

July 26, 2022

RESULT REPORT Q1 FY23 | Sector: Internet/Platform

Tanla Platform

Weak operating margin due to several operational headwinds

Our view and valuation

Overall, it reported mixed performance for the quarter. While, the revenue for the quarter was inline, EBITDA margin came sharply below estimates on several operational headwinds such as pricing pressure in few pockets, downtime due to modernization of platform and cross currency headwinds. The Q1 is a seasonally weak quarter and that led to sequential dip in revenue. The Wisely platform is shaping up nicely and would drive revenue growth for Platform segment in FY23. It remains a leader in CPaaS space in India, growing faster than the industry. The adoption of CPaaS based A2P messaging across industries continues to drive volume growth for both enterprise and platform segments. We expect EBITDA margin to improve going ahead led by improved execution. Platform segment (higher gross margin) growing faster than enterprise segment will also support margin going ahead. We estimate revenue CAGR of 21.8% over FY22-FY24E with average EBIT margin of 19.1%.

We maintain BUY Rating on the stock with revised target price of Rs 1,218 per share, based on 22x on FY24E EPS. We have reduced target PE multiple from 30x to 22x to account for lower margin assumption and higher cost of capital (WACC) in this environment of high macroeconomic uncertainty. Trades at PE of 13.2x on FY24E EPS.

Result Highlights

- Reported revenue of Rs 8,001mn (up 27.7% YoY, down 6.2% QoQ). The YoY growth was led by increased volumes in domestic business and faster growth in OTT channels; while the sequential growth was impacted by seasonality in Q1.
- Enterprise segment grew by 28.2% YoY to Rs 7,321mn; Platform revenue grew by 22.7% YoY to Rs 680mn
- EBITDA margin decreased 530 bps QoQ (530 bps YoY) to 16.3%. The dip in margin was due to operational headwinds such as pricing pressure in select pockets, and downtime due to platform modernization of its legacy systems. Also, cross currency headwinds impacted margin in international business.
- Enterprise business had 16% gross margin vs 23% in Q4FY22; Platform business had 96% gross margin compared 95% in Q4FY22.
- Capex was Rs 247mn vs Rs 272mn in Q4FY22 and Rs 91mn in Q1FY22
- Cash and equivalents of Rs 9.9bn vs Rs 7.2bn as of Q1FY22. It remains debt free company.

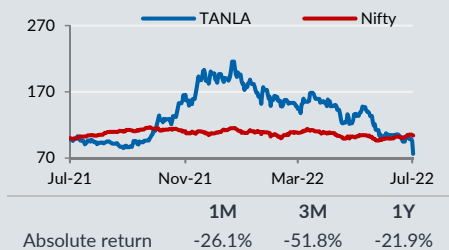
Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	8,001	8,511	8,004	-6.0%	0.0%
EBITDA	1,307	1,853	1,664	-29.5%	-21.5%
EBITDA Margin (%)	16.33%	21.77%	20.79%	(544) bps	(446) bps
Adjusted PAT	1,004	1,423	1,259	-29.4%	-20.2%

Reco	: BUY
CMP	: Rs 731
Target Price	: Rs 1,218
Potential Return	: +66.7%

Stock data (as on July 26, 2021)

Nifty	16,484
52 Week h/l (Rs)	2097 / 731
Market cap (Rs/USD mn)	99176 / 1243
Outstanding Shares (mn)	136
6m Avg t/o (Rs mn):	406
Div yield (%):	0.3
Bloomberg code:	TANLA IN
NSE code:	TANLA

Stock performance



Shareholding pattern (As of Jun'22 end)

Promoter	43.7%
FII+DII	16.2%
Others	40.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,218	1,867

Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	39.7	37.3	55.4
EPS (Old)	39.7	47.8	62.2
% change	NA	-21.9%	-11.0%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	32,060	37,516	47,516
YoY Growth	36.9%	17.0%	26.7%
EBIDTA	7,002	6,993	10,480
YoY Growth	61.5%	-0.1%	49.9%
PAT	5,393	5,063	7,516
YoY Growth	51.4%	-6.1%	48.4%
ROE	48.0%	33.2%	37.6%
EPS	40	37	55
P/E	18.4	19.6	13.2
P/B	7.3	5.8	4.3
EV/EBITDA	12.9	12.8	8.4

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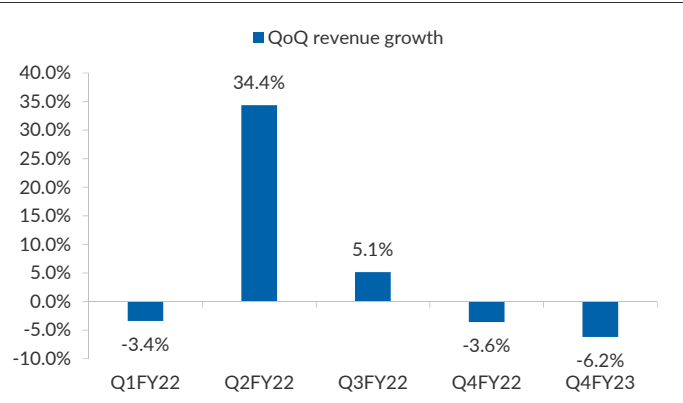
Exhibit 1: Quarterly snapshot

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	yoy%	qoq%	FY22	FY21	YoY%
Revenue	6,264	8,416	8,849	8,531	8,001	27.7	(6.2)	32,060	23,415	36.9
EBITDA	1,345	1,787	2,028	1,841	1,307	(2.8)	(29.0)	7,002	4,335	61.5
EBITDA %	21.5	21.2	22.9	21.6	16.3	-514 bps	-525 bps	21.8	18.5	333 bps
Depreciation	91	104	111	102	93	1.5	(8.9)	409	396	3.3
EBIT	1,254	1,683	1,917	1,739	1,214	(3.2)	(30.2)	6,593	3,939	67.4
EBIT%	20.0	20.0	21.7	20.4	15.2	-484 bps	-521 bps	20.6	16.8	374 bps
Other income	43	31	41	46	45	4.4	(2.1)	161	219	(26.5)
finance cost	2	6	3	3	3	99.0	8.7	13	11	23.0
PBT	1,295	1,708	1,955	1,782	1,256	(3.0)	(29.5)	6,741	4,148	62.5
Tax	250	347	375	376	252	0.5	(33.1)	1,348	586	130.0
Reported PAT	1,045	1,362	1,580	1,406	1,004	(3.9)	(28.6)	5,393	3,561	51.4
Net margin	16.7	16.2	17.9	16.5	12.5	-413 bps	-394 bps	16.8	15.2	161 bps

KEY CON-CALL HIGHLIGHTS

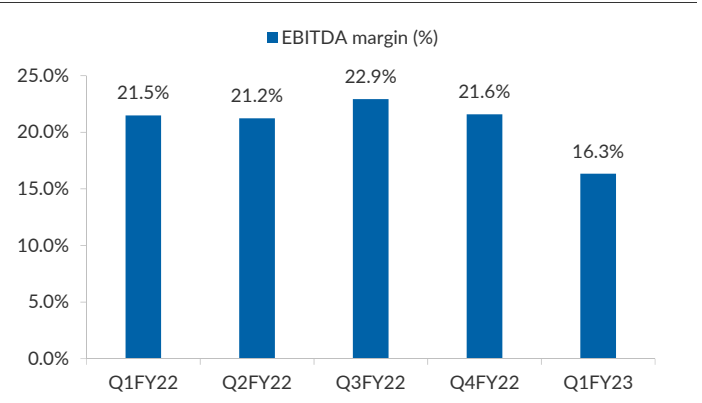
- The pricing pressure in the quarter was with regard to one of top customers. Tanla continues to serve the customer with lower volume. There would be some impact of pricing pressure in Q2FY23 performance and thereafter, it would not have impact on financials.
- The price quoted by the competitor in this issue was one off issue and will not impact other customers
- EUR/USD cross currency headwind had 100bps impact on EBITDA margin in Q1FY23
- It is done with platform modernization in the quarter and Q2 would not have any adverse impact on account of this factor
- Doesn't see any adverse impact of in -App messaging.
- It continues to grow faster than the industry and thus gaining market share.
- Banks and Fintech customers account for around 30% of its SMS volume
- SMS is more secure way of communication for 2nd level of security
- Expects to come back to 20% EBITDA margin in 2 to 3 quarters
- It is satisfied with the traction in the Wisely platform and that would support margin going ahead.

Exhibit 2: Q1 has weak seasonality in terms of revenue growth



Source: Company, YES Sec

Exhibit 3: Sequential dip in EBITDA margin due to several operational headwinds



Source: Company, YES Sec

FINANCIALS

Exhibit 4: Balance sheet

Y/e 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Cash & equivalents	1,654	2,305	2,051	5,841	8,623	9,705	10,923
Inventories - trade	0	0	0	0	0	0	0
Sundry debtors	2,665	3,078	3,258	3,731	5,603	5,139	5,858
Other current assets	245	1,759	2,511	3,125	4,591	5,703	6,834
Sundry creditors	2,380	2,020	2,810	3,387	4,637	5,426	6,872
Other current liabs	82	1,192	1,974	3,730	5,243	5,891	7,458
Net current assets	2,103	3,930	3,036	5,581	8,938	9,230	9,284
Fixed assets	4,520	3,497	359	336	1,286	1,298	1,298
Intangible assets	0	58	2,297	2,297	2,297	2,297	2,297
Investments	0	0	0	0	0	0	0
Other term assets	256	372	1,415	796	1,546	4,688	10,630
Total assets	6,878	7,857	7,107	9,009	14,067	17,512	23,509
Borrowings	0	599	0	0	0	0	0
Other long-term liabs	2	3	89	78	526	526	526
Net worth	6,876	7,255	7,017	8,931	13,540	16,986	22,982
Total liabs & equity	6,878	7,857	7,106	9,009	14,067	17,512	23,509

Exhibit 5: Income statement

(Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	7,916	10,040	19,428	23,415	32,060	37,516	47,516
EBITDA	652	967	1,851	4,335	7,002	6,993	10,480
Depreciation and amortisation	(573)	(732)	(3,778)	(396)	(409)	(480)	(623)
EBIT	79	235	(1,927)	3,939	6,593	6,513	9,857
Non-operating income	48	103	107	219	161	182	203
Interest expense	0	(3)	(64)	(11)	(13)	(13)	(13)
PBT	126	335	(1,885)	4,148	6,741	6,682	10,047
Exceptional items	0	0	(487)	0	0	0	0
Reported PBT	126	335	(2,372)	4,148	6,741	6,682	10,047
Taxes	50	(37)	261	(586)	(1,348)	(1,619)	(2,532)
PAT	176	298	(2,112)	3,561	5,393	5,063	7,516
Minorities and other	0	0	0	0	0	0	0
Attributable PAT	176	298	(2,112)	3,561	5,393	5,063	7,516

Exhibit 6: Cashflow statement

(Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
EBIT	79	235	(1,927)	3,939	6,593	6,513	9,857
Tax Paid	0	0	(447)	(561)	(1,165)	(1,619)	(2,532)
Depr. & amortization	573	732	3,778	396	409	480	623
Working capital Δ	(360)	(1,326)	38	1,790	(1,178)	790	1,164
Other operating items	31	54	950	46	0	0	0
Operating cashflow before interest	323	(304)	2,392	5,610	4,659	6,164	9,112
Financial expense	0	(3)	(64)	(11)	(13)	(13)	(13)
Non-operating income	48	103	107	219	161	182	203
Operating cashflow after interest	371	(204)	2,434	5,819	4,807	6,333	9,302
Capital expenditure	(95)	101	(2,112)	(317)	(457)	(492)	(623)
Long term investments	0	0	0	0	0	0	0
Other items	(5)	17	69	(99)	(614)	0	0
Free cash flow	271	(87)	392	5,403	3,736	5,841	8,679
Equity Raised	84	179	14	(1,476)	(819)	0	0
Borrowing	0	599	(599)	0	0	0	0
Dividends paid	(33)	(41)	(61)	(136)	(135)	(1,618)	(1,519)
Net change in cash	321	650	(254)	3,790	2,781	4,224	7,160

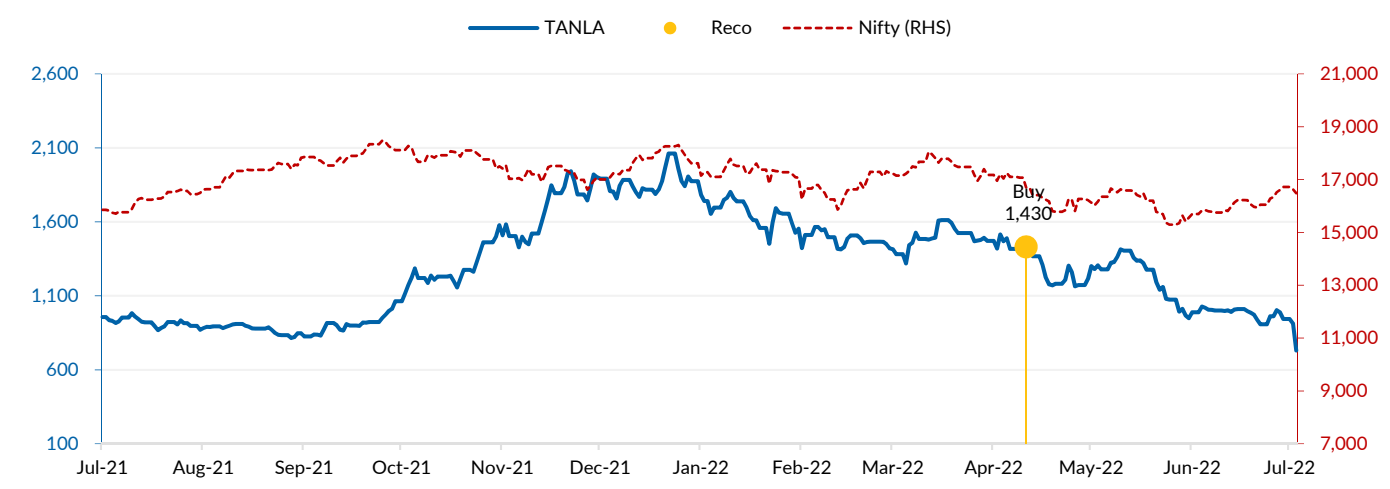
Exhibit 7: Ratio analysis

Per share(Rs)	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Pre-exceptional EPS	1.6	2.6	10.2	26.2	39.7	37.3	55.4
DPS	0.3	0.4	0.4	1.0	1.0	11.9	11.2
BVPS	61.2	62.7	48.1	65.8	99.8	125.2	169.4
Growth (%)							
Revenues	36.6	26.8	93.5	20.5	36.9	17.0	26.7
Ebitda	16.2	48.4	91.3	134.2	61.5	(0.1)	49.9
EPS	(58.9)	64.7	295.4	157.3	51.4	(6.1)	48.4
Profitability ratios (%)							
Ebitda margin	8.2	9.6	9.5	18.5	21.8	18.6	22.1
Ebit margin	1.0	2.3	(9.9)	16.8	20.6	17.4	20.7
Tax rate	(39.5)	10.9	11.0	14.1	20.0	24.2	25.2
Net profit margin	2.2	3.0	(10.9)	15.2	16.8	13.5	15.8
Return ratios (%)							
ROE	2.6	4.2	(29.6)	44.7	48.0	33.2	37.6
ROCE	1.9	4.6	(24.3)	51.6	58.5	42.4	49.1
Solvency ratios (x)							
Net debt/equity	(0.2)	(0.2)	(0.3)	(0.7)	(0.6)	(0.6)	(0.5)
Net debt to Ebitda	(2.5)	(1.8)	(1.1)	(1.3)	(1.2)	(1.4)	(1.0)

Per share(Rs)	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Valuation ratios (x)							
PER(x)	NA	NA	NA	NA	18.4	19.6	13.2
Price/Book(x)	NA	NA	NA	NA	7.3	5.8	4.3
EV/EBITDA(x)	NA	NA	NA	NA	12.9	12.8	8.4

Dupont Analysis	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Asset Turnover	1.2	1.4	2.6	2.9	2.8	2.4	2.3
EBIT margin	1.0%	2.3%	-9.9%	16.8%	20.6%	17.4%	20.7%
Interest Burden	1.6	1.4	1.2	1.1	1.0	1.0	1.0
Financial Leverage	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Tax burden	1.4	0.9	0.9	0.9	0.8	0.8	0.7
RoE	2.6%	4.2%	-29.6%	44.7%	48.0%	33.2%	37.6%

Recommendation Tracker



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