

Tanla Platforms

Version 2.0

Tanla Platforms (Tanla) is a leading player in the fast-growing CPaaS market (22% CAGR), which is being led by increased online transactions. The company's business model has changed several times in the past two decades, but it has found success in the Application-to-Person (A2P) messaging and platform business, which grew at 46% CAGR over FY15-21. Tanla's enterprise messaging capabilities 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 in its new avatar (V2.0). Its enterprise segment processes ~169bn+ messages per year and has a market share of 40%. Tanla has tasted success with the launch of Trubloq, a blockchain based platform deployed with major telcos, and processes ~63% of India's A2P messaging traffic.

Tanla is expected to grow strongly, based on: (1) continued growth in enterprise messaging volumes; (2) increasing Trubloq platform volumes (higher margins); (3) scaling up of Wisely platform (developed by Tanla in partnership with Microsoft); and (4) up-selling and client addition. Over FY21-24E, we project revenue/EBITDA/EPS CAGRs of +26/30/27%. We initiate coverage on Tanla with a TP of INR 1,600, valuing it at 30x FY24E EPS, supported by its top quartile growth, higher RoE of 44%, excellent cash generation, and net cash of INR 8.5bn (~5% of market cap). The stock is trading at a P/E of 30/26x FY23/24E (~25% discount to listed peer).

- Karix provides a flip to enterprise business:** Tanla acquired Karix from Blackstone in Apr-19. Karix commands a market share of ~30% 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. We expect enterprise CAGR of 25% over FY21-24E, with a gross margin of ~21%.
- Trubloq propels growth:** The Trubloq platform (launched in Sep-20) is built on distributed ledger technology (DLT) and is used to filter unsolicited and fraud messages, as mandated by TRAI. Trubloq processes ~20-25bn messages monthly, which is a market share of ~63%. Since its inception, the platform business (~7% of total revenue) has grown at a four quarter CQGR of 17.4%. We expect 40% revenue CAGR in the platform business over FY21-24E, with a gross margin of ~90%.
- Strong Q2 and improving cash conversion:** Enterprise revenue increased 36.5/41.5% QoQ/YoY to INR 7.8bn in Q2, led by higher volumes and an increase in ILD rates. Platform revenue increased 12.6/90.2% QoQ/YoY to INR 0.6bn. The gross margin for enterprise/platform stood at 22.1/92.6% in the quarter. The working capital management has improved, leading to a strong CF conversion (OCF/EBITDA at 129/119% in FY21/H1FY22).

Financial summary (consolidated)

YE March (INR mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	7,916	10,040	19,428	23,415	32,829	39,994	46,588
Gross Profit	961	1,433	3,911	5,777	8,937	10,743	12,346
EBITDA	652	967	1,850	4,335	6,931	8,228	9,486
APAT*	191	298	1,284	3,561	5,270	6,277	7,254
Diluted EPS (INR)	1.4	2.2	9.4	26.2	38.7	46.1	53.3
P/E (x)	NA	NA	147.5	53.2	35.9	30.2	26.1
EV / EBITDA (x)	NA	NA	101.3	42.4	25.9	21.2	17.7
RoE (%)	2.8	4.2	18.0	44.7	47.6	38.6	31.8

Source: Company, HSIE Research, *FY20 APAT is excluding accelerated depreciation

BUY

CMP (as on 17 Nov 2021)	INR 1,392
Target Price	INR 1,600
NIFTY	17,899

KEY STOCK DATA

Bloomberg code	TANLA IN
No. of Shares (mn)	136
MCap (INR bn) / (\$ mn)	189/2,545
6m avg traded value (INR mn)	225
52 Week high / low	INR 1,393/415

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	49.1	53.1	235.5
Relative (%)	41.6	32.0	199.0

SHAREHOLDING PATTERN (%)

	Jun-21	Sep-21
Promoter	42.29	42.51
FIs & Local MFs	12.90	13.35
FPIs	0.04	0.04
Public & Others	44.77	44.10
Pledged Shares	0.00	0.00

Source : BSE

Amit Chandra

amit.chandra@hdfcsec.com
+91-22-6171-7345

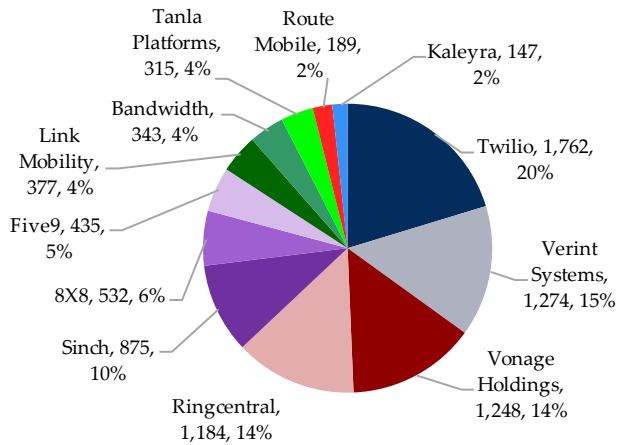
Mohit Motwani

mohit.motwani@hdfcsec.com
+91-22-6171-7328

Tanla Platforms: Initiating Coverage

Focus Charts

Global CPaaS players' FY21 revenue (USD mn) and market share (%)



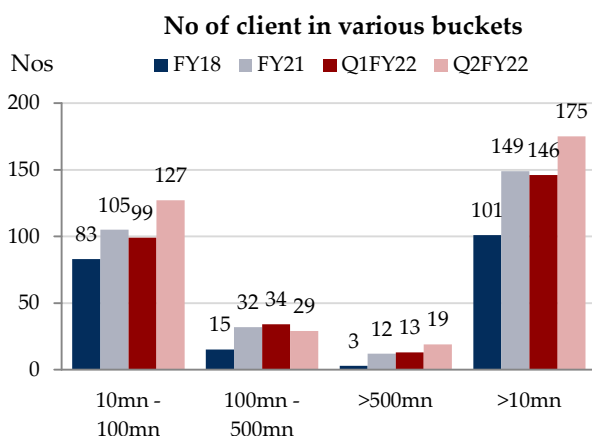
Source: Company, Bloomberg, HSIE Research, FY21=CY20 for global players

Tanla handles ~169bn messaging volumes, translating to ~40% market share

Parameter	Value
Total messages sent per day in India (bn)	1.2
Total messages sent per year (bn) – A	432
Messages processed by Tanla in FY21 (bn) – C	169
Market share	39%
Number of smartphone mobile users (mn) – B	750
Number of messages per mobile user per year (Nos) - A/B	576
Number of messages per mobile user per month (Nos)	48
Number of messages per mobile user per day (Nos)	2
Number of messages processed by Tanla per mobile user per year (Nos) - C/B	225
Number of messages processed by Tanla per mobile user per month (Nos)	19
Number of messages processed by Tanla per mobile user per day (Nos)	1

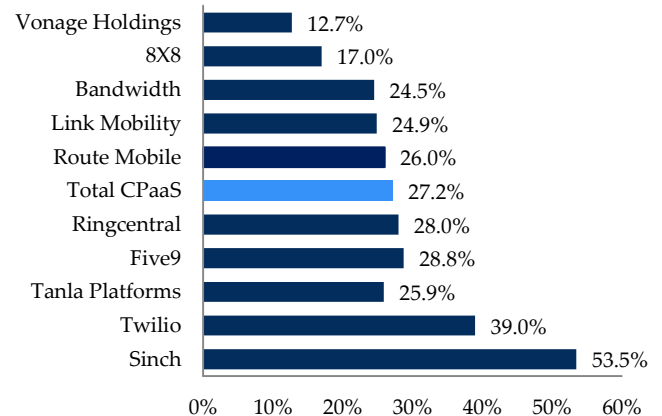
Source: Company, HSIE Research

Strong client addition across buckets over last three years



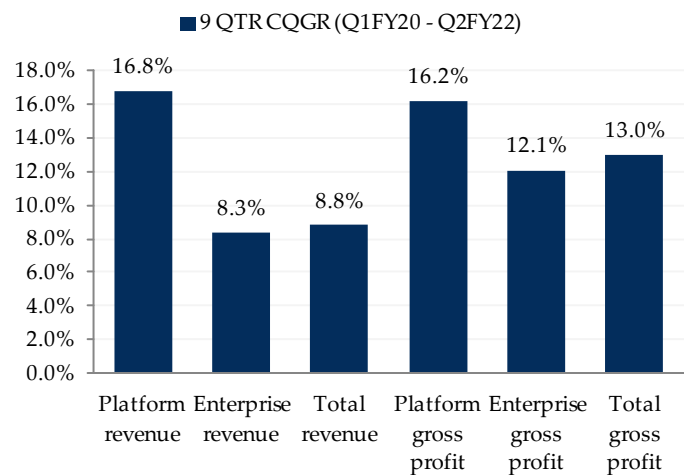
Source: Company, HSIE Research, X-axis refers to revenue contribution by a client in INR mn

CPaaS players to clock strong CAGRs over FY21-24E



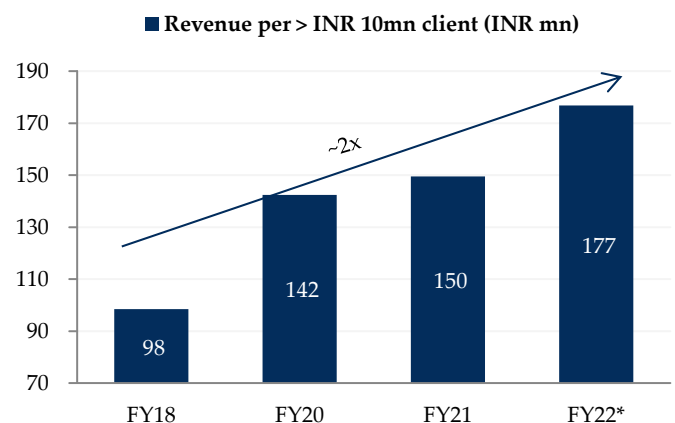
Source: Bloomberg, HSIE Research, Tanla based on HSIE estimates

Strong revenue and gross profit over last nine quarters



Source: Company, HSIE Research

Revenue per > INR 10mn client has increased by ~2x over the last three years



Source: Company, HSIE Research, *: FY22 is based on H1FY22 annualised

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CPaaS: niche and thriving

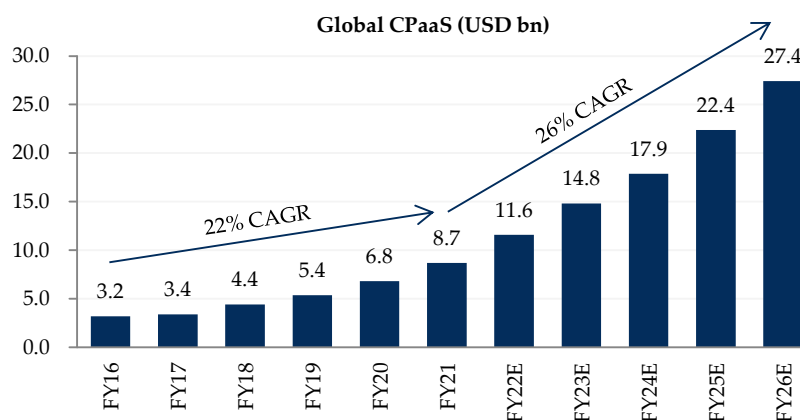
Communications Platform as a Service (or CPaaS) is a cloud-based platform that enables enterprises to add communication channels such as audio, video, and messaging into the existing core application. The CPaaS industry is gaining significant traction in the enterprise communications ecosystem. It is a value add for enterprises since it eliminates their need to invest in hardware infrastructure and internal servers. SMS, WhatsApp, RCS, email, are the various communication channels, but SMS remains the primary source of revenue for CPaaS providers.

WhatsApp is also gaining traction as more use cases emerge (for example, communicating with chatbots of a financial services company), but it's still in the early stages of adoption. The pace of digitalisation, aided by COVID, as well as an increase in mobile phone users, online transactions, and online shopping, have enhanced the need for businesses to engage with their customers more actively.

Conversing with customers across different communication channels such as SMS, audio, email, chat, etc. has become a vital part of any company's customer engagement strategy. According to Gartner, 90% of worldwide organisations would be using CPaaS solutions to improve customer engagement by 2023.

As per a Juniper research report, the worldwide CPaaS market would increase at a 29% CAGR from CY20 to CY25E. The global revenue of twelve publicly traded CPaaS communication providers was USD 8.7 bn in FY21, and is predicted to grow to USD 27.4 bn in FY26, clocking a 26% CAGR (in line with Juniper research estimate).

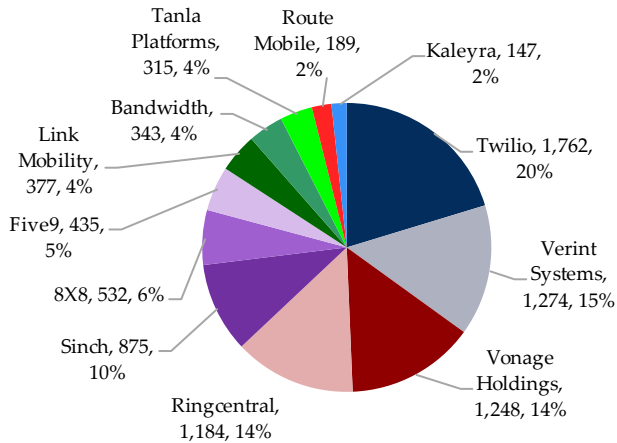
Global CPaaS players poised to clock robust growth over next five years



Source: HSIE Research, Bloomberg, companies include Twilio, Ringcentral, Sinch, Five9, Vonage Holdings, Verint Systems, 8x8, Bandwidth, Route Mobile, Tanla Platforms, Link Mobility and Kaleyra, estimates are Bloomberg consensus estimates, except for Tanla, which are HSIE estimates (assumed USD-INR of 74), estimates for Vonage and Route Mobile extrapolated for FY25 and FY26, FY21=CY20, FY26=CY25

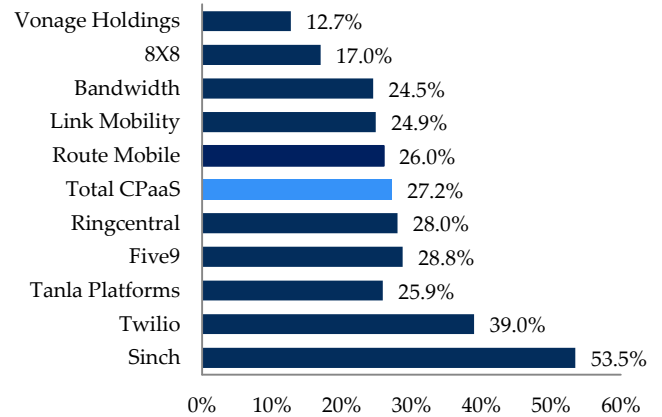
Tanla Platforms: Initiating Coverage

FY21 revenue of major CPaaS players globally (USD mn)



Source: HSIE Research, Bloomberg, FY21=CY20

FY21-24E revenue CAGR for global CPaaS players



Source: HSIE Research, Bloomberg, Tanla based on HSIE estimates

Global CPaaS at a glance

CPaaS Player	Twilio	Ring central	Sinch	Five9	Vonage Holdings	Verint Systems	8X8	Band width	Route Mobile	Tanla Platforms	Link Mobility	Kaleyra	Agg (USD bn)
Country	USA	USA	Sweden	USA	USA	USA	USA	USA	India	India	Norway	Italy	Global
Market Cap (USD bn)	54.3	24.4	10.5	11	4.3	3.1	2.6	2	1.5	2.5	0.7	0.5	117.5
Revenue CAGR (FY21-24E)	39.0%	28.0%	53.5%	28.8%	12.7%	-7.3%	17.0%	24.5%	26.0%	25.9%	24.9%	50.4%	27.2%
EBITDA Margin FY21	-16.7%	-1.4%	9.4%	5.7%	8.0%	18.9%	-16.1%	2.6%	12.4%	18.5%	8.3%	-16.0%	1.7%
EBITDA Margin FY24E	9.7%	14.8%	16.0%	17.5%	14.1%	27.9%	8.7%	11.7%	14.9%	20.4%	14.2%	7.8%	14.1%
FY24E EV/EBITDA	109	69	18	70	19	13	39	28	26	18	10	17	22
FY24E P/S	11.5	9.8	3.3	11.9	2.4	3.1	3.1	3	4.0	4.1	1.4	0.9	3.2

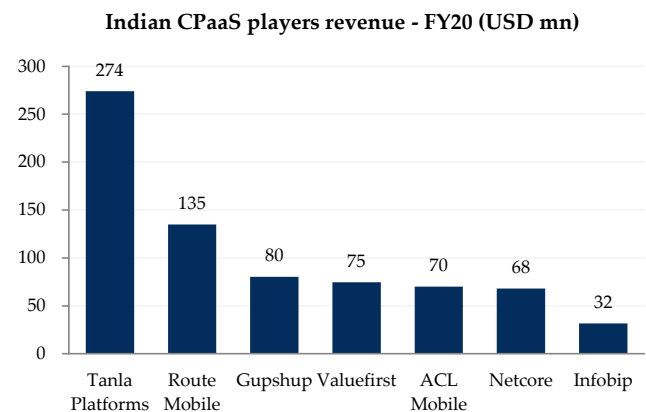
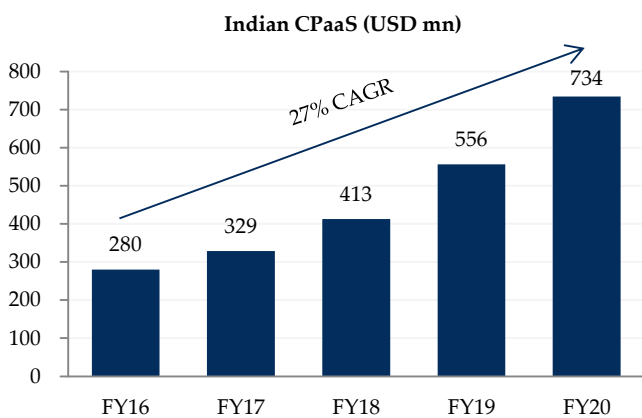
Source: Company, Bloomberg, HSIE Research, Tanla Platforms based on HSIE estimates, assumed USD-INR of 74

Indian CPaaS players growing at similar rate to global counterparts

The major Indian CPaaS players have also shown a strong growth rate, owing to increased digital engagement of enterprises with their customers via the digital medium, reflecting the global CPaaS players' growth trajectory. The Indian CPaaS market expanded at a 27% CAGR from USD 280 mn in FY16 to USD 734 mn in FY20.

Indian CPaaS companies grow at a CAGR of 27%

Tanla - the largest CPaaS player in India



Source: HSIE Research, VCCEdge, companies include Tanla Platforms, Route Mobile, ACL Mobile, Gupshup, Valuefirst, Infobip and Netcore

Source: HSIE Research, VCCEdge

Tanla Platforms: market leader in CPaaS

Tanla, with a CPaaS volume market share of ~40% and Trubloq volume market share of ~63%, is the market leader in the Indian CPaaS market. According to estimates, 1.2bn commercial SMSes are sent in India every day, while Tanla handles 169bn messages annually, or ~0.5 bn messages per day, implying a market share of ~40%. With 750 mn active smartphone mobile phone users, this equates to two messages per day per mobile phone user, of which Tanla processes around one message/day.

The Trubloq platform processes ~70bn messages per quarter and has a 63% market share (as per company reporting). According to this data, the total number of messages processed at the industry level is 1.2 bn per day.

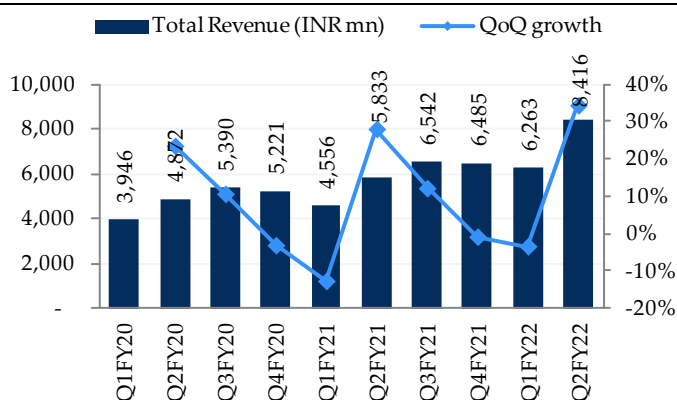
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Number of messages per mobile user per month (Nos)	48
Number of messages per mobile user per day (Nos)	1.6
Number of messages processed by Tanla per mobile user per year (Nos) - C/B	225
Number of messages processed by Tanla per mobile user per month (Nos)	19
Number of messages processed by Tanla per mobile user per day (Nos)	0.6

Source: Company, HSIE research

Tanla has two revenue sources: (1) platform revenues from telcos in the form of revenue share as a result of Tanla's platforms [short messaging service center (SMSC) and Trubloq] deployed with telcos to filter unsolicited messages and route them to end-users and (2) enterprise revenues from businesses for communication solutions.

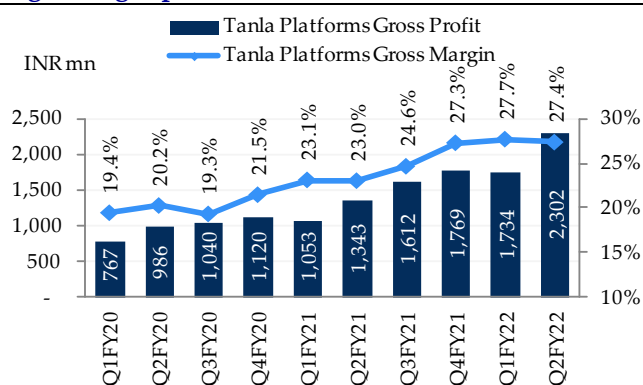
Tanla serves enterprises in a variety of industries, including BFSI, e-commerce, logistics, and healthcare, as well as the Indian government on messaging solutions, such as the Cowin vaccination and Aadhar-related communications. Its quarterly revenue has doubled (2.1x) from INR 3.9bn in Q1FY20 to INR 8.4bn in Q2FY22, thanks to strong industry dynamics and leadership positioning. The gross margin has also increased by 800bps (from 19.4% in Q1FY20 to 27.4% in Q2FY22), reflecting embedded non-linearity in the business.

Total revenue grows by 2.1x over past 10 quarters, exhibiting a strong CQGR of 8.8%



Source: Company, HSIE Research

EBITDA margin expands 800bps over 10 quarters, led by operating leverage and rising contribution of high-margin platform business



Source: Company, HSIE Research

Revenue segments and gross profit quarterly trajectory

Revenue (INR mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	CQGR %
Platform revenue*	154	191	236	209	185	328	477	462	554	624	16.8%
QoQ growth %		24.0%	23.6%	-11.4%	-11.5%	77.3%	45.4%	-3.1%	19.9%	12.6%	
% of revenue	3.9%	3.9%	4.4%	4.0%	4.1%	5.6%	7.3%	7.1%	8.8%	7.4%	
Enterprise revenue*	3,792	4,681	5,154	5,012	4,371	5,505	6,065	6,023	5,709	7,792	8.3%
QoQ growth %	0	23.5%	10.1%	-2.8%	-12.8%	25.9%	10.2%	-0.7%	-5.2%	36.5%	
% of revenue	96.1%	96.1%	95.6%	96.0%	95.9%	94.4%	92.7%	92.9%	91.2%	92.6%	
Total Revenue	3,946	4,872	5,390	5,221	4,556	5,833	6,542	6,485	6,263	8,416	8.8%
QoQ growth %		23.5%	10.6%	-3.1%	-12.7%	28.0%	12.2%	-0.9%	-3.4%	34.4%	

Source: Company, HSIE, *: platform and enterprise revenue for Q1FY20 derived with assumption of 97.4% platform gross margin

Gross Profit	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	CQGR
Platform GP	150	186	230	200	176	313	451	437	533	578	16.2%
Gross Margin %	97.4%	97.4%	97.5%	95.7%	95.1%	95.4%	94.5%	94.6%	96.2%	92.6%	-475*
% of Total GP	19.6%	18.9%	22.1%	17.9%	16.7%	23.3%	28.0%	24.7%	30.7%	25.1%	
Enterprise GP	617	800	810	920	877	1,030	1,161	1,332	1,201	1,724	12.1%
Gross Margin %	16.3%	17.1%	15.7%	18.4%	20.1%	18.7%	19.1%	22.1%	21.0%	22.1%	587*
% of Total GP	80%	81%	78%	82%	83%	77%	72%	75%	69%	75%	
Tanla GP	767	986	1,040	1,120	1,053	1,343	1,612	1,769	1,734	2,302	13.0%
Gross Margin %	19.4%	20.2%	19.3%	21.5%	23.1%	23.0%	24.6%	27.3%	27.7%	27.4%	793*

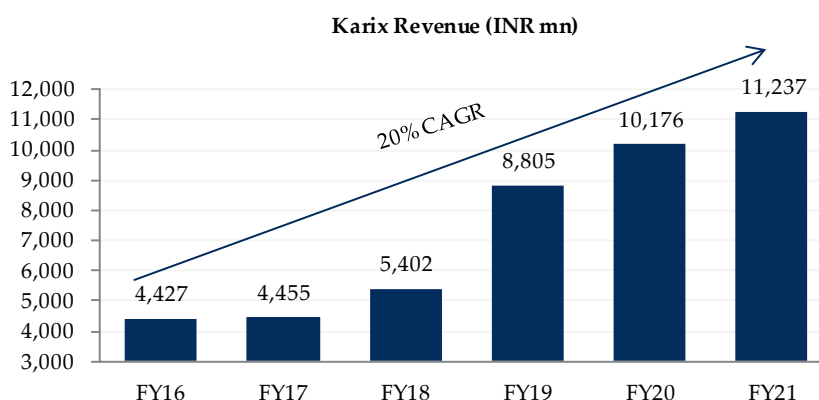
Source: Company, HSIE Research, *bps change over Q1FY20 to Q2FY22

Enterprise business: Karix powering growth

Tanla added muscle to the enterprise segment when it acquired Karix in April 2019. In a cash-and-stock agreement, Karix was acquired from Blackstone (Tanla paid cash of INR 1.12bn and Blackstone had a 14.6% stake in Tanla post the transaction). Tanla's CPaaS capacity was expanded with this acquisition, which established its presence across all touchpoints of the CPaaS ecosystem, allowing enterprises the benefit of working with a single CPaaS provider.

Karix has a 30% market share in enterprise messaging and has a long-standing relationship with its clients, serving over 1,300 enterprises across various industries, including catering to the top 7-9 banks, e-commerce players, financial services providers, IT, healthcare, consumer goods, social media firms, and retailers. Karix added 167/259/160 new customers in FY20/FY21/H1FY22 as a result of its excellent standing in the CPaaS industry. Its revenue increased at a CAGR of 20% from FY16-21.

Karix demonstrates strong growth through long-standing client relationships



Source: Company, VCCEdge, HSIE Research

Growing client base with impressive mining capability

From FY18 to Q2FY22, the number of clients in the INR 10-100 million, 100-500 million, and >500 million revenue buckets increased significantly, demonstrating Tanla's strong client mining/hunting capabilities. With rising use cases and volume, a client would typically start with lesser contributions and progressively upgrade to higher contributions.

The number of clients generating more than INR 500mn in sales has climbed from 3 in FY18 to 19 in Q2FY22, demonstrating that Tanla's solutions are increasingly being employed by enterprises for consumer engagement. Top clients are driving growth, with CAGRs of 15/23/45% (over FY18-21) for clients in the INR 10-100 million, 100-500 million, and >500 million revenue buckets, confirming Tanla's excellent positioning/offerings to enterprise clients.

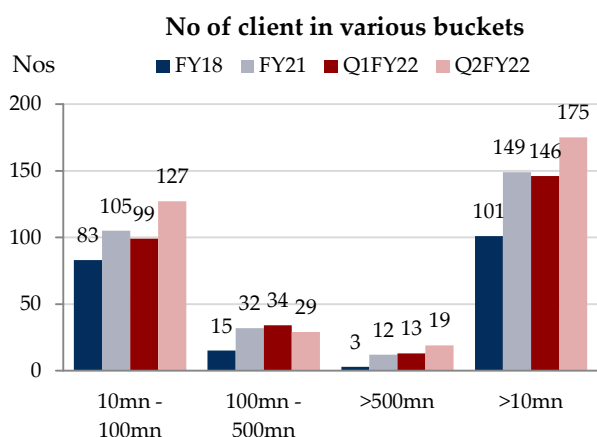
Tanla's average revenue per >INR 10mn client has increased by ~2x from FY18, demonstrating that it has been able to negotiate its pricing with enterprises very well, apart from the fact that it has also grown its customer base and messaging volumes.

Top-20 customer concentration: a blessing in disguise?

Tanla's top 20 clients generated INR 13.3/14.8/9.6bn in sales in FY20/FY21/H1FY22, accounting for 68.3/63.1/65.7% of total revenue. High client concentration may appear to be a concentration risk, but the fact that the company's top 20 clients (such as ICICI Bank) have been with the company for 15 years or more provides a cushion for future revenue visibility.

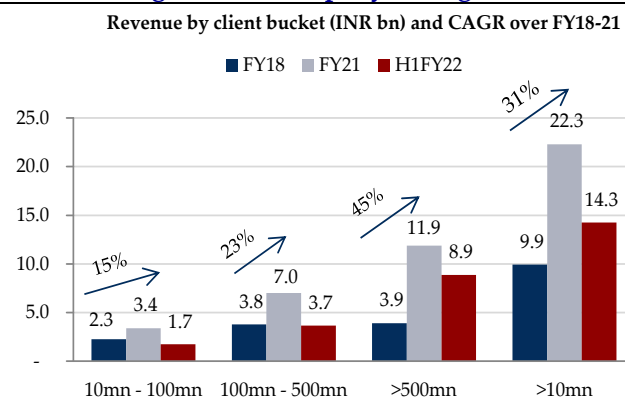
In our view, Tanla's future performance is assured by the stickiness of its top 20 clients, new customer additions, and other revenue sources via other communication mediums like WhatsApp. Aside from that, global expansion and bolt-on acquisitions are two other factors that could boost revenue growth even further.

Increasing number of clients in high revenue streams showcases Tanla's execution of land and expand strategy



Source: Company, HSIE Research, X-axis refers to revenue contribution by a client in INR mn

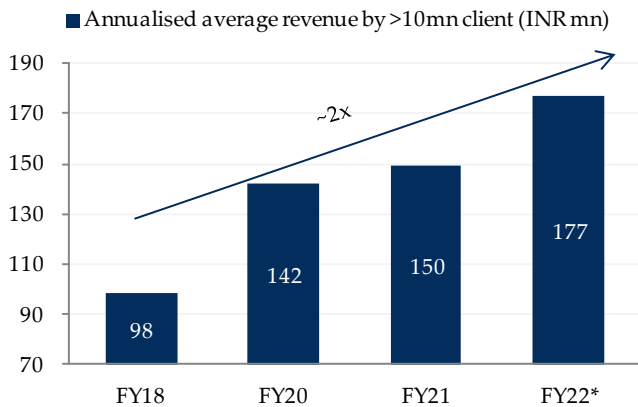
Growth is driven by top clients; >INR 500mn client CAGR is higher than company average



Source: Company, HSIE Research, X-axis refers to revenue contribution by a client in INR mn

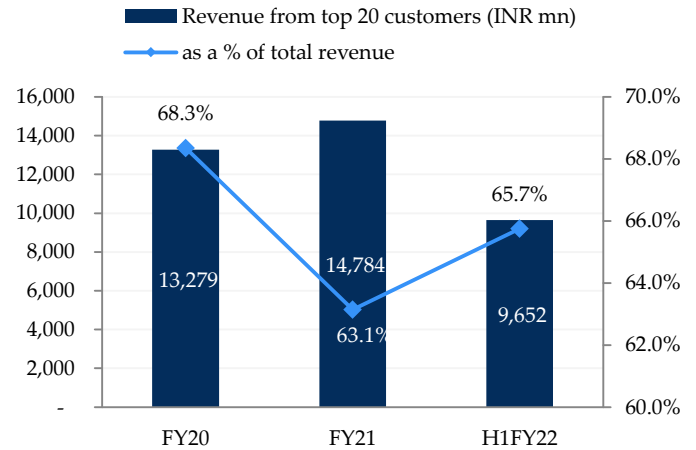
Tanla Platforms: Initiating Coverage

Average revenue per >INR 10mn client grows ~2x, indicating rising volumes and better pricing



Source: Company, HSIE Research, *: FY22 annualised based on H1FY22

Revenue concentration from top 20 customers is gradually coming down, but still high



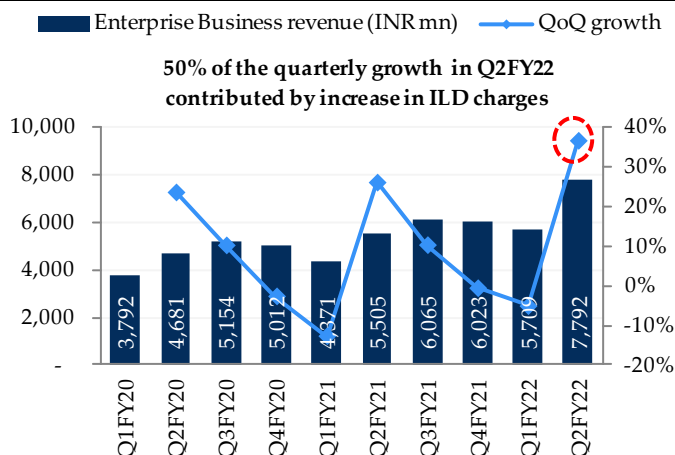
Source: Company, HSIE Research

Robust growth coupled with operating leverage

The enterprise business has been on a steady upward trend, hitting new highs in recent quarters and generating a revenue of INR 7.79 bn (+36.5% QoQ) in Q2FY22. Tanla bills enterprises telco charges of INR 13p per SMS, of which it keeps 3p per SMS. SMS communication contributes 90%+ of current revenue (in line with global trends). However, the company has expanded capabilities across all other communication channels, including WhatsApp, email, and voice.

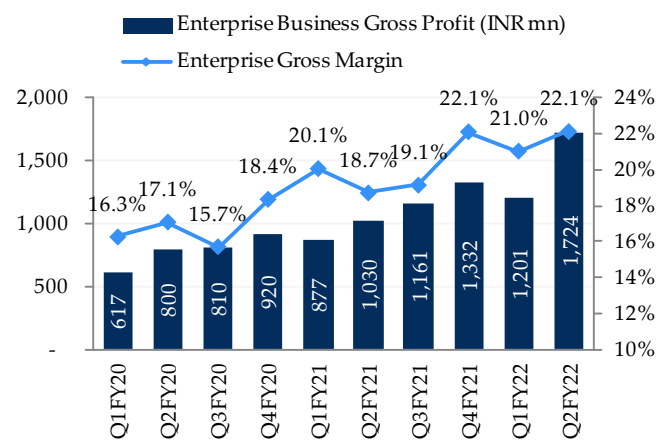
The WhatsApp channel is gaining traction, and revenue from it has doubled from Q1FY22. Gross margin for the enterprise business has increased by 580bps from 16.3% in Q1FY20 to 22.1% in Q2FY22, as a consequence of increased volumes, increasing use cases, and client addition.

Enterprise business striking a new high; increase in ILD rates propels growth in Q2FY22



Source: Company, HSIE Research

GM expands 580bps from Q1FY20 to Q2FY22



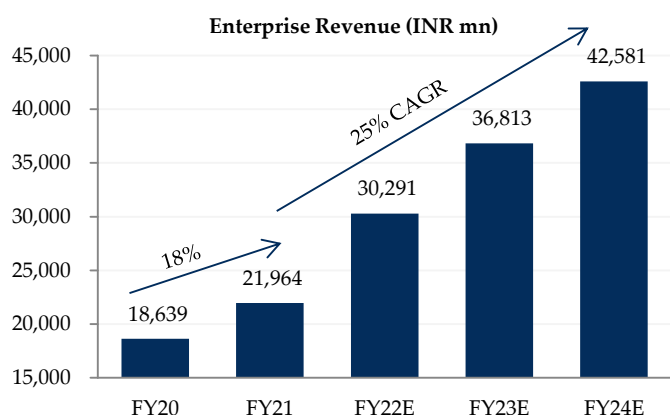
Source: Company, HSIE Research

Multiple industry tailwinds to boost growth

The enterprise business is poised to grow rapidly at several trigger points, particularly with the transformational shift towards online transactions in a variety of industries, including e-commerce, logistics, social media, retail, BFSI, and others. From the present 750+ mn smartphone users, India is on course to reach 1 billion smartphone users by 2023, and this rise in user base will be a big driver of growth, with greater app installations and messaging opportunities.

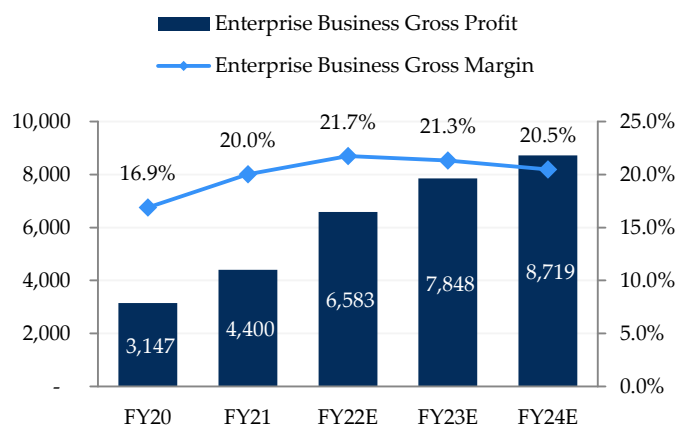
In addition, a growing number of use cases, such as two-factor authentication, webinar invitations, recharge offers, flight updates, OTPs for transactions on fintech platforms and mobile banking, push notifications from ride-hailing and food delivery apps, and so on, will increase message volumes. Tanla, with its recurring additions of new customers, the stickiness of its top 20 customers, and possible international expansion, can benefit greatly from the industry's expanding volumes. Based on a volume CAGR of 15% and gross margins stabilising at 20-21%, we project enterprise revenue to expand at a CAGR of 25% over FY21-FY24E.

Enterprise business to clock 25% CAGR over FY21-21E, led by a rise in messaging volumes



Source: Company, HSIE Research

GM for enterprise business to be in 20-21% range



Source: Company, HSIE Research

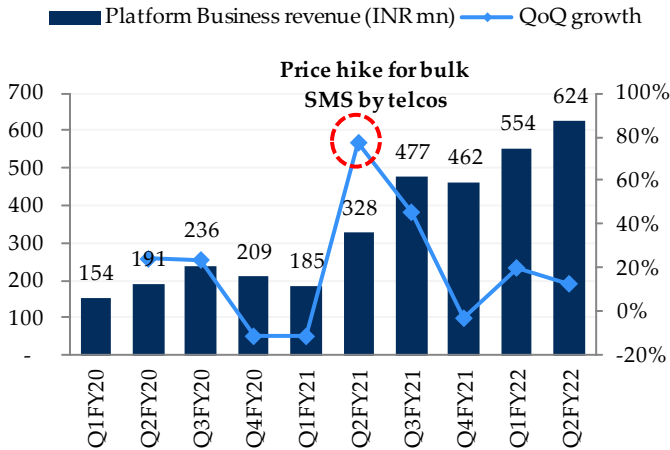
Platform business: driven by Trubloq

Tanla's platform business is primarily comprised of Trubloq, a blockchain-based platform developed on distributed ledger technology (DLT). Trubloq was launched in accordance with the new Telecom Regulatory Authority of India (TRAI) standards to handle unsolicited commercial communications (UCC) using blockchain technology and improve security by filtering out spam and fraud messages.

It is a platform that is used by all of India's major telcos (VI, BSNL, and Airtel), as well as two telecoms in the UAE (Etisalat and Du). Since its commercial launch in September 2020, Trubloq has served over 44,000 enterprises and handled over 250bn transactions (750mn transactions per day). In India, Trubloq has a 63% market share for A2P messages. Tanla is one of VI's largest short messaging service center (SMSC) vendors. The SMSC is responsible for routing messages to end users and generates revenue in partnership with the telcos.

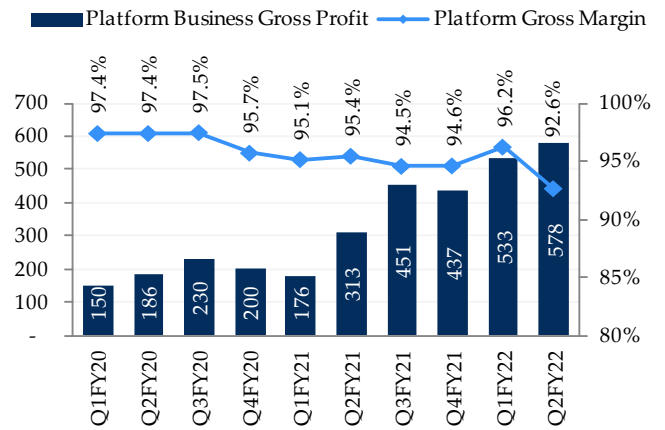
Tanla Platforms: Initiating Coverage

Platform business beneficiary of rising A2P messaging volumes by enterprises



Source: Company, HSIE Research

Platform business GM reducing, but to remain at ~90%

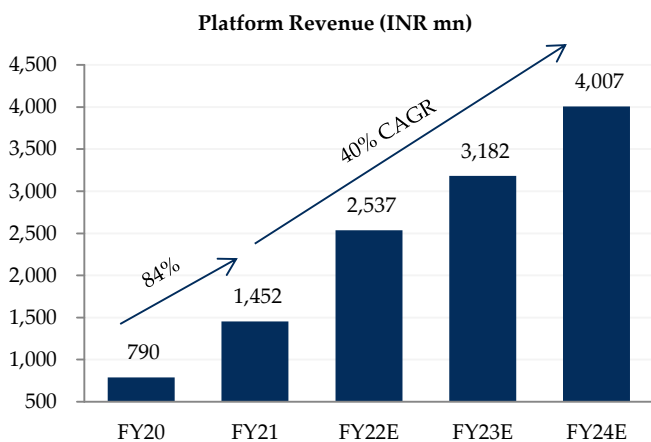


Source: Company, HSIE Research

Though P2P messaging has been on the wane as OTT apps such as WhatsApp have grown in popularity, the A2P messaging market has been growing strongly at 18-20% each year. Because of its ubiquity, security, and, most significantly, the fact that it is governed by telecom regulations, it is a preferred mode of communication.

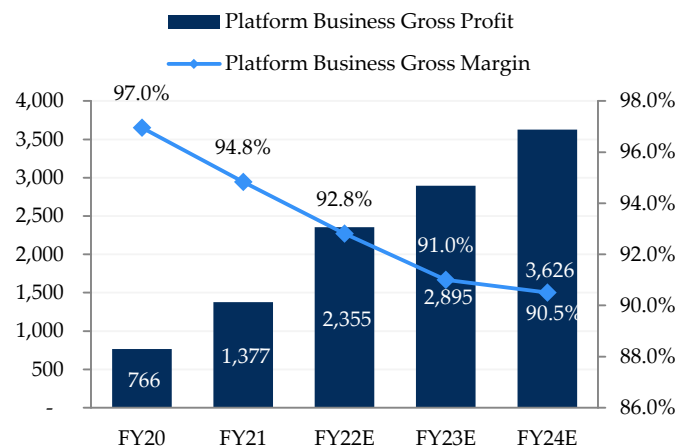
However, with enterprises, including banks, deploying chatbots over applications like WhatsApp for certain use cases like promotional marketing and sending emails for transaction updates, this could create an alternate revenue stream if OTT channels and email are bought under blockchain. Therefore, we believe that because Tanla offers omni-channel solutions, OTT and other messaging channels are not a replacement for SMS, but rather a new revenue source. Over FY21-24E, we expect platform revenue to expand at a 40% CAGR, with gross margin stabilising at 90-91%.

Platform revenue to grow in line with increasing size of A2P messaging market



Source: Company, HSIE Research

GM for platform business to stabilise at 90-91%

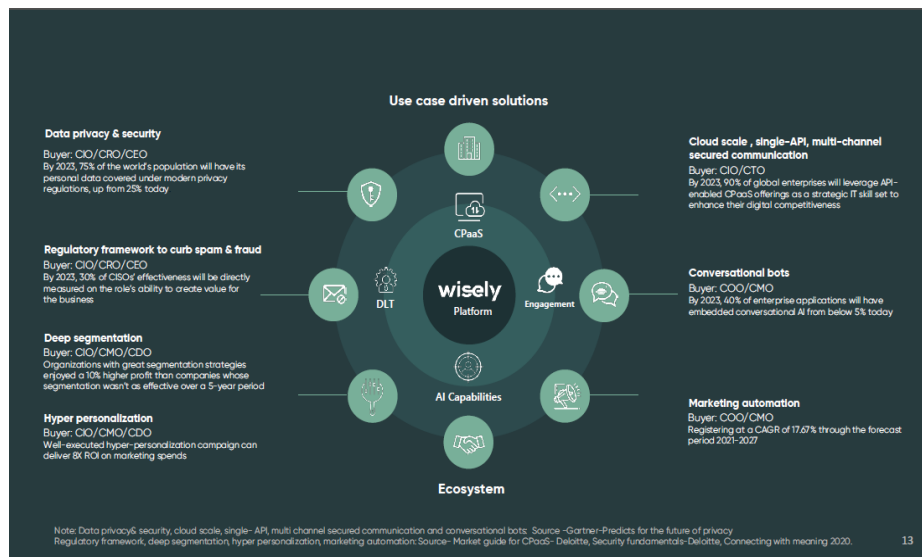


Source: Company, HSIE Research

Wisely: the next leg of growth

Tanla has partnered with Microsoft to develop a new platform called "Wisely," which is part of the company's "one platform strategy" to provide multiple communication channels with end-to-end data encryption. Wisely is a CPaaS platform that provides a digital marketplace for enterprises and suppliers; Tanla expects that this will be the next growth driver for platform business.

Wisely – Tanla’s one platform strategy for all communication solutions



Source: Company, HSIE Research

Tanla has added new features to the Wisely platform as well as closed two new partnerships on it. It has also brought on board a prominent international strategy consulting firm to assist in the development of Wisely's GTM strategy.

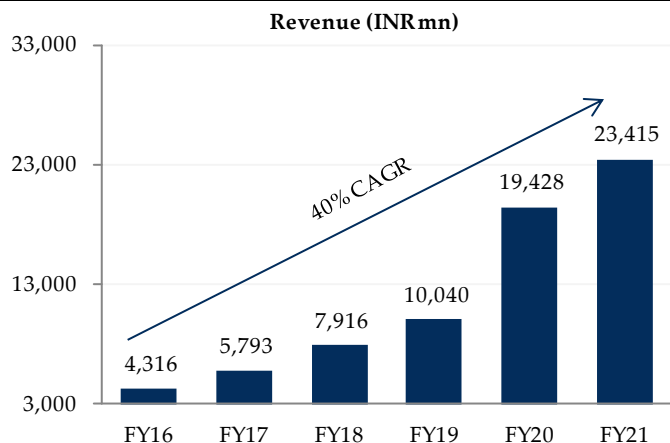
It also intends to expand its international footprint by bringing its new platforms to the rest of the world. This worldwide exposure has the potential to be the next catalyst for growth. Management has also stated that it will be looking for additional bolt-on acquisitions, with a primary focus on enhancing technology capabilities.

Financial prowess

Tanla has demonstrated superior execution capabilities and robust financial performance as a result of (1) innovation-led platform launches; (2) long-standing relationships with enterprises and the telcos; (3) strong industry tailwinds, with the enterprises looking up to CPaaS players for high levels of engagements with their customers; and (4) increasing messaging volumes on account of high online transactions. Tanla's revenue increased by 40% from INR 4.3bn in FY16 to INR 23.4bn in FY21, thanks to the above factors and the acquisitions of Karix and Gamooga in FY20.

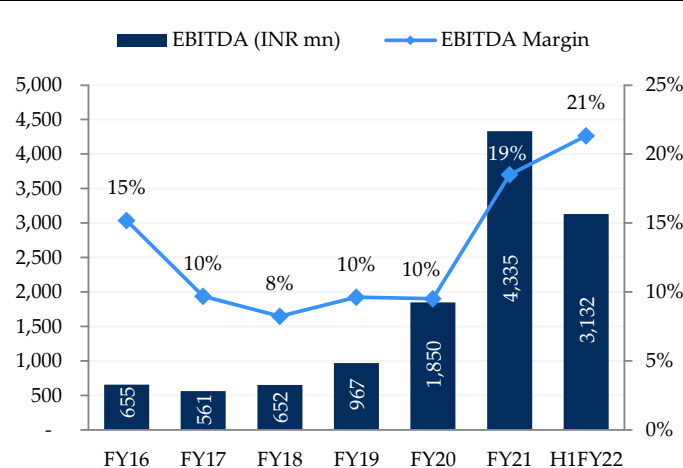
The company has largely maintained its EBITDA margin performance in line with the industry norm of 8-10%, although the FY21 EBITDA margin was higher at 18.5%, owing to platform business (higher-margin) and a significant reduction in other expenses. Even in H1FY22, the company was able to maintain its solid margin profile (21.3%). 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 abundant cash flow.

Tanla exhibits strong revenue CAGR of 40%, led by Karix acquisition and DLT platform launch



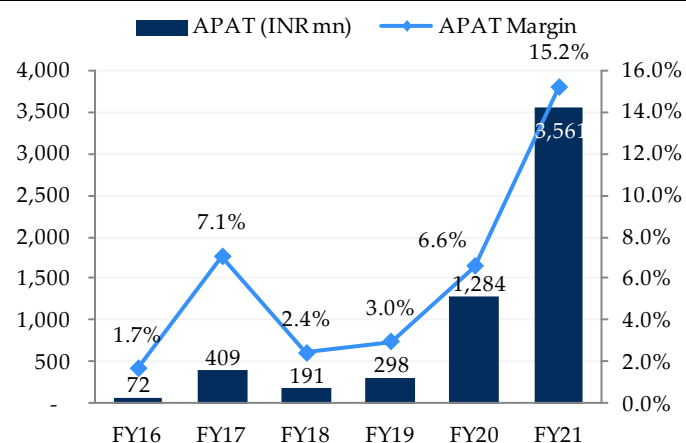
Source: Company, HSIE Research

EBITDA margin expands strongly in FY21, led by growth in enterprise and platform business



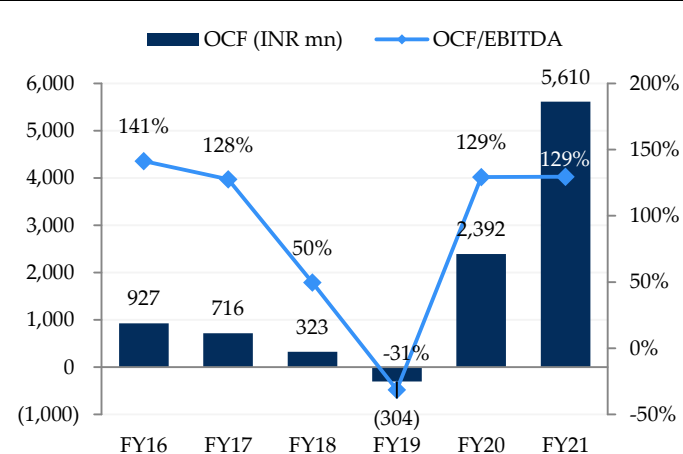
Source: Company, HSIE Research

Tanla witnesses significant improvement in profitability in last two years



Source: Company, HSIE Research, FY20 PAT is adjusted for accelerated depreciation of INR 2,908mn

Strong profitability and better working capital management leads to healthy cash generation



Source: Company, HSIE Research

Rewarding shareholders; strong cash reserves

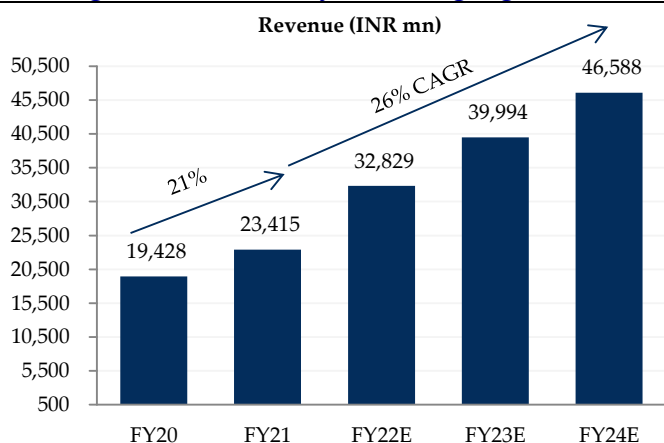
The company has rewarded its shareholders with a dividend and two share buybacks as a result of its high free cash flow conversion. In FY21, it paid INR 1.61bn in dividends and buybacks, accounting for 45% of net profit. It has conducted two buybacks: (1) a buyback of INR 1.54bn via a tender offer for 19mn shares (representing 12.5% of equity), announced in April 2020, at a price of INR 81/share, implying a premium of 55% to the market price at the time of announcement; however, the actual shares tendered were 87.8% of total shares offered for buyback; (2) a buyback of INR 650mn (8% of net cash) via open market transactions for a weighted average price of INR 920.8, which the company announced in July 2021.

As of September 30, 2021, the company had a healthy cash balance of INR 8.5bn, with about half of it in bank fixed deposits.

Tanla Platforms growth to outstrip that of the industry

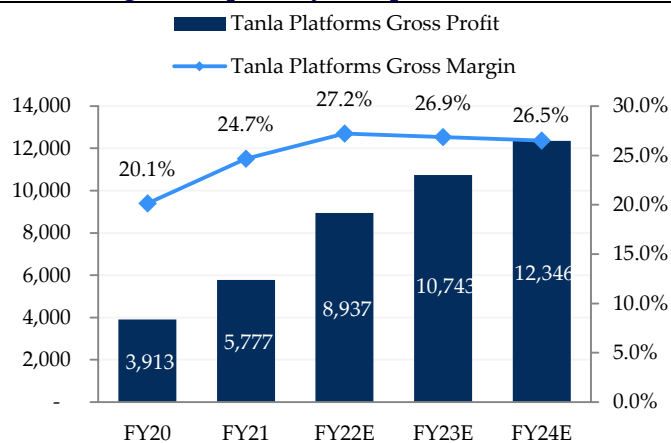
We expect the enterprise and platform businesses to drive revenue growth for the company as a whole, clocking a 26% CAGR between FY21 and FY24E. We also forecast the company's gross/EBITDA/PAT margins to increase 183/185/36bps from 24.7/18.5/15.2% in FY21 to 26.5/20.4/15.6% in FY24E.

Tanla's growth bolstered by increasing digitisation



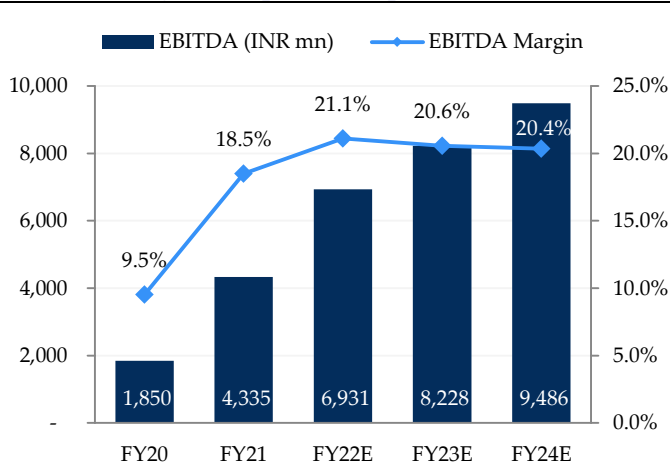
Source: Company, HSIE Research

Gross margin to expand by 183bps over FY21-24E



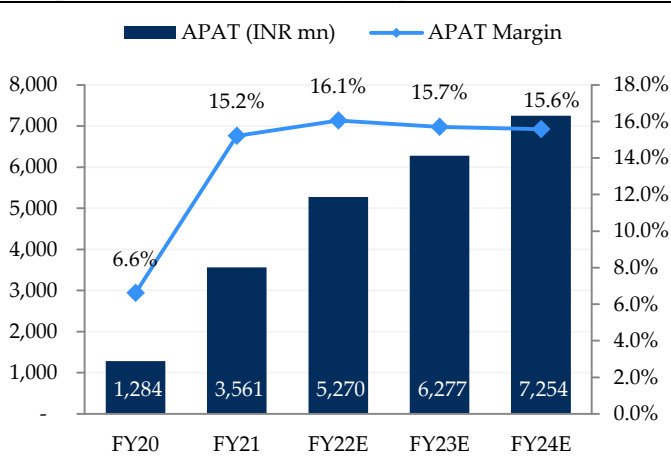
Source: Company, HSIE Research

EBITDA margin to expand 185bps over FY21-24E



Source: Company, HSIE Research

Company to maintain strong net profitability



Source: Company, HSIE Research, FY20 PAT adjusted for accelerated depreciation of INR 2,908mn

Company description

Tanla Platforms is one of the leading cloud communications providers in India, offering enterprises A2P messaging and CPaaS solutions to connect with their customers. It offers a footprint across the whole CPaaS ecosystem, allowing enterprises to harness capabilities across various touchpoints and produce value.

The company’s capabilities include: (1) Using Gamooga, an AI-driven marketing automation tool, for data-driven insights; (2) Karix, whose solutions are deployed in form of an API, integrated with enterprise applications to embed communication features like SMS, voice, chat, email, and push notifications; (3) Trubloq, a blockchain-based distributed ledger technology (DLT) platform for filtering unsolicited messages and preventing fraud; and (4) SMSCs (SMS Centers) implemented in key telco networks that route messages to end mobile customers. Tanla has 800bn interactions in a year, which has helped it become a leading communications provider.

Key statistics

Parameter	Value
Interactions per year (bn)	800
Revenue market share	42%
DLT Volume market share	63%
NLD Volume market share	41%
ILD Volume market share	75%
Customers across segments (Nos)	1,300
Karix market share	30%

Source: Company, HSIE Research

A show of Tanla’s capabilities across the entire CPaaS ecosystem with example of a food delivery application



Anand is browsing a food delivery app to order lunch. **Gamooga AI driven data platform** recommends a choice of restaurants based on his history and liking, and triggers a communication workflow

Pay per use



Karix omni channel communication API is integrated with the app to deliver order notification in a preferred mode of communication based on Anand’s availability and two-way conversation for any support

Pay per use



To ensure Anand receives what he is supposed to receive, **Trubloq** checks for regulatory compliance by scrubbing the message submitted by food delivery app to curb spam and fraud

Revenue share



Anand is happy and is assured with on-time delivery of SMS confirming the order through **Tanla’s A2P SMSC** which is deployed in the core Telco network

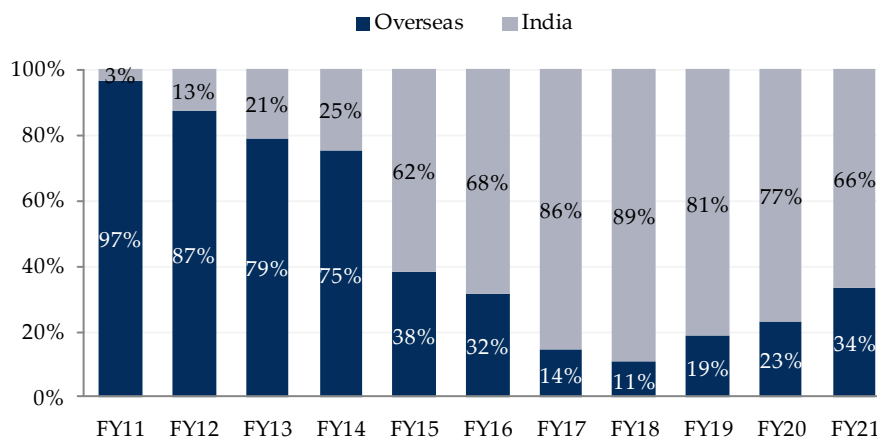
Source: Company, HSIE Research

Tanla has two sources of revenue: (1) platform revenues from telecom operators in the form of revenue sharing as a result of Tanla's platforms (SMSC) being deployed with telcos for message routing to end users and (2) enterprise revenues from enterprises for communication solutions.

Tanla provides messaging solutions to enterprises across a variety of industries, including BFSI, e-commerce, logistics, and healthcare, as well as works with the Indian government on projects such as the Cowin vaccination and Aadhar-related communications.

The company has grown from a pure A2P messaging solution supplier to a full-fledged CPaaS player in the last 10-15 years, bolstered by the acquisition of Karix in April 2019. Tanla underwent a series of restructuring activities during this time, including adding value added services (VAS), phasing out de-growing businesses due to changing industry dynamics and regulatory landscape, adding capabilities in the form of a blockchain-based DLT network as mandated by the Indian telecom regulator, TRAI, and acquiring Karix (a Tanla customer), a leader in the CPaaS vertical with a strong client base. The geographical contribution to revenue shifted as a result of the various initiatives, with India contributing 66% of total income in FY21 compared to 3% in FY11.

Geographical shift in Tanla’s revenues



Source: Company, HSIE Research

Board composition and key management personnel

Board of Directors	Designation	Previous / Current Experience
Mr. D. Uday Kumar Reddy	Founder, Chairman and CEO	Founder of Tanla and leading the company since its inception in 1999
Aravind Viswanathan	CFO	Previously worked as SVP and CFO (iDEAS Global Business Line) at Wipro
Dr. A.G.Ravindranath Reddy	Non-Executive Director	Corporate consultant for the past 30 years specialising in corporate laws, economic laws, foreign exchange laws, and corporate restructuring
Ms. Amrita Gangotra	Independent Director	Managing Director at ITyukt Digital Solutions with over 32 years of experience. Previously worked with Airtel, Vodafone, Nestle, HCL Comnet , Allen Bradley
Mr. Deepak Goyal	Executive Director, Chief Business Officer	Joined Tanla in July, 2020 and Karix (known as Air2Web) in 2006 as VP Sales. Has over 25 years of experience and previously worked with Velti, Tulip Telecom , Free Markets Inc., Wyse Technology
Mr. Rahul Khanna	Independent Director	CIO at Habrok Capital Management LLP with over 19 years of experience. Previously worked with Fidelity International, Aditya Birla Sunlife Asset Management
Mr. Rohit Bhasin	Independent Director	37 years of experience in general management and finance and led organisations such as Standard Chartered Bank, AIG Inc., PWC
Mr. Sanjay Baweja	Independent Director	A turnaround and M&A strategist with over three decades of experience. Previously worked with Emaar MGF Land Limited, Bharti Airtel, Xerox Modicorp, Ballarpur Industries, and was CFO - Suzlon Energy, CFO - Flipkart, CFO - Tata Communications
Mr. Sanjay Kapoor	Non-Executive Director	Previously worked with Xerox and is ex-Chairman of Micromax and ex-CEO of Bharti Airtel (India and South Asia)

Source: Company, HSIE Research

Revenue and gross profit assumptions

Revenue Segment (INR mn)	FY20	FY21	FY22E	FY23E	FY24E	CAGR
Platform revenue	790	1,452	2,537	3,182	4,007	40.3%
Growth %		83.8%	74.7%	25.4%	25.9%	
% of revenue	4.1%	6.2%	7.7%	8.0%	8.6%	
Enterprise revenue	18,639	21,964	30,291	36,813	42,581	24.7%
Growth %	0	17.8%	37.9%	21.5%	15.7%	
% of revenue	95.9%	93.8%	92.3%	92.0%	91.4%	
Total Revenue	19,429	23,416	32,828	39,994	46,588	25.8%
Growth %	93.5%	20.5%	40.2%	21.8%	16.5%	
Gross Profit	FY20	FY21	FY22E	FY23E	FY24E	CAGR
Platform GP	766	1,377	2,355	2,895	3,626	38.1%
Gross Margin %	97.0%	94.8%	92.8%	91.0%	90.5%	
% of Total GP	19.6%	23.8%	26.3%	26.9%	29.4%	
Enterprise GP	3,147	4,400	6,582	7,848	8,719	25.6%
Gross Margin %	16.9%	20.0%	21.7%	21.3%	20.5%	
% of Total GP	80%	76%	74%	73%	71%	
Tanla Platforms GP	3,913	5,777	8,936	10,743	12,346	28.8%
Gross Margin %	20.1%	24.7%	27.2%	26.9%	26.5%	

Source: Company, HSIE Research

Quarterly performance

Tanla Platforms reported a robust Q2FY22, with revenue of INR 8.4bn, up +34.4/44.3% QoQ/YoY, thanks to higher messaging volumes from existing customers, the addition of 87 new customers, the emergence of new use cases, and higher ILD rates (which contributed 50% of the growth in Q2). BFSI led the way in terms of growth, with substantial traction in the e-commerce, retail, and government verticals.

Revenue from >INR 10 million clients increased by 46.4% YoY to INR 8.2bn (97.3% of revenue), while average revenue per >INR 10 million client increased by 13.8% to INR 47mn. The top 20 customers' revenue concentration fell by 473bps, showing that other customers' participation is gradually increasing. Strong growth combined with embedded non-linearity in operating expenses resulted in a 432/451bps increase in gross/EBITDA margin YoY. PAT grew by 67.1% YoY to INR 1.4bn, with a strong cash conversion of 132%.

The company generated INR 2.2bn in free cash flows and has INR 8.5bn in cash reserves. To drive the next stages of high growth, the company plans to: (1) continue making significant investments in Wisely, in line with its one platform strategy; (2) build capabilities on existing platforms for new use cases; (3) add more enterprises to its client base; (4) scout for bolt-on acquisition opportunities to enhance communication capabilities; and (5) expand globally.

- Q2FY22 business highlights:** Enterprise revenue increased 36.5/41.5% QoQ/YoY to INR 7.8bn, thanks to higher messaging volumes from enterprises and higher ILD rates, while gross margin increased 342bps to 22.1%. In H1FY22, there were 160 new clients added, compared to 153 in H1FY21. Platform revenue increased 12.6/90.2% QoQ/YoY to INR 0.6bn, owing to an increase in the volume of transactions processed by the DLT platform Trubloq, but gross margin contracted 280bps to 92.6%. However, when direct costs such as sales, marketing, and personnel are factored in, the gross margin for platform businesses is 70-75%.

- Key takeaways:** (1) The Wisely platform, which is currently in beta testing phase, has been updated with new features. The company has closed two additional substantial partnerships for this platform, which is expected to be announced in Q3FY22; (2) revenue from the WhatsApp channel doubled QoQ, and email has been expanding well; (3) NLD volumes grew faster than ILD volumes, but ILD grew faster in value terms due to price hikes; (4) contracts with enterprises typically last three years, and most of them are auto-renewable.

Quarterly financial snapshot (INR mn) - consolidated

YE March (INR mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)
Total Revenue	8,416	5,832	44.3	6,264	34.4
Cost of services	6,114	4,489	36.2	4,529	35.0
Gross Profit	2,302	1,343	71.4	1,735	32.7
Employee benefits expense	331	228	44.8	253	30.6
Connectivity and related expenses	35	28	25.0	28	27.6
Other expenses	150	112	34.3	109	37.8
EBITDA	1,787	975	83.2	1,345	32.8
Depreciation	104	99	5.0	91	13.8
EBIT	1,683	876	92.1	1,254	34.2
Interest Cost	6	1	547.3	2	255.5
Other Income (including E/O)	31	47	(33.7)	43	(26.9)
PBT before Share of Associates	1,708	923	85.2	1,295	31.9
Shares of Associates	0	0	NM	0	
PBT	1,708	923	85.2	1,295	31.9
Tax expense	347	108	221.2	250	38.5
RPAT	1,362	815	67.1	1,045	30.3
E/o items	0	0		0	
APAT	1,362	815	67.1	1,045	30.3

Margin Analysis	Q2FY22	Q2FY21	YoY bps	Q1FY22	QoQ bps
Cost of services % of sales	72.6	77.0	(432)	72.3	34
Employee Cost % of sales	3.9	3.9	1	4.0	(11)
Connectivity and other exp % of sale	0.4	0.5	(6)	0.4	(2)
Other Expenses % of sales	1.8	1.9	(13)	1.7	4
Gross Margin (%)	27.4	23.0	432	27.7	(34)
EBITDA Margin (%)	21.2	16.7	451	21.5	(25)
EBIT Margin (%)	20.0	15.0	497	20.0	(2)
Tax Rate (%)	20.3	11.7	859	19.3	NM
APAT Margin (%)	16.2	14.0	221	16.7	(50)

Source: Company, HSIE Research

Business Revenues (INR mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)
Enterprise Business Revenue	7,792	5,505	41.5	5,709	36.5
Platform Business Revenue	624	328	90.2	554	12.6
Total Revenue	8,416	5,833	44.3	6,263	34.4
Enterprise Business Gross Profit	1,724	1,030	67.4	1,201	43.5
Platform Business Gross Profit	578	313	84.7	533	8.4
Total Gross Profit	2,302	1,343	71.4	1,734	32.8
Enterprise Gross Margin (%)	22.1	18.7	341	21.0	109
Platform Gross Margin (%)	92.6	95.4	(280)	96.2	(358)

Source: Company, HSIE Research

Valuation and recommendation

The globally listed CPaaS players are trading at a median P/E and P/S of ~60/3.2x FY24E. Players like Twilio and Ringcentral are the market leaders and trade at a FY24 P/S of ~11.5/9.8x (~3x of median). The global CPaaS industry is expected to grow at a 27% CAGR over FY21-24E and we expect Tanla to clock ~26% revenue CAGR over the same period. In terms of valuation, Tanla is trading at a significant discount to the global median valuations (-57% discount to global FY24E P/E).

Increased message volumes, new client additions, innovative use cases, and a strong market leadership position are expected to drive Tanla's revenue CAGR of 26% over FY21-24E, in line with the industry. The EBITDA margin will increase to 20.4% in FY24E, from 18.5% in FY21, indicating non-linearity as a result of the multi-year strong growth story. Over FY21-24E, we project revenue/EBITDA/EPS CAGRs of +26/30/27%. We initiate coverage on Tanla Platforms with a TP of INR 1,600 based on 30x FY24E EPS.

Over multiple timeframes, Tanla Platforms has outperformed the NIFTY and NIFTY IT Index. In 1/3/5 year timeframe, the stock returned +220/4,305/3,518%, compared to +71/153/280% for Nifty IT.

Global valuation multiples

Company Name	Country	Mcap (USD bn)	EV/EBITDA (x)				P/E (x)				P/S (x)				ROE (%)				\$ Rev CAGR% FY21-24E	EPS CAGR% FY21-24E
			FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E		
Twilio	United States	54	NM	201.0	169.6	109.5	NM	NM	NM	875.0	30.8	19.6	14.9	11.5	(7.7)	(0.5)	0.1	0.9	39.0	NM
Ringcentral	United States	24	NM	112.6	95.4	69.3	NM	200.8	160.9	116.7	20.6	15.5	12.4	9.8	(15.7)	69.7	69.1	68.8	28.0	NM
Sinch	Sweden	10	112.8	83.4	24.1	18.2	169.1	78.5	48.0	38.2	12.0	5.8	3.7	3.3	9.4	2.6	5.6	7.4	53.5	64.2
Five9	United States	11	463.9	107.1	97.8	70.4	NM	147.4	144.7	102.6	25.3	18.3	14.7	11.9	(17.7)	33.3	38.2	44.2	28.8	NM
Vonage Holdings	United States	4	48.0	24.3	22.8	18.9	NM	99.3	87.7	59.9	3.5	3.1	2.8	2.4	(6.2)	7.7	10.9	12.1	12.7	NM
Verint Systems	United States	3	15.2	15.8	14.5	12.9	NM	20.9	19.2	16.9	2.5	3.5	3.4	3.1	(1.2)	20.9	12.8	13.7	(7.3)	NM
8X8	United States	3	NM	141.3	70.5	38.7	NM	410.4	125.6	62.1	4.9	4.3	3.6	3.1	(94.3)	3.0	(48.5)	23.5	17.0	NM
Tanla Platforms	India	3	42.4	25.9	21.2	17.7	53.2	35.9	30.2	26.1	8.1	5.8	4.7	4.1	44.7	47.6	38.6	31.8	25.9	26.8
Bandwidth	United States	2	241.8	43.4	40.3	27.7	NM	104.5	106.8	59.9	5.7	4.1	3.5	3.0	(12.6)	4.7	2.9	5.9	24.6	NM
Route Mobile	India	2	62.6	47.9	34.4	26.0	78.9	63.5	45.9	35.3	8.0	6.5	4.9	4.0	28.9	21.1	22.6	19.6	26.0	30.8
Link Mobility Group Holding	Norway	1	33.9	30.7	13.6	10.2	NM	69.2	18.1	12.2	1.9	1.4	1.1	1.0	(9.9)	(3.4)	1.8	5.0	24.9	NM
Kaleyra	Italy	1	NM	41.9	18.7	17.1	NM	NM	124.0	NM	3.7	2.0	1.3	1.1	NA	(11.7)	(12.3)	(7.7)	50.4	NM
CPaaS Median			48.0	43.4	24.1	22.5	64.6	78.5	67.8	59.9	5.7	4.3	3.6	3.2	(7.0)	7.7	10.9	12.9	26.0	30.8

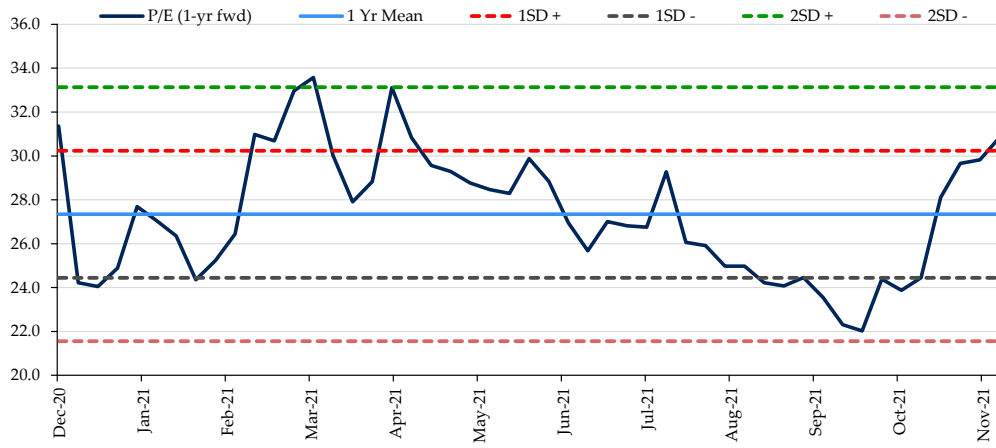
Source: Company, HSIE Research, Tanla Platforms based on HSIE estimates, assumed INR 74 per USD

India internet valuations

Company	Mcap (INR bn)	CMP (INR)	TP (INR)	RECO	EV/EBITDA (x)				P/S (x)				ROE (%)				\$ Rev CAGR% FY21-24E	EPS CAGR% FY21-24E
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E		
Indiamart *^	239	7,763	9,500	BUY	65.7	60.9	50.4	39.7	35.6	31.4	25.6	21.0	50.1	46.8	37.8	32.8	19.2	14.3
Just Dial	64	767	NA	NR	19.6	44.1	16.5	15.9	9.5	9.4	7.6	7.0	16.8	5.4	8.1	9.2	10.5	3.2
Affle India	158	1,189	NA	NR	119.3	81.1	53.3	36.6	30.7	17.6	12.7	9.0	45.9	22.2	22.7	33.9	50.4	35.0
Matrimony	23	987	NA	NR	30.0	22.1	19.0	16.4	6.0	5.2	4.6	4.1	16.6	19.1	19.7	20.1	13.2	23.7
Nazara	70	2,309	NA	NR	166.6	72.6	48.4	31.3	15.5	11.2	7.7	5.7	1.6	4.5	6.8	10.1	39.2	118.3
IRCTC	737	921	NA	NR	376.4	85.6	55.0	51.1	94.1	38.1	22.8	20.4	13.7	38.1	43.8	37.3	66.6	78.6
Tanla Platforms*	189	1,392	1,600	BUY	42.4	25.9	21.2	17.7	8.1	5.8	4.7	4.1	44.7	47.6	38.6	31.8	25.8	26.8
Route Mobile	113	1,959	NA	NR	62.8	47.3	34.0	25.8	8.1	6.4	4.8	4.0	28.9	21.1	22.6	19.6	26.5	31.3
Zomato	1241	158	NA	NR	NM	NM	NM	NM	62.2	29.5	20.5	14.4	(19.0)	(9.3)	(4.1)	(0.9)	62.8	NM
Cartrade Tech	51	1,116	NA	NR	109.7	NM	NM	NM	20.5	NM	NM	NM	6.4	NA	NA	NA	NM	NM
Easy Trip	57	521	NA	NR	127.1	NM	NM	NM	53.0	NM	NM	NM	46.2	NA	NA	NA	NM	NM
Info Edge	841	6,533	NA	NR	302.0	181.7	132.1	103.5	76.6	58.3	46.4	38.1	7.7	8.4	9.1	9.0	26.2	38.8
Median					129.0	68.9	47.7	37.4	35.0	21.3	15.7	12.8	21.6	20.4	20.5	20.3	34.0	41.1

Source: Bloomberg, HSIE Research, *Indiamart and Tanla are HSIE estimates, ^: ROE for Indiamart is excluding QIP money

Tanla P/E (1-yr fwd) trend



Source: Bloomberg, HSIE Research

Financials

Consolidated Income Statement

YE March (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	5,793	7,916	10,040	19,428	23,415	32,829	39,994	46,588
<i>Growth (%)</i>	34.2	36.6	26.8	93.5	20.5	40.2	21.8	16.5
Cost of services	4,945	6,955	8,607	15,517	17,638	23,892	29,251	34,242
Gross Profit	848	961	1,433	3,911	5,777	8,937	10,743	12,346
Employee Expenses	144	142	229	1,089	861	1,255	1,515	1,695
Connectivity and related expenses	20	38	27	82	117	153	200	233
Other operating Expenses	122	130	209	890	464	598	800	932
EBITDA	561	652	967	1,850	4,335	6,931	8,228	9,486
<i>EBITDA Margin (%)</i>	9.7	8.2	9.6	9.5	18.5	21.1	20.6	20.4
<i>EBITDA Growth (%)</i>	(14.4)	16.2	48.4	91.3	134.3	59.9	18.7	15.3
Depreciation	196	573	732	3,778	396	474	515	563
EBIT	365	79	235	(1,928)	3,939	6,457	7,713	8,923
Other Income (Including EO Items)	25	48	106	(364)	219	141	147	160
Interest	0	0	3	64	11	15	15	16
PBT	390	126	338	(2,356)	4,148	6,583	7,846	9,068
Tax (Incl Deferred)	(19)	(65)	37	(261)	586	1,313	1,569	1,814
Minority Interest	0	0	0	0	0	0	0	0
Share of profit / (Loss) of associate	0	0	(3)	(17)	0	0	0	0
RPAT	409	191	298	(2,112)	3,561	5,270	6,277	7,254
EO (Loss) / Profit	0	0	0	(3,395)	0	0	0	0
APAT	409	191	298	1,284	3,561	5,270	6,277	7,254
<i>APAT Growth (%)</i>	465.0	(53.3)	56.1	330.5	177.4	48.0	19.1	15.6
Adjusted EPS (Rs)	3.0	1.4	2.2	9.4	26.2	38.7	46.1	53.3
<i>EPS Growth (%)</i>	465.0	(53.3)	56.1	330.5	177.4	48.0	19.1	15.6

Consolidated Balance Sheet

YE March (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS								
Share Capital – Equity	107	112	116	146	136	135	135	135
Reserves	6,456	6,764	7,140	6,871	8,795	13,090	19,187	26,235
Total Shareholders Funds	6,563	6,876	7,255	7,017	8,931	13,226	19,323	26,370
Minority Interest	0	0	0	0	0	0	0	0
Long Term Debt	0	0	469	43	35	35	35	35
Short Term Debt	0	0	130	10	9	9	9	9
Total Debt	0	0	599	54	43	43	43	43
Net Deferred Taxes (Net)	(69)	(145)	(168)	(567)	(428)	(428)	(428)	(428)
Long Term Provisions & Others	3	2	3	110	87	121	148	172
TOTAL SOURCES OF FUNDS	6,497	6,733	7,689	6,613	8,633	12,962	19,086	26,158
APPLICATION OF FUNDS								
Net Block	4,619	4,520	3,497	1,228	1,223	1,274	1,400	1,536
CWIP	245	0	58	133	64	64	64	64
Goodwill	5	0	0	1,346	1,346	1,346	1,346	1,346
Investments	39	0	0	0	0	0	0	0
LT Loans & Advances & Others	178	110	204	841	370	593	562	655
Total Non-current Assets	5,086	4,630	3,758	3,548	3,002	3,276	3,371	3,600
Inventories	221	0	0	0	0	0	0	0
Debtors	1,136	2,055	3,078	3,258	3,731	5,397	6,794	8,041
Other Current Assets	64	855	1,759	2,511	3,122	4,393	5,352	6,234
Cash & Equivalents	1,333	1,654	2,305	2,006	5,841	9,630	14,899	21,477
Total Current Assets	2,755	4,564	7,142	7,774	12,695	19,420	27,045	35,752
Creditors	1,234	2,375	2,023	2,806	5,062	7,016	8,218	9,573
Other Current Liabilities & Provns	110	86	1,188	1,903	2,003	2,719	3,113	3,622
Total Current Liabilities	1,344	2,461	3,212	4,709	7,065	9,734	11,331	13,194
Net Current Assets	1,411	2,103	3,930	3,066	5,630	9,686	15,714	22,558
TOTAL APPLICATION OF FUNDS	6,497	6,733	7,689	6,613	8,633	12,962	19,086	26,158

Source: Company, HSIE Research

Consolidated Cash Flow

YE March (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT and exceptional items	390	126	335	(1,868)	4,148	6,583	7,846	9,068
Non-operating & EO items	(0)	(23)	(46)	443	(162)	(141)	(147)	(160)
Interest expenses	0	0	0	0	0	15	15	16
Depreciation	196	573	732	3,778	396	474	515	563
Working Capital Change	130	(354)	(1,325)	485	1,790	(455)	(703)	(334)
Tax Paid	0	0	0	(447)	(561)	(1,313)	(1,569)	(1,814)
OPERATING CASH FLOW (a)	716	323	(304)	2,392	5,610	5,164	5,956	7,338
Capex	(71)	(95)	121	(2,112)	(317)	(525)	(640)	(699)
Free cash flow (FCF)	645	228	(183)	280	5,293	4,638	5,316	6,639
Investments	0	0	(20)	0	0	0	0	0
Non-operating Income	25	43	100	111	219	141	147	160
INVESTING CASH FLOW (b)	(46)	(52)	201	(2,001)	(98)	(384)	(493)	(539)
Debt Issuance/(Repaid)	0	0	599	(622)	(54)	0	0	0
Interest Expenses	0	0	0	(5)	(11)	(15)	(15)	(16)
FCFE	645	228	416	(346)	5,229	4,624	5,301	6,624
Share Capital Issuance/buyback	154	84	179	14	(1,476)	(819)	0	0
Dividend	0	(33)	(41)	(61)	(136)	(156)	(180)	(207)
FINANCING CASH FLOW (c)	154	50	737	(673)	(1,677)	(990)	(195)	(222)
NET CASH FLOW (a+b+c)	824	321	633	(282)	3,836	3,789	5,269	6,577
EO Items, Others	(0)	0	17	(17)	0	0	0	0
Closing Cash & Equivalents	1,333	1,654	2,305	2,006	5,841	9,630	14,899	21,477

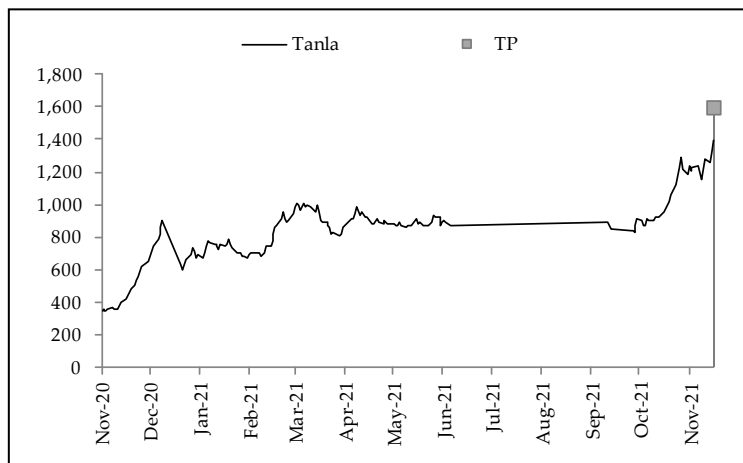
Source: Company, HSIE Research

Key Ratios

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY (%)								
GPM	14.6	12.1	14.3	20.1	24.7	27.2	26.9	26.5
EBITDA Margin	9.7	8.2	9.6	9.5	18.5	21.1	20.6	20.4
APAT Margin	7.1	2.4	3.0	6.6	15.2	16.1	15.7	15.6
RoE	6.2	2.8	4.2	18.0	44.7	47.6	38.6	31.8
RoIC (or Core RoCE)*	5.2	1.2	4.0	15.7	91.4	168.8	164.2	161.0
RoCE*	6.3	2.9	4.2	18.7	46.8	48.9	39.2	32.1
EFFICIENCY								
Tax Rate (%)	NM	NM	10.8%	NM	14.1%	19.9%	20.0%	20.0%
Fixed Asset Turnover (x)	1.2	1.5	2.0	3.0	3.5	4.6	5.2	5.5
Inventory (days)	14	0	0	0	0	0	0	0
Debtors (days)	72	95	112	61	58	60	62	63
Other Current Assets (days)	4	39	64	47	49	49	49	49
Payables (days)	78	110	74	53	79	78	75	75
Other Current Liab & Provns (days)	7	4	43	36	31	30	28	28
Cash Conversion Cycle (days)	(9)	21	59	20	(3)	1	7	8
Debt/EBITDA (x)	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Net D/E (x)	-0.2	-0.2	-0.2	-0.3	-0.6	-0.7	-0.8	-0.8
Interest Coverage (x)	NM	NM	73	NM	366	435	510	570
PER SHARE DATA (Rs)								
EPS	3.0	1.4	2.2	9.4	26.2	38.7	46.1	53.3
CEPS	4.4	5.6	7.6	37.2	29.1	42.2	49.9	57.5
Dividend	0.0	1.5	1.5	3.5	3.5	1.5	3.5	1.5
Book Value	48.2	50.5	53.3	51.6	65.6	97.2	142.0	193.8
VALUATION								
P/E (x)	462.9	991.1	635.0	147.5	53.2	35.9	30.2	26.1
P/BV (x)	28.9	27.5	26.1	27.0	21.2	14.3	9.8	7.2
EV/Revenue (x)	32.5	23.7	18.7	9.6	7.8	5.5	4.4	3.6
EV/EBITDA (x)	335.2	288.0	194.0	101.3	42.4	25.9	21.2	17.7
OCF/EV (%)	0.4	0.2	(0.2)	1.3	3.1	2.9	3.4	4.4
FCF/EV (%)	0.3	0.1	(0.1)	0.1	2.9	2.6	3.0	4.0
FCFE/Mkt Cap (%)	0.3	0.1	0.2	(0.2)	2.8	2.4	2.8	3.5
Dividend Yield (%)	0.0	0.1	0.1	0.3	0.3	0.1	0.3	0.1

Source: Company, HSIE Research,* ROIC and ROCE for FY17, FY18 and FY20 calculated assuming a tax rate of 20%

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
18-Nov-21	1,392	BUY	1,600

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com