CareEdge RATINGS

Tanla Platforms Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	5.00	CARE A+; Stable	Reaffirmed
Short-term bank facilities	15.25	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Tanla Platforms Limited (TPL) continues to derive strength from its established market position in providing Communication platform as a service (CPaaS), experienced promoters, qualified management team, and continuous innovation in the digital platforms segment. Ratings are further supported by heathy financial risk profile with absence of bank debt and a strong net worth base of nearly ₹1,900 crore owing to improved scale of operations marked by operating income of ₹2,922 crore with sustained healthy profitability margins of around 17-20%. The company's revenue base is expected to grow and remain upward of ₹4,000 crore in the coming fiscal backed by innovations in the digital platforms segment and improvement in enterprise communication segment owing to strategic collaborations. TPL maintains a superior liquidity represented by strong gross cash accruals (GCA) of around ₹480 crore in FY23 and free cash and cash equivalents of around ₹616 crore as on December 31, 2023.

However, ratings are tempered by technological obsolescence risk, cyber security risk, and regulatory risk coupled with risk of increasing competition in CPaaS space.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Total operating income (TOI) growing to ₹4,000 crore or above, while maintaining operating margins at over 18% on a sustained basis.

Negative factors

- Significantly declining revenue or profitability by more than 20% y-o-y.
- Unprecedented increase in debt levels resulting in moderating solvency position.
- Notably deteriorating liquidity.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) in its analysis has considered the consolidated business and financial risk profiles of TPL and its subsidiaries, as the entities are linked through a parent-subsidiary relationship. The list of entities consolidated with TPL according to its audited results for FY23 has been placed in Annexure-6.

Outlook: Stable

CARE Ratings believes that the entity will continue to benefit from its established presence as the CPaaS leader in India and continuous innovation in the digital platforms segment.

Detailed description of the key rating drivers:

Key strengths

Improvement in the scale of operations with sustained healthy profitability margins

Revenue from operations experienced a modest 5% growth from ₹3,206 crore in FY22 to ₹3,355 crore in FY23. This growth was primarily driven by a 20% increase in the digital platforms segment, offsetting a moderation in enterprise communication revenue in Q1-FY23. In 9M-FY24, the company achieved a revenue of ₹2,922 crore.

In July 2023, TPL completed 100% acquisition of ValueFirst, previously owned by Twilio Inc., a leading CPaaS provider in the US. ValueFirst's substantial market share in the mid-market customer segment is expected to enhance TPL's customer portfolio within the enterprise communication segment, contributing to diversification. Thus, considering the improvement in the enterprise communication segment and acquisition of ValueFirst, revenue is expected to increase to above ₹4,000 crore for FY24. In FY23, the company experienced a decline in profitability margins, with a PBILDT margin of 17.60% (21.89% in FY22), primarily due to pricing pressure in the enterprise communications business and increase in the service cost. However, in 9M-FY24, the PBILDT margin improved to 20.14%, driven by enhancements in the digital platforms segment, where gross margins are high.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Development of robust platforms
In 2021, TPL, in collaboration with Microsoft, developed Wisely, a unified platform for digital interactions featuring end-to-end encryption built on blockchain technology. Wisely caters to the diverse needs of multiple C-suite executives across all key aspects of digital interaction. In FY23, the company further expanded its platform offerings with Wisely ATP, an AI-based anti-phishing platform boasting 99% accuracy and capable of processing up to one trillion transactions annually. Wisely ATP leverages artificial intelligence and machine learning to proactively identify, prevent, and eliminate phishing attacks. Currently, TPL has developed six platforms within the Wisely ecosystem.

Comfortable credit metrics
The company maintains a strong financial position, underpinned by a net worth of approximately ₹1,935 crore as on December 31, 2023, and the absence of any term debt obligations. The company does not utilise working capital limits and maintains a significant cash balance throughout the year.

Established market position in Application to Person messaging segment with tie-up in place for providing service for majority of telecom players operating in India
Founded in 1999, it was the first company to develop and deploy Application to Person (A2P) Short Message Service Centre (SMSC) in India. Today, TPL operates as one of the largest CPaaS players, processing more than 800 billion interactions annually and about 63% of India's A2P SMS traffic. TPL has developed innovative platforms such as Trubloq and Wisely, which serve various functions offering innovative solutions designed to enhance engagement, efficiency, and security.

Experienced promoters and professional management with long track record of operations
TPL has been promoted by Uday Kumar Reddy, the Chairman & CEO of the company. He is a management graduate with more than two decades of experience in Information Technology and Telecom Sector. He spearheads the company as the CEO, and is supported by other directors and experienced management team.

Key weaknesses

Technological obsolescence risk and cyber security risks
Technological obsolescence risk is a significant concern for TPL operating in a rapidly evolving digital landscape. With advancements in communication technologies and shifting market dynamics, there exists a tangible threat that current CPaaS solutions may become less competitive over time. However, TPL actively mitigates this risk by continuously innovating in the digital platforms segment, ensuring its offerings remain relevant and competitive in the market. TPL faces the risk of system breaches and potential loss of confidential customer data due to cyberattacks, which could adversely affect the company's brand image and customer relationships. However, Information Security Policy implemented at TPL ensures managing information security effectively, safeguarding both the Company's and customers' information assets against threats from both external and internal sources.

Susceptibility to regulatory risks
Telecom Regulatory Authority of India (TRAI) regulates all promotional and transactional messaging services in India. TPL derives a significant portion of its income from bulk messaging services and hence is susceptible to any change in regulatory policy impacting its operational revenue from that segment. CARE Ratings observes, TPL has been consistently diversifying its product portfolio thereby reducing the risk of revenue concentration from a particular segment.

Liquidity: Strong

TPL's strong liquidity is underpinned by cash and liquid investments totalling ₹616 crore as on December 31, 2023, and healthy GCA of around ₹480 crore for 9M-FY24 adequate to meet operational requirements and fund research expenses. Additionally, the non-utilisation of working capital limits and absence of any outstanding term debt obligations further enhance the company's financial stability.

Environment, social, and governance (ESG) risks

Environmental	Potential carbon footprint from data centres, network infrastructure, and other operational activities could result in increased environmental impact and regulatory scrutiny. However, the company is working towards achieving carbon neutrality by 2025 by adopting "RRR" strategy – Reduce, Review and Restore to combat climate change.
Social	Launched a flagship project called Project for Improvement of Learning Levels through Academic & Other Support in Rural Schools (PILLARS) to provide a holistic learning engagement and enhance educational outcomes of students in rural India. Skill development training for youth in business development. Successfully trained and placed 354 students. As part of its annual corporate social responsibility (CSR) initiatives for FY22-23, Tanla donated ₹1.5 million to the Heal-A-Child Foundation.
Governance	The company has established independent committees to ensure effective governance practices, thereby minimising governance risks related to governance structures, board independence, diversity, and oversight of corporate policies and practices.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Information technology	Information technology	IT - Services	IT-enabled services

TPL was founded by Uday Reddy in 1999. It was the first company to develop and deploy A2P SMSC in India, and currently is the leading CPaaS provider in India. TPL facilitates seamless communication between enterprises and their customers through multiple channels, including SMS, Voice, email, RCS, OTTs, such as WhatsApp, FB messenger, and push notifications. In 2021, TPL, in collaboration with Microsoft, developed Wisely, a unified platform for digital interactions featuring end-to-end encryption built on blockchain technology.

TPL - Consolidated

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9M-FY24 (UA)
Total operating income	3,205.97	3,354.55	2,922.27
PBILDT	701.92	590.44	588.47
PAT	539.28	447.65	418.09
Overall gearing (times)	0.04	0.05	0.04
Interest coverage (times)	228.19	167.80	129.05

A: Audited, UA: Unaudited. Note: 'these are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	5.00	CARE A+; Stable
Non-fund-based - ST-Bank guarantee		-	-	-	15.25	CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	5.00	CARE A+; Stable	1)CARE A+; Stable (06-Apr-23)	1)CARE A+; Stable (01-Apr-22)	1)CARE A; Positive (06-Apr-21)	-
2	Non-fund-based - ST-Bank guarantee	ST	15.25	CARE A1+	1)CARE A1+ (06-Apr-23)	1)CARE A1+ (01-Apr-22)	1)CARE A1 (06-Apr-21)	-

*LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities - Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - ST-Bank guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Karix Mobile Private Limited	Full	Parent-subsidiary relation and business linkages
2	ValueFirst Digital Media Private Limited*		
3	Gamooga Softtech Private Limited		
4	Tanla Mobile Asia Pacific Pte Ltd (TMAP)		
5	Tanla Digital Labs Private Limited (TDLPL)		

6	Tanla Digital (India) Private Limited (TDIPL)- WOS of TDLPL		
7	Tanla Digital Labs FZ-LLC - WOS of TMAP		
8	Tanla Foundation		

* ValueFirst Digital Media Private Limited was acquired in July 2023.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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