

Tanla Platforms – BUY

07 December 2020

Initiating coverage



SMS: Scaling Messaging services with Security

We initiate coverage on Tanla, with BUY and Rs859 TP. Tanla is well placed to benefit from the rapidly growing (18-20% pa) A2P message volumes, driven by higher digitisation of the economy and rising online transactions. The Karix acquisition in 2019 has diversified Tanla's customer base and enhanced its capabilities. In addition to the healthy growth in legacy businesses, the recently deployed blockchain platform that handles 70% of India's A2P SMS and the impending launch of an enterprise grade platform would drive 24%/50% revenue/underlying EPS Cagr over FY20-23ii. Tanla is a net cash company with an asset light business model and a healthy FCF generation profile. The stock trades at 27x 1YF PER, quite attractive vs. listed peers in India and globally.

Karix acquisition has changed Tanla's business profile: Karix is the market leader in the Rs40-50bn Communications Platform as a Service (CPaaS) space, with est. 30% share. CPaaS players enable enterprises to send OTPs, transaction alerts and flight status info to end users. Unlike P2P messages that are declining globally due to prevalence of OTT players like WhatsApp, application-to-person (A2P) SMS has been growing at 18-20% pa. Regulators prefer SMS due to its ubiquity and higher security. Further, WhatsApp costs ~2.5x an SMS, for enterprises in India. Though this may change over time, it would add another channel of revenue for CPaaS providers (as also seen globally). Telcos directly sell platforms to enterprises, but our interactions with enterprises and telcos themselves suggest that CPaaS providers are more agile with quicker response time.

We expect Trubloq to add Rs5bn to revenue by FY23: Tanla capitalised on the TRAI regulation mandating blockchain technology, to filter unsolicited SMS from Sep 1, 2020. Trubloq, Tanla's blockchain platform, handles 70% of A2P messages in India. Trubloq is the only blockchain platform deployed by Vi and BSNL and is one of the two deployed by Bharti. Further upsides could come from overseas expansion.

We estimate 50% EPS Cagr over FY20-23ii: Long-standing relationship with telcos and enterprises is a positive. Increase in use cases, up-selling to existing clients, new client additions and overseas expansion would drive growth. More value-added services would aid margin. Our Rs859 TP is based on 26x 2YF PER. Tanla's significant exposure to Vi is a key risk. Tanla is increasing its presence in other telcos; but if Vi collapses, there could be some short-term pain.

Company update

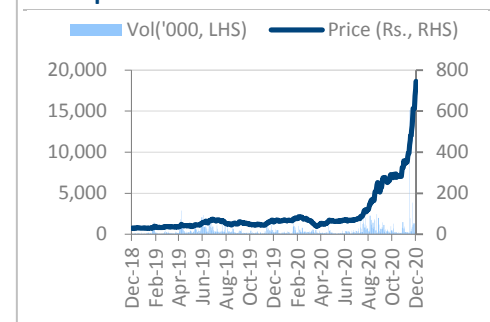
CMP	Rs745	Price performance (%)			
12-mth TP (Rs)	859 (15%)		1M	3M	1Y
Market cap (US\$m)	1,373	Absolute (Rs)	118.8	226.9	1157.0
Enterprise value(US\$m)	1,341	Absolute (US\$)	121.6	225.2	1123.0
Bloomberg	TANLA IN	Rel.to BSE Midcap	103.5	209.5	1140.3
Sector	Telecom	Cagr (%)		3 yrs	5 yrs
		EPS		38.9	109.1

Shareholding pattern (%)

Promoters	41.2
Pledged (as % of promoter share)	0.0
FII	9.4
DII	0.1

52Wk High/Low (Rs)	745/37
Shares o/s (m)	136
Daily volume (US\$ m)	4.0
Dividend yield FY22ii (%)	0.3
Free float (%)	58.8

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY19A	FY20A	FY21ii	FY22ii	FY23ii
Revenues (Rs m)	10,040	19,428	24,418	31,370	37,152
Ebitda margins (%)	9.6	9.5	17.0	17.2	17.4
Pre-exceptional PAT (Rs m)	298	1,489	3,416	3,861	4,701
Reported PAT (Rs m)	298	(2,112)	3,416	3,861	4,701
Pre-exceptional EPS (Rs)	2.6	10.2	25.1	28.4	34.6
Growth (%)	64.7	295.4	146.2	13.0	21.7
PER (x)	288.7	73.0	29.7	26.2	21.5
ROE (%)	4.2	20.9	43.2	36.5	32.7
Net debt/equity (x)	(0.2)	(0.3)	(0.5)	(0.6)	(0.7)
EV/Ebitda (x)	87.3	57.6	23.5	17.4	13.9
Price/book (x)	11.9	15.5	11.5	8.2	6.2
OCF/Ebitda (x)	(0.3)	1.3	0.9	0.7	0.7

Source: Company, IIFL Research. Priced as on 04 December 2020

Company background and description

Tanla Platforms is a leading communications provider, enabling businesses to communicate with their customers and stakeholders. Its cloud-based platforms provide ease of connectivity to enterprises and aggregators, with a plug-and-play approach.

Tanla's revenue flows from two main sources – platforms and enterprises. Its platforms are deployed with major telcos in India. It serves enterprise customers across verticals such as BFSI, social media, e-commerce, government sector and aggregators.

Tanla recently expanded the bouquet of services by acquiring Karix, the market leader in the Indian Communications Platform as a Service (CPaaS) space, and Gamooga, a marketing automation company, in FY20. It also recently launched Trubloq, a blockchain based solution to filter spam SMSs. Trubloq processes 70% of India's A2P SMS traffic.

A leading cloud communications provider today...

Cloud communication offers enterprises omni-channel solutions that combine voice, messaging and data over telco networks. The need for in-house software and hardware resources is replaced with internet-based servers and sites. The following are certain consumer facing use-cases for cloud communication services, used by enterprises across diverse sectors:

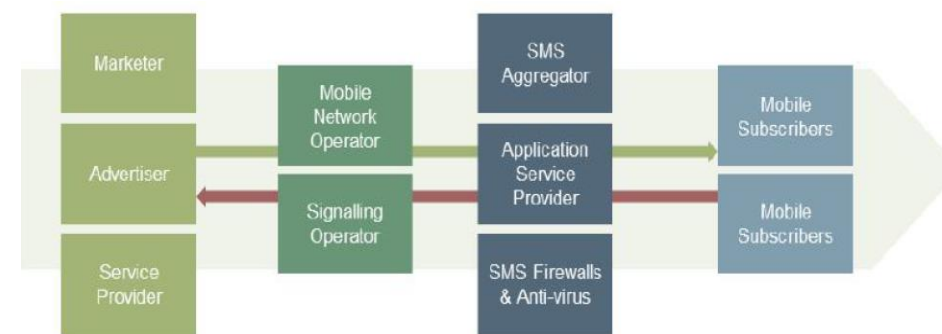
- One Time Passwords or OTPs received through messages while using net banking or online payment gateways for online transactions;
- Message updates related to change in flight schedule or boarding gate from airlines to passengers;
- Transaction confirmation and delivery update message for e-commerce transactions; and
- Soliciting missed calls for supporting a cause and polling for television shows.

While the first three are instances of Application-to-Person (A2P) communication, the fourth is an instance of P2A. There could also be instances of 2-way communication when a person requests for something and receives a reply from the application.

The channels of communication comprise SMS, MMS, e-mail, voice call, messaging services (such as WhatsApp), push notification on apps and Rich Communication Services (RCS). SMS is still the most common channel globally, as it is ubiquitous, does not require mobile broadband connectivity, is secure and can be tracked by regulators. SMS accounts for ~98% of Tanla's revenue.

The figure below is an illustration of the A2P messaging value chain.

Figure 1: A2P messaging value chain



Source: IIFL Research

Tanla's business is similar to a wholesale one, where it aggregates SMS capacity from telcos and sells it on to CPaaS vendors. CPaaS vendors like Karix serve enterprises by reselling SMS capacity. Tanla has 7-8 customers, which include all large CPaaS vendors (Karix, Route, ACL Mobile, ValueFirst, etc.). Tanla's acquisition of Karix paved the way for an end-to-end solution, from the telco to the enterprise, and consequently relationships with over 2,000 enterprises.

Tanla also offers SMS firewall solutions that provide protection against malicious attacks, unsolicited SMS and fraud. Firewalls are capable of

identifying (and blocking) grey route traffic, thereby increasing the monetisation of legitimate traffic.

...after multiple business model changes over the years

Tanla was founded by Uday Kumar Reddy in 1999. Its business model has seen significant changes over the years, considering the fast-evolving telecom landscape globally and in India. Ten years ago, Tanla derived ~99% of its revenue from the overseas market, as it was a content aggregator in the UK and managed Nokia Maps licences. In FY20, it derived 77% of its revenue from India and is now a leading end-to-end communication platform services provider, with telcos on one end and enterprises on the other. We capture the key business model changes over the years in the box below.

History of Tanla

- Tanla started as an SMSC provider to Indian telcos in 1999. Over time, Tanla also started offering mobile VAS.
- In FY06, Tanla acquired Mobizar, an SMS aggregator in the UK that allowed Tanla to expand into a new geography, foray into content aggregation and capitalise on the then-expanding 3G services in the UK.
- In FY09, Tanla acquired Finland-based Openbit, which was a licence manager ensuring that only users who have paid for licenses can use those applications. Openbit also secured a deal for licence management for Nokia Maps.
- In FY10, Tanla saw 47% YoY revenue decline. The weak consumption spending in the UK market, Nokia's decision to make Nokia Maps free (as it bore the brunt of iOS and Android) and the relative lack of headway in the Indian market - all contributed towards the revenue decline. In FY10, Tanla derived 98.8% of its revenue from overseas.
- FY11 saw the revenue decline continuing (19%) for Tanla, considering regulatory headwinds in the UK and the first full-year impact of Nokia's decision to make its map offerings free.

(contd) History of Tanla

- FY12 saw 40% YoY revenue decline, considering the global challenges faced by Nokia and regulatory changes in the overseas market. Tanla increased its focus on solutions, to support handset OEMs (BlackBerry), telcos and enterprises for customer retention. This was for both, the India and overseas markets. Tanla also released a social gaming platform with unique features like P2P gaming, and tournament play.
- FY13 saw 34% YoY revenue decline, as the company de-emphasised legacy businesses while continuing to ramp-up social media and gaming verticals. The India business contributed 20% to the overall revenue.
- FY14 saw 11% YoY revenue decline. FY14 revenue was only 15% of the FY09 revenue. Tanla stepped up its efforts in the A2P messaging space. It also tied up with a payment gateway, as m-commerce transactions were on the rise.
- FY15 was an inflection year, as Tanla's revenue more than doubled YoY. Tanla became a leading player in the A2P space, with Vodafone India becoming a key client. RBI regulation on mandatory SMS alerts also helped. Further, Tanla set up an international SMS hub in Singapore which paved the way for handling ILD SMS traffic from FY16. India accounted for 60% of revenue.
- FY16 saw 80% revenue growth, driven by the A2P messaging market. Tanla also launched a cloud communication platform. Ebitda margin came down sharply, but WC intensity came off due to the change in the business model. A part of the dip in Ebitda margin was also due to higher investments.
- FY17 saw 34% revenue growth, as SMS volumes surged. Business mix change and exit from payment solutions in overseas market resulted in Ebitda margin falling to a single digit.
- This momentum continued, as FY18/19 saw 37%/27% revenue growth, with margins remaining largely stable.

In August 2018, Tanla announced the acquisition of Karix, which at that time was 100% owned by GSO (credit investment arm of Blackstone). The deal was a part cash-part stock transaction, after which Blackstone ended up owning 14.6% stake in Tanla. The acquisition closed in April 2019.

Tanla also acquired Gamooga, a marketing automation company, in October 2019 for Rs480m (Rs310m cash proceeds and the remaining n Tanla stock).

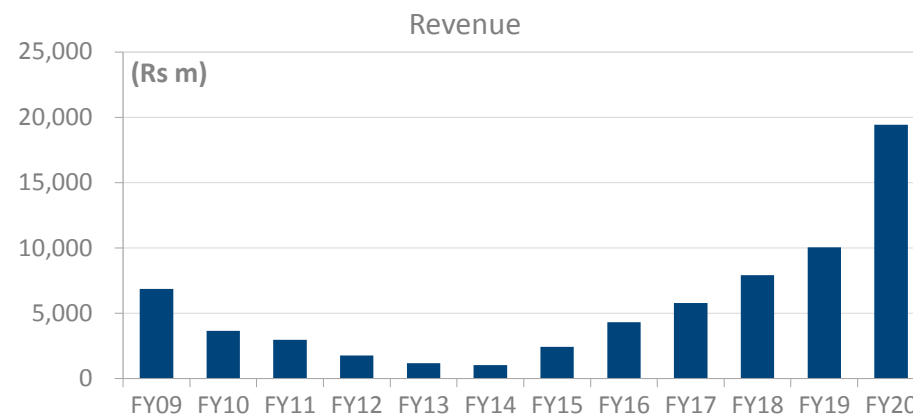
Figure 2: Details of the recent Karix and Gamooga acquisitions

	Karix	Gamooga
Nature of business	Enterprise CPaaS provider	Marketing automation provider
Acquisition closed in	Apr-19	Oct-19
Total EV (Rs bn)	3.40	
Equity value (Rs bn)	2.37	0.48
Cash consideration (Rs bn)	1.12	0.31
Stock consideration (Rs bn)	1.25	0.17
Tanla - share price (Rs)	56.79	80.00
Shares issued (m)	22.01	2.12
% shares in Tanla held by the target's promoter post the deal	14.6%	1.5%
FY20 revenue (Rs m)	9,820	125
FY20 PAT (Rs m)	306	3

Source: Company, IIFL Research

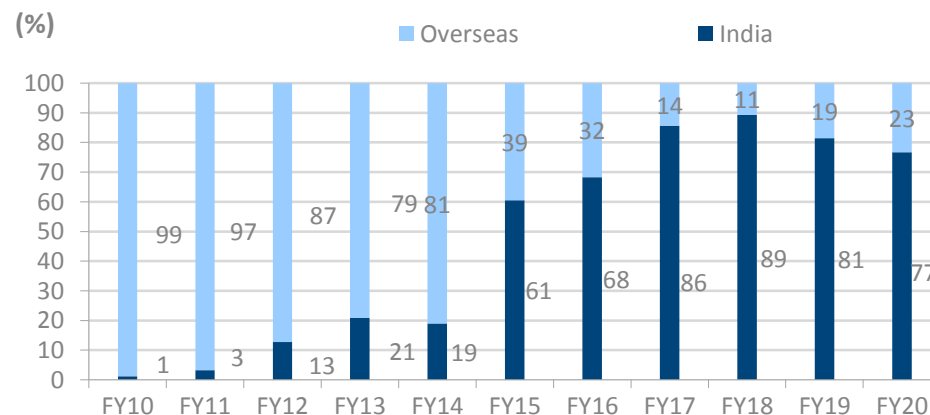
In October 2020, the company changed its name, from Tanla Solutions to Tanla Platforms, to reflect the change in business model, from being an aggregator towards being a platforms operator.

Figure 3: Tanla's business model underwent changes over the years; FY20 revenue growth was largely driven by the Karix acquisition



Source: Company, IIFL Research

Figure 4: Tanla's geography-wise revenue profile has almost inverted over 10 years

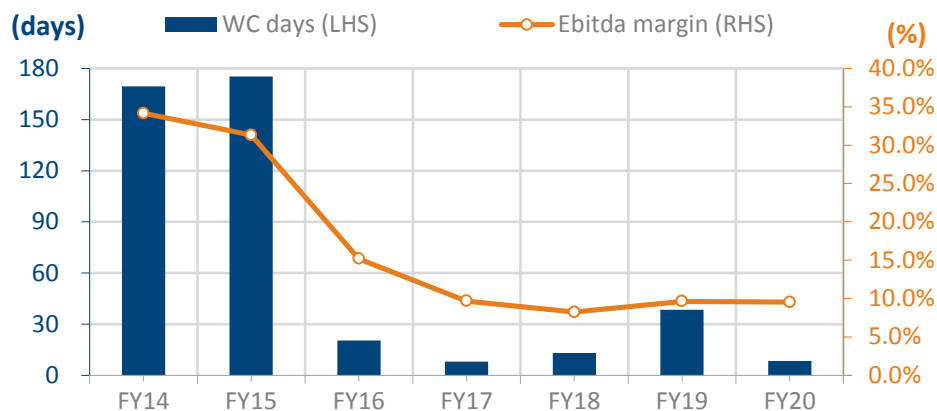


Source: Company, IIFL Research

The business mix change resulted in lower margins and lower WC intensity: In the VAS and content marketing business, collection cycle was longer and receivable days were quite elevated, at over 180, in the mid-2010s. In the A2P business (which has been the main focus

area since 2014), telcos offer a payment period of 45-75 days to Tanla and the company, in turn, offers 60-90 days to its customers.

Figure 5: During FY15-18, the change in the business model resulted in lower Ebitda margins, but improved WC intensity



Source: Company, IIFL Research

Net cash company; stock buyback, promoter stake increase in 2020

Tanla recently strengthened its management team by appointing a new CMO, CTO and CHRO in October 2020. All these leaders have over two decades of experience in large MNCs and software development firms that we believe will help Tanla in its growth ambitions.

Figure 6: Tanla strengthened its management team in Oct 2020

Name	Designation	Description
Balaji Kesavaraj	CMO	Over 2 decades of marketing and branding experience, with stints at Microsoft, Cisco, Ogilvy and Autodesk
Harish Arora	CTO	26 years' experience in software development, with stints at Dell, NetApp, SUN Microsystems and Wipro
Preetham Singh	CHRO	Over 2 decades of experience in talent management, with stints at Virtusa, Barclays Tech, Bosch and HSBC

Source: Company, IIFL Research

Tanla's Board has 8 directors, of which 4 are independent, 2 are non-executive non-independent and 2 are executive directors, including the Chairman and CEO. Tanla's statutory auditors are MSKA & Associates.

Figure 7: Composition of Board of Directors

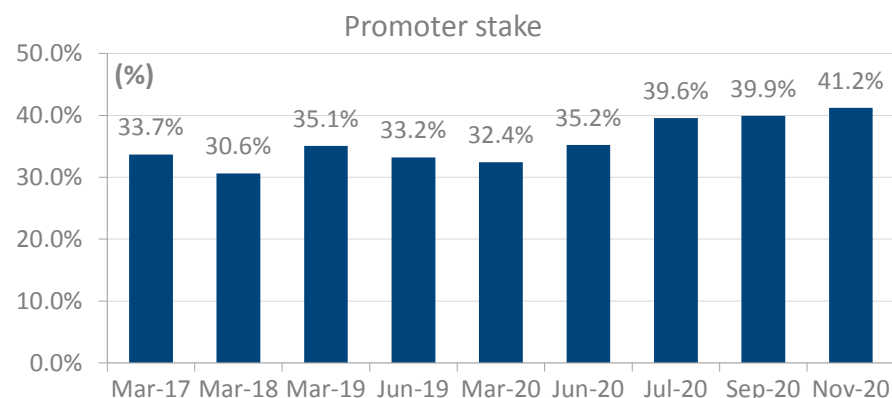
Name	Designation	Description
D Uday Kumar Reddy	Executive Chairman and CEO	The Founder of Tanla Platforms (erstwhile Tanla Solutions), he is the Chief Executive Officer of the Company. He has turned Tanla into a leading cloud communications company.
Deepak Goyal	Executive Director	He has an experience of more than 25 years in the IT and Telecom domains. He joined Karix Mobile (previously known as Air2Web and acquired by Tanla in 2019) as VP-Sales in 2006.
Sanjay Kapoor	Non-Exec Non-independent Director	Experience of over 33 years, including a stint as CEO, India and South Asia of Bharti Airtel.
Dr AG Ravindranath Reddy	Non-Exec Non-independent Director	Corporate Consultant for the past 29 years, specialising in corporate laws, economic laws, foreign exchange laws, corporate restructuring, etc.
Amrita Gangotra	Non-Exec Independent Director	Experience of over 31 years in the IT and Enterprise verticals in IBM, Vodafone and CWW.
Rohit Bhasin	Non-Exec Independent Director	Experience of 36 years in general management and finance roles in Standard Chartered Bank, AIG and PwC.
Sanjay Baweja	Non-Exec Independent Director	Turnaround and M&A strategist who has worked in Emaar MGF, Bharti Airtel, Tata Communications, Flipkart and Suzlon.
Rahul Khanna	Non-Exec Independent Director	CIO of Habrok Group, with 19 years' experience in the investment industry. Previous stints include positions at Fidelity and Aditya Birla Sun Life Asset Management.

Source: Company, IIFL Research

Promoter stake increase and stock buyback are positives: We view the increase in promoter stake, from 32.4% at end-March to the

current 41.2%, as a barometer of improved prospects for the company. There are no promoter share pledges.

Figure 8: Promoter stake has sharply increased since March 2020



Source: Company, IIFL Research

In April 2020, Tanla announced share buyback of up to 19m shares (12.49% of shares outstanding) through a tender offer (Rs81/share) for Rs1.54bn. In July 2020, the buyback offer was completed in which 16.7m shares (10.97% of shares outstanding) were tendered for Rs1.35bn.

Karix acquisition has strengthened Tanla's CPaaS presence

CPaaS providers enable enterprises to communicate and transact with their customer base, through multiple channels (SMS, voice, data, OTT, RCS, e-mail, etc.). CPaaS solution serves as a middleware on which the application layer of the enterprise runs. The CPaaS solution in turn runs on servers and liaises with the platform of an SMS aggregator like Tanla. Tanla's platform is connected to telco networks.

The box below has Karix's history since its inception in 2002. The company has seen multiple ownership changes over the years.

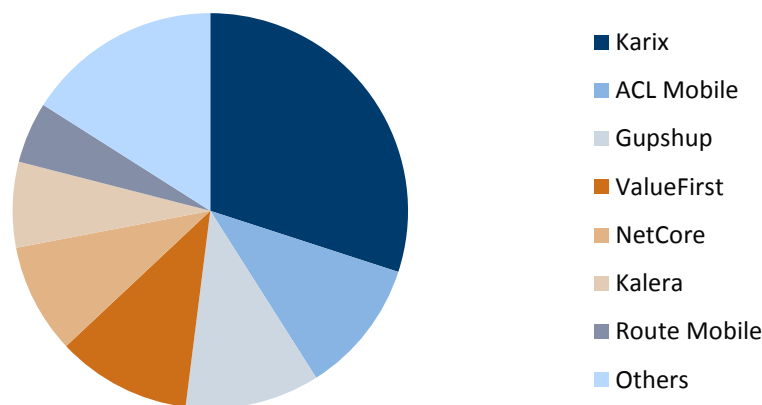
History of Karix

- Karix' history goes back to 2000, when two Indian-Americans founded a company called Air2Web in the US. In 2002, Air2Web expanded to India and signed ICICI Bank as its first customer.
- During 2006-10, Air2Web added more banking names (today all major banks, except BoB, are its customers) in India. It later added DTH, stock-broking, insurance, retail and social media companies to its roster.
- Carlyle invested in Air2Web in 2007 and brought in a new CEO. The India business picked up and the US business stabilised in 2010.
- In 2011, Velti, a US-based mobile advertising company, acquired Air2Web. In 2013, Velti filed for bankruptcy. Blackstone came in and acquired Air2Web's P2A business. Velti had a largely similar company in the UK which also came under the Air2Web umbrella as part of the Blackstone deal. This company now had operations in 3 countries (India, the US and UK) and a small office in the Netherlands.
- The company changed its name to mGage. mGage became the market leader in India in 2014. In 2015, it acquired Unicel Technologies (#4 player) for Rs1.8bn (a company with strong tech capability, but lacklustre marketing). In 2014, mGage also won the NIC contract from the Indian government. As a result, it started serving 800+ government departments and ministries, including the PMO and FinMin.
- Though Indian operations were flourishing, the UK and US operations remained loss-making. After the India management made representations, Blackstone decided to carve out the business into two – Vivial (US and UK) and Karix (India).
- Tanla was one of the suppliers to Karix. Tanla, Blackstone and Karix saw synergies in the business which paved the way for Tanla's acquisition of Karix.

Karix has est. 30% share in the Rs40-50bn CPaaS market

The Indian CPaaS market has annual revenue of Rs40-50bn. There are 7-8 large CPaaS providers in India that hold 80-85% of the market, with Karix being the largest. This is followed by a long tail that serves the long tail of businesses (there are ~89k enterprises in India, including restaurant chains).

Figure 9: Estimated market share of different players in the Indian CPaaS market



Source: Company, IIFL Research

CPaaS market growing at 20%+ pa: CPaaS industry revenue is growing at 20%+ per annum, with the number of messages being the key growth driver (growing at ~18% pa). A price hike happens every 2-3 years which results in a revenue growth spurt in that year. The table below captures the historical financials of Karix which also exhibit this behaviour.

Figure 10: Karix – Historical financials

(Rs m)	FY16*	FY17	FY18	FY19	FY20
Revenue	4,427	4,456	5,402	8,805	9,820
YoY growth		25.8%	21.2%	63.0%	11.5%
Reported Ebitda	491	470	253	241	456
Adjusted Ebitda	491	470	393	400	981
Adj Ebitda margin	11.1%	10.5%	7.3%	4.5%	10.0%
PBT	339	290	121	63	306
PAT	197	157	35	53	169

Source: Company, IIFL Research

*FY16 numbers are for a 15-month period

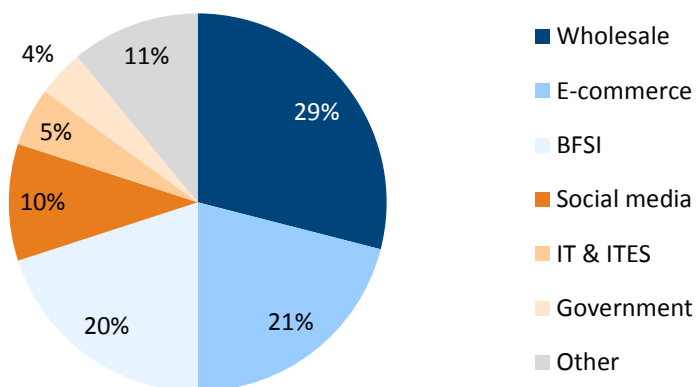
Adjustments pertain to Rs525m one-off ESOP charges in FY20 and Rs159m bad-debt provisions in FY19; FY19 Ebitda margin also affected by unfavourable mix

Currently, a telco charges an enterprise 12.5p/SMS; of this, the telco pays 20% or 2.5p/SMS to a CPaaS provider like Karix. Though the telco sets SMS prices, the CPaaS provider's contract with an enterprise has provisions to pass this on at a month's notice. That said, the commoditised nature of SMS lends itself to lack of pricing power for the CPaaS provider.

Karix has long-standing relationships with leading enterprises:

The Karix acquisition resulted in significant expansion in Tanla's customer base. Earlier, Tanla had <15 CPaaS players as its customers. Karix, on the other hand, has more than 2,000 enterprise customers, thereby reducing client concentration risk.

Karix has an impressive roster of clients. It caters to 9/10 top Indian banks (including SBI, HDFC Bank, ICICI Bank, Kotak Mahindra Bank), 7/10 insurance providers (including ICICI Prudential, SBI Life, HDFC Life, ICICI Lombard), 8/10 financial service providers (including Paytm, PayU, Policy Bazaar, SBI Cap), 9/10 e-commerce players (including Amazon, Flipkart, BookMyShow), 7/10 retailers (including D-Mart, Reliance Retail, Future Retail, Shoppers' Stop), and 7/10 social media players (including Facebook, LinkedIn, Google). Other customers include Asian Paints, Star India and Tata Motors. Karix's relationship with its customers goes back many years.

Figure 11: Tanla's consolidated revenue split across verticals (1QFY21)


Source: Company, IIFL Research

Wholesale refers to CPaaS players like ACL, Infobip, Gupshup.etc.

Other refers to media companies, DTH service providers, handset vendors, etc.

The table below describes the solutions deployed by Karix for some of its enterprise clients.

Figure 12: Some of the key enterprise customers of Karix, and the services rendered

Customer	Description of services
HDFC Bank	SMS and e-mail APIs, OTP-based authentication, analytics services on customer demographics
AU Small Finance bank	WhatsApp-based chat engine for customers, to make basic banking transactions
IndusInd Bank	Omni-channel crisis management system for employees
Asian Paints	Platform to send promotional messages and campaign to customers, dealers and distributors
Star India	Voting and polling application for reality shows like <i>Nach Baliye</i> and <i>Dance+</i>
Tata Motors	Automated SMS alerts for vehicle booking, vehicle service reminders, after service pickup alerts, test-drive booking, etc
Gionee	A solution to enable tracking of handsets sold to curb fraudulent sales. New SIM insertion would automatically trigger an SMS to Gionee's Virtual Mobile Number
MTV	A customised application linked to a 10 digit number (known as long code) that consumers could use to send their requests to play songs for a Live Song Request show

Source: Company, IIFL Research

Tanla was earlier carrying SMS traffic pertaining to 35% of Karix's business, with the rest being handled directly by telcos or Tanla's competitors. Post the Karix acquisition, most of its traffic is handled by Tanla. As Tanla gets paid on a per-SMS basis, it saw a revenue boost.

Karix follows a direct enterprise selling approach: CPaaS vendors typically follow two go-to-market approaches.

The first is direct enterprise selling, which Karix follows. This is similar to the conventional enterprise selling approach taken by software vendors.

The other is a developer-based approach pioneered by Twilio in the US (also followed by players like Route Mobile in India). Twilio offers APIs (modular sets of code) that developers can plug into applications. It has a 2m+ developer base. Its relationship with the developer community means that they push Twilio platform in the enterprises they work with. When this is deployed by enterprises, Twilio gets paid on a per-usage

basis. Twilio maintains, what it calls, a “Super Network” that connects to telco networks across the world.

Multiple growth drivers in place for CPaaS

The CPaaS industry should continue benefitting from the rising digitisation of the economy and higher penetration of e-commerce. In the next 2-3 years, SMS should remain the most popular channel, considering its ubiquity and support on feature phones. WhatsApp and RCS should grow faster, but this too provides opportunity for CPaaS players. CPaaS providers would benefit from higher share of value-added services. Direct telco offerings like Bharti’s Airtel IQ would make inroads, but we expect CPaaS players to remain relevant. Karix could see upsides from diversification into international markets.

Beneficiary of the rising digitisation: The CPaaS industry has been growing at a healthy clip and should continue benefitting from a number of emerging trends:

- Sharing economy (ride-sharing, hotel room aggregation, etc result in use cases of A2P messaging)
- Higher digitisation of the economy (more smartphones result in more app installs, which leads to higher push notifications, verification messages sent to Apple and Google)
- Rise in e-commerce and online business models (new sectors like ed-tech come with use cases)
- Regulatory factors (the RBI mandating SMS alerts, OTPs and two-factor authentication; each RTGS transaction requires 3 messages).

The BFSI and e-commerce verticals account for >40% of Karix’s revenue.

SMS’ salience to sustain in the foreseeable future: OTP, transaction alerts and marketing/information messages are the three most common types of messaging sent by enterprises to customers. Communication from the enterprise could be in the form of SMS, voice, WhatsApp message or a push notification on the app, etc. The cost per e-mail is only 0.1p and, hence, it is less relevant for CPaaS vendors, from a revenue perspective. SMS is the most common channel due to:

- Ubiquity (does not require a smartphone or a working data connection)
- Security (integrated into SS7 signalling system in telco networks), which endears it to regulators
- Lower cost vs. WhatsApp (this is a country-specific factor)

We note that SMS is the largest channel, even in developed markets where smartphone penetration has reached saturation levels. In a market like India, where 350m+ users are still on featurephones, SMS messaging should remain relevant in the foreseeable future. The cost advantage of SMS vs. WhatsApp could change, as detailed in the next section.

WhatsApp A2P has its challenges, but may eventually grow: In the P2P messaging space, the advent of WhatsApp resulted in a structural decline in the number of SMSs sent (which is declining in double digits in developed markets and in single-digit in India). However, the factors mentioned above have driven 18-19% growth in A2P SMS in India.

Importantly, enterprise WhatsApp messaging costs 28p in India which is ~2.5x higher than SMS. This prima facie sounds surprising, as WhatsApp is an OTT platform; but we have gathered that the pricing is set by Facebook and the relative attractiveness of WhatsApp vs. SMS varies from one country to another.

WhatsApp would add another revenue stream to CPaaS vendors...: We believe Facebook could consider reducing WhatsApp charges in India which may accelerate the adoption for WhatsApp for enterprise communications. If WhatsApp’s relevance rises in the future, it would add another revenue stream to CPaaS players. We note that WhatsApp is the single largest customer for Twilio, the leading CPaaS vendor in the US.

There is a risk that the SMS channel sees an adverse impact if: 1) Facebook indeed drives down WhatsApp pricing to a fraction of SMS pricing; AND 2) if regulators remove the mandatory SMS confirmation. This is a long-term risk, but we note that even developed markets have not seen a decline in A2P messages.

The India market also entails the data security angle – regulators generally are wary about Facebook’s servers being located overseas. Hence, BFSI players may still continue with SMS, even if WhatsApp is competitively priced. Global OTT players are also reluctant to set up servers in India, to avoid regulatory scrutiny, though Facebook’s stake in Jio Platforms could change this.

..and so would RCS: The RCS format backed by Google works natively in telco platforms like SMS (i.e. not an OTT like WhatsApp). RCS messages can be tracked like SMS, but offer a similar feel as a WhatsApp message, in terms of richness of content and the ability to embed images and videos. Thus, it offers the best of both of worlds.

Value added services to provide cross-selling and upselling opportunities: All CPaaS vendors have similar SMS capabilities (SMS is the hygiene factor), but the differentiation stems from the ability to provide value-added services. The value-added services could range from something as simple as providing multi-lingual messages and 2-way encryption to an operating customer-acquisition platform, a loan disbursement platform, etc for BFSI customers and providing analytics services. Other services include missed call services, video marketing, IVR, chatbots, etc. Large integrated CPaaS vendors like Karix are better-positioned to benefit from cross-selling and upselling opportunities.

Case studies of Karix’ engagement with customers through value-added services

- A large PSU bank had old customers whose mobile numbers were not captured in the bank’s data base. Karix advised the bank to flash messages at ATMs, requesting the customers to share their mobile number with the bank. Though this project did not directly yield revenue to Karix, more registered customers for SMS alerts indirectly contributed to Karix’ volume and revenue.
- The J&K government bans SMS from time to time. Karix made changes to its middleware and came up with OTP delivery over voice instead of SMS, to work around this.
- One of the common use cases is short codes for cheque book request. This is a 2 way communication, where the customers send short codes and the bank acknowledges the request and acts on it. However, banks complained that 30% of the requests failed because the customer used the incorrect short code. Karix solved this by introducing chatbots, which ask a question to the customer in return, to confirm the request.
- More recently, during Covid, when the RBI announced moratorium on term loans that customers could opt for, Karix provided an analytics dashboard for a leading bank, to track customer responses.

Telcos’ direct enterprise approach could increase competition:

Bharti offers Airtel IQ for enterprises, which directly competes with the solutions provided by CPaaS vendors. Industry interactions suggest that JIO currently does not offer a similar platform, while Vi has a partnership-based approach.

One cannot rule out telcos offering similar products over time, as they grow their enterprise business. That said, we expect telcos and CPaaS players to co-exist, because:

- Most enterprises want multiple vendors in order to build redundancy into their system and ensure 100% uptime.
- Displacement by telcos is difficult, as most CPaaS players have long-standing relationships with enterprises.

- The CPaaS market, though growing fast, is only 3-4% of the mobile services market. Telcos' size makes them less suited for a service (with a small addressable market by telco standards), which requires domain expertise, flexibility and quick turnaround time.
- There is a perception that telcos are partial to own customers.

SMS is a commoditised business and CPaaS vendors have no pricing power for plain vanilla SMS aggregation. There is a risk that telcos can bundle CPaaS solutions along with other services, which may bring down the effective rates of SMS and have an adverse impact on CPaaS players. Larger CPaaS vendors with the ability to provide value added services would be less vulnerable.

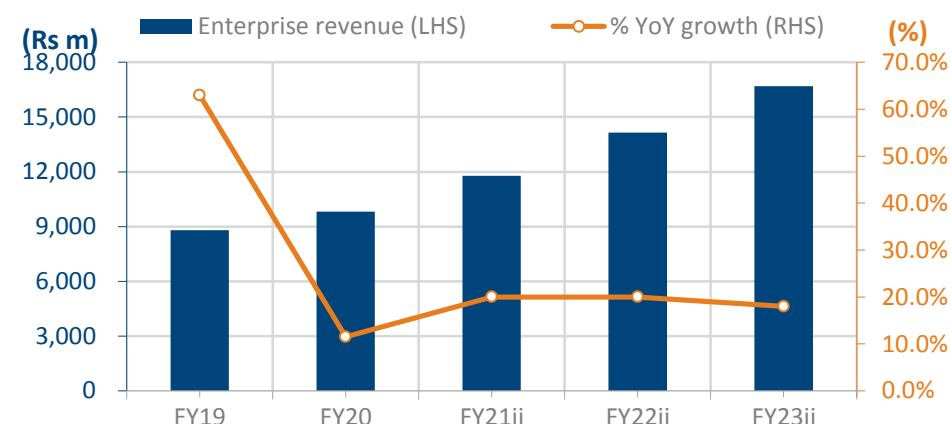
We forecast 19% revenue Cagr for Karix over FY20-23

Karix' growth would be driven by more volumes in the existing customer base, due to added use cases and new customers, including start-ups. Karix' integrated business model could unlock cross-selling opportunities such as a customer currently using Gamooga's marketing automation tool, but not Karix' CPaaS solutions.

Karix largely restricted its operations to India, as it saw multiple ownership changes. With these issues now settled, it would expand into the overseas market going forward.

We expect 19% revenue Cagr for Karix over FY20-23; there could be upsides to this if the company moves faster on international opportunities.

Figure 13: Karix' revenue projections – We expect 19% Cagr over FY20-23ii; note that FY19 saw a 63% revenue jump due to SMS price increase



Source: Company, IIFL Research

Trubloq to boost platform revenue growth

Having discussed the prospects for the enterprise business (Karix) above, we look at Tanla's platform business. The platform business has been growing at a rapid clip, considering the growth in the number of SMSs and the recent price increases. Tanla's reported consol revenue for FY20 includes the effect of Karix' consolidation. Also, note that as Karix is also Tanla's client, the consolidation is after inter-company elimination. Based on the disclosures, we can estimate the FY20 platform revenue.

Figure 14: We estimate that the FY20 platform revenue was Rs15.4bn

(Rs m)	FY20
Consol revenue	19,428
Less: Karix revenue	9,820
Add: intercompany elimination	5,776
Platform revenue	15,385

Source: Company, IIFL Research

Figure 15: Platform revenue has jumped 3.5x over FY16-20

	FY16	FY17	FY18	FY19	FY20
Platform revenue (Rs m)	4,316	5,793	7,916	10,040	15,385*
YoY growth	78%	34%	37%	27%	53%

Source: Company, IIFL Research; *as calculated in the preceding table

The 53% growth in FY20 was also partly aided by Karix replacing other SMS aggregators with Tanla. The platform business would benefit not only from the rising SMS traffic, but also from a product deployed commercially from Sep 2020. We first look at the prospects of this new product, Trubloq.

Trubloq fillip to revenue, wef Sep 2020

Trubloq is Tanla's brand name for its blockchain technology (DLT)-based product that filters unsolicited SMSs. Though India had in place a DND register (Do Not Disturb) for blocking unsolicited SMSs/spam, it was largely ineffective in achieving its objective.

In 2018, TRAI came out with fresh regulation, mandating blockchain technology for SMS. The advantages of blockchain technology are highlighted in the box below.

Blockchain technology

- Blockchain (often referred to as distributed ledger technology or DLT) is a secure transaction ledger database shared by all parties in a distributed network that records and stores every transaction that occurs in the network, creating an irrevocable and auditable transaction history.
- Blockchain can be considered a superior database, where the data and access to the data are encrypted. The distributer nature of the blockchain means it has a built-in redundancy and can survive the loss of one node because the master record is shared or mutualised.

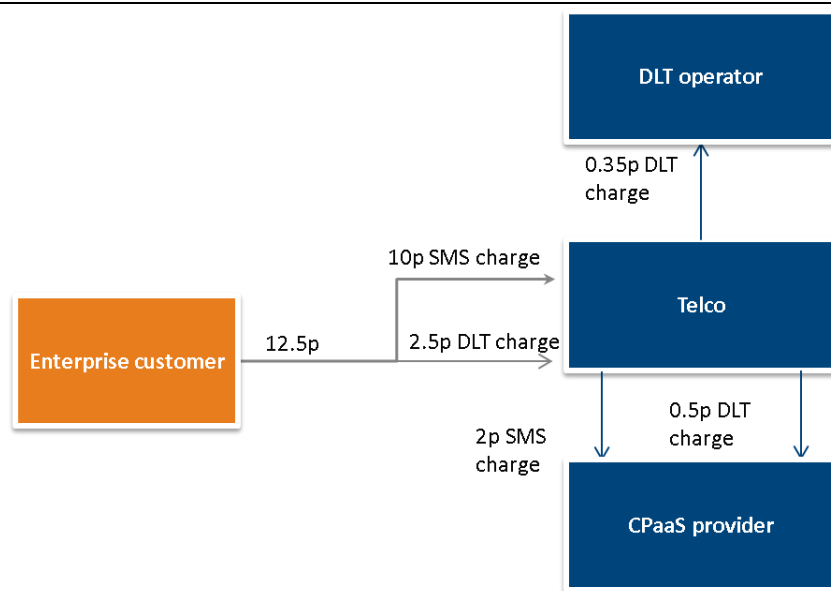
Trubloq processes 70% A2P SMS traffic in India: Tanla wanted to capitalise on this opportunity and developed Trubloq within a few months. The then TRAI Chairman, RS Sharma, launched Trubloq in the Mobile World Congress at Barcelona in Feb-2019. From Sep 1, 2020, DLT platforms have been deployed by all telcos in India, as per the TRAI mandate.

The customer opts for a service and grants consent to selected service providers (in the same industry, the customer can even give consent to player A while blocking player B). The telemarketer cannot see the consent.

All telemarketers have to register with the DLT platform. The content, header and template have to be registered and approved by the platform. When the telemarketer wants to send an SMS to its user, it forwards this to the platform. The platform then checks (this process is called scrubbing) whether the company, header and template are in conformity with the registered format. Then it forwards the message to the core network of the telco.

Trubloq handles 70% of A2P SMS traffic in India and is the sole platform deployed by BSNL and Vi. Tanla is also one of the vendors of Bharti (the other being IBM). JIO has deployed Tech Mahindra's solution. As the tele-marketer registration is universal, each platform has to share the details of registered telemarketers with others.

The figure below captures the unit economics at the SMS level and the flow of money across telcos, the DLT operator and the CPaaS provider.

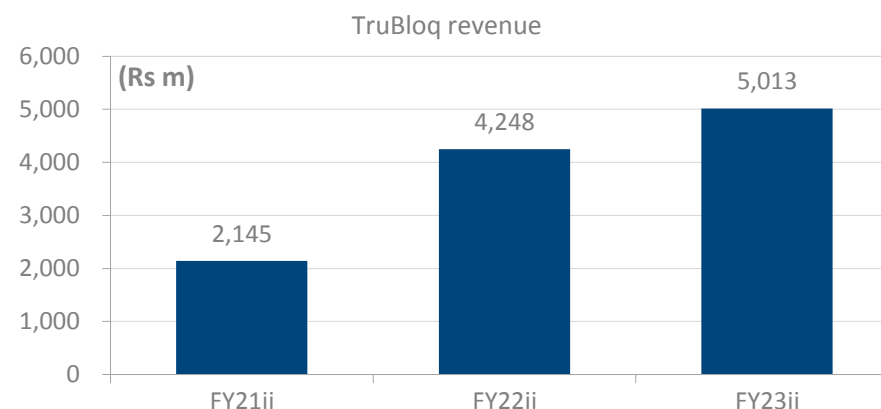
Figure 16: Per-SMS economics


Source: Company, IIFL Research

Blockchain platforms easily scalable: Consent, preference and registration from a user are taken on blockchain. Each user has a relationship with his bank, insurance company, DTH service provider, e-commerce player, ride-hailing service, etc. On average, a user has 12 consents that translate into 16bn consents for the Indian mobile sub base. Loading all these into the blockchain platform takes 3 months; but once the data is captured, scrubbing can be done offline. The solution can be scaled by simply adding more servers.

More transactions, products and geographies would drive growth: Trubloq currently contributes Rs300m monthly revenue. Its growth will be driven by the number of SMSs (which should be driven by more use cases). We expect Trubloq revenue to reach Rs5bn in FY23. The sticky nature of the business means that telcos are unlikely to change their DLT operator posing high barriers to entry. Further upsides could come from:

- Analytics services – Over time, DLT operators could provide analytics services.
- Expansion into international markets – India was the first country to mandate blockchain technology for filtering unsolicited messages. The UAE, into which Tanla has also forayed, is following suit.
- Possible upsides, if e-mail and WhatsApp messages are also brought under blockchain. The current TRAI regulation mandating blockchain is applicable only for SMS and voice.
- Further, TRAI is assessing whether SMS from telcos (alerts on account balance, information on recharges, etc) also have to be routed through DLT. If this becomes a reality, Trubloq could see a sharp jump in revenue.

Figure 17: Trubloq revenue estimates


Source: Company, IIFL Research; Note: FY21 revenue is only for 7 months

Trubloq's Ebitda margin and WC profile are largely similar to the core business'.

Ongoing litigation against Trubloq unlikely to have a bearing on Tanla: There is a litigation in the Delhi HC from Venets, a telemarketer (which also claims the support of 200 other telemarketers), that Tanla's operation of TruBloq and Karix is a conflict of interest, as Tanla may use the scrubbing database to further Karix' business interests.

Tanla has explained its position to TRAI, telcos and other tele-marketers. TRAI has also stated that Trubloq was selected based on commercial and technological considerations. Tanla sees no merit in this litigation, as blockchain is secure and personal information cannot be used by Tanla or any other party. It is hopeful of a favourable verdict and does not see any adverse impact from this case.

Enterprise grade platform should drive Tanla's core platform business

Tanla enjoys 90% market share in international inbound SMS:

Tanla is the larger of the two vendors who have deployed Vi's SMSC (SMS Centre). The SMSC, which is inside a telco's network, interfaces with the platform that is outside the telco network. Tanla has deployed the platform that routes SMS messages. Routing is dynamic (if one telco's network is down, the SMS is routed through another telco's network).

Tanla's platform business has jumped 3.5x over FY16-20. International inbound SMS volumes have played a key role in this growth. Tanla handles 90% of the inbound SMSs from abroad (which are charged at Re1/SMS or 10x local SMS). These SMS pertain to the ones originating from the global data centres of Apple, Amazon, Google, Facebook, etc. Amazon does not have any data centre in India and its customer messaging originate overseas.

Figure 18: Platform revenue has jumped 3.5x over FY16-20

	FY16	FY17	FY18	FY19	FY20
Platform revenue (Rs m)	4,316	5,793	7,916	10,040	15,385
YoY growth	78%	34%	37%	27%	53%

Source: Company, IIFL Research

Enterprise grade platform to be launched in early 2021: In the September 2020 AGM, Chairman Uday Reddy spoke about a new product, which he referred to as a "gigantic enterprise grade platform". The company targets launching this in early 2021; the details are yet to be unveiled.

Over time, the company plans to migrate Karix on to Tanla's platform and, hence, the entire company would become platform-based (in line with the change in the company's name to Tanla Platforms in October 2020). With IoT in the future likely to result in spurt in M2M messages, this platform will also have IoT support.

Expansion to international markets will be another leg of growth...

Tanla targets expansion into the UAE and Saudi Arabia in the next few months, with the latter being a large market. Other geographies on Tanla's radar are the Philippines and Indonesia, where the messaging market is almost as big as India's. On the other hand, Tanla would stay away from markets such as Malaysia and Singapore, which are either small or have low cloud communication adoption. In the long run, Tanla may foray into Africa.

...but Tanla would be very selective on inorganic opportunities:

We estimate Tanla to have over Rs4bn cash by end-FY21. However, management stated that it would be very selective about acquisitions and would concentrate more on organic growth, by focussing on new products, customers and geographies. This comment should be viewed in light of the global CPaaS landscape, where M&A is the norm (highlighted in detail, later in the report).

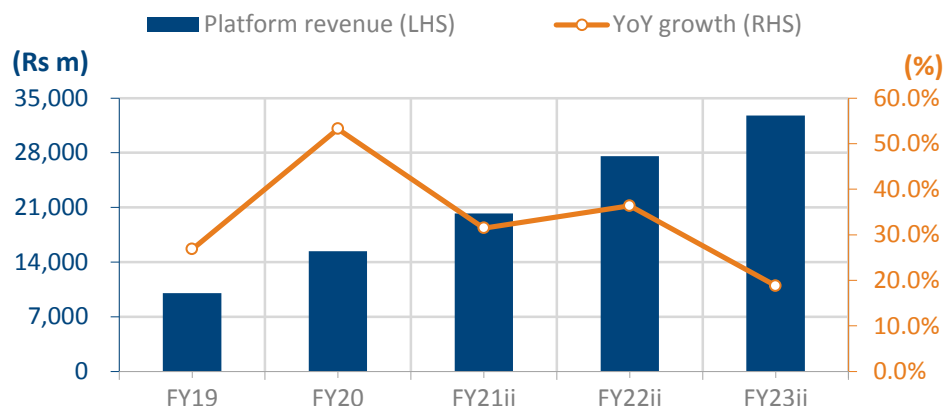
Diversifying telco relationships to reduce Vi related risk:

Vi is a key customer of Tanla. Vi has been under severe financial stress considering the regulatory burden, high impending cash payouts and continued market-share losses. If Vi were to face insolvency proceedings, Tanla would be adversely impacted (Tanla carries 5bn Vi transactions per month).

Acknowledging this risk, Tanla has stepped up its efforts with other telcos, in the past 6 months. With OTPs and alerts driven by customer transactions, Vi's traffic will be eventually carried by other telcos. That said, such an eventuality would increase Tanla's dependence on JIO, which has a more hard-nosed approach in negotiating with vendors compared to other telcos.

Net-net, we forecast 29% revenue Cagr for platform revenue over FY20-23ii, including Trubloq. Ex Trubloq too, we estimate revenue Cagr to be quite healthy, at 21%.

Figure 19: Platform revenue projections including services provided to Karix – We estimate 29% revenue Cagr; the chart also factors in Rs5bnTrubloq revenue in FY23



Source: Company, IIFL Research

We project 50% adj. EPS Cagr over FY20-23ii

Tanla saw a 4.5x revenue jump over FY16-20, driven by rising SMS volumes and the acquisition of Karix in FY20. Though Tanla reported Rs2.1bn net loss in FY20, there were a number of one-off items, adjusted for which the net profit was Rs1.5bn.

Tanla's reported net loss in FY20 was due to multiple one-offs:

We list the various non-recurring items in the table below, for FY20. The biggest item was the Rs2.56bn accelerated depreciation taken by Tanla on redundant assets, as TRAI regulation warranted an accelerated move to the blockchain platform. We also draw attention to the Rs487m write-down of goodwill related to Karix and Gamooga, in the wake of Covid. After this writedown, Tanla carries Rs1.34bn goodwill on its books.

Figure 20: Tanla's FY20 PBT had Rs3.6bn worth of one-off hits

Rs m	FY20
One-offs at the Ebitda level	
Acquisition related costs	78
ESOP costs	411
Provisions towards investment in Franklin Templeton funds	37
MWC Barcelona related expenses	26
Total one-offs at the Ebitda level	552
One-off in D&A (accelerated dep. Due to blockchain deployment)	2,561
One-off below Ebit (Goodwill writedown due to Covid)	487
Total one-offs	3,600

Source: Company, IIFL Research

Figure 21: We estimate FY20 underlying PAT of Rs1.5bn

Rs m	FY16	FY17	FY18	FY19	FY20 Reported	FY20 One-offs	FY20 Recurring
Revenue	4,316	5,793	7,916	10,040	19,428		19,428
YoY growth		34.2%	36.6%	26.8%	93.5%		93.5%
Gross profit	1,150	848	961	1,433	3,911		3,911
Gross margin	26.6%	14.6%	12.1%	14.3%	20.1%		20.1%
Ebitda	655	561	652	967	1,851	552	2,403
Reported Ebitda margin	15.2%	9.7%	8.2%	9.6%	9.5%		12.4%
Depreciation	530	196	573	732	3,778	2,561	1,217
Ebit	126	365	79	235	-1,927		1,186
Interest income (net)	11	25	48	100	42		42
Exceptional loss					487	487	0
PBT	137	390	126	335	-2,372		1,143
PAT	72	409	176	298	-2,112		1,488
Sharecount (m)	101	107	112	116	146		146
EPS (Rs)	0.7	3.8	1.6	2.6	-14.5		10.2

Source: Company, IIFL Research

We estimate 24% revenue Cagr over FY20-23ii: As detailed earlier, Tanla's revenue can be split into enterprise and platform

revenue. We discussed the drivers for both these segments and the estimates, which we reproduce below, including the intercompany elimination effect.

Figure 22: Tanla – Consol revenue projections

Rs m	FY19	FY20	FY21ii	FY22ii	FY23ii
Enterprise revenue (Karix) - A	*	9,820	11,784	14,141	16,686
% YoY growth			20.0%	20.0%	18.0%
Platform revenue	10,040	15,385	20,229	27,586	32,768
% YoY growth		53.2%	31.5%	36.4%	18.8%
After intercompany elimination related to Karix					
Platform revenue - B	10,040	9,608	12,634	17,229	20,465
o/w Trubloq revenue	0	0	2,145	4,248	5,013
o/w Platform revenue ex Trubloq	10,040	9,608	10,489	12,981	15,453
Consol revenue - C = A + B	10,040	19,428	24,418	31,370	37,152
% YoY growth		93.5%	25.7%	28.5%	18.4%

Source: Company, IIFL Research; *Karix was not consolidated with Tanla financials in FY19

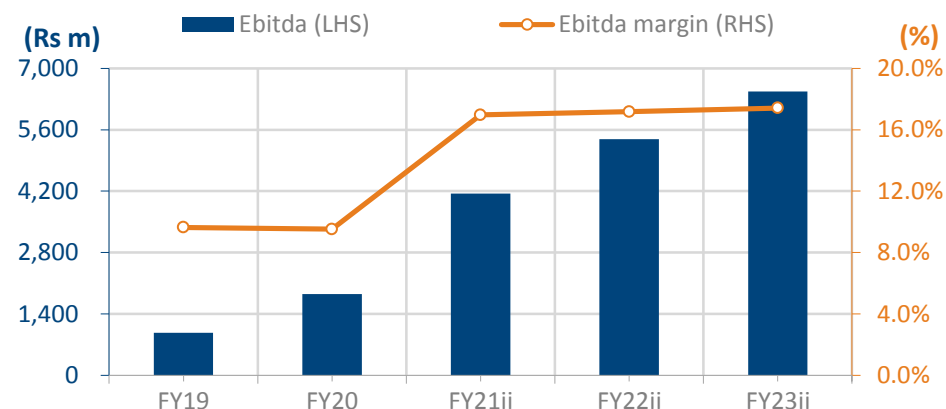
Higher VAS could result in gross margin expansion: Cost of services largely pertains to the charges paid to telcos. Tanla's gross margin in FY20 was ~20%. This rose to ~23% in 1HFY21. We build in 23% gross margin going forward. There could be upsides to this, if the mix changes, more in favour of value-added services.

We expect underlying Ebitda margin to expand, from 12.5% in FY20 to 17.5% in FY23: As highlighted earlier, Tanla's Ebitda margin fell from 31% in FY16 to a high single digit in recent years, following a business model change. In FY20, Tanla reported 9.5% Ebitda margin. Adjusting for one-offs, underlying Ebitda margin was 12.4%. Other than cost of services, the key line items are employee costs, S&M expenses and overheads.

Going forward, we expect Ebitda margin to expand by 500bps to 17.4% by FY23ii. Gross margin expansion would contribute 300bps of this; the rest would come from operating leverage.

We also note that Tanla capitalises most of its R&D expenses (as is the norm with global CPaaS providers). In FY19/20, it capitalised Rs59m/Rs303m R&D expenses. If capitalised R&D expenses were to be included in the P&L, Ebitda margin would have been lower by 150bps. We expect the capitalised R&D expenses to remain at ~150bps of revenue in the near future too.

Figure 23: Ebitda projections



Source: Company, IIFL Research

Tanla to become a full-tax paying company from FY22: Tanla did not pay cash taxes for the past many years, considering the drawdown of deferred tax assets. The company started paying taxes from 1QFY21, and would become a full-tax paying company by 4QFY21. This also explains the divergence between PBT growth and PAT growth in FY22.

Figure 24: Detailed P&L

Rs m	FY19	FY20	FY21ii	FY22ii	FY23ii
Revenue	10,040	19,428	24,418	31,370	37,152
Growth YoY	26.8%	93.5%	25.7%	28.5%	18.4%
Cost of services	8,607	15,517	18,795	24,155	28,607
As % of revenue	85.7%	79.9%	77.0%	77.0%	77.0%
Employee costs	229	1,089	899	1,074	1,182
As % of revenue	2.3%	5.6%	3.7%	3.4%	3.2%
Connectivity and related expenses	53	97	118	157	186
As % of revenue	0.5%	0.5%	0.5%	0.5%	0.5%
Other expenses	183	875	462	596	706
As % of revenue	1.8%	4.5%	1.9%	1.9%	1.9%
Total Cost	9,072	17,578	20,274	25,982	30,680
EBITDA	967	1,851	4,144	5,388	6,471
EBITDA margin	9.6%	9.5%	17.0%	17.2%	17.4%
Depreciation	732	3,778	414	586	784
EBIT	235	-1,927	3,730	4,801	5,687
EBIT margin	2.3%	-9.9%	15.3%	15.3%	15.3%
Finance Charges	3	64	10	4	4
Interest income	-3	-17	0	0	0
Other income	106	124	278	365	602
Exceptional gains / (losses)	0	-487	0	0	0
Profit before Tax	335	-2,372	3,998	5,162	6,285
Tax expenses	37	-261	582	1,301	1,584
Tax rate	10.9%	11.0%	14.6%	25.2%	25.2%
Reported PAT	298	-2,112	3,416	3,861	4,701
Exceptional gains/(losses) net of tax	0	3,600	0	0	0
Pre-exceptional PAT	298	1,489	3,416	3,861	4,701
# shares (m)	116	146	136	136	136
EPS (Rs.)	2.6	10.2	25.1	28.4	34.6

Source: Company, IIFL Research

The business mix change resulted in lower margins and lower WC intensity: In the VAS and content marketing business, the collection cycle was longer and receivable days were quite elevated, at over 180, in the mid-2010s. In the A2P business (which has been the main focus area since 2015), telcos offer a payment period of 45-75 days to Tanla and the company, in turn, offers 60-90 days to its customers.

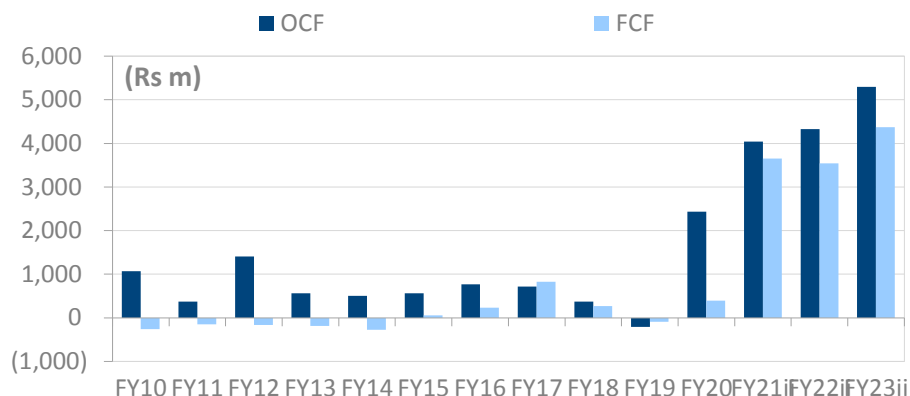
Tanla bills its customers a month after provision of services and this explains the unbilled revenue and unbilled cost on its balance sheet.

Figure 25: We expect WC days to remain stable going forward

	FY16	FY17	FY18	FY19	FY20	FY21ii	FY22ii	FY23ii
Debtor days	70	72	123	112	61	61	61	61
Creditor days	74	77	110	73	53	53	53	53
Inventory days	25	14	0	0	0	0	0	0
WC days	20	8	13	38	8	8	8	8

Source: Company, IIFL Research

Strong FCF generation to continue: Tanla saw negative FCF during FY10-14, when its revenue collapsed by 85% due to the reasons highlighted earlier. Since FY15, Tanla has been FCF-positive (except for FY19). In FY20, even after spending ~Rs1.4bn for the Karix and Gamooga acquisitions, Tanla generated ~Rs400m FCF. We expect Rs13.6bn cumulative FCF generation over FY21-23ii.

Figure 26: We expect Rs13.6bn FCF generation over FY21-23ii


Source: Company, IIFL Research

Our TP is Rs859; we initiate with BUY

A quick look at Tanla's peers in India and globally would be a logical step, before determining our valuation methodology for the company.

CPaaS stocks in the spotlight globally, in 2020

In India, Tanla and Karix compete with Infobip, ACL Mobile, Route Mobile, NetCore, ValueFirst and Gupshup, among others. Of these, Route Mobile is the only listed competitor which, however, does not offer DLT solutions. It also has a higher international presence, with the revenue split almost 50:50 compared with 23:77 for Tanla. With Route's overall revenue at 50% of Tanla's, Route's India business is only 1/3rd of Tanla's.

There are a number of global listed peers. The tables in the following pages provide an overview of these players. The main observations are:

- These players typically have Ebitda margins below 20%.

- While A2P messaging is the core business, many of them offer other value-added services such as cloud call centre (Twilio), programmable video APIs (Vonage), payment, ticketing and digital signature (CM.com), etc.
- Most of these players have yielded total stock return of over 80% in the past 12 months, suggesting that this sector has recently burst on to investors' radars. Accelerated digitisation of the global economy due to Covid has also, perhaps, helped.
- Only three players have seen less than 50% total stock return in the past 12 months. These are also the ones where the next three year revenue Cagr is in a single digit, as per Bloomberg. So the markets seem to have rewarded those with strong revenue growth prospects.
- Three players are trading at >10x CY2022 revenue.
- Route Mobile in India and Link Mobility in Norway went public in September and October 2020, respectively. Route Mobile almost traded at 2x the IPO price, on its first day of listing, and is now at >3.5x the IPO price.
- Finally, the global CPaaS space has seen an M&A spree, with larger companies such as Twilio and Sinch resorting to inorganic moves to expand into new geographies and capabilities. This is one of the reasons behind negative FCF in FY20 (or CY19) for most players.

Tanla's valuation attractive vs. peers; Tanla a net-cash company, with healthy FCF: Tanla's stock price has jumped >10x in 12 months, but it still trades at a reasonable valuation vs. peers, including Route Mobile. We view Tanla's 27x 1YF PER and 50% EPS Cagr as attractive. Unlike some the global peers, which still make Ebitda losses and/or are leveraged, Tanla is a net-cash company and generates healthy FCF.

Our TP of Rs859 is based on 26x 2YF PER: We value Tanla based on 26x 2YF PER, which yields a Dec-2021 TP of Rs859.

We also conduct a reverse DCF to calculate the FCFF Cagr over the next 15 years, implied by Tanla CMP. We use 12% WACC and 4% terminal growth rate of FCFF post FY36 for this analysis. The reverse DCF yields 12.8% FCFF Cagr over the next 15 years which we think is reasonable, considering upsides from expansion into new products and geographies.

Figure 27: We value Tanla based on 26x 2YF EPS

Item	Value
Target PER	26.0
2 yr fwd PAT (Rs m)	4,494
M-cap (Rs m)	116,850
#shares (m)	136
TP (Rs)	859
CMP (Rs)	745
Upside	15.3%
Dividend per share (Rs)	2.5
Total Return	15.6%

Source: Company, IIFL Research

Figure 28: An overview of leading CPaaS players across the world

Company	Main geography	Description	Revenue (LCY m)	Revenue (US\$ m)	Ebitda margin (%)	FCF to revenue
Tanla Platforms	India	The core platform business has been bolstered by acquisition of Karix, leader in the Indian CPaaS market, making it an end-to-end service provider from telcos to enterprises.	19,428	279	9.5%	2.0%
Route Mobile	India	A leading CPaaS player with 50:50 revenue between India and overseas. It has a product suite similar to Tanla's, except for the DLT platform.	9,562	137	10.4%	6.8%
Infobip	Europe/India	Privately-held Croatian PaaS vendor with an Indian presence.	Not listed			
Twilio	US	Pioneer of the API model in CPaaS, with a high level of engagement with the developer community. USP of this model is a high degree of customisation.	1,134	1,134	-20.1%	-1.4%
RingCentral	US	US-based CPaaS vendor following the API approach.	903	903	-3.9%	-13.7%
8x8	US	US-based CPaaS vendor that also operates in Singapore after acquiring WaveCell.	446	446	-24.4%	-28.8%
Bandwidth	US	US-based CPaaS vendor following the API approach.	233	233	7.3%	-3.3%
Vonage	US	US-based CPaaS provider that also offers SIP trunking, virtual phone numbers and programmable video APIs.	803	803	8.3%	6.0%
Five9	US	US-based cloud call centre operator.	328	328	7.0%	11.2%
Verint	US	A business intelligence provider that is also into cloud communications.	1,303	1,303	16.5%	18.9%
Sinch (Sweden)	Europe	Formerly known as CLX, it is a Sweden-based company that actively participates in consolidation in the CPaaS market. It is a serial acquirer.	5,036	600	14.5%	11.0%
IMImobile	UK	UK-based CPaaS player. Additional services provided include chatbots and targeted marketing platforms.	171	229	9.1%	-18.1%
Link Mobility (Norway)	Europe	Norway-based CPaaS provider with a strong presence in Nordic countries and expanding into other European markets	2,932	333	7.2%	1.2%
CM.com	Europe	Netherlands-based CPaaS provider with VAS services such as payment, ticketing and digital signature being the differentiators	96	117	4.1%	-0.2%

Source: Companies, IIFL Research

Figure 29: Global CPaaS valuation matrix

Company	BBG Ticker	M-cap US\$ m	FY20 PAT US\$ m	FY20-23 Cagr (%)				EV/sales (x)				EV/Ebitda (x)				PER				EV/FCFF				Total return (%)	
				Revenue	Ebitda	EPS	FCFF	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	12mth	6mth
Tanla Platforms*	TANLA IN	1,373	20	24	52	50	123	5.0	4.0	3.0	2.4	52.5	23.5	17.5	13.9	73.0	29.7	26.2	21.6	248.3	26.6	26.5	20.6	1,094	981
Route Mobile	ROUTE IN	900	9	NA	NA	NA	NA	6.9	NA	NA	NA	66.2	NA	NA	NA	84.0	NA	NA	NA	101.2	NA	NA	NA	NA	NA
Twilio	TWLO US	48,358	(307)	37	LP	LP	LP	40.3	27.4	20.7	15.8	NM	371.1	414.4	238.1	NM	2647.4	3640.2	777.5	NM	NM	NM	1637.6	223	60
RingCentral	RNG US	29,505	(114)	25	LP	LP	LP	33.5	26.0	21.1	17.1	NM	184.1	183.6	118.1	NM	343.3	281.8	217.7	NM	NM	418.3	269.2	97	22
8x8	EGHT US	2,149	(154)	18	LP	LP	LP	5.4	4.6	3.9	3.3	NM	1052.0	106.0	135.9	NM	NM	631.6	421.0	NM	NM	NM	87.2	6	35
Bandwidth	BAND US	3,919	(27)	33	35	LP	LP	15.8	11.3	8.2	6.8	217.7	182.2	122.1	88.3	NM	347.7	444.9	183.1	NM	NM	2708.7	1959.8	185	37
Vonage	VG US	3,343	(2)	6	27	LP	11	3.2	3.1	3.0	2.7	39.3	23.0	21.9	19.2	NM	68.3	70.5	48.9	53.6	75.7	44.6	39.2	83	34
Five9	FIVN US	10,227	(23)	22	67	LP	12	30.8	23.9	20.2	17.1	440.2	129.0	124.6	94.0	NM	176.1	185.6	138.0	275.3	322.4	256.9	193.8	132	54
Verint	VRNT US	3,658	92	4	21	41	4	3.2	3.3	3.0	2.8	19.2	12.7	11.4	10.7	39.7	16.6	15.1	14.2	16.8	15.8	15.8	14.7	18	18
Sinch	SINCH SS	7,718	32	44	35	49	7	12.8	8.3	4.9	4.2	88.1	78.7	45.8	36.0	1.9	121.1	72.6	58.0	116.4	NM	119.7	94.3	348	72
IMImobile	IMO LN	445	0	4	20	82	LP	2.1	2.1	2.0	1.8	22.9	15.8	14.7	13.2	147.8	26.7	27.0	24.5	NM	41.9	48.2	43.3	24	29
Link Mobility	LINK NO	1,481	(27)	19	33	LP	122	4.5	3.7	3.1	2.7	62.8	40.3	34.1	26.7	NM	NM	2.5	1.0	387.7	47.9	46.4	35.2	NA	NA
CM.com	CMCOM NA	821	(13)	35	19	LP	LP	6.8	4.9	3.7	2.8	166.7	637.2	NM	100.0	NM	NM	NM	NM	NM	NM	NM	NM	150	40

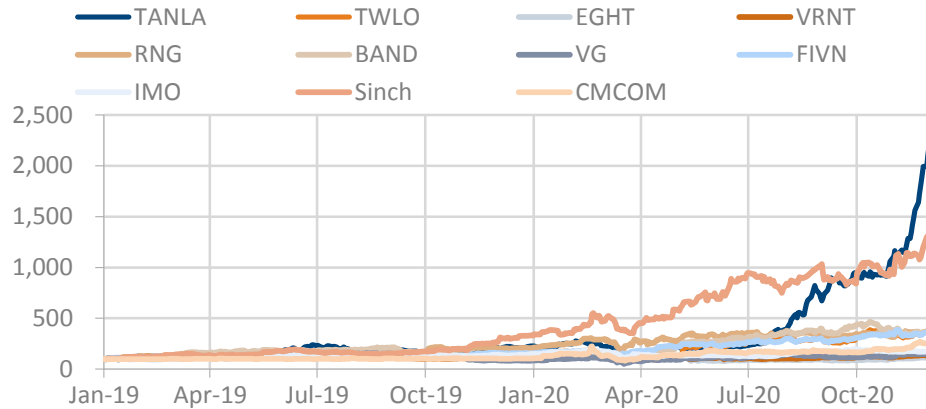
Source: Bloomberg, IIFL Research; *based on IIFL estimates

FY20 represents CY19 and so on, for international players

Bloomberg does not have Route Mobile's estimates and hence we have provided only historicals

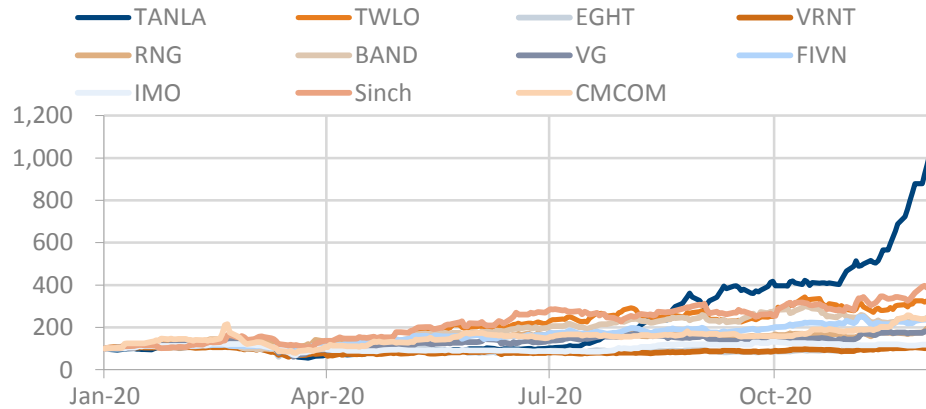
NM suggests that that particular metric (Ebitda, EPS or FCFF) is negative

Figure 30: CPaaS stock performance since Jan-19 (Tanla and Sinch the biggest gainers)



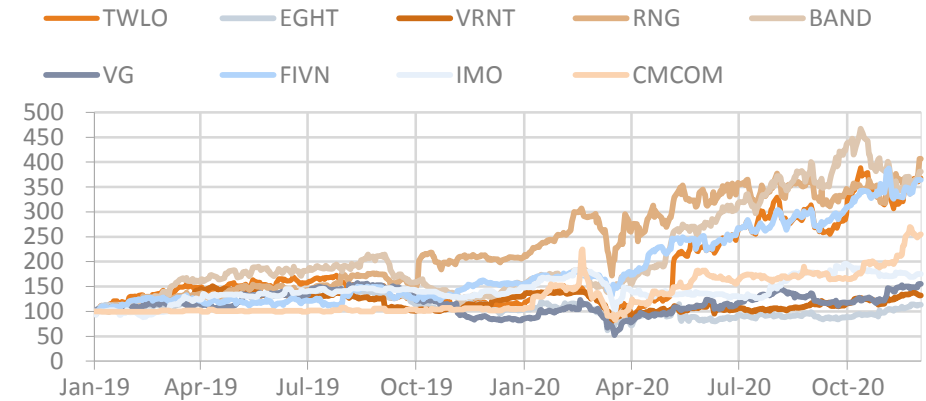
Source: Bloomberg, IIFL Research; Jan 2, 2019 price Indexed to 100

Figure 31: Most CPaaS stocks' performance have rallied in 2020, with Tanla up 10x



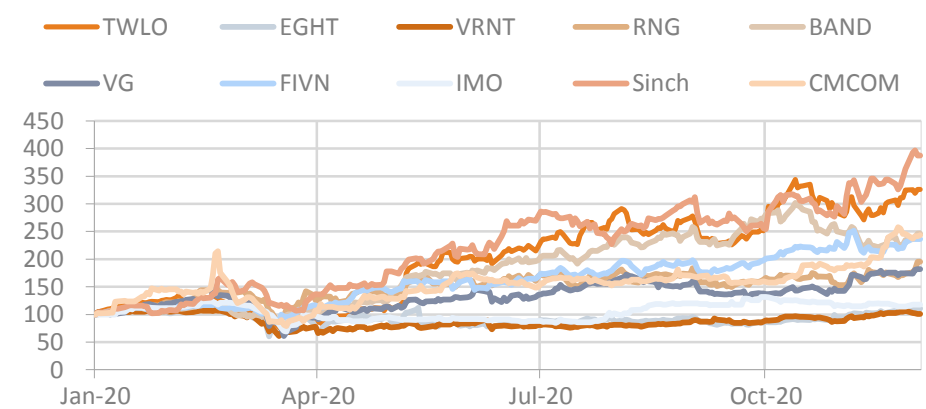
Source: Bloomberg, IIFL Research; Jan 2, 2020 price Indexed to 100

Figure 32: CPaaS stock performance ex Tanla and Sinch since Jan-19 has been strong...



Source: Bloomberg, IIFL Research; Jan 2, 2019 price Indexed to 100

Figure 33: ...with most of the gains seen in 2020



Source: Bloomberg, IIFL Research; Jan 2, 2020 price Indexed to 100

We have not included Route Mobile, which got listed only in Sep 2020; The stock is up >3.5x in less than 3 months

Figure 34: The CPaaS industry has seen considerable M&A activity globally, as companies acquire new capabilities and expand into new geographies

Company	Year	Target	Amount	Description
Sinch (erstwhile CLX)	2009	Simsoft		Software vendor to telcos
	2014	Voltari		SMS business in North America
	2015	Caleo		BSS solutions
	2016	Mblox	USD 117m	One of the largest messaging service providers in the world
		Sinch	SEK 130m	Real-time voice and video product and SMS verification product vendor
	2017	Xura Secure	USD 15.5m	German enterprise vendor
		Dialogue Group	GBP 32m	Global messaging and security service provider
	2018	Unwire	DKK 148m	Nordic CPaaS vendor
		Vehicle Agency	USD 12m	A Seattle-based company specialising in personalised video messaging and rich media communications
	2019	myElefant	EUR 18.5m	SaaS vendor
		TWW	BRL 180m	Leading CPaaS player in Brazil
	2020	ChatLayer	EUR 6.9m	Multi-lingual chatbots and voice bots platform provider
		Wavy	SEK 1.187bn	Conversational marketing vendor in Latin America
Twilio		SAP Digital Interconnect	EUR 225m	SAP's cloud communication operations
		ACL Mobile	INR 5.35bn	One of the top 4 CPaaS vendors in India
	2015	Authy		Authentication service provider
	2016	Kurento		Web RTC media service provider
	2017	Beepsend		Sweden-based messaging service provider
	2018	SendGrid	USD 2bn	E-mail communication platform provider
		Ytica		Analytics driven workflow optimisation company
		Core Network Dynamics	USD 11m	Mobile network infrastructure software provider
	2020	Segment	USD 3.2bn	Customer data platform provider
		Teravoz		Virtual PBX operator
8x8		Electric Imp		IoT startup
	2015	DXI	USD 26m	Cloud call centre vendor
		QSC		Cloud call centre vendor
	2018	Jitsi		Open source chat tool vendor
	2019	Wavecell	USD 125m	CPaaS provider in Singapore

Source: Companies, IIFL Research

Background: Tanla Platforms is a leading communications provider, enabling businesses to communicate with their customers and stakeholders. Its cloud-based platforms provide ease of connectivity to enterprises and aggregators, with a plug-and-play approach. Tanla recently expanded its bouquet of services by acquiring Karix, the market leader in the Indian Communications Platform as a Service (CPaaS) space and Gamooga, a marketing automation company, in FY20. It also recently launched Trubloq, a blockchain based solution, aimed at filtering spam SMSs. Trubloq processes 70% of India's SMS traffic.

Management

Name	Designation
D Uday Kumar Reddy	Chairman and Managing Director
Deepak Goyal	Executive Director
Balaji Kesavaraj	CMO

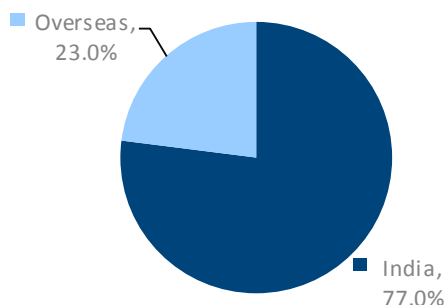
Customers: Telcos, leading BFSI and e-commerce players:
Competitors: Infobip, ACL Mobile, NetCore, Route Mobile:

Assumptions

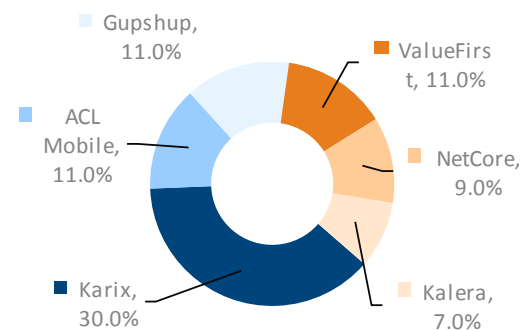
Y/e 31 Mar, Consolidated	FY19A	FY20A	FY21ii	FY22ii	FY23ii
Revenue growth (%)	26.8	93.5	25.7	28.5	18.4
Gross margin (%)	14.3	20.1	23.0	23.0	23.0
Ebitda margin (%)	9.6	9.5	17.0	17.2	17.4

Source: Company, IIFL Research

Geography-wise rev break up as of FY20



Est. mkt share of CPaaS providers



P/E



EV/Ebitda



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY19A	FY20A	FY21ii	FY22ii	FY23ii
Revenues	10,040	19,428	24,418	31,370	37,152
Ebitda	967	1,851	4,144	5,388	6,471
Depreciation and amortisation	(732)	(3,778)	(414)	(586)	(784)
Ebit	235	(1,927)	3,730	4,801	5,687
Non-operating income	103	107	278	365	602
Financial expense	(3)	(64)	(10)	(4)	(4)
PBT	335	(1,885)	3,998	5,162	6,285
Exceptionals	0	(487)	0	0	0
Reported PBT	335	(2,372)	3,998	5,162	6,285
Tax expense	(37)	261	(582)	(1,301)	(1,584)
PAT	298	(2,112)	3,416	3,861	4,701
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	298	(2,112)	3,416	3,861	4,701

Ratio analysis

Y/e 31 Mar, Consolidated	FY19A	FY20A	FY21ii	FY22ii	FY23ii
Per share data (Rs)					
Pre-exceptional EPS	2.6	10.2	25.1	28.4	34.6
DPS	0.4	0.4	1.0	2.5	4.3
BVPS	62.7	48.1	64.7	90.6	120.9
Growth ratios (%)					
Revenues	26.8	93.5	25.7	28.5	18.4
Ebitda	48.4	91.3	123.9	30.0	20.1
EPS	64.7	295.4	146.2	13.0	21.7
Profitability ratios (%)					
Ebitda margin	9.6	9.5	17.0	17.2	17.4
Ebit margin	2.3	(9.9)	15.3	15.3	15.3
Tax rate	10.9	11.0	14.6	25.2	25.2
Net profit margin	3.0	(10.9)	14.0	12.3	12.7
Return ratios (%)					
ROE	4.2	20.9	43.2	36.5	32.7
ROCE	4.6	(24.3)	50.1	48.5	43.5
Solvency ratios (x)					
Net debt-equity	(0.2)	(0.3)	(0.5)	(0.6)	(0.7)
Net debt to Ebitda	(1.8)	(1.1)	(1.0)	(1.4)	(1.7)
Interest coverage	NM	(30.0)	NM	NM	NM

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY19A	FY20A	FY21ii	FY22ii	FY23ii
Cash & cash equivalents	2,305	2,051	4,111	7,313	11,105
Inventories	0	0	0	0	0
Receivables	3,078	3,258	4,081	5,243	6,209
Other current assets	1,759	2,511	2,343	2,859	3,374
Creditors	2,020	2,810	3,532	4,537	5,373
Other current liabilities	1,192	1,974	2,002	2,554	3,014
Net current assets	3,930	3,036	5,001	8,323	12,301
Fixed assets	3,497	359	454	652	797
Intangibles	58	2,297	2,297	2,297	2,297
Investments	0	0	0	0	0
Other long-term assets	372	1,415	1,140	1,140	1,140
Total net assets	7,857	7,107	8,892	12,412	16,534
Borrowings	599	0	0	0	0
Other long-term liabilities	3	89	87	87	87
Shareholders equity	7,255	7,017	8,805	12,325	16,447
Total liabilities	7,857	7,106	8,892	12,412	16,534

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY19A	FY20A	FY21ii	FY22ii	FY23ii
Ebit	235	(1,927)	3,730	4,801	5,687
Tax paid	0	0	(582)	(1,301)	(1,584)
Depreciation and amortization	732	3,778	414	586	784
Net working capital change	(1,326)	38	215	(120)	(185)
Other operating items	54	503	0	0	0
Operating cash flow before interest	(304)	2,392	3,777	3,966	4,703
Financial expense	(3)	(64)	(10)	(4)	(4)
Non-operating income	103	107	278	365	602
Operating cash flow after interest	(204)	2,434	4,045	4,327	5,301
Capital expenditure	101	(1,374)	(501)	(784)	(929)
Long-term investments	0	0	0	0	0
Others	17	(668)	110	0	0
Free cash flow	(87)	392	3,654	3,543	4,372
Equity raising	179	14	(1,458)	0	0
Borrowings	599	(599)	0	0	0
Dividend	(41)	(61)	(136)	(342)	(579)
Net chg in cash and equivalents	650	(254)	2,060	3,202	3,793

Source: Company data, IIFL Research

Disclosure : Published in 2020, © IIFL Securities Limited (Formerly 'India Infoline Limited') 2020

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Name, Qualification and Certification of Research Analyst: Balaji Subramanian(MBA), G V Giri(MBA)

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