

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 CPaaS platform. 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 ample of 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

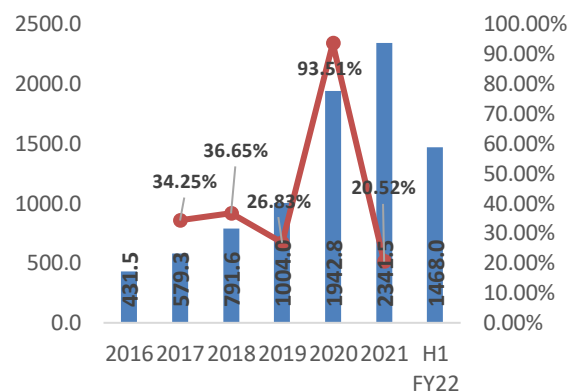


Figure 2: EBITDA & EBITDA Margin Trend

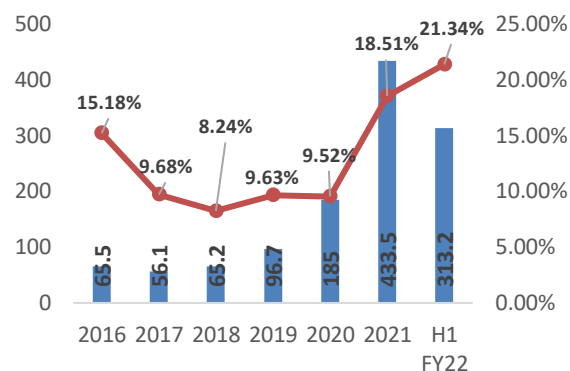


Figure 3: PAT Trend

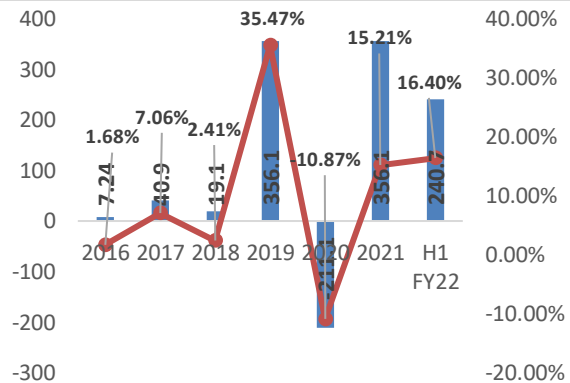
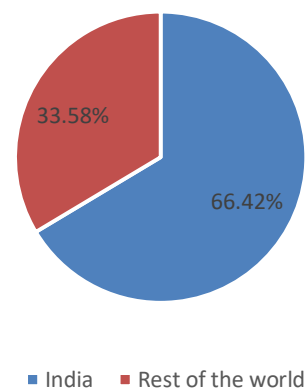


Figure 4: Sales, 2021



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