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September 02, 2018

To,

Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, 25th Floor, Dalal Street, Fort Mumbai – 400001 **Scrip Code: 532790**	National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex Bandra (East), Mumbai – 400051 **Scrip Code: TANLA**

Dear Sir / Madam,

Sub: Q1 FY 2019 Earnings Conference Call Transcript.

With respect to the intimation given to Stock Exchanges dated August 13, 2018 regarding the Q1 FY 2019 Investor Call, please find enclosed transcript of Q1 FY 2019 Investor call held on August 16, 2018.

Yours faithfully,

For **TANLA SOLUTIONS LIMITED**



Seshanuradha Chava
VP - Legal & Secretarial
ACS-15519

Tanla Solutions Limited

Q1 FY19 Earnings Conference Call Transcript
August 16, 2018

Moderator

Ladies and gentlemen, good day and welcome to the Tanla Solutions Limited's Q1 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, sir.

Nishid Solanki

Thank you. Good afternoon and welcome to Tanla Solutions Q1 FY19 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 shared with you earlier. The company does not undertake to update them publicly.

I would now hand the conference over to Mr. Uday Reddy for his initial remarks. Thank you and over to you, sir.

Uday Reddy

Thank you, Nishid. Good evening, everyone. I hope you have had a chance to go through the investors update. In fact, this time, we have released this almost two days before the call. This was an advice we got from all of you guys last time. I hope you had a chance to go through each and every update in the investors note.

I would like to make a couple of statements, which is not part of the investor update. In general, the market is going through a lot of changes mainly because couple of telcos are shutting down or already shutdown for various reasons which has really impacted our business in general, which is very-very positive for all of us. Without picking up any names here, a couple of large telcos in the space are out of the business, which has resulted in lower supplies. In the sense like supplies have come down and the demand has gone up in the last 45 - 60 days, which has resulted in increasing the price of SMS and voice. So, that is - clearly evident in our margins of the last quarter.

In fact, this price increase has happened in the domestic business, the price was changed around 15th of May, that means we have these margins effect for almost 45 days. But in case of ILD business, the ILD price has gone up almost six to seven times if you compare with last quarter. So, the ILD business which is predominantly the Singapore deployment, has seen a huge traction this quarter with a thumping

margin. So, our SMS prices jumped almost from 00.20 to almost 1 cent, which has resulted in better margins.

We expect to continue this momentum in the coming quarters. So, we hope to see better numbers going forward. I am not trying to make any forward-looking statement, but I am just trying to bring all of us upto speed in terms of what we know of the information.

The second point is, if we look at only business EBITDA which is Rs. 18.3 crore which is almost all time high in the last five years. I am talking about business EBITDA minus impact which is little more than Rs. 18.3 crore in one of quarter of 2015, that was with the property receipts. But on the standalone basis, mainly on the core business, we did all time high of Rs. 18.3 crore. And also in terms of cash accruals, we have Rs. 19.4 crore, again, an all time high. I do not really remember having saved this kind of money in the recent past in the last five, six years. So, this is very happy news for all of us.

We have I think spent only Rs. 70 lakhs towards the CAPEX in this quarter. All the money that we earned as operating profit has gone to our cash balances. On the NBFC business in general, I would like to say that we got approval from Reserve Bank of India on May 28, 2018, but we have no intention to launch NBFC business unless and until we are very clear about our game plan.

So, we are developing platforms around NBFC, it is not a typical NBFC business, we have complimentary business with our core business which I will definitely explain in detail as and when we get closer to the launch. But all I can say is, we have no intention or no plans to launch NBFC in next couple of quarters. Even if we do launch, definitely we will bring you up to speed. And also we have no intention to invest beyond Rs. 10 crore – Rs. 15 crore. So, I think I want to be very-very loud and clear here, we are very-very cautious about this area. I think that brings every one of us up to speed in terms of NBFC.

And I would like to now hand over to Mr. G.K. Srinivas who will help us with numbers in general. And I am more than happy to answer any questions related to any business or numbers after GK is done with his part. Thank you.

G.K. Srinivas

Hello, everybody. I would just like to touch briefly on the financial highlights that we have seen during the quarter. You would have noticed that the business revenues were at Rs. 186 crore for the quarter, and this is a 3% growth y-o-y. But if you look at q-o-q it is a 6% decline. The effect has been on account of the increase in prices which Mr. Uday explained earlier. But this has also helped us in better margins which has already been explained by him.

The EBITDA for the quarter was Rs. 18.3 crore; a growth of 17% q-o-q and 26% y-o-y, which is also an all time high as Mr. Uday explained. Cash accruals for the quarter were Rs. 19.4 crore, which we have arrived at by adding the other income and EBITDA, and that means CAPEX of Rs. 70 lakhs which was done during the quarter.

Employee benefits expense has increased slightly, this was due to the annual increments given to employees and the additional new resource cost that was incurred. Profit before tax stood at Rs. 8.1 crore which is a huge growth compared to the previous quarter where we had a loss and a 71% growth y-o-y.

Net profit for the quarter stood at Rs. 1.7 crore, which is again a profit compared to a loss during the previous quarter. The effect of this has been due to the deferred tax that we provided for. Deferred tax as I explained in earlier calls also is due to the

timing difference in depreciation on assets between Income Tax Act and the Companies Act which continues over a period of time and is reversed by the end of the life of the asset. Compared to the current quarter where we have a deferred tax liability, we had a deferred tax asset during the previous comparable quarter last year which was the result why we had a profit in that comparable quarter.

The surplus funds have been invested in mutual funds during the quarter, we had some income from the fixed deposits also. These investments yielded an average return of 7% p.a. accrued for the quarter and this figure for the quarter was Rs. 1.8 crore.

These are briefly the financial highlights that we had for this quarter. I now hand over the next proceedings to the moderator for Q&A session.

Moderator Thank you very much. Ladies & gentlemen we will now begin the question-and-answer session. We have the first question from the line of BM Bhatt, an individual investor. Please go ahead.

BM Bhatt First of all, let me congratulate your company for outstanding performance under this cloud communications with a revenue of Rs. 185 crore, it is an outstanding achievement. At the same time, my reservation is about depreciation matter of Rs. 12 crore, I mean expenses charged to the balance sheet. However, I may get some readymade answers from you also because this matter was already being taken up during January 2018, i.e. December conference call. During that time, I was answered that this kind of depreciation charge may be closing by end of 31/3/2018, subsequently this much of depreciation will not be charged to the balance sheet. The main concern is, because of this depreciation the bottom-line will be definitely going to erode which is not that much attractive. So, in that conference call, Mr. Reddy, you had also issued that you will take up the matter with the brokers of the Bombay Stock Exchange, as far as this market price, stock price is concerned to improve the same. You were able to oversubscribe Tanla shares with premium of Rs. 263**.** However, the same is not picking up for last 2-3 years; it is running between Rs. 30 to Rs. 35. Please do not say that it is a market dynamics matter. My reservation is reserves of the company is around Rs. 663 crore, so if you part around Rs. 11 crore bonus issue and if you announce some bonus 1:1 definitely it will be encouraging factor to the small investors like me. I am in the company for last four years after turning around of the company, but somewhat I am not satisfied as far as the market price is concerned. My last request is, can you please look into the matter as far as the stock price is concerned and help us in the matter. Thank you.

Uday Reddy Mr. Bhatt, I am very happy that you have been with the company for last four years or so, as a shareholder. We are here to work to ensure that we are very transparent and also, we are equally concerned why the share price has not gone up. And we are trying to do whatever is best we can do from our side. I may sound same every quarter but yes, we are trying to do a couple of things right. I hope it will work better. So, in terms of deprecation, I will now hand over to GK.

G.K. Srinivas We had mentioned this in the earlier quarter, but even at the risk of repeating the same thing I would like to say this, we follow the straight-line method of deprecation, there is no change in the depreciation method, we are following the same method over the last many years. The only change is that it is calculated over the usual life of the assets, which is in line with the IndAS standards that we follow and the Companies Act 2013 which has been amended to accommodate these standards. At the end of every financial year, we make an assessment of the useful life of the assets and if there is any asset that needs to be depreciated fully, we depreciate it. The remaining quarters, we provide a straight-line depreciation based on useful life of the asset period, there is no change in that. And this difference between depreciation during the last quarter and the current quarter is because of the

additional depreciation on assets in which case the useful life has expired, that is the only submission that we can make as far as the depreciation is concerned. There is no change in the matters of depreciation and these are normally used in the business and depreciated accordingly.

BM Bhatt Thank you. Again, my request is kindly do something for us, at least to the extent of dividend, dividend also you can look into because earlier also in the beginning the company was paying around 100% dividend, I have seen it. But last three years about 5% you are increasing. If you look at least to that extent it may help us.

Uday Reddy Sure sir.

Moderator Thank you. Our next question is from the line of Raghavendra Rao, an Individual Investor. Please go ahead.

Raghavendra Rao I am a very old investor of Tanla. I have one or two small questions. My first question is, I am not in front of the balance sheet now but I saw some other expenses of some Rs. 163 crore, so I just wanted to understand about what is that and the details about that. And second thing is, in terms of FIIs and all that, I do not see much of activity happening in Tanla with respect to FII investment. So is there any reason for that or going forward will that be also opened up, just wanted to know your thoughts on these two points, sir.

Uday Reddy Where did you see this Rs. 165 crore?

Raghavendra Rao I saw that in one of the, I mean I am not in front of the system now, I am not able to recollect, but I saw that somewhere in the balance sheet.

Uday Reddy Why don't you please write to us, we do not have it right now. But we are more than happy to help you understand, please send us a mail and we will be more than happy to clarify.

Raghavendra Rao Sure. And regarding this FII thing, is there any reason?

Uday Reddy Yes. We are equally interested to add FIIs as our stakeholders. Of course, we do not have even one single FII as on today, either the promoter holding, or the retail is holding most of the stock, that has resulted in a lot of liquidity in the market, we are very-very conscious about it. That is why we believe we have to do something to attract large or medium FIIs. So, we are fully aware of the situation, we need to have FIIs as shareholder. We will definitely do something to have the FIIs on our side.

Raghavendra Rao I have one more question, recently it was announced about the NBFC approval has been given. So, I congratulate everyone and it is a great step towards the future. So I just wanted to understand how soon that will start adding to the growth and to the top-line of the company?

Uday Reddy I just mentioned, I think it looks like you logged on the call a little late. So, one thing about the NBFCs, we got approval sometime in May, but we have no intention to launch the services in the next couple of quarters. And also, we have no intention to invest lot of money into this business. We are in the process of building the platform around that. As and when we are close to the launch definitely we will bring you up to speed. But to answer your question straight, we will not have any impact on our balance sheet for at least next one or two years, that I am sure about.

Moderator Thank you. Our next question is from the line of Manish Jain, an Individual Investor. Please go ahead.

Manish Jain Tanla revenues are mainly dependent on SMS, so what does management see here in terms of growth in the industry, as such how much is it likely to grow? And my related question, do you think the price rise which has happened, what we conveyed in half part of the last quarter will be sustainable because most of the telecom prices are going down, so how this price rise can happen and how it will be sustainable?

Uday Reddy So, our take is as you know demand and supply, main players in the business are out in the last quarter they have shut down the operations for different reasons so that is the reason now the supply has come down and we strongly feel that at some point in time all the prices, I cannot really comment on other tariff wars among the different telcos, but at some point of time it is going to stabilize. Even if you look at the SMS or voice prices, it is all time low in the last probably 4-5 years. So, there is no reason for us to believe that we cannot sustain at the current level or it has to go up, reason being new regulations will come into picture very soon and each and every telco who are into this business has to comply with the new regulations. So, whoever invests their money into this new regulation they will sustain. That is how the supply also will somehow come down, people have to comply with new regulations. And major players like Tanla will definitely comply with new regulations, so that is how we are going to raise status in markets in general.

Manish Jain And what about the growth part, SMS numbers growth?

Uday Reddy Manish, I cannot really give you any forward-looking statement as of today. But we are very-very optimistic about our numbers for this year.

Moderator Thank you. Our next question is from the line of Sreesankar R. from Prabhudas Lilladher. Please go ahead.

Sreesankar R. Mr.Uday, how has cash been in the business, cash with the company has improved over last quarter as well as over last year. How much of change and what is the improvement that has been done? Number two, you have also mentioned that you probably do not require, you have not made any large investments in the last quarter, I think only Rs. 70 lakhs of CAPEX which effectively if I look at over a period of time you got surplus capacity. So can you throw some light on it, especially with regards to what is happening in terms of our future growth aspects? You mentioned to the previous question, you probably would not be able to give much higher guidance on it, but if you can answer these two questions and also give a brief insight into your growth path please?

Uday Reddy So, basically, in terms of the cash as we told earlier the supply has come down in market in general, that has resulted again whichever operator continues to disburse they have reduced their credit period, which has resulted stress on working capital, in the sense like we had Rs. 165 crore as on 31st March 2018, the cash has come down to Rs. 141 crore on June 2018. So, because the debtors have gone up by almost 24% the cash has come down to Rs. 24 crore**.** And two, in general like as I have told in the earlier call, we are fairly optimistic about our numbers both in terms of top-line and bottom-line. We are in fact in the process of fully complying with the new regulation which are going to be effective from 1st of October. And this will definitely result in bringing seriousness to the entire business in general.

Moderator Thank you. Our next question is from the line of Sunit Agarwal, an Individual Investor. Please go ahead.

Sunit Agarwal Will you be able to provide all the depreciation details from last five years? Like how much assets you have created, how much depreciation you have done, what is the method of your asset revaluation? Will you be able to provide the exchanges so that

we can see how assets are aided and how you are taking depreciation and what is the useful life of your assets?

G.K. Srinivas I would just like to state, regarding the depreciation I will just explain. Mr. Sunit, for the full year last year, i.e. 2017-2018, we had a depreciation of Rs. 57.3 crore compared to a lower figure during 2016-2017 which was because of capitalization of assets during the second half of 2016-2017 financial year for which there was a full year of depreciation in 2017-2018. Going forward, we will be at the same level of depreciation during the ensuing quarters also. End of the financial year what we do reassess the useful life of the assets, and if any assets are found that they do not have a useful life or their useful life has expired we provide additional depreciation to close those assets. That is the normal procedure that is done. So, we do not see any major change in the depreciation provided over the ensuing quarters and it will be in line with whatever we have done during the previous year. We have not changed the depreciation method, we are using the same depreciation method that we have followed during the earlier years also. And this in line with IndAS and the Companies Act 2013.

Sunit Agarwal It is okay what you are saying, we agree with that. But what we want actually, if you provide us a detail like actual work sheet of the depreciation you are providing, how much assets you are adding and how much useful life you are assessing, if you give us the details from last three or four years then we will come to know what is going on in the company. Because what I am seeing, I am also an investor from last four years, but what I am seeing that during the last four years you are providing depreciation and eating up all the losses and share price is not appreciating at all. I do not know what the policy is, whether promoters are intended to increase their stake at lower prices and all the small investors who have invested they are incurring losses or they are like frustrated.

Uday Reddy GK has already answered your question. If you have any other question, please do send us an email and we will reply back to answer your questions.

Moderator Thank you. Our next question is from the line of Manish Jain, an Individual Investor. Please go ahead.

Manish Jain Just one thing, just now we were told that we had a very good Q1 and very good numbers, very high operating profits. And we were told that largely due to change in base and market share, the change in base happened during the middle of the quarter, which would mean that we should look forward to very good Q2, Q3 and Q4 much better than Q1?

Uday Reddy Manish, I said the impact in general is for almost 45 days, mainly 30 days on ILD and NLD 45 days. So, significantly yes, we should do good this quarter. I am not giving any forward-looking statements, but yes still we should do good in this quarter.

Moderator Thank you. Ladies & gentlemen, that was the last question for today. I now hand the conference over to the management for their closing comments. Over to you, sir.

Uday Reddy Thank you for coming on the call, everyone. We request you to attend the forthcoming AGM. Please do meet, we will send you the details of AGM, so that we will have a chance to meet you one on one, face to face, and I will be more than happy to answer any question. Thank you very much.

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