

# DEEP DIVE

# Tanla Platforms



# Tanla Platforms

## Gearing up for growth

Tanla Platforms in the Mobile World Congress held in February 2024 launched several products and platforms, which will set the path for the next phase of growth. Tanla is a market leader in the domestic messaging space with a 45% market share and it is now focusing on scaling revenue from WhatsApp, RCS and Truecaller. The partnerships with Meta (WhatsApp) and the launch of the MaaP platform for higher adoption of Google RBM (RCS business messaging) are promising. The adoption of conversation commerce by large enterprises is driving WhatsApp growth (OTT is ~13% of revenue and up 7x YoY in Q3). The Enterprise segment growth will be driven by (1) continued growth in transactional SMS traffic, led by UPI and digital transactions, (2) stable ILD, and (3) a surge in OTT revenue (WhatsApp, RCS and TC). The growth in the platform segment will be powered by Wisely platforms and the launch of the next-generation DLT platform Trubloq.ai. The Wisely anti-phishing platform (ATP) is a promising product with high growth potential. The company will maintain the margin profile, the integration of the low-margin VF Middle East business will be done in Q1, and we expect the EBITDA margin to be in the 19-20% range. The full impact of the VI network deal exit will be reflected in Q1FY25E. We expect revenue/EPS CAGR of 19/20% over FY24-26E. We reduce our EPS estimate by ~3% for FY25/26E to factor in near-term weakness. We maintain our BUY ratings and assign a TP of INR 1,300 based on 23x FY26E EPS. The stock trades at a P/E of 20/16x FY25/26E and generates RoE of ~30%.

- At the Mobile World Congress (MWC) 2024 in Barcelona, Tanla showcased its product portfolio across two key themes: (1) protecting end-users from SPAM and (2) enhancing customer experiences through conversational commerce. The event was attended by Indian regulators like TRAI, partners such as Meta, Google, and Truecaller, major telcos, and top-tier executives from various sectors including BFSI, Travel, Logistics, and Tech. The key launches were Wisely ATP and Trubloq.ai, which demonstrate Tanla's focus on user protection and security. It also showcased its prowess in redefining conversational commerce through WhatsApp, demonstrating the potential of Google Rich Business Messaging (RBM) in enhancing digital interactions. It launched a WhatsApp-based solution tailored for SMBs, streamlining the end-to-end process of selling products and engaging with customers. This solution, equipped with advanced features like rich media, messaging lists, and catalogue management, integrates seamlessly with the ONDC seller app interface on WhatsApp. It launched Messaging-as-a-Platform (MaaP) and is built upon the Rich Communication Services (RCS) standard to support Google RCS Business Messaging (RBM) and helps operators engage with their customers in richer, more interactive ways. It also extended its exclusive partnership with Truecaller to deliver customised solutions to enterprises.

### Financial Summary (consolidated)

YE March (INR bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	23.41	32.06	33.54	39.08	46.86	54.90
Gross Profit	5.78	9.08	8.36	10.52	12.53	14.63
EBITDA	4.33	7.00	5.88	7.41	8.87	10.42
APAT	3.56	5.39	4.48	5.38	6.52	7.74
Diluted EPS (INR)	26.3	39.8	33.0	39.7	48.1	57.1
P/E (x)	35.6	23.5	28.4	23.6	19.5	16.4
EV/EBITDA (x)	27.9	17.0	20.5	16.3	13.2	10.9
ROE (%)	44.7	48.0	31.2	31.5	30.8	29.8

Source: Company, HSIE research

## BUY

CMP (as on 15 Apr 2024)	INR 937
Target Price	INR 1,300
NIFTY	22,273

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,350	INR 1,300
EPS %	FY25E -3.0	FY26E -2.9

### KEY STOCK DATA

Bloomberg code	TANLA IN
No. of Shares (mn)	134
MCap (INR bn) / (\$ mn)	126/1,509
6m avg traded value (INR mn)	1,094
52 Week high / low	INR 1,318/615

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(21.4)	(13.9)	49.8
Relative (%)	(21.5)	(24.6)	28.4

### SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	44.15	44.15
FIs & Local MFs	0.92	0.67
FPIs	15.46	15.13
Public & Others	39.47	40.05
Pledged Shares	0.00	0.00

Source : BSE

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- **OTT will drive Enterprise growth:** The enterprise segment is dominated by NLD (~50%) and ILD (~25%); NLD volume is growing but ILD has been declining post multiple rate hikes. The enterprise growth slowed down in FY24E due to the ILD impact. The growth in the enterprise segment will be led by WhatsApp (OTT is ~10% of total revenue vs 2% YoY). The partnerships announced at the MWC 2024 will enhance WhatsApp and RCS offerings and increased adoption of WhatsApp conversational commerce by fintech, retail, travel, entertainment, logistics and e-commerce companies will accelerate growth. We expect the enterprise segment to register a revenue CAGR of 18% over FY24-26E (organic 12%), led by an OTT segment CAGR of 41% and traditional business CAGR of 8%.
- **Platform powered by Trubloq.ai and ATP:** The launch of the new AI-powered DLT platform Trubloq.ai will help in better SPAM protection, reduction in costs and higher conversions. Trubloq is ~50% of platform revenue and has ~65% market share. Wisely OTT and Wisely ATP (anti-phishing product) are expected to be a key growth driver for the platform segment. We expect Platform to clock 25% CAGR, driven by 37/20/10% CAGR in Wisely/Trubloq/ SMSC revenue over FY24-26E.



## WhatsApp and RCS: Growth drivers for the enterprise segment

Tanla's enterprise segment primarily consists of domestic messaging (~50% of the enterprise segment) and international messaging (~30% of the enterprise). The domestic messaging volume has been strong but there has been a steep fall in ILD messaging volume due to the shift of enterprises (Amazon, Google, Facebook) from the traditional channel to alternative channels. The multiple ILD price increases in the last two years have impacted volumes; currently, international message pricing is ~35x of domestic pricing. The next phase of growth in the enterprise segment will be driven by the strong growth in new communication channels like WhatsApp, RCS and Truecaller. The OTT channel revenue for Tanla is ~13% of total revenue in Q3FY24 and has registered a ~7x jump YoY. The organic enterprise revenue excluding OTT is down ~10% YoY in Q3 and ~3% in FY24E due to a drop in ILD volumes and moderation in promotional messages volume. We expect the enterprise segment to register an organic revenue CAGR of 12% over FY24-26E, led by an OTT segment CAGR of 41% and a traditional business CAGR of 8%.

Tanla in the Mobile World Congress held in Barcelona in Feb 2024 has launched a new WhatsApp-based solution in partnership with Meta which will simplify SMB's ONDC onboarding journey. Tanla will act as a business solution partner for Meta and help SMBs in the integration of the ONDC seller application on the WhatsApp platform. Tanla will simplify the onboarding experience for small and medium businesses and help them leverage the power of digital commerce.

WhatsApp India has ~580mn users which is ~23% of the total 2.5bn global users. The total number of WhatsApp users in India has registered a strong 5Y CAGR of 34% vs a global CAGR of 10%. WhatsApp is now being used for customer discovery, transaction, and post-transaction support. Messaging thread is an effective way for businesses to grow and engage their customer base. WhatsApp conversational commerce and marketing is actively used by fintech, retail, travel, entertainment, logistics and e-commerce companies. Tanla has deployed around 300 solutions and has integrated 3,000+ APIs across clients. Tanla generates revenue of INR 4bn from WhatsApp, which is ~11.5% of enterprise revenue and ~10.4% of FY24E total revenue. There has been a massive jump in revenue from WhatsApp, ~5.3x YoY in FY24E, and we expect WhatsApp to drive enterprise segment organic growth.

The leading player in the conversational marketing and commerce space is Gupshup. Gupshup generates revenue of ~INR 16bn and has registered a strong growth CAGR of 40%. The revenue from WhatsApp is ~10bn, which is ~2.5x the size of Tanla's WhatsApp revenue.

### Tanla revenue segments

Segments (INR mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY21- 24E	CAGR FY24- 26E
A. Platform Revenue	790	1,452	2,523	3,028	3,671	4,477	5,702	36%	25%
B. Enterprise Revenue (1+2+3)	18,639	21,964	29,536	30,514	35,410	42,381	49,197	17%	18%
1. ILD+NLD	18,639	21,964	29,536	29,742	28,927	29,537	33,650	10%	8%
2. ValueFirst (Acquired)	0	0	0	0	2,420	6,650	7,451	NM	75%
3. *OTT (WhatsApp+ RCS+TC)	0	0	0	772	4,063	6,194	8,095	NM	41%
<b>Total revenue (A+B)</b>	<b>19,429</b>	<b>23,416</b>	<b>32,059</b>	<b>33,542</b>	<b>39,082</b>	<b>46,858</b>	<b>54,898</b>	<b>19%</b>	<b>19%</b>
Enterprise organic (ex-Value First)	18,639	21,964	29,536	30,514	32,990	35,730	41,745	15%	12%
<b>Tanla Organic</b>	<b>19,429</b>	<b>23,416</b>	<b>32,059</b>	<b>33,542</b>	<b>36,662</b>	<b>40,208</b>	<b>47,447</b>	<b>16%</b>	<b>14%</b>

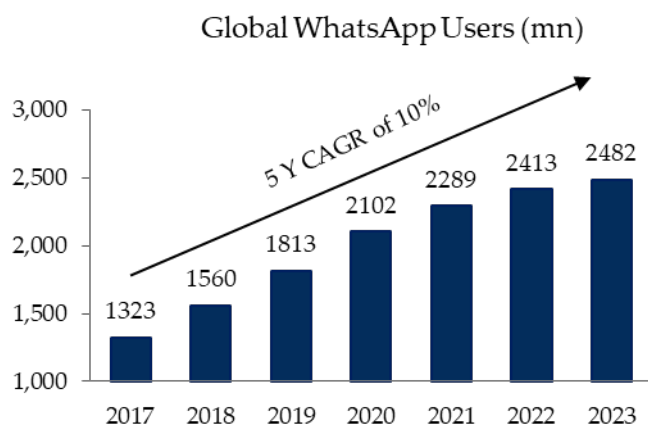
Source: Company, HSIE estimates, \*estimates based on Q3FY24 run rate

Growth YoY %	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
A. Platform Revenue		84%	74%	20%	21%	22%	27%
B. Enterprise Revenue (1+2+3)		18%	34%	3%	16%	20%	16%
1. ILD+NLD		18%	34%	1%	-3%	2%	14%
2. ValueFirst		NM	NM	NM	NM	175%	12%
3. OTT (WhatsApp+RCS+TC)		NM	NM	NM	426%	52%	31%
<b>Total revenue (A+B)</b>		<b>21%</b>	<b>37%</b>	<b>5%</b>	<b>17%</b>	<b>20%</b>	<b>17%</b>
Enterprise organic (ex-Value First)		18%	34%	3%	8%	8%	17%
<b>Tanla Organic</b>		<b>21%</b>	<b>37%</b>	<b>5%</b>	<b>9%</b>	<b>10%</b>	<b>18%</b>

Revenue Contribution %	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
A. Platform Revenue	4%	6%	8%	9%	9%	10%	10%
B. Enterprise Revenue (1+2+3)	96%	94%	92%	91%	91%	90%	90%
1. ILD+NLD	96%	94%	92%	89%	74%	63%	61%
2. ValueFirst	0%	0%	0%	0%	6%	14%	14%
3. OTT (WhatsApp+RCS+TC)	0%	0%	0%	2%	10%	13%	15%
<b>Total revenue (A+B)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

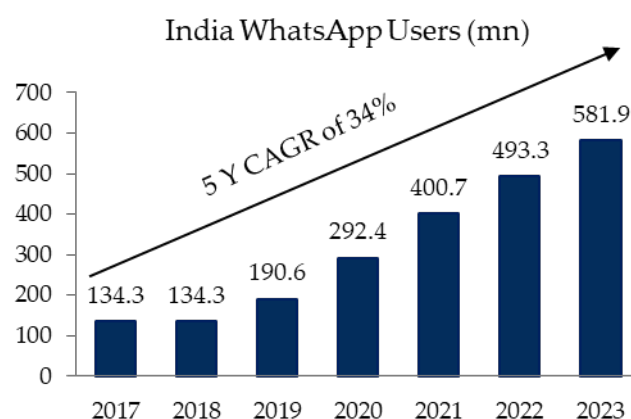
Source: Company, HSIE estimates

## Global WhatsApp users have registered a CAGR of 10%



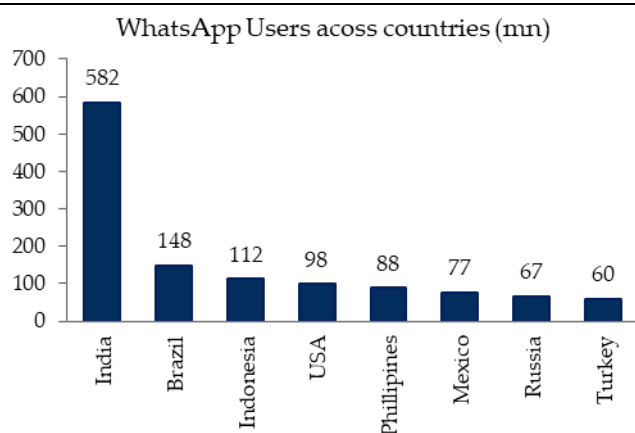
Source: Statista, HSIE Research

## India WhatsApp users have registered a CAGR of 34%



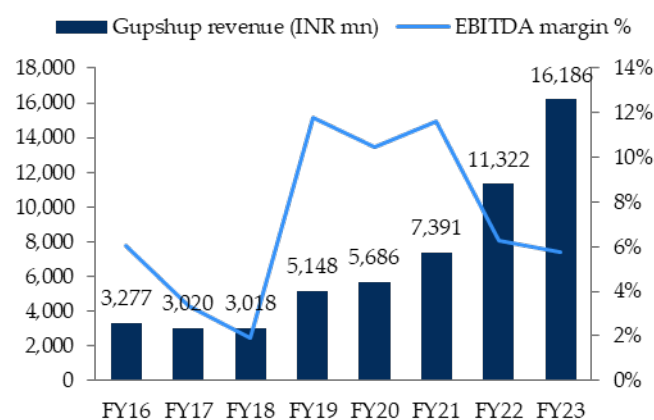
Source: Statista, HSIE Research

## India accounts for 23% of global WhatsApp users



Source: Statista, HSIE Research

## Gupshup has registered a 5Y revenue CAGR of 40% and is the largest OTT player in India



Source: Statista, HSIE Research

**WhatsApp pricing in major countries for each session: There has been a pricing hike in the India and Indonesia markets effective April 2024, Meta has introduced a new category authentication International which is ~20x of the original category.**

WhatsApp Pricing (INR)	Marketing	Utility	Authentication	Authentication-International	Service
India	0.7	0.3	0.1	2.3	0.3
Indonesia	3.0	1.5	2.2	10.0	1.4
United Kingdom	5.2	2.9	2.6	NA	2.8
North America	1.8	1.1	1.0	NA	0.6

Source: Meta, HSIE Research

### WhatsApp messaging categories

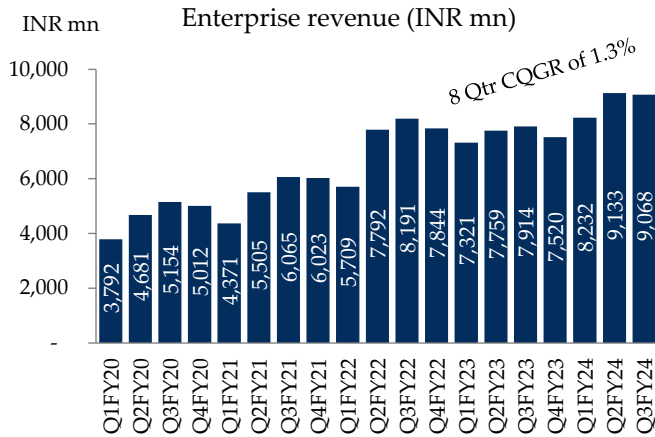
- **Marketing:** These include messages sent to generate awareness, drive sales and target customers. Enterprises send messages related to new products, targeted promotions and offers, and cart reminders. This is priced at INR 0.7/session, which is ~6x higher than the traditional SMS but is more effective. WhatsApp marketing messaging rate in India is at INR 0.7/session, which is ~75% lower than in Indonesia, the US, and the UK.
- **Utility:** This category enables enterprises to follow up on user actions or requests. This includes messages sent for order/delivery management, delivery updates, account updates/alerts, payment reminders, feedback, surveys etc. This is priced at INR 0.3/session.
- **Authentication:** Used for one-time passcodes (OTP), account verification, account recovery, etc. Meta has introduced a new category for international authentication messages which is priced ~20x higher than the original authentication category. This WhatsApp channel was used by Amazon and Facebook to send OTP messages because the ILD messages rate soared to INR 4.2/message. Still, post the pricing increase WhatsApp international OTP pricing is at a 45% discount to ILD.

### RCS: The next growth engine

RCS is a messaging service available on Android smartphones via the carrier network and works on the native messaging application. RCS leverages the capabilities of traditional SMS along with the rich features of OTT messaging platforms like WhatsApp, Telegram and Facebook Messenger. Business communication over RCS is called RCS Business Messaging (RBM). With RBM, enterprises can leverage modern features like videos, images, read receipts, group chats, audio, and action buttons with end-to-end encryption. RCS is an advanced version of SMS with OTT capabilities. In terms of pricing, RCS is costlier than SMS but cheaper than WhatsApp. SMS will remain the most economical way of communication and will be used for basic transactional and OTP messages. RCS is actively adopted by enterprises for brand campaigns and promotional messages due to a higher level of engagement. As of now RCS is only supported on Android phones and Apple is considering enabling RCS support on the iOS platform.

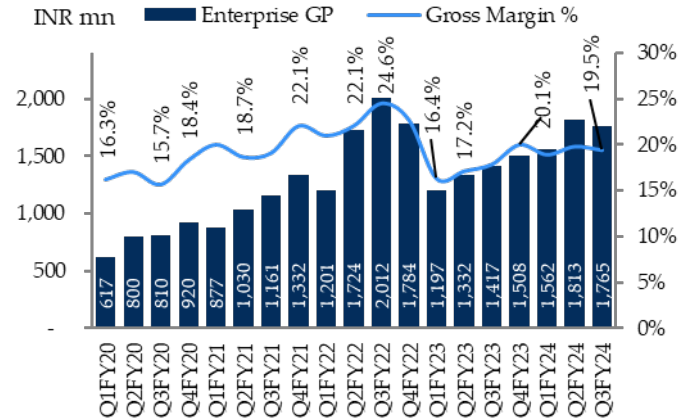
Tanla in the Mobile World Congress held in Barcelona in Feb 2024 launched a new platform MaaP (Messaging as a Platform) which will accelerate the adoption of the Google RBM (RCS business messaging) platform in India. Google RBM has witnessed a 2-3X uplift in clickthrough rate vs SMS and a 30-50% increase in the ROI of marketing campaigns. Currently, Tanla is the market leader in India's RCS market with a 40% market share. Tanla also signed an MoU with Vodafone Ideas to deploy the MaaP platform on the VI network, which will help in scaling RCS revenue. Tanla has extended its exclusive partnership with Truecaller to provide customised solutions to enterprises to leverage rich messaging capabilities for ~260mn Truecaller users in India.

## Enterprise Revenues grew at a 1.3% CQGR during the last 8 quarters led by OTT offset by ILD decline



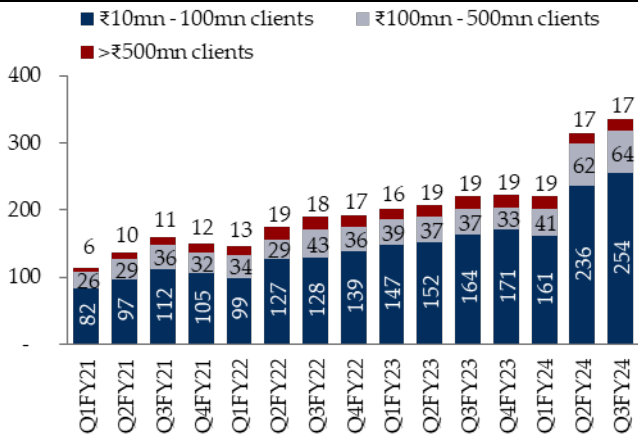
Source: Company, HSIE Research

## Enterprise Gross margin has expanded and is stable at ~20%



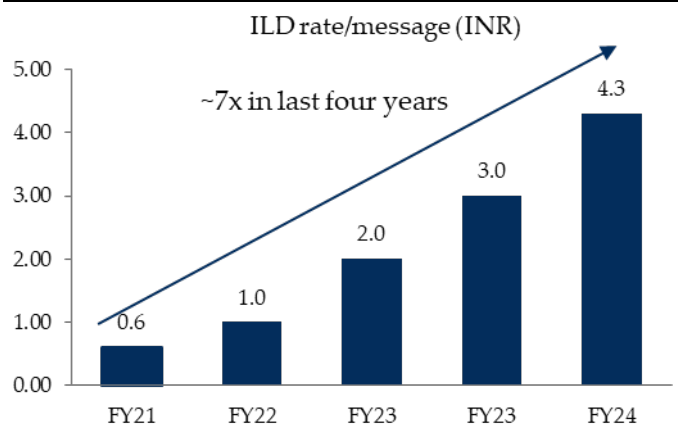
Source: Company, HSIE Research

## Growth driven by new and smaller clients, >500mn clients revenue declined by 3.2% CQGR over 8 Qtr



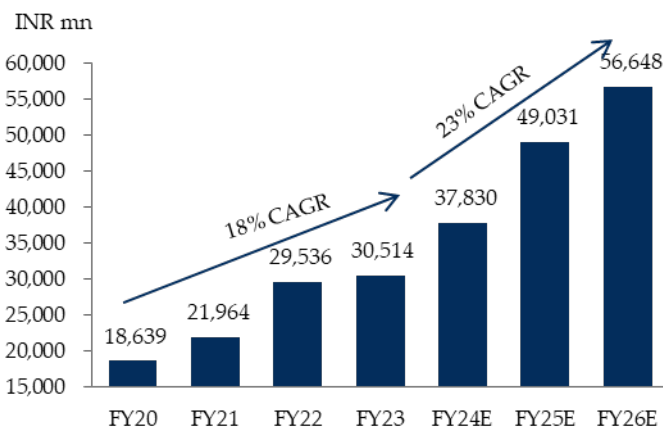
Source: Company, HSIE Research, Q2FY24 jump due to VF acquisition

## ILD rate has witnessed multiple price hikes in the last four years, up ~2x in the last two years



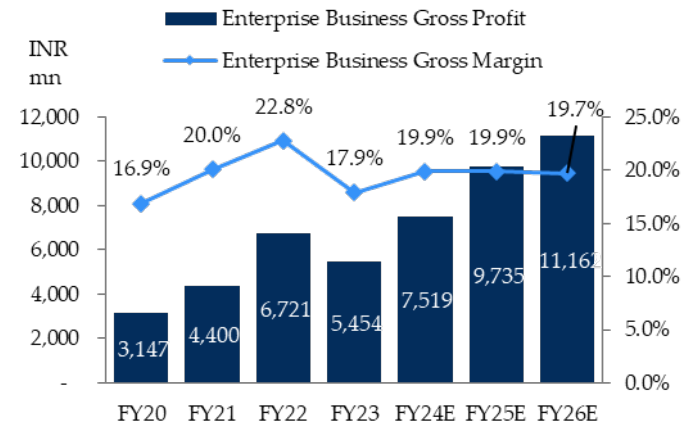
Source: Company, HSIE Research

## Enterprise Revenues to grow at 23% CAGR on the back of volume growth, ILD price hike and ValueFirst acquisition



Source: Company, HSIE Research

## Enterprise Gross margin will be stable at ~20%



Source: Company, HSIE Research

## Transactional messaging volume strong

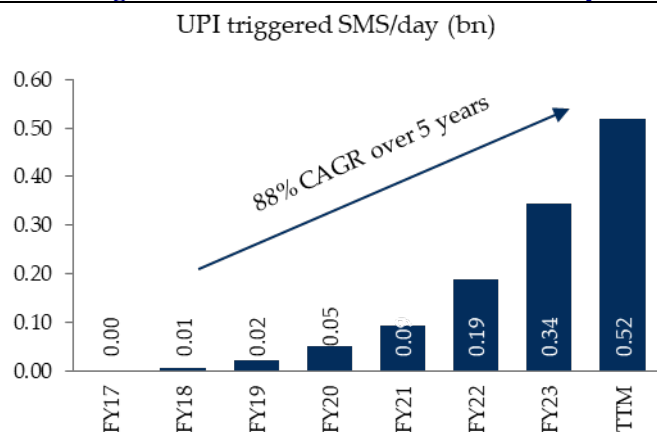
India has witnessed a surge in transactional messages, led by UPI, OTP, mobile banking transactions, and Aadhaar-linked authentication messages. Based on our estimates, ~2.2bn messages are sent every day and ~0.61bn messages originate from UPI-linked transactions (considering 1.5 messages for every UPI transaction). The UPI-triggered messages have increased at a CAGR of 88% over the last three years. Transaction messages originating from various sources (UPI, mobile banking, Aadhar, market trades, etc.) have reached ~1.41bn messages/day and account for ~65% of the total A2P messages. The remaining ~35% are promotional messages generated by banks, enterprises, business platforms, e-commerce companies, etc. The growth in the Indian CPaaS market is led by the surge in transactional messages, which registered a strong CAGR of ~55% over the last five years.

### A2P transactional messages split

Transactional messages	SMS Triggered per day (bn)
UPI <sup>^</sup>	0.61
Debit + Credit <sup>#</sup>	0.08
Mobile + Internet banking transactions <sup>^^</sup>	0.42
Aadhar authentication <sup>^^</sup>	0.08
No of Trades <sup>^^^</sup>	0.23
<b>Transactional SMS/Day</b>	<b>1.41</b>
<b>Total SMS/Day (Transactional + Promotional)</b>	<b>2.40</b>
<b>Transactional as % of total messages</b>	<b>60%</b>

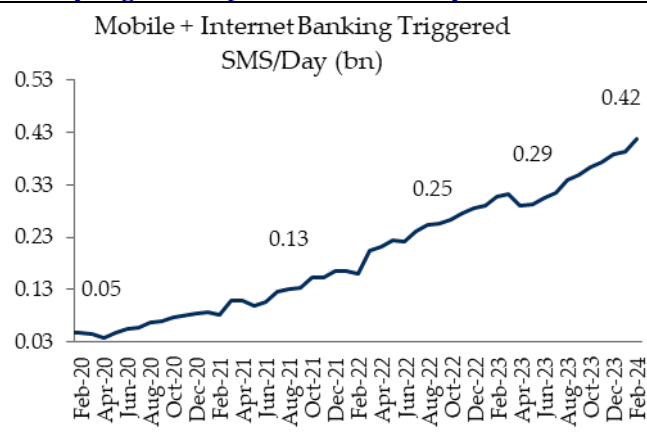
Source: RBI, UIDAI, NSE, BSE, HSIE research, \* considering 1.5 messages per UPI transaction, # considering ~1.5 messages/transaction, ^^ considering 1 message per instance, ^^^ ~0.5 messages per trade on NSE

### UPI-triggered SMS account for ~44% of total A2P traffic and has registered 88% CAGR over the last three years



Source: RBI, HSIE research

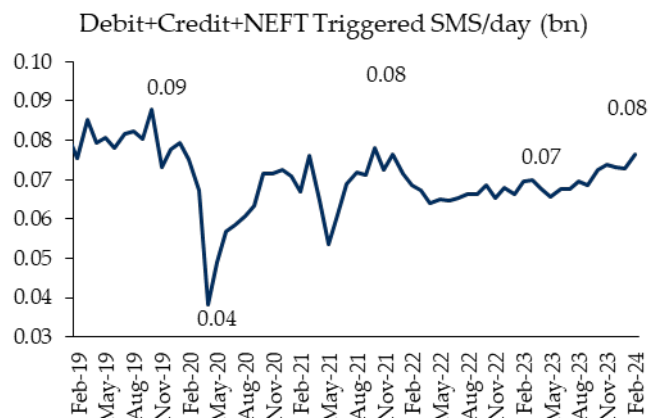
### Mobile and internet banking transactions on the rise led by digital adoption: ~10x in five years



Source: RBI, HSIE research

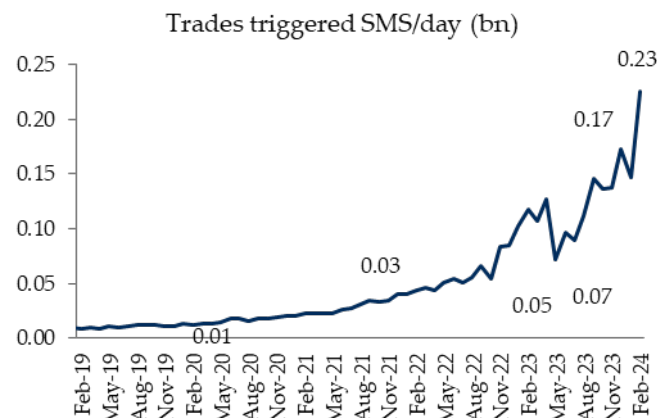


### Debit and credit card POS/ATM transactions have flat over the years and account for ~6% of the volume



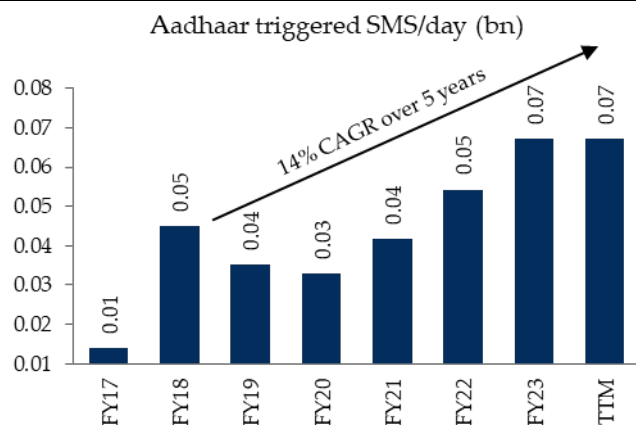
Source: RBI, HSIE research

### Market trades linked messages have registered strong growth led by retail participation



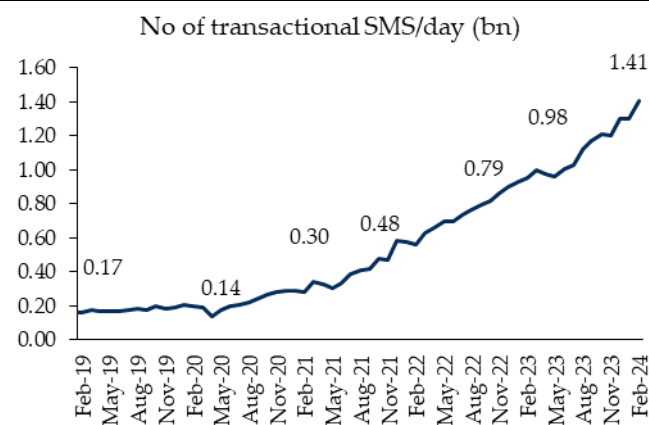
Source: NSE, BSE, HSIE research

### Aadhaar-based KYC + authentication messages on the rise



Source: UIDAI, HSIE research

### Transactional A2P messages account for ~60% of the total traffic and has registered 5Y CAGR of 55%



Source: RBI, UIDAI, NSE, BSE, HSIE research

## Platform: Triggered by Trubloq.ai and Wisely ATP

Tanla's platform business (~9% of total revenues, 35% of total gross profit) consists of Trubloq (DLT platform), Wisely and SMSC. Trubloq is a mature product and contributes ~50% of the platform revenues. The new enhanced version of the DLT platform Trubloq.ai was recently launched in the MWC 2024. This new version has embedded AI capabilities and will enhance customer experience, reduce cost and increase conversions. The Wisely products are moving from development to the monetisation/ scale phase. Wisely currently contributes ~35% to platform revenues and has the potential to drive the next phase of growth for the Platforms segment. Wisely products like OTT and Communicate have started generating revenue while the new products like Wisely ATP are expected to be a key growth driver along with Wisely OTT. The exit from the VI network deal will impact Wisely Network revenue in Q1FY25E which will be offset by growth in Wisely ATP and OTT revenue. We expect Platform to clock 25% CAGR, driven by 37/20/10% CAGR in Wisely/Trubloq/ SMSC revenue over FY24-26E.

### Trubloq.AI – Refreshed with enhanced AI capabilities.

Tanla launched Trubloq.ai at the MWC 2024 held in Barcelona in Feb 2024. Trubloq.ai is the next-generation DLT platform with advanced AI capabilities. Trubloq has over 50,000 enterprise customers and processes ~60bn messages/month, which is ~60-65% of India's A2P messaging traffic. Trubloq deployment has led to a 60% drop in SPAM messages and has been deployed in three of the four large telcos in India and both telcos in UAE. The new version of Trubloq comes with features like registration.AI (template creation and management), and Digiassets.AI (100% compliance automation, digital dashboard) and will lead to a 50% reduction in operational cost and ~10% savings in SMS cost through 10-20% higher conversion rate. Trubloq.ai aims to fast-track and automate the promotional campaign experience for enterprises.

### Wisely Network

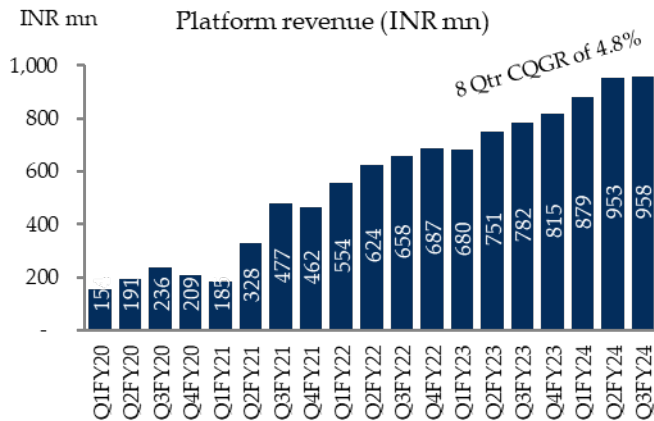
Tanla exited the Wisely Network deal with VI, which will impact revenue in Platform revenue in Q4FY24E and the full impact will be visible in Q1FY25E. The exit was in line with the strategy to reduce exposure to ILD traffic, which is witnessing a volume decline.

### Wisely ATP – Potential revenue driver

Tanla launched its anti-phishing technology platform Wisely ATP in 2023, protecting users from phishing and fraudulent messages. The Wisely ATP spotlight was launched in MWC 2024 which is a citizen protection bot which will help in the fight against online scams. With the growing number of scams due to SMS phishing, the ATP product aims at solving the phishing problem end-to-end by identifying the scammer and disabling the scam. The ATP product has received sandbox approval from TRAI and is under POC with large banks. This product will be deployed at the Telco end and VI has already tied up with Wisely ATP for its ATP solution. ATP has already signed a deal with a large private bank and revenue is expected to flow in Q1FY25E. Wisely ATP has the potential to clock revenue of ~INR 1bn per year and will be recurring in nature.

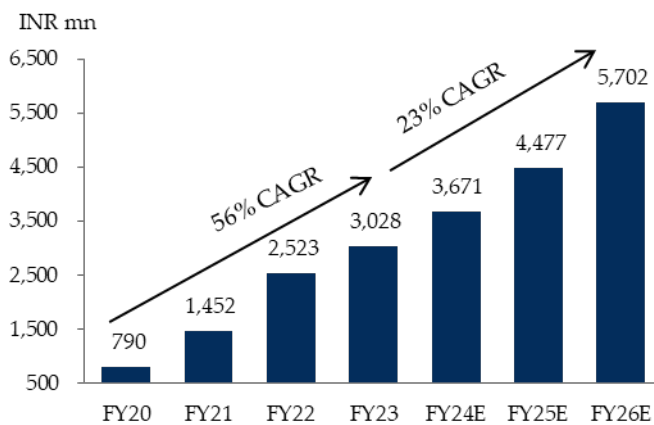
According to industry estimates, ~5bn+ SMS phishing attempts are made annually in India, which impact >6mn citizens leading to an estimated financial loss of INR 150bn.

## Platform Revenues grew at an 8Qtr CQGR of 5%



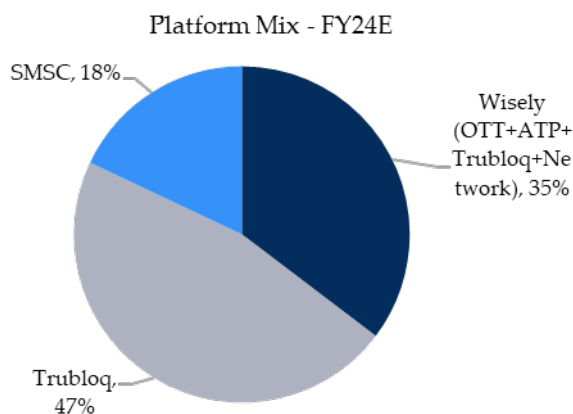
Source: Company, HSIE Research

**Platform Revenue has scaled significantly from FY20-23 and is estimated to grow at a 23% CAGR over FY23-26E led by ATP and Trubloq 2.0**



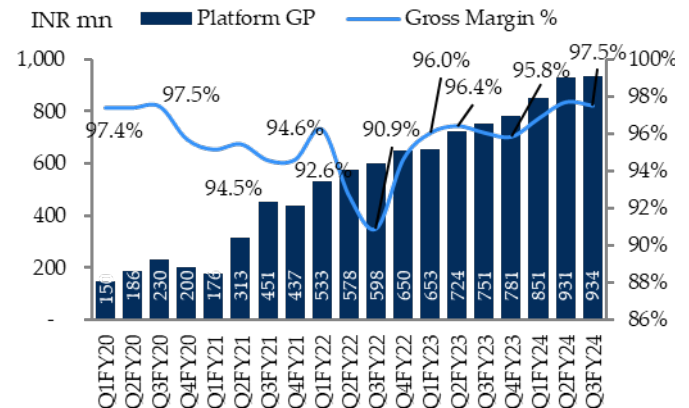
Source: Company, HSIE Research

**Platform revenue split – FY24E (based on HSIE estimates)**



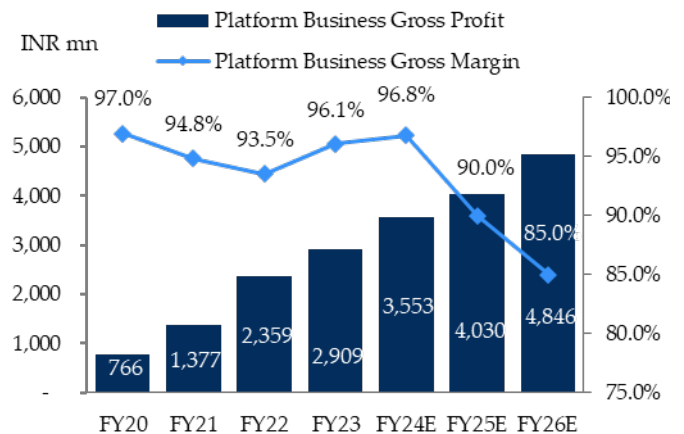
Source: Company, HSIE Research

## Platform Gross margin has recovered strongly,



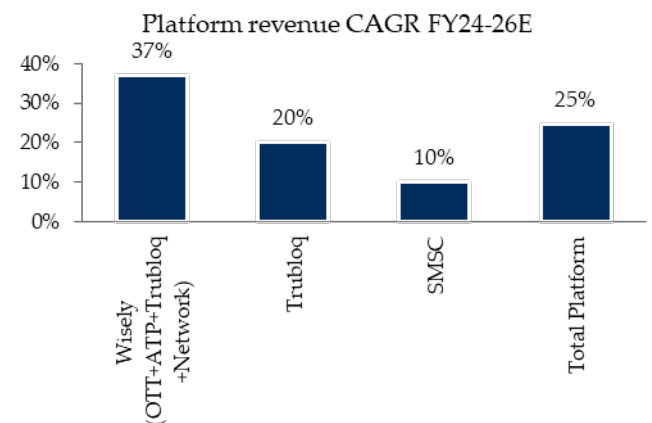
Source: Company, HSIE Research

**Platform Gross margin is well over 95%, we expected it to be >80%**



Source: Company, HSIE Research

**Platform growth is driven by Wisely OTT and ATP. Trubloq.AI offset by exit of Network VI deal**



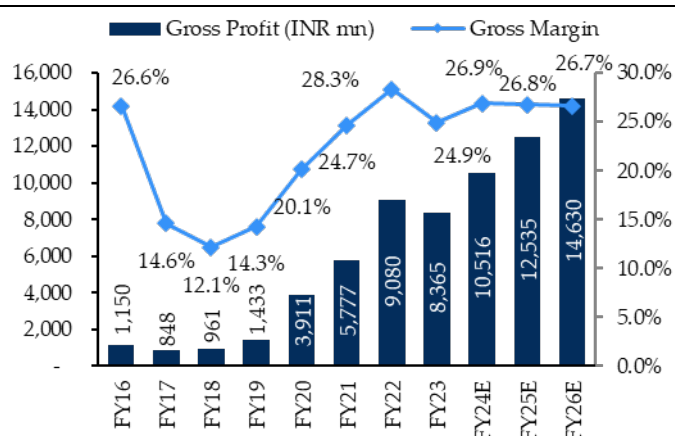
Source: Company, HSIE Research

## Tanla revenue segments

Revenue Segment (INR mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY21-24E	CAGR FY24-26E
Platform revenue	790	1,452	2,523	3,028	3,671	4,477	5,702	36%	25%
Growth %		83.8%	73.8%	20.0%	21.2%	22.0%	27.3%		
% of revenue	4.1%	6.2%	7.9%	9.0%	9.4%	9.6%	10.4%		
Enterprise revenue	18,639	21,964	29,536	30,514	35,410	42,381	49,197	18%	18%
Growth %		18%	34%	3%	16%	20%	16%		
% of revenue	95.9%	93.8%	92.1%	91.0%	90.6%	90.4%	89.6%		
<b>Total Revenue</b>	<b>19,429</b>	<b>23,416</b>	<b>32,059</b>	<b>33,542</b>	<b>39,082</b>	<b>46,858</b>	<b>54,898</b>	<b>20%</b>	<b>19%</b>
Growth %	93.5%	20.5%	36.9%	4.6%	16.5%	19.9%	17.2%		

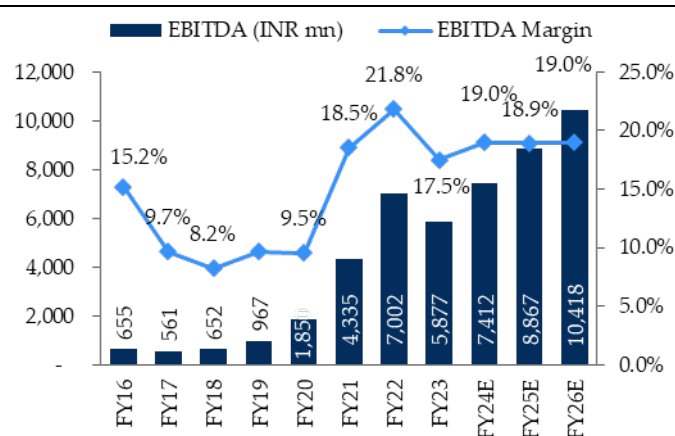
Source: Company, HSIE research

## Gross margin recovery in FY24E, GP CAGR of 20% over FY23-26E and GM will remain stable at 26-27%



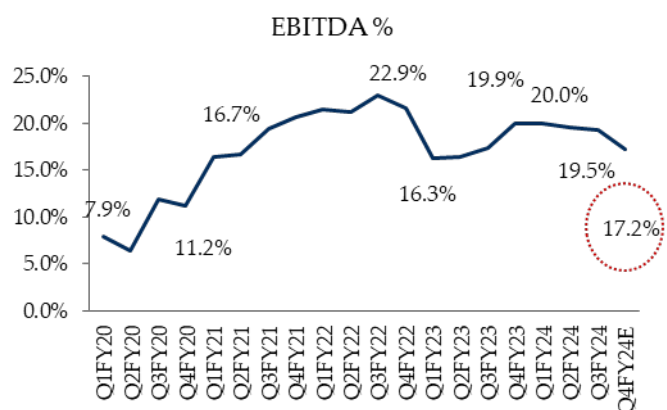
Source: Company, HSIE Research

## EBITDA margin recovery in FY24E, will remain stable at ~19%



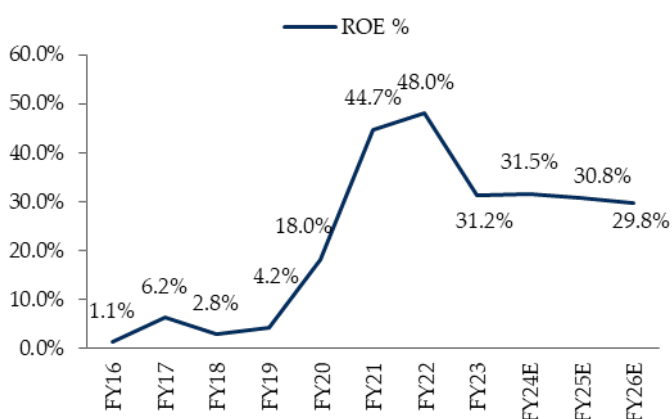
Source: Company, HSIE Research

## EBITDA margin recovered to ~20% in Q2/Q3, Q4FY24E margin impact due to MWC expenses (normalized 18.7%)



Source: Company, HSIE Research

## RoE was impacted in FY23E due to client-specific issues, RoE will remain at a healthy level of ~30%



Source: Company, HSIE Research



### Change in estimates (consolidated)

INR bn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue	39.69	39.08	(1.5)	47.90	46.86	(2.2)	56.14	54.90	(2.2)
EBITDA	7.71	7.41	(3.9)	9.12	8.87	(2.7)	10.71	10.42	(2.8)
EBITDA margin (%)	19.4	19.0	-46bps	19.0	18.9	-11bps	19.1	19.0	-11bps
APAT	5.62	5.38	(4.4)	6.72	6.52	(3.0)	7.97	7.74	(2.9)
EPS (INR)	41.5	39.7	(4.4)	49.6	48.1	(3.0)	58.8	57.1	(2.9)

Source: HSIE research

### Tanla vs Route

Parameters (FY24E)	Route	Tanla
Revenue (INR mn)	40,512	39,081
5Y CAGR % (FY19-24)	36.8%	31.2%
GP (INR mn)	8,615	10,516
GP %	21.3%	26.9%
GP % expansion FY24 (bps)	-77	197
GP % expansion FY21-24 (bps)	156	224
EBITDA (INR mn)	5,036	7,412
EBITDA %	12.4%	19.0%
EBITDA/GP (%)	58%	70%
EBITDA % expansion FY24 (bps)	-1	144
EBITDA % expansion FY21-24 (bps)	5	45
APAT	3,688	5,377
APAT %	9.1%	13.8%
5Y APAT CAGR % (FY19-24E)	45.3%	78.3%
No of Employees (Q3FY24)	812	644
Cost/Employee (INR mn)	2.5	2.7
Domestic Rev %	47%	95%
OCF/EBITDA (5Y average)	75%	89%
Client concentration (FY23)	43%	42%
DSO Days	73	63
Mcap (INR bn)	97.89	126.92
RoE %	18.6	31.5
P/E x (FY25E)	22	19

Source: HSIE research

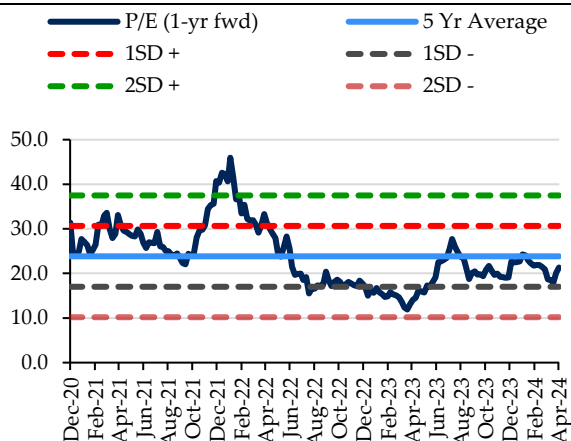
## Global Peers

CPaaS Player	Country	Market Cap (USD bn)	Revenue FY24 (USD bn)	Revenue CAGR (FY24-26E)	EBITDA Margin FY24	EBITDA Margin FY26E	FY26E EV/EBITDA	FY26E P/S
Twilio	USA	10.8	4.15	6.5%	-13.4%	16.4%	10.5	2.3
Five9	USA	4.2	0.91	17.3%	-2.6%	18.9%	19.0	3.4
Ringcentral	USA	2.8	2.20	8.2%	3.5%	25.0%	7.2	1.1
Sinch	Sweden	1.9	2.71	6.9%	10.7%	13.0%	7.0	0.6
Verint Systems	USA	1.8	0.91	4.8%	27.3%	28.7%	9.1	1.8
Tanla Platforms	India	1.5	0.47	18.5%	19.0%	19.0%	10.9	2.3
Route Mobile	India	1.2	0.49	19.7%	12.4%	12.5%	11.2	1.7
Link Mobility	Norway	0.5	0.60	9.8%	8.0%	9.4%	11.1	0.6
Bandwidth	USA	0.5	0.60	10.8%	3.6%	11.4%	11.9	0.6
8X8	USA	0.3	0.73	2.3%	15.3%	16.1%	5.7	0.4
<b>Aggregate (USD bn)</b>	<b>Global</b>	<b>25.4</b>	<b>13.8</b>	<b>8.5%</b>	<b>2.7%</b>	<b>17.5%</b>	<b>10.7</b>	<b>1.5</b>

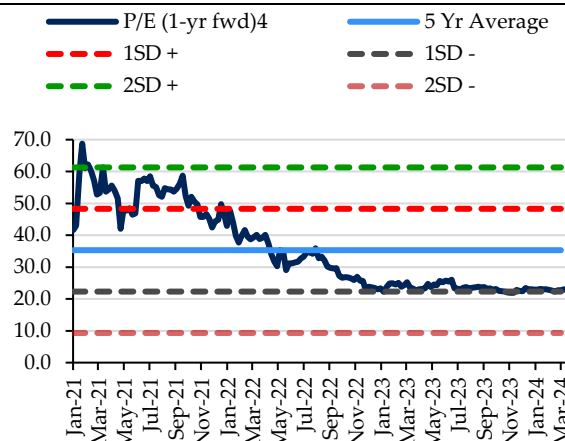
Source: Bloomberg, HSIE research

## Valuation charts

Tanla P/E (1-yr fwd) trend



Route P/E (1-yr fwd) trend



Source: Bloomberg, HSIE Research

# Financials

## Consolidated Income Statement

YE March (INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>10,040</b>	<b>19,428</b>	<b>23,415</b>	<b>32,060</b>	<b>33,543</b>	<b>39,081</b>	<b>46,858</b>	<b>54,898</b>
<i>Growth (%)</i>	<i>26.8</i>	<i>93.5</i>	<i>20.5</i>	<i>36.9</i>	<i>4.6</i>	<i>16.5</i>	<i>19.9</i>	<i>17.2</i>
Cost of services	8,607	15,517	17,638	22,979	25,178	28,565	34,323	40,268
<b>Gross Profit</b>	<b>1,433</b>	<b>3,911</b>	<b>5,777</b>	<b>9,080</b>	<b>8,365</b>	<b>10,516</b>	<b>12,535</b>	<b>14,630</b>
Employee Expenses	229	1,089	861	1,268	1,338	1,733	2,215	2,511
Connectivity and related expenses	27	82	117	134	144	237	281	329
Other operating Expenses	209	890	464	676	1,006	1,134	1,171	1,372
<b>EBITDA</b>	<b>967</b>	<b>1,850</b>	<b>4,335</b>	<b>7,002</b>	<b>5,877</b>	<b>7,412</b>	<b>8,867</b>	<b>10,418</b>
<i>EBITDA Margin (%)</i>	<i>9.6</i>	<i>9.5</i>	<i>18.5</i>	<i>21.8</i>	<i>17.5</i>	<i>19.0</i>	<i>18.9</i>	<i>19.0</i>
<i>EBITDA Growth (%)</i>	<i>48.4</i>	<i>91.3</i>	<i>134.3</i>	<i>61.5</i>	<i>(16.1)</i>	<i>26.1</i>	<i>19.6</i>	<i>17.5</i>
Depreciation	732	3,778	396	409	462	859	886	933
<b>EBIT</b>	<b>235</b>	<b>-1,928</b>	<b>3,939</b>	<b>6,593</b>	<b>5,415</b>	<b>6,553</b>	<b>7,981</b>	<b>9,485</b>
Other Income (Including EO Items)	106	-364	219	161	264	220	238	257
Interest	3	64	11	13	14	63	70	73
<b>PBT</b>	<b>338</b>	<b>-2,356</b>	<b>4,148</b>	<b>6,741</b>	<b>5,666</b>	<b>6,710</b>	<b>8,148</b>	<b>9,669</b>
Tax (Incl Deferred)	37	-261	586	1,348	1,189	1,333	1,630	1,934
Minority Interest	0	0	0	0	0	0	0	0
Share of profit / (Loss) of associate	-3	-17	0	0	0	0	0	0
<b>RPAT</b>	<b>298</b>	<b>-2,112</b>	<b>3,561</b>	<b>5,393</b>	<b>4,476</b>	<b>5,377</b>	<b>6,519</b>	<b>7,735</b>
EO (Loss) / Profit (Net Of Tax)	0	-3,395	0	0	0	0	0	0
<b>APAT</b>	<b>298</b>	<b>1,284</b>	<b>3,561</b>	<b>5,393</b>	<b>4,476</b>	<b>5,377</b>	<b>6,519</b>	<b>7,735</b>
<i>APAT Growth (%)</i>	<i>56.1</i>	<i>330.5</i>	<i>177.4</i>	<i>51.4</i>	<i>(17.0)</i>	<i>20.1</i>	<i>21.2</i>	<i>18.7</i>
<b>Adjusted EPS (Rs)</b>	<b>2.2</b>	<b>9.5</b>	<b>26.3</b>	<b>39.8</b>	<b>33.0</b>	<b>39.7</b>	<b>48.1</b>	<b>57.1</b>
<i>EPS Growth (%)</i>	<i>56.1</i>	<i>330.5</i>	<i>177.4</i>	<i>51.4</i>	<i>(17.0)</i>	<i>20.1</i>	<i>21.2</i>	<i>18.7</i>

Source: Company, HSIE Research

## Consolidated Balance Sheet

YE March (INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>SOURCES OF FUNDS</b>								
Share Capital - Equity	116	146	136	136	134	134	134	134
Reserves	7,140	6,871	8,795	13,405	15,041	18,788	23,271	28,461
<b>Total Shareholders Funds</b>	<b>7,255</b>	<b>7,017</b>	<b>8,931</b>	<b>13,540</b>	<b>15,175</b>	<b>18,923</b>	<b>23,405</b>	<b>28,595</b>
Minority Interest	0	0	0	0	0	0	0	0
Long Term Debt	469	43	35	447	732	732	732	732
Short Term Debt	130	10	9	89	94	94	94	94
<b>Total Debt</b>	<b>599</b>	<b>54</b>	<b>43</b>	<b>535</b>	<b>826</b>	<b>826</b>	<b>826</b>	<b>826</b>
Net Deferred Taxes (Net)	-168	-567	-428	-395	-363	-363	-363	-363
Long Term Provisions & Others	3	110	87	80	32	38	45	53
<b>TOTAL SOURCES OF FUNDS</b>	<b>7,689</b>	<b>6,613</b>	<b>8,633</b>	<b>13,760</b>	<b>15,670</b>	<b>19,423</b>	<b>23,913</b>	<b>29,111</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	3,497	1,228	1,223	1,701	3,490	5,846	5,710	5,655
CWIP	58	133	64	536	644	644	644	644
Goodwill	0	1,346	1,346	1,346	1,346	2,456	2,456	2,456
Investments	0	0	0	0	0	0	0	0
LT Loans & Advances & Others	204	841	370	1,021	935	1,033	1,239	1,452
<b>Total Non-current Assets</b>	<b>3,758</b>	<b>3,548</b>	<b>3,002</b>	<b>4,604</b>	<b>6,415</b>	<b>9,979</b>	<b>10,048</b>	<b>10,206</b>
Inventories	0	0	0	0	0	0	0	0
Debtors	3,078	3,258	3,731	5,603	5,700	6,746	8,216	9,626
Other Current Assets	1,759	2,511	3,122	4,591	4,533	5,269	6,318	7,402
Cash & Equivalents	2,305	2,006	5,841	8,623	7,116	6,643	10,368	14,650
<b>Total Current Assets</b>	<b>7,142</b>	<b>7,774</b>	<b>12,695</b>	<b>18,817</b>	<b>17,348</b>	<b>18,658</b>	<b>24,903</b>	<b>31,678</b>
Creditors	2,023	2,806	5,062	6,785	5,386	6,103	7,318	8,423
Other Current Liabilities & Provns	1,188	1,903	2,003	2,876	2,707	3,111	3,720	4,351
<b>Total Current Liabilities</b>	<b>3,212</b>	<b>4,709</b>	<b>7,065</b>	<b>9,661</b>	<b>8,093</b>	<b>9,214</b>	<b>11,038</b>	<b>12,773</b>
<b>Net Current Assets</b>	<b>3,930</b>	<b>3,066</b>	<b>5,630</b>	<b>9,156</b>	<b>9,256</b>	<b>9,444</b>	<b>13,865</b>	<b>18,905</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>7,689</b>	<b>6,613</b>	<b>8,633</b>	<b>13,760</b>	<b>15,670</b>	<b>19,423</b>	<b>23,913</b>	<b>29,111</b>

Source: Company, HSIE Research

## Consolidated Cash Flow

YE March (INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT and exceptional items	335	(1,868)	4,148	6,741	5,666	6,710	8,148	9,669
Non-operating & EO items	(46)	443	(162)	99	122	(70)	(38)	(107)
Interest expenses	-	-	-	-	-	63	70	73
Depreciation	732	3,778	396	409	462	859	886	933
Working Capital Change	(1,325)	485	1,790	(1,220)	(2,351)	(754)	(894)	(963)
Tax Paid	-	(447)	(561)	(1,165)	(1,432)	(1,333)	(1,630)	(1,934)
<b>OPERATING CASH FLOW ( a )</b>	<b>(304)</b>	<b>2,392</b>	<b>5,610</b>	<b>4,864</b>	<b>2,467</b>	<b>5,475</b>	<b>6,543</b>	<b>7,671</b>
Capex	121	(2,112)	(317)	(617)	(1,560)	(4,325)	(750)	(878)
Free cash flow (FCF)	(183)	280	5,293	4,248	907	1,150	5,794	6,793
Investments	(20)	-	-	-	-	-	-	-
Non-operating Income	100	111	219	107	264	70	38	107
<b>INVESTING CASH FLOW ( b )</b>	<b>201</b>	<b>(2,001)</b>	<b>(98)</b>	<b>(509)</b>	<b>(1,296)</b>	<b>(4,255)</b>	<b>(712)</b>	<b>(771)</b>
Debt Issuance/(Repaid)	599	(622)	(54)	(31)	(68)	-	-	-
Interest Expenses	-	(5)	(11)	-	-	(63)	(70)	(73)
FCFE	416	(346)	5,229	4,217	839	1,087	5,724	6,720
Share Capital Issuance/buyback	179	14	(1,476)	(808)	(2,124)	-	-	-
Dividend	(41)	(61)	(136)	(135)	(1,086)	(1,629)	(2,036)	(2,545)
<b>FINANCING CASH FLOW ( c )</b>	<b>737</b>	<b>(673)</b>	<b>(1,677)</b>	<b>(974)</b>	<b>(3,278)</b>	<b>(1,692)</b>	<b>(2,106)</b>	<b>(2,618)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>633</b>	<b>(282)</b>	<b>3,836</b>	<b>3,381</b>	<b>(2,107)</b>	<b>(472)</b>	<b>3,725</b>	<b>4,282</b>
EO Items, Others	17	(17)	-	(600)	600	-	-	-
<b>Closing Cash &amp; Equivalents</b>	<b>2,305</b>	<b>2,006</b>	<b>5,841</b>	<b>8,623</b>	<b>7,116</b>	<b>6,643</b>	<b>10,368</b>	<b>14,650</b>

Source: Company, HSIE Research

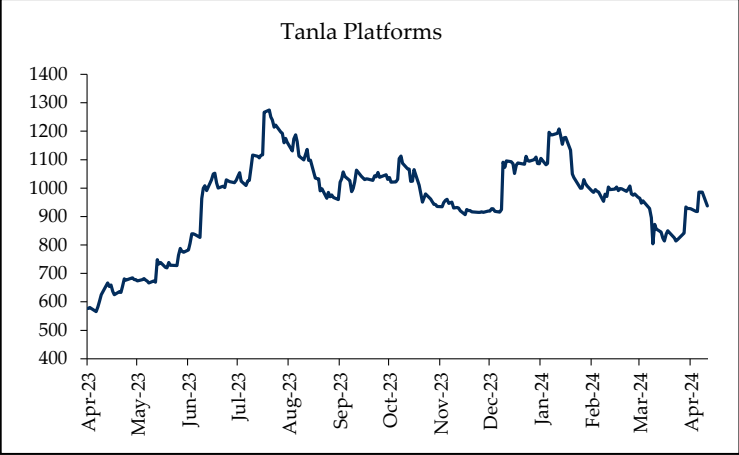
## Key Ratios

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>PROFITABILITY (%)</b>								
GPM	14.3	20.1	24.7	28.3	24.9	26.9	26.8	26.7
EBITDA Margin	9.6	9.5	18.5	21.8	17.5	19.0	18.9	19.0
APAT Margin	3.0	6.6	15.2	16.8	13.3	13.8	13.9	14.1
RoE	4.2	18.0	44.7	48.0	31.2	31.5	30.8	29.8
RoIC (or Core RoCE)	4.0	15.7	91.4	133.0	62.5	49.2	48.5	54.2
RoCE	4.2	18.7	46.8	48.3	30.5	30.9	30.3	29.4
<b>EFFICIENCY</b>								
Tax Rate (%)	10.8%	NM	14.1%	20.0%	21.0%	19.9%	20.0%	20.0%
Fixed Asset Turnover (x)	2.0	3.0	3.5	4.5	3.7	3.2	1.1	1.4
Inventory (days)	0	0	0	0	0	0	0	0
Debtors (days)	112	61	58	64	62	63	64	64
Other Current Assets (days)	64	47	49	52	49	49	49	49
Payables (days)	74	53	79	77	59	57	57	56
Other Current Liab & Provns (days)	43	36	31	33	29	29	29	29
Cash Conversion Cycle (days)	59	20	-3	6	23	26	27	28
Debt/EBITDA (x)	0.6	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Net D/E (x)	-0.2	-0.3	-0.6	-0.6	-0.4	-0.3	-0.4	-0.5
Interest Coverage (x)	73	NM	366	499	396	104	114	131
<b>PER SHARE DATA (Rs)</b>								
EPS	2.2	9.5	26.3	39.8	33.0	39.7	48.1	57.1
CEPS	7.6	37.4	29.2	42.8	36.5	46.0	54.7	64.0
Dividend	1.5	3.5	3.5	1.0	8.0	12.0	15.0	18.8
Book Value	53.6	51.8	65.9	100.0	112.0	139.7	172.8	211.1
<b>VALUATION</b>								
P/E (x)	425.6	98.9	35.6	23.5	28.4	23.6	19.5	16.4
P/BV (x)	17.5	18.1	14.2	9.4	8.4	6.7	5.4	4.4
EV/Revenue (x)	12.5	6.4	5.2	3.7	3.6	3.1	2.5	2.1
EV/EBITDA (x)	129.5	67.5	27.9	17.0	20.5	16.3	13.2	10.9
OCF/EV (%)	(0.2)	1.9	4.6	4.1	2.0	4.5	5.6	6.8
FCF/EV (%)	(0.1)	0.2	4.4	3.6	0.8	0.9	4.9	6.0
FCFE/Mkt Cap (%)	0.3	(0.3)	4.1	3.3	0.7	0.9	4.5	5.3
Dividend Yield (%)	0.2	0.4	0.4	0.1	0.9	1.3	1.6	2.0

Source: Company, HSIE Research



1 Yr Price movement



**Rating Criteria**  
BUY: >+15% return potential  
ADD: +5% to +15% return potential  
REDUCE: -10% to +5% return potential  
SELL: > 10% Downside return potential

**Disclosure:**

We, **Amit Chandra, MBA & Dhananjay Jain, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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