

14th March 2022

Tanla Platform Ltd.

Investment Rationale

Tanla's enterprise messaging competences were strengthened by the acquisition of Karix market leader in India CPaaS. It has emerged as an integrated CPaaS solutions provider with an asset-light business model. This segment processes around more than 17000Cr messages per year and has a market share of 40% and has a long-standing relationship with clients in verticals like BFSI, ecommerce, healthcare, travel, social media, and government. The acquisition has been a turning point in Tanla's journey, growth in its enterprise business (~93% of revenue, nine quarter CQGR of 8.3%) is primarily led by Karix. Karix' revenue has grown at 20% CAGR over FY16-21. Tanla has been doing well since launch of Trubloq, a blockchain based platform deployed with major telcos, and Trubloq processes 20-25bn messages monthly, which is a market share of ~63%. Since its inception, the platform business (7% of total revenue, processes 63% of India's A2P messaging traffic). Truecaller partnership expands Tanla's addressable market size and improve efficiency for business messaging. Truecaller Business Messaging will be exclusively powered by Tanla's Wisely CPaaSplatform. Wisely is one of the world's largest blockchain-enabled CPaaS platforms, secured by e2e cryptographic encryption. Truecaller has 300m monthly active users, of which 220m are in India. Since 2021, Truecaller has been working with Tanla's subsidiary Karix to offer Verified Business Caller ID solution for Karix' customers enterprises to enrich the user experience by fostering a communication ecosystem built on trust and safety. Truecaller has extended its collaboration with Tanla through the Wisely partnership around Truecaller Business Messaging (another channel like SMS, WhatsApp, etc). In the first year of the partnership, Truecaller evaluations the volume of instant messages delivered to reach 1bn. Enterprise revenue increased 5.1/35.1% QoQ/YoY to Rs 820Cr, led by higher messaging volumes from festive season campaigns, while gross margin expanded 244bps QoQ to 24.6%, as a result of the change in business mix. For 9MFY22, Tanla added 237 new clients, compared to 206 in 9MFY21. Platform revenue increased 5.4/37.9% QoQ/YoY to Rs 66Cr, owing to an increase in the volume of transactions processed by the DLT platform Trubloq, but gross margin contracted 175bps QoQ to 90.9%. OCF/FCF for the quarter came was impacted by the increase in DSO days and higher collections in Q2 (ILD price increase). The 9M cash generation, FCF/PAT ratio, is at 95% while the target is 95-100%.the company was able to maintain its solid margin profile more than 20% and bove.Tanla's outstanding operating performance, along with an asset-light model, a debt-free balance sheet, and better working capital management, has resulted in strong net income and ampleof cash flow.

CMP : Rs.1485
Target Price : Rs.1907
Upside : 28%
Stop Loss : Rs.1305(Closing basis)

Stock Data	
Market Cap	20266 Cr.
Market Cap (\$)	2668.5 Cr.
Shares O/S (in Mn)	136.03
Avg. Volume (1 month)	521232
52-Week Range (Rs.)	1640 / 570

Shareholding Pattern	
Promoters	42.51%
FII's	13.41%
DII's	1.57%
Public	42.51%

Performance (%)	1M	6M	1Yr
Absolute	-7.9%	45.8%	79.8%

Key Ratios	
Div Yield	0.14%
TTM PE	45.8x
ROE	44.6%
TTM EPS (Rs.)	32.1/-

Financials

The Revenue CAGR of 27.5% over FY21-FY24E while PAT CAGR of 28.9% over FY21-FY24E in the same period.

Particular (Rs. Cr.)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1942.8	2341.5	3218.0	4142.5	4850.0
EBITDA	185.0	433.5	704.5	910.1	1051.8
Growth	91%	134%	63%	29%	16%
PAT	-211.1	356.1	548.8	658.9	762.5
EPS	9.4	26.2	41.0	49.4	57.8
P/E(x)	158.0	56.7	36.2	30.1	25.7
ROE(%)	18.0	44.7	49.1	40.4	35.4

Business Verticals

- Tanla transforms the way the world collaborates and communicates through innovative CPaaS solutions. Founded in 1999, it was the first company to develop and deploy A2P SMSC in India. Today, as one of the world's largest CPaaS players, it processes more than 800 billion interactions annually and about 63% of India's A2P SMS traffic is processed through Trubloq, making it the world's largest Blockchain use case. Wisely, our patented enterprise grade platform offers private, secure, and trusted experiences for enterprises and mobile carriers. Tanla Platforms Limited is headquartered in Hyderabad. Tanla has two revenue sources: platform revenues from telcos in the form of revenue share as a result of Tanla's platforms and Trubloq deployed with telcos to filter unsolicited messages and route them to end-users and enterprise revenues from businesses for communication solutions

Valuations

- The global CPaaS industry is expected to grow at a 27.5% CAGR over FY21-24E and we have estimated +27.5/28.9% topline growth/EPS CAGRs over FY21-24E on account of addition of enterprise clients, continued growth in enterprise messaging volumes, increasing Trubloq platform volumes (higher margins) and the ability of Wisely to scale with more partnerships, recent development true caller offer Verified Business Caller ID solution for Karix' customers enterprises to enrich the user experience by fostering a communication ecosystem built on trust and safety. recent acquisitions and successful integrations of Karix and Gamooga have shown, Company has an excellent track record of identifying and acquiring entities that will enhance its platform and ecosystem capabilities. The company's mergers and acquisitions strategy will ensure all additions augment our existing platform capabilities and are not made purely for the sake of revenue aggregation. Our buy recommendation on Tanla with a TP of INR 1907, valuing it at 33x FY24E EPS, supported by its top quartile growth, higher return ratios more than of 40%, excellent cash generation, and free cash flow at Rs. 221.7 Cr. and Cash & Cash Equivalents at Rs. 845.7 Cr. The stock is trading at a P/E of 30.1/25.7x FY23/24E a significant discount to their peers' valuations.

Key Risks

- Macro economic including economic and geopolitical instability, pandemics, exchange controls, economies exposed to significant fluctuations, the effects of climate change and difficulties enforcing contracts and collecting debts through local legal systems. Company is seeing entries by global CPaaS players in India. Entry of global players can impact Tanla's positioning with customers. Competitive environment could result in diluting bargaining power with our customers. High client concentration may appear to be a concentration risk

Graphs & Charts

Figure 1: Net Sales Trend

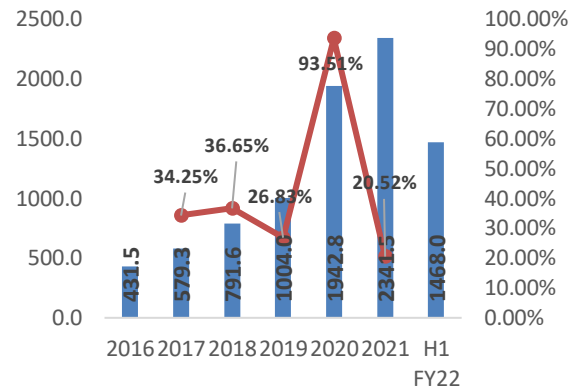


Figure 2: EBITDA & EBITDA Margin Trend

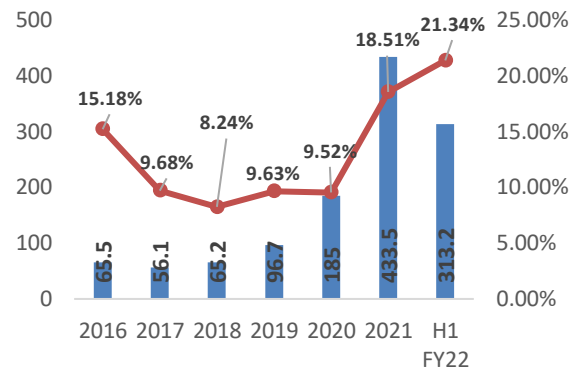


Figure 3: PAT Trend

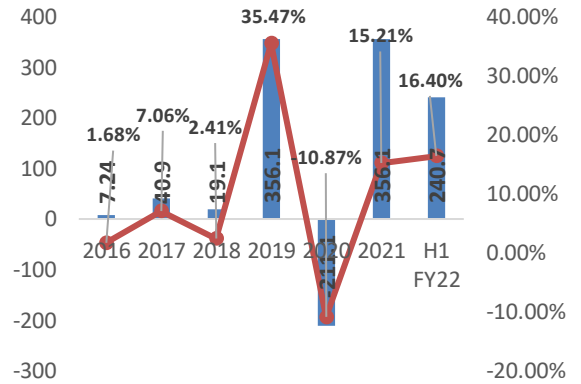
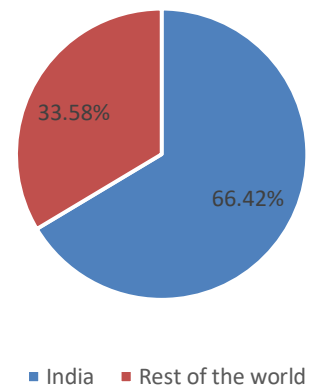


Figure 4: Sales, 2021



Analyst Name Designation
Jitendra Upadhyay Sr. Research Analyst

Disclosure:

Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. Bonanza Portfolio Ltd is responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. The Analysts engaged in preparation of this Report or his/her relative: - (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report. The Analysts engaged in preparation of this Report:- (a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

Bonanza Portfolio Ltd operates under the regulation of SEBI Regn No. INH100001666 and research analyst engaged in preparation of report

Disclaimer:

This research report has been published by Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of Bonanza portfolio Ltd shall be liable. Research report may differ between Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the subject company or third party in connection with the research report

Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063 Web site:

<https://www.bonanzaonline.com>

SEBI Regn. No.: INZ000212137

BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 |

NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

