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# Unlocking the Future: A Financial Deep Dive into Tanla Platforms

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This is my first attempt at writing a valuation post, inspired by my applied financial analysis class and the book *Narrative and Numbers* by Prof. Aswath Damodaran. I aim to provide a comprehensive Discounted Cash Flow (DCF) analysis of Tanla Platforms using a moderately conservative approach. This blog will guide you through how to take the story of Tanla Platforms, apply a narrative, and convert it into a valuation. Though it is for a single company, you should be able to use a similar approach for other companies, highlighting how anyone can start practicing valuation.

DCF is a valuation method that estimates the value of an investment based on its expected future cash flows, discounted to their present value. While it has its limitations, such as sensitivity to assumptions, it remains widely used due to its detailed and fundamental approach.

I have chosen to use ‘I’ instead of ‘we’, inspired by Prof. Damodaran, as this valuation is based on my personal narrative and I don’t want to impose my perspective on the readers.

I welcome and encourage feedback on my assumptions and approach, as it helps refine and improve the analysis. Please feel free to share your thoughts and insights.


Two Eyes of Tanla Platform

## Introduction to Tanla Platforms

Tanla Platforms Limited, founded in 1999, is a pioneer in mobile and digital communications, specializing in the Communications Platform as a Service (CPaaS) sector. Headquartered in Hyderabad, India, Tanla holds a substantial market share of approximately 35% in India according to their integrated report for FY24. The company is publicly listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) and features in prestigious indices like Nifty 500 and FTSE Russell.

Tanla’s mission is to build a trustworthy and transparent ecosystem with innovative products and solutions. The company adheres to values such as no scam, no spam, data privacy, data security, and 100% transparency.

Tanla's revenue streams are primarily derived from digital platforms and enterprise communications.

## Recent Developments and Case Study

Recently, Tanla was featured in a case study by the London Business School titled "From Adversity to Leadership: Tanla Platforms' Journey to Becoming India's SaaS Titan." This case study highlights Tanla's strategic positioning and robust growth in the CPaaS market.

## The Story

Tanla Platforms is a leading player in the Communications Platform as a Service (CPaaS) industry in India, and is poised for substantial growth both domestically and internationally. With a robust presence in the market, the company's revenue is derived from two primary streams: digital platforms and enterprise communications. Tanla benefits from high margins in its digital platforms segment and steady growth in enterprise communications. As the CPaaS market expands rapidly, Tanla's strategic positioning ensures it captures a significant share of this growth. The company's historical consistency in managing costs, such as sales and marketing expenses, and maintaining a stable tax rate, supports its growth story.

My analysis leverages detailed financial projections and conservative estimates to offer a clear picture of Tanla's valuation.

## Financial Assumptions Summary

To value a company using the DCF method, we need to make several assumptions about its future performance. These assumptions help us estimate future cash flows and discount them to their present value. Here's a summary of the assumptions I've made for Tanla Platforms:

## Narratives behind the Numbers

### 1. Digital Platforms' Margins and Growth

- Historical revenue growth for digital platforms were 20.2% in FY23 and 21.8% in FY24. The CPaaS industry is projected to grow at a CAGR of 24.83% over the next five years in India and more than 25% globally (Insightaceanalytic) (Mordor Intel). Tanla currently generates 5% of its revenues from international markets, where margins are expected to be better. To be moderately conservative, I assume a growth of 24% from FY25 to FY29, gradually decreasing to 8% by FY34. The terminal growth rate is assumed at 5%.

### 2. Enterprise Communications Business

- According to the HDFC report, enterprise communications are projected to grow at a 17% CAGR from FY24 to FY26. I assume a 17% CAGR from FY25 to FY29, gradually decreasing to 8% by FY34. The terminal growth rate is assumed to be 5%. This segment is expected to experience steady growth despite lower margins compared to digital platforms.

Note: Both the businesses comes under the CPaaS industry, so our assumptions are moderately conservative given the CPaaS industry is poised to grow at more than 24% year-over-year for next 5 years or so.

### 3. Gross Margins

- **Digital Platforms**: Historical gross margins for digital platforms were 93.7% in FY22, 96% in FY23, and 97.6% in FY24. Given the benefit from scale, I assume a gross profit margin (GPM) of 98% from FY25 to FY29, gradually decreasing to 96% by FY34 due to potential salary hikes.
- **Enterprise Communications**: Historical gross margins for enterprise communications were 22.75% in FY22, 17.89% in FY23, and 19.56% in FY24. The dip in FY23 was due to a large customer issue. Post-ValueFirst acquisition, GPM is expected to decrease initially but improve later. I assume a GPM of 19.5% for FY25 and FY26, 20% from FY27 to FY29, and gradually decreasing to 15% by FY34.

### 4. Operating Expenses

- **Sales and Marketing Costs**: Historically, sales and marketing costs have been around 1%-1.5% of revenue. I assume 1.5% throughout the model.
- **General and Administrative Expenses**: Historically, G&A expenses have been around 5.5%-7% of revenue. We assume 7.5% throughout the model.
- **Effective Income Tax Rate**: The effective income tax rate has been consistently around 20%. We assume the same for the entire model.

### 5. Capital Expenditures and Working Capital

- **Capex**: Capital expenditures (Capex) for Tanla Platforms include investments in intellectual property, intangible assets, and upgrades to software infrastructure. Capex has varied significantly in the past 3 years, so I used estimates from CapIQ for FY25-FY27 and assume growth at the same rate as revenue thereafter.
- **Working Capital:** Working capital represents the difference between Tanla's current assets and current liabilities, reflecting the company's liquidity and operational efficiency in managing software and service delivery.
  Working capital as a percentage of revenue decreased from 28.15% in FY22 to 26.7% in FY24. We assume it stabilizes at 25% for the model.

### 6. Cost of Capital and Return on Invested Capital (ROIC)

- **Cost of Capital**: The cost of capital is like the interest rate on a loan. It reflects the return that investors expect from taking risk and investing in the company. I used a weighted average cost of capital (WACC) of 12% for FY25, decreasing to 11.5% by FY29, and 11% for the rest of the model. This aligns with external estimates ranging from 10.7% to 11.5% ( gurufocus and alphaspread) .
- **ROIC**: Return on invested capital (ROIC) measures how effectively a company uses its capital to generate profits. For FY23 and FY24, Tanla's ROIC was around 30%. Given the slightly lower margins in the future, I used a conservative ROIC of 25% for the terminal value calculation.

## Valuation

With these assumptions, I arrived at a valuation of approximately ₹1,200 per share, representing a premium of about 27% compared to the current trading price of ₹940.

# The DCF Model

Revenue and GPM forecast

## Sensitivity Analysis

Sensitivity analysis helps us understand how changes in key assumptions impact the valuation. For example, let’s look at how changes in the first five years of revenue growth for Digital Platforms and Enterprise Communications affect the value per share:

You can do for other assumptions similarly.

This analysis highlights Tanla Platforms' strategic positioning and strong growth potential in the CPaaS industry.

Let me know in the comments if anyone is interested in the excel file, I will share a drive link.

*Disclaimer: This report is for educational purposes only and should not be construed as financial advice. Investors should conduct their own due diligence before making any investment decisions. Author is not a registered SEBI analyst*



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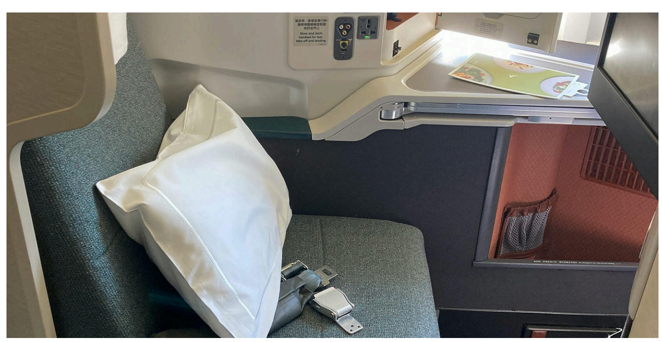

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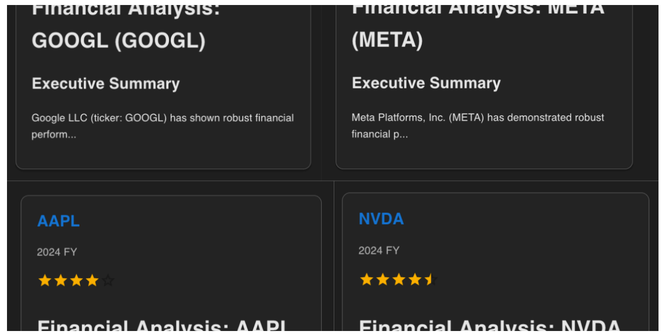


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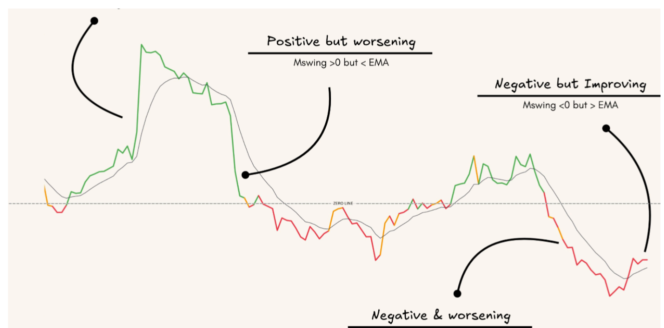


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