. 3.5 crore and reclassification of CWIP around Rs. 3 crore. All of these have been reclassified under the IndAS method and the reason why these expenses are sitting in the other expenses allocation for the previous year.

Now, if you look at the Tanla's standalone financials, there has been a net loss for the fourth quarter. This is on account of reclassifications of expenses again under the IndAS method, but the same does not appear in the consolidated financials because there is a net off in the reserves and it does not affect the profit and loss account in the financials. This is basically the guidance on the profit and loss



account, and I would like to hand it over to the team for further questions and answer session.

Moderator Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. We take the first question from the line of Deepak Chokhani, an Individual Investor. Please go ahead.

Deepak Chokhani What is the plan for such high cash and why has the company declared such a less dividend when there is no major CAPEX plan and follow up question is where are you planning to deploy this cash in the interim?

Uday Reddy Yes, we have the cash around Rs. 133 crore and of course we have declared 25% dividend because we did declare around 20% last year, so there is a 5% increase this year. When it comes to your question, where we are going to deploy this Rs. 133 crore, yes, we as you know are ramping up the numbers, our revenues are going up quarter-on-quarter, so we are going to use this cash for working capital.

Deepak Chokhani The cash of Rs. 133 crore right now and naturally every quarter we will keep adding on the cash, so I am a bit lost as to how much the working capital, will the working capital deployment for the current year will be so high that you kept the dividend so low?

Uday Reddy I do not want to link this two, in the sense, when we are in the growing mode, there is no reason for us to share all the cash towards dividend. Second one is, we would like to maintain the track record, so we do not want to announce 50-60% or 100% this year and we do not want to not announce the dividend next year, so we would like to have the momentum. In terms of working capital, as we told you earlier our debtor days around 70 days and since we are moving into international market, we have to test it but it may move to around 80-85 days, so even if you are going to do existing revenues, which are around Rs. 600 crore, we need around Rs. 150 crore working capital. We are going to use the surplus cash towards working capital.

Deepak Chokhani I did hear your comment that there will not be any guidance in terms of the financial numbers, is the reason that you are not able to estimate the numbers properly or do you think there will be a downside in the financials or there will be significant upside from what you are budgeting, what is the rationale behind it?

Uday Reddy As I explained to you earlier, we have our internal target and I have already confirmed that we are expecting the momentum in domestic market and two is now we are moving into international market in a big way, so we are not expecting any downfall in terms of revenue or any other numbers. Having said that, as you rightly said, since we are moving into international market, it is little dicey market. We have to test the market in the international market, so we are able to gain to certain extent, but unless we really test the international market, we should not be able to share the guidance and also as GK explained to you, we would like to follow the best practices which is advised by our consultants mainly by auditor.

Deepak Chokhani You estimate that the numbers, what kind of growth are you looking for in the coming year, the top line or EBITDA?

Uday Reddy As I told you, we do not want to give you any percentage. I have already given the guidance in terms of the depreciation as well as the CAPEX, but beyond that I told you like momentum will continue but more than that, I am afraid I am not in a position to share any other numbers either in percentage or absolute numbers.

Deepak Chokhani You do not think it will go down as compared to this year?



Uday Reddy No way.

Deepak Chokhani Why is E&Y is an internal auditor, why not a statutory auditor, any particular reason behind that?

Uday Reddy There is no reason, KPMG has been our internal auditor for last three years, so we bought in, as the best practices, and for three years would like to retain the auditors at least internal auditor, so we have decided to go with E&Y for internal audit. We have not yet appointed the statutory auditors yet.

Deepak Chokhani KPMG was an internal auditor?

Uday Reddy Yes.

Deepak Chokhani That is being changed to E&Y, probably they will be for three years?

Uday Reddy Yes, let us hope for that, but we have appointed them for one year.

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

Tejas Shah There is a write back on the tax and deferred tax also, can you explain that. Vodafone is one person in terms of the carrier that we have logged, any other domestic, because in this fourth quarter you are saying you added another domestic, is it Bharti Airtel or Reliance?

Uday Reddy I cannot mention right now because we have given NDA to this carrier , but yes probably we should able to announce once we go live and the next quarter, yes, we have the deployment with various telcos we do the business with most of the telcos in India.

Tejas Shah Last time, the international business had gone very wrong for Tanla, I think that was around some five-six years back, 2007-08, that is where the downfall started, so are we very cautious because last time investments were done and then you had to write it off the whole thing, because I have been your investor since 2004, so I have seen the up and downs, what cautious approach are we looking at the international side?

Uday Reddy We are quite well aware of the technology, we were caught unaware last time mainly in terms of technology. We were working with Blackberry and Nokia, but not necessarily with mobile carriers globally, and you know the story around Blackberry and Nokia, because we are one of the large vendors to both the handset manufacturers. We also have to face the reality. This time, with the different telcos, we are not going to restrict to only two telcos in international market, we would like to operate with as many telcos as possible.

G. K. Srinivas Regarding the deferred tax savings, write back, deferred tax has basically been calculated on the timing differences of depreciation between the income tax act and the Companies act where we provide the quarterly estimate deferred tax based on the timing difference in the depreciation. Now, when we do the finalization of accounts as of the year end, we have to rework all the depreciation for the earlier quarters and also provide for the depreciation for the last quarter. This has resulted in the gain of Rs. 1.91 crore in the deferred tax as compared to the earlier quarter. This is a reversal of the earlier quarter and this is based on the IndAS guidelines, basically we have brought up our accounts based on the IndAS

guidelines, so there is a timing difference which we have arranged as per the calculations of the auditors.

Moderator Thank you. We take the next question from the line of Amit Mishra, an Individual Investor. Please go ahead.

Amit Mishra I was just looking at standalone numbers and the other expenses which we mentioned during the introductory speech, I cannot understand why standalone is very high, Rs. 33 crore and when we go to consolidated for the full year, it is only Rs. 9 crore, why Q4 alone is so big and how other expenses are reduced. I am not accounting person, but it was bit difficult for me to understand, can you please clarify?

G. K. Srinivas Basically, this year we have adopted the IndAS accounting standards and the accounts is based on the IndAS. When we do this, there are certain expenses which have to be reclassified and profit and loss drawn accordingly. When we do this in the standalone, there is a figure of Rs. 33 crore which comes as other expenses. This expenditure, when it goes into the consolidated profit and loss account, it has been adjusted in the reserves and so it does not appear in the profit and loss account of the consolidated enterprise that is the reason.

Amit Mishra In fact it gets extinguished?

G. K. Srinivas Yes, it is extinguished.

Amit Mishra What is this category of other expenses, what you classify in those expenses?

G. K. Srinivas Basically these are one-off expenses, which need to be put under expenses of profit and loss account in the IndAS, in the Indian standalone financials, whereas they get adjusted in the results of the consolidated results, these are basically expenses related to one-off promotion or marketing expenses or any other expenses which cannot be classified individually under any of the other heads in the P&L accounts, that is what it is.

Amit Mishra The other thing is, in fact the other expenses have totally destroyed standalone numbers, it came as huge loss of Rs. 12 crore in Q4, so I was just looking at the stock prices, it is going down like anything, so we as an investor who are thinking because the performance is very good and that should be reflected in the stock price somehow, therefore very well in that sense, do you have any comment on that please?

Uday Reddy We will do all right things, I mean we are always in touch with investors; we are all trying to do all right things. As you know, we have been investing for the last four-five quarters, we will continue to do that and from this quarter onwards, we have decided to work with IR firm called CDR India who has arranged this call, so we are doing all right things to inform about the developments of the company and we will aggressively engage with the analysts and the investors and shareholders everybody through that line.

Amit Mishra That was my point last con call as well because I see very high retail participation, so that may be, I am sorry I am discussing the stock price, but it is relevant to all investors, but we are very happy for the good performance and I hope this would continue, so on the growth aspect what we can take as minimum FY17 performance if we can expect?

Uday Reddy Amit, as I mentioned earlier, I am afraid I cannot give you any guidance per se, but all I am saying is the momentum will continue, we are moving into international market, let us hope for that. We have an internal target and we would like to surprise ourselves as well as the market, so we are working towards that.

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

Manish Yadav I would like to congratulate the entire Tanla team for the wonderful performance. My question is regarding, what is the plan of reduce the cost of sale in terms of IUC charges, so you can send SMS on the account to your partners, so is there any plan?

Uday Reddy Manish, as you know the IUC charges are determined by the DOT and TRAI. We have nothing to do with that, it is regulated by the Indian regulators and as long as the IUC charges are there, the enterprises have to pay the IUC charges and the telcos have to end up paying the 7 paisa towards interconnect charges, so we have nothing to do with it.

Manish Yadav The interconnect charges by adding more partners like Idea and Airtel, and sharing the on-net SMS to them?

Uday Reddy Yes, if we are on-net as you know we do not have any interconnect charges, but as long as there is an off-net, then we end up paying the interconnect charges. To answer to your question, our intention is to do more on-net charge than off-net charges. We have been working on that for quite some time; we continue to work on that.

Manish Yadav Right now, there is no impact on 16-17 results, there is interconnect charges in cost of sales?

Uday Reddy Yes.

Moderator Thank you. We take the next question from the line of Tarun Agarwal. Please go ahead.

Tarun Agarwal I have couple of queries, number one is on the cash balance of Rs. 133 crore, how is this cash balance deployed as of today, is it part in fixed deposits, liquid mutual funds, how is it deployed?

Uday Reddy Out of Rs. 133 crore, though I do not have the absolute figures with me, some are in towards the bank guarantees because that is what we are supposed to provide to the telcos, some are in the form of the FD and some is in the bank balance, which we normally use it for the working capital.

Tarun Agarwal Sorry, some is in the form of bank guarantee and the remaining is in the form of FDs, did you say that?

Uday Reddy Three things, fixed deposits, working capital, and the bank guarantee.

Tarun Agarwal Sir, what I was saying was the Rs. 133 crore of cash that we have, you mentioned that would be required for working capital purposes, so if we maintain the revenue run rate of around Rs. 600 crore, so that Rs. 133 crore translates to almost around 80 days of working capital, so at one hand we are saying that we are reducing our sundry debtor days and the other hand we are saying that we would be kind of, due

to the working capital days increase by additional 80 days, so that somehow does not tie up unless you are saying international?

Uday Reddy

What I said was, we are hovering at 70 days in the domestic market, that is the first point. The second point I made was, we are moving into international market. There debtor days are slightly different. We have been cautious here, it may become 80 days in international market but having said that, we would like to control less than 80 days, for which we need this money towards working capital.

Tarun Agarwal

Sir, the other question I had was on the cloud business, it seems that the contribution of the cloud business has gone down on an absolute terms, in the last quarter call, cloud business, we were pretty optimistic about cloud business and we thought that it would kind of breakeven or start contributing EBITDA from next quarter onwards, so what is the plan there as of now, how do we plan to ramp it up?

Uday Reddy

In terms of the cloud communication that we are trying to change in the Indian market is looking very positive, but having said that, it is taking little longer than what we expected, but we are very, very gung-ho about this current year and we will be launching this services in international markets very soon, but it takes a bit of time, but this will really help us to take it to the next level both in terms of the clients that we are going to serve, in terms of the top line and bottom line, that is what we are working towards .

Tarun Agarwal

Sir, this merger between Vodafone and Idea has been announced, and Vodafone is one of our biggest clients, so how do you see this merger operationally going to impact our business, either positively or negatively?

Uday Reddy

I cannot really comment on that, having said that we are closely monitoring the developments. Of course, Vodafone is one of our largest clients last year, but we have all the intentions and plans to work with the different telcos including Idea and yes we are very, very cautious about, we are closely monitoring this development and we are very cautious about the same.

Moderator

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

Aditya Kumar

I had a couple of questions, my first question was regarding the marketing activities, because last I saw in the website, there is still no mention about the cloud communication business, there is still carrying the tags of the old clients Nokia, Blackberry, EA Sports, etc., so regarding the marketing activities are we looking at pushing this aggressively, because last time you had mentioned something about coming on TV as well, so what are the plans over there?

Uday Reddy

You are talking couple of things here. One is that, we are mainly into B2B business as we speak. A2P messaging is mainly into B2B business for which we engage with our large clients and large telcos directly and I do not expect these guys to come to website and go through our offerings. If we are moving to cloud communication as you rightly said, yes, we are changing the website that will go live very soon in the next probably 20 days. We have been working on this website mainly to launch the cloud communication line, so yes, we will see lot of traction in terms of marketing activities for us to reach out to our clients and what you referred to on the TV is that is more to do with investor relations, yes, based on the suggestion that we received from CDR India, our IR agency, we will reach out to all the investors.

Aditya Kumar My next question is regarding the stock, because last time also you were talking about aggressively engaging with the investors with analyst calls, conference calls in Mumbai etc., but still the retail participation continues to be very high in the stock, still we are not seeing any high private individuals coming, investors coming or the mutual fund etc., so what are the plans exactly over there, because with such high retail participation today also even after excellent results, the stock prices plummeting from 53 to 47, so what are your plans regarding that?

Uday Reddy Aditya, I think unfortunately the stock has slid, I have not checked that yet. It looks that I have to believe your statement the stock has slide today, but I do not know the reason for slide, all I am trying to say is these are momentary, as I told you earlier I promised you, we brought in CDR India which is supposed to be one of the best IR Agencies.

Aditya Kumar Sir, I understand this is momentarily because I have been with the company for the last two to three years now?

Uday Reddy I appreciate your anxiety, Aditya, all I am saying is I did promise certain things on the last call and because of which we brought in CDR India one of the best IR agencies that we believe in and let us hope that they will help all of us to get lot of audience with the large investors, we will see, let us wait for that.

Aditya Kumar My last question, Sir, over here is that this year and last year we saw a big push by Reliance Jio, I know that you cannot mention the names, so that is confidential, cannot mention the name of clients over here, but they have already harbored huge 150 to 200 million subscriber base in India, so are we aggressively pursuing these sort of clients who are game changers in the market and going aggressively to get them into our client base as well?

Uday Reddy Yes, that is what I told you, like we want to work with all telcos not only in India but outside India, and whenever there is change in technology, we will be one of the first company to align with new telcos, new incumbents and I cannot really say anything beyond that, what we are trying to do, what we are planning to do with the new telcos, but our intention is very clear.

Moderator Thank you. We take the next question from the line of Divyajith Shah from Share Buzz. Please go ahead.

Divyajith Shah Sir, as on today's date, we have five domestic contracts as per the BSE notification dated May 30, 2014, August 7, 2015, and August 4, 2016, plus previously like last day also you said you had done another domestic contract with someone in India, my question is that we have been growing steadily and have been able to drive the telecom ads in our server, in the last management con call also, in FY17 Q3 con call, you said we drive only 20% of the net business from the on-net and rest 80% from off-net, I believe these numbers should be more with the leading times like Vodafone being your client, so am I going wrong somewhere?

Uday Reddy No, you are absolutely right as I explained to you earlier, we would like to have more deployments with all the telcos in India, but having said that...

Divyajith Shah How this percentage comes in to play, either we have five domestic carriers onboard, but how this 20%-80% comes in to play?

Uday Reddy All I am trying to explain is, I will tell you how on-net works and off-net works. If we have the deployments with telcos where we go and deploy our platforms, so that becomes on-net for us, but having said that we do work with most of telcos in fact

rather all the telcos in India, it does not mean that we have deployments with all the telcos, in the sense like we end up using their infrastructure. In this case, it becomes off-net for us, in terms of margins, it becomes off-net for us, so unless we go and deploy our platform, it becomes off-net, first question. Second question, those three deployments that you are referring to is various engagements that we closed. It does not mean that like all three or four, we are not saying that we have three or four or five deployment in telcos, so we have different agreement with different telcos, some of them on-net and some of them off-net, so yes our intent is to have more on-net business.

- Divyajith Shah** As per the last notification uploaded by you on BSE, was it on-net or off-net?
- Uday Reddy** Good question, now you are forcing me to commit certain numbers here, in the sense, yes, it is on-net, it is a good deal, but we are also allowed to do off-net , so it is combination of both, but it is similar to what we closed earlier with Vodafone.
- Divyajith Shah** My next question is that like with Vodafone-Idea merger, going ahead, we might see RCOM-Aircel merger, given that thing, there is interconnect charges, as you said you cannot comment on how much help you would get, Tanla would get from that, but would you not think like you would save that interconnecting charges from those mergers?
- Uday Reddy** Once the two companies become one, the interconnect charges between the two companies will become on-net, they will not have any interconnect.
- Divyajith Shah** Exactly, and like what is the EBITDA margin for the on-net?
- Uday Reddy** We work upwards of 20%, on-net margins are upwards of 20% and off-net margins are very marginal.
- Divyajith Shah** Obviously, if two becomes one, so we are expecting a good ramp up in the profit zone, if that at all.
- Uday Reddy** Technically, that is how it should work.
- Divyajith Shah** Another thing, since we are heavily invested in past few quarters in the cloud platform for the voice messaging purpose, so how far like you know, we as an investor very eager to understand how things are going on, obviously you said that in coming two quarters, we are expecting good ramp up in the revenue from that, if you can be specific enough in next one or two quarters, how you are actually realizing from there on, what is the current situation, that is what I am expecting to hear from you?
- Uday Reddy** As I told you earlier, in terms of the cloud communication line, now what we deployed with telco, Vodafone is the platform and then we need to take the services, solutions to the different enterprises, so we are trying to work with enterprise in India as well as on the global market, for example, without dropping the names here somebody from San Francisco would like to use our cloud communication services, we need to build solutions for the clients outside India. We are working with both, we are trying to work with both Indian enterprises as well as international enterprise, because all these enterprises are already using our SMS services, so we are planning to extend our cloud communications services in the same client line.
- Divyajith Shah** What is causing the delay as you said in the call?

Uday Reddy One is we need to build the solutions to this large enterprises, which are not going to be easy, first point. Second point is lot of, we need to comply with a lot of local regulations, so local regulations is very stringent in terms of how to bring in the call, how to terminate, how to merge the call, how to confront the call, so there a lot, we need to comply with all that which is not easy.

Divyajith Shah What was the reason for the shortage in revenue from mobile payments in Q3 and Q4, from Rs. 18 crore to Rs. 7 crore?

Uday Reddy Most of these revenues do come from the international market, yes, we have seen the hike in the third quarter, but we also have seen bit of issues with those revenues so we will be cautious about these revenues, so that we have decided to slow down on certain number of clients where we had bit of issues on the fag end of third quarter because we need to comply with local regulations in each and every country, and if you do not comply, they end up penalizing the enterprises, in other words it also affect us, so what we noticed was we have bit of issues in the third quarter and that is how we addressed in the fourth quarter, and having said that, our intent is to increase the mobile revenues.

Moderator Thank you. We take the next question from the line of Punit Mittal from Global Core Capital. Please go ahead.

Punit Mittal First, I would like to understand a bit about your business model, when you say A2P messaging and you deploy these platforms on to the telecoms, who are essentially your clients, are the clients who are originating these messages like banks, financial institutions, e-commerce, who are your clients?

Uday Reddy We go and deploy our platforms with the telcos. We are still part of their core network, and then we expose our platform API to all the enterprise, it could be banks, as you rightly said, it could be anybody else, so we end up working with enterprises as well as with the large aggregators, but when it comes to the ILD business wherein the clients are based outside India, but they would like to terminate the messages in India, so we have the different setup, which is called ILD setup which we have in Singapore, so if Facebook wants to terminate the SMS into India, they will hand over in San Francisco, we bring it down to Singapore, from Singapore on the back haul we will bring the message to India. In most of the ILD business we have the direct agreement if not all of them, but most of the cases we have the direct agreement, having said that we also work with a couple of large aggregators in India and outside India.

Punit Mittal Then the question is I think I read somewhere and probably from your older conference call transcripts that you have a very large market share in the A2P messaging in India, so the question is that if you have very large market share, do not you have a pricing power, so when you say on off-net your margins are lower, would not you have a pricing power actually if you corner a very large market share and if not then what are the alternative options for these players, who are our competitors?

Uday Reddy As you rightly said, yes, we are the largest guys in India. We have the largest market share in India and most of the large enterprises like you just named it in the times of enterprise or aggregators, they do use our platform and even in the ILD space, we process more than 90% of India's traffic minus Airtel, we do not work with Airtel on ILD though we are trying to work with them, 90% of other than Airtel traffic comes through our platform. I do not want to really comment on the pricing. We are trying to do all right things to address the price, beyond that I cannot really comment, Punit.

Punit Mittal In that case, who is our competition, who are the other players who are doing similar things, because naturally the reason I am asking is the if the telecom is not deploying your platform, either the telecom is not deploying because the telecom is doing its own thing or the telecom has other options, so I am just trying to understand that if you...

Uday Reddy Punit, mainly what happens I think you are asking all right questions in the sense if the telco if they have their own set up, own SMSC, own the hubs, there is no need for them to use our platforms, but typically if you look at in the domestic market and international markets, all these deployments, SMSC are deployed not to process A2P messages, but mainly they deployed to process P2P messages, so nowadays A2P is dominating P2P, P2P has lost the share to likes of WhatsApp, etc., now A2P is quite dominant now, but when it comes to telcos infrastructure, they cannot really differentiate between P2P and A2P, so there is a reason for them to go with our platform because they build dedicated infrastructure only to process A2P because now most of the A2P message as you know have become time sensitive, so there is a reason for them to move to our infrastructure but as you know they have their own issues, it takes a bit of time for them to move to our infrastructure.

Punit Mittal Is there any other significant player doing similar things within India, I do not want to you name anyone, but I am just asking are there any significant player of your size and of your capacity?

Uday Reddy Absolutely, no.

Punit Mittal My second question is related to the return on equity, now the return on equity any way is pretty bad and with the issuance of warrants and with accumulation of cash, it just becomes worse, I have two part question in that, first is why were the warrant issued when essentially I see there is no need of cash because of course, you say that you need for working capital which is fine but I also see that the working debtor day should be kind of net off payables and so forth, but anyways what was the core reason of issuing warrants and second is what are you planning to do to enhance your return on equity?

Uday Reddy Punit, in terms of warrants, we did issue this warrants last year and the cash available that we are talking about is end of March this year, so we issued warrant last year to myself and my wife where we realized that we need money towards working capital, but yes, we kind of improved the working capital and in hindsight there is no need for us to issue warrants to raise the money to meet the working capital. To answer your second question, yes, we are very, very cautious about cash available with the company, we would like to use very cautiously wherein we do not want to use towards the CAPEX, but our intention is to as on today to use only towards working capital, but going forward, if any changes are there, I will definitely let everybody know, it is an opportunity, we will ensure you will come to know.

Punit Mittal We trust you with the cash deployment, my main question is about how do we boost the return on equity given the large intangibles that we have and the cash we have, how do we plan to really enhance because even if you do see a top line and bottom line growth given the large equity reserves, it is going to be very difficult to have a meaningful return on equity?

Uday Reddy Punit, you sound more of a finance-background gentleman, as you know we will have lot of options to deploy our cash but as on today, we would like to remain focused on our core business, but at least next couple of quarters, if there is any change in the plan, we will let you know.

Moderator Thank you. We take the next question from the line of Vishwanath Swamy. Please go ahead.

Vishwanath Swamy One thing when I attended last AGM in Hyderabad, you told that you are calling some conference of most of the investment experts, stock market experts and all these things, so that they give the exposure of our company to this thing, but that did not happen?

Uday Reddy Yes, Sir, that is the reason I told you, now are engaged with IR firm called CDR India and so we will do all right things this year.

Moderator Thank you. We take the next question from the line of Tarun Agarwal. Please go ahead.

Tarun Agarwal Just one question from my side, what is the reason for Mr. Gautam Sabharwal's leaving, especially at a point where it seems to be an intersection point for the company?

Uday Reddy Mr. Gautam has also served with the company for the last 13 years, so yes, we recognized his contribution and I cannot really comment beyond this. He is probably as you rightly mentioned in the letter that we have submitted to the board and to me, he is going to pursue his next opportunity, beyond that nothing is there, after 13 years probably somebody wants to move on in their life.

Tarun Agarwal Do we have any non-compete with him?

Uday Reddy Not really.

Tarun Agarwal Would his shareholding in the company be more than 1% or would be less 1%?

Uday Reddy No, he is holding around 6% as of today as we speak.

Moderator Thank you. We take the next question from the line of Sumanta Kundu. Please go ahead.

Sumanta Kundu I have a question, are you planning to diversify your business or you are concentrating only to the OTP business, and mobile payment also I can see is going down and you said already that you were not concentrating on that, so are you planning for real state to improve more?

Uday Reddy We continue to be in the telecom space. We were the market leaders as you know in A2P messaging; now we deployed our platforms called cloud communication platforms with Vodafone. Yes, we are diversified within telco space. We have no intention to diversify beyond telecom space as on today. What are the assets that we have, the real estate assets; we are just liquidating those assets, so we are not into real estate. The company holds the assets over a period of time and that is being liquidated, that is it.

Sumanta Kundu You had a target of Rs. 100 crore cash, so last quarter you said, so you achieved that and you achieved more than that Rs. 130 crore, so what you are planning to do for that?

Uday Reddy I just answered Mr. Tarun's call on the same question, in the sense, yes we will be using the surplus cash towards the working capital. If there is any change in our plans, we will let you know.

Moderator Thank you. We take the next question from the line of Sanjeev Marda. Please go ahead.

Sanjeev Marda Sir, I just wanted to check up as to which international markets are we looking at exploring because last time we had explored in the UK market only?

Uday Reddy Yes, we are looking at couple of larger markets this year, not necessarily UK alone. We are looking at more of emerging markets in telco space mainly the African side, so yes though we have the team sitting out of these two large markets middle east and the UK but our intention is to work mainly Asia as well as in African markets where we see the huge potential in terms of cloud communication as well as A2P messaging.

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

Aditya Kumar Sir, I have one more question that our revenues continue to be growing, but somehow our part is still there, so being market leaders in India, what are we doing to improve or drive our margins of operations so that we can get higher profitability in the EPS?

Uday Reddy Couple of things Aditya, one is that definitely we would like to do more on-net business rather than off-net, number one to start with. As I told you earlier, we are moving into international market where margins are better off in international market, so we are trying to do both the things, yes.

Moderator Thank you. We take the next question from the line of Amit Mishra. Please go ahead.

Amit Mishra Sir, the real estate verticals, what is there, we have properties on rent or, how do we earn on these?

Uday Reddy No, these are not rental, we have a bit of land in company's name, which we bought it quite some time back, and now we are liquidating because we have given this development to one of the developers in Hyderabad, so as and when they sell, it is more of a sale process rather than rental.

Amit Mishra You get only quarterly, you do not sell it one go, but...

Uday Reddy As and when there is a sale of plot, we will book the revenues.

Amit Mishra How much current market value the land bank is with you?

Uday Reddy I have no numbers with me, but probably next three quarters we should be able to liquidate all the land and plots that we have on the company's name.

Amit Mishra Do you expect similar revenue for next quarter?

Uday Reddy No, I cannot really comment on that because as I told you, as and when there is a sale of plot, we will book we do not know how many plots have been sold, so as and when that will happen, we will notify you.

Moderator Thank you. We take the next question from the line of Navin Dedhia. Please go ahead.

- Navin Dedhia** I am interested to understand the business model and there was some interesting discussion that happened earlier, my question is more related to, I am just using WhatsApp as an example, it is more like an application to application messaging framework, so it just uses the internet and it bypasses probably the telco's SMS, so my question is if there is a growth of application to application messaging, do we have a role to play or does the platform that we have built kind of become obsolete?
- Uday Reddy** Navin, it is a very good question, WhatsApp for example, WhatsApp is one of our clients. In the sense why do they need our connectivity, so the minute you download your WhatsApp application on your handset, they need to share one time password with you for you to go and log on to the WhatsApp, so they still use SMS for them to send/share OTP messages with their clients, first point. Second point when it comes to WhatsApp being our competitors, no, there is no way. In the sense like as on today WhatsApp being used for person to person, what our platforms are doing is application to person, in the sense, if State Bank of India or any e-commerce site they would like to interact with the client, their users, they have to fire the SMS from their servers and it will land on to the mobile phone, so it is more of application to person, whereas your example was P2P.
- Navin Dedhia** My question is let us say if SBI decides to not partner with each and every telco, which just goes to an application service provider, let us say like WhatsApp or it could be any other company, then they are literally, they just have to be connected to WhatsApp infrastructure or through internet, and they do not really need a telco for carrying those messages?
- Uday Reddy** A couple of things, one is like WhatsApp is not into that business as yet, first point. Second point is for you to use your WhatsApp, we need to have the data and the third one is for you to use WhatsApp like you need to have a smart phone, so even in Indian scenario, most of the people, as we speak or mainly not on the smart phones, so we do not see any issue with WhatsApp or any other similar operator.
- Moderator** Thank you. The next question is from the line of Tejas Shah from Unique Stock Broking. Please go ahead.
- Tejas Shah** Last quarter, there was demonetization and you had said that there was lot of one-off additional business cost, what you had previously forecasted may be the business would not be the same as on the third quarter, may be the business will moderate a little bit on the fourth quarter, so what I see I think the revenue is more or less the same, so what has increased in terms of that?
- Uday Reddy** Tejas, like the way I see it, yes, we did discuss about the same point in the last call, yes after demonetization, we are not very sure whether the momentum will continue or not, I can tell you right now I am not saying the momentum has continued 100%, but probably if I have to peg the number, the traffic has gone up by around 20-25% after the demonetization, that is my personal perception, somebody may differ, what I see is around 20-25% that is the first point. The second point is of course, yes, we got additional business from our existing clients as well as the new clients that are how we could be able to retain the last quarter revenues.
- Tejas Shah** This quarter, why there is lot of cautiousness in the management in this quarter, you keep saying you do not want to share figures in terms of prospects or anything, what has changed?

- Uday Reddy** If you remember even last quarter, we were little cautious about when we were releasing the guidance, so lot of people had asked me why we are sharing less guidance if you compare with third quarter, if you look at third quarter versus fourth quarter guidance, there is a huge downside, but we could sustain and we could overachieve even that guidance not only overachieve, but also we crossed third quarter revenues, so our intent is to do good, having said that as I told you earlier we would like to follow the best practices that is what we were guided by our consultant. To answer your question, we are not very cautious but we have our internal targets which we have been chasing it and as I told you earlier, the momentum will continue, so I do not see any problem in terms of the numbers.
- Tejas Shah** I agree on that, what happens as an investor, what a person looks at is the growth of the company and what the management is guiding, whether the management overshoots the guidance or undershoots it, is separate thing, but if an investor is not aware let us say the management is trying for a 15% growth or a 20% growth, whether you overachieve or underachieve is the secondary thing, but at least what are we looking at, so that we stay on to with Tanla because we know okay fine it is trying to grow, just saying you will maintain this thing or will do better, that does not help as an investor?
- Uday Reddy** Tejas, everybody has their own views. When we spoke to the market, there are two schools of thoughts. One school of thoughts says there is no point in sharing the guidance because most larger companies have decided to stay away from that because the reason being, if we share that guidance then there is no surprise. We need to unless and until you do not meet the guidance, people are not surprised, that is the reason. The second school of thought says that we better share the guidance so that we are transparent, so we decided to live with the first option, I think that is what we looked at different companies in India and outside India, why some large companies or other companies which are following the best practices decided to stay away from the guidance, so we also would like to do the same thing.
- Moderator** Thank you. Well, that was the last question. I now hand the floor over to the management for their closing comments.
- Uday Reddy** Thank you for being here, we are happy you got lot of insights into the last quarter results as well as last year financial results. We look forward to joining you in the next call, thanks to mainly CDR India who has hosted this call and thanks to all of you. Any queries, please be in touch with Anuradha or please write to investor desk. Thank you for being here, once again.
- Moderator** Thank you. Ladies and Gentlemen, on behalf of Tanla Solutions that concludes this conference. Thank you for joining and you may now disconnect your lines.

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