Tanla Platforms Limited
ValueFirst India and Value First Middle East acquisitions' Transcript
June 09, 2023

Call Duration	35 minutes
Management	▪ Ritu Mehta - Head of Investor Relations ▪ Uday Kumar Reddy - Founder, Chairman & Chief Executive Officer ▪ Deepak Goyal - Executive Director & Chief Business Officer ▪ Aravind Viswanathan - Chief Financial Officer
Participants that asked the questions	▪ Anil Nahata - Individual Investor ▪ Deepak Chokhani - Reed Capital Partners ▪ Meet Rachchh - Anubhuti Advisors LLP ▪ Amit Chandra - HDFC Securities ▪ Mohit Motwani - Nuvama ▪ Sharad Kohli - Individual Investor

Operator: Ladies and gentlemen, good day and welcome to the Tanla Platforms Limited Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Ritu Mehta from Tanla Platforms Limited. Thank you. And over to you, ma'am.

Ritu Mehta: Hello. On behalf of everyone at Tanla, I would like to extend a very warm welcome to our investor call. Joining with us today are Uday Reddy, Chairman and CEO; Deepak Goyal, Executive Director and Chief Business Officer; and Aravind Viswanathan, CFO.

Uday will share his insights and strategic reasons behind these acquisitions, followed by Aravind, who would dwell into financials. After opening remarks, we'll be happy to engage with participants and address their questions.

Before I hand it over to Uday, let me draw your attention to the fact that today's discussion may feature statements that are forward-looking in nature. All statements other than statements of historical fact could be deemed forward-looking in nature. Such statements are inherently subject to risk and uncertainties, some of which cannot be predicted or quantified. A detailed disclosure in this regard is mentioned in the presentation that was uploaded on our website. Audio recording and transcript will be available on website soon.

Now I hand it over to Uday.

Uday Kumar Reddy: Thank you, Ritu. Good evening. Thanks everyone for joining the call. I'm sure you have seen our presentation on ValueFirst acquisition, and I'm really excited about the opportunity here. While I will ask Aravind to take you through the acquisition details, let me share my thoughts on the acquisition and what it means to Tanla and CPaaS industry in general.

Over the past two years, I've been asked three questions consistently on the enterprise business. First has been the implications of global giants with large balance sheets entering the Indian market. I've been consistently maintaining that India is an unique market. To succeed in India what one needs to know is local knowledge, I mean one needs deep local knowledge, ability to work with the entire ecosystem from enterprises to mobile carriers and deep domain knowledge. This is a secret sauce of our success. Acquiring ValueFirst from Twilio is a validation of this longstanding belief.

The second question has been a competitive dynamic due to Airtel competing with CPaaS players in India, largely around pricing. While there was a certain amount of disruption when Airtel made this entry, I think industry has stabilized over the past 12 months. Airtel is both a competitor and partner. And I think the ecosystem has learned the art of coexistence.

I think the phase of market disruption is behind us. As we gain the scale with the ValueFirst acquisition with the overall CPaaS market share of 35% plus were recognized that we have a major role to play to drive responsible industry conduct. We take that responsibility very, very seriously.

The third question has been around international expansion. ValueFirst is a player in Dubai and Saudi and making inroads into Indonesia. We will leverage this acquisition to significantly scale our international operations on platform, on enterprise business.

So, in many ways this acquisition has addressed the key questions asked to me. So why does this acquisition make sense for us? I see five strong reasons. One, a significant bargaining power in sourcing. ValueFirst will help us with further bargaining power in sourcing we were always larger, now we have become largest rather.

The second point is complementary customer base. Our India customer footprint is very complementary. We have 50% share in large enterprise segment. And now ValueFirst brings in 20% share in SME segments. Customers contributing 40% of the required entities, revenues are net new to us. ValueFirst will cross sell and upsell to our customers on vice versa.

Point number three, drive strong operating efficiencies. We looked at the financials in detail as part of the due diligence. I see a significant headroom on efficiencies on both direct indirect cost. We have clarity on where we can add value and improve.

The fourth point is cultural fit. We have a strong relationship with both ValueFirst and Twilio. And Twilio believes we are their natural partner to hope to house ValueFirst employees and customers.

Last but not least is talent. It is not easy to build talent with a big expertise in this space. Vish and his team have tremendous human knowledge and we will leverage this. They have a strong platform called Surbo, which we can be used for our customers.

In summary, we have an incredible track record on acquisitions. We bought Karix and Deepak and his team has helped EBITDA grow from ₹25 crores to around ₹500 crores in the last four years. The same team which delivered the value at Karix will work with ValueFirst team to unlock the value for our shareholders.

Now I will ask Aravind to take you to the deal construct and financial implications.

Aravind Viswanathan: Thanks, Uday. Good evening everyone. Let me quickly give you an overview of the acquisitions that we announced. We announced two acquisitions, right. The first one we signed a definitive agreement to acquire 100% of ValueFirst India from Twilio for a consideration of $42 million, which translates the current exchange rate around ₹ 346 crores subject to upward closing adjustments between $2.5 million to $3.5 million due to the net cash in the business.

We expect to close this transaction by early July 2023, and we should see the full consolidation of this entity in our Q2 numbers. We also signed a binding term sheet to acquire 100% of ValueFirst in Middle East from their existing shareholders for a cumulative consideration of ₹20 crores. So, a combination of primary investment and the second purchase from existing shareholders.

This entity addresses the markets of UAE, Saudi, and Indonesia. We expect to close this acquisition in September '23 and we would see the full consolidation of this entity in our Q3 numbers. We are funding this purchase consideration from our internal accruals. We are incentivizing the management team of ValueFirst for both performance and retention with a ₹50 crore RSU grant in ValueFirst which will vest over a two-year period.

The overall revenues of both of these acquisitions combined is around ₹950 crores. As Uday mentioned, ValueFirst is an existing customer of ours. So if I adjust for that intercompany, the net incremental revenue to Tanla Platforms would be around ₹650 crores. The combined EBITDA of the acquired entities is around ₹50 crores.

Today, ValueFirst operates at around 5% EBITDA returns. EBITDA for Tanla in Q4, we existed FY '23 at around 20% EBITDA. And if we just consolidated on a like-on-like basis, the dilution due to the acquisition would be around 2%. Our plan is to mitigate this impact by improving the ValueFirst EBITDA from current levels of around 5% to double digits in the next two to three quarters.

We have a solid plan on this, Uday referenced it in terms of the efficiencies that we see. And that's the focus for us from a profitability standpoint. We expect to mitigate the entire impact of the EBITDA margin value return by the end of the financial year.

Overall, this is a very attractive acquisition from a valuation standpoint. We are acquiring an entity at 7x EBITDA multiple. For a business which is just operating at very, very low EBITDA levels. And we execute our plan on rising synergistic growth both in India and overseas, coupled with our focus on margin expansion. We see significant value creation through this acquisition.

Now I would ask the operator to open the floor for any questions and we'll be happy between Uday, Deepak, and myself to address any of them.

Question-and-Answer Session

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use the handsets, while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Reminder to the participants, anyone who wishes to ask a question may press * and 1 at this time.

The first question is from the line of Anil Nahata, an Individual Investor. Please go ahead.

Anil Nahata: Yeah, hi.

Aravind Viswanathan: Hi Anil, go on.

Anil Nahata: For the international in terms of the geographies that they are having, because the slide gives a breakup of around ₹153 crores, whereas the revenue is around ₹300 crores if I understand right?

Aravind Viswanathan: Yeah. So, Anil let me clarify that, right. That is the NLD business in those respective geographies, which includes the Tanla numbers, that is more to give you a sense of what is the domestic business that they do with local enterprises, okay?

Anil Nahata: Okay.

Aravind Viswanathan: But they also do global business and ILD business out of these entities. So, we are breaking it down. We will give you further details post the acquisition in terms of the kind of business that they do. But we wanted to specifically call out. See there is a difference between serving the market and the entity being used to book revenues, right. So, you put book a global-to-global revenue in a Dubai entity or a Saudi entity. So, we were specifically carving up what is the local business that we do and that local business for the combined group could be about ₹153 crores that what ₹100 crores comes from ValueFirst and about ₹50 crores comes from Tanla. Tanla was only present in UAE. ValueFirst is present in all three geographies.

Anil Nahata: Great, Aravind. Thank you for that. And can you also give some sort of the range around which the margins for the domestic business in the overseas countries is there? And the Indian margin for ValueFirst?

Aravind Viswanathan: So, if you ask me, the margin on the overseas business today is a little lower, Anil, right. It's probably breakeven or slightly 1% to 2%. And India is a little higher at about 7% -- 6.5%, 7% so.

Anil Nahata: You're giving at the EBITDA level?

Aravind Viswanathan: Yes, I'm giving at the EBITDA level.

Anil Nahata: Okay, fair enough. My third question around this line says, of course, it may be a bit early to ask this question, but I would still leave it with you. Now that Uday has said that one of the large concerns that has been raised by the shareholders community is about the international expansions, and ValueFirst can be a good step behind -- beyond what Tanla was already doing in UAE in terms of getting into deeper into the KSA and Indonesia. I mean what kind of a plan we can see from Tanla over the next one or two years? Can we look at international revenue base of 10%, 20% of the overall revenue? I mean, some sort of thought process would be -- I'm not even asking guidance, I'm saying what kind of a thought process can be there?

Aravind Viswanathan: So, Anil, as you said, right. We've not even integrated the entities, right.

Anil Nahata: Correct. Absolutely.

Aravind Viswanathan: But even we can see the huge opportunity. We clearly see a good opportunity. In fact, we've been talking about Saudi quite a bit, right. We've been talking about Far East Asia quite a bit, right. And the market sizes there are very, very large, okay. So, the idea obviously, and I think Uday kind of mention this, is not just look at these geographies only from an enterprise side, but even from a platform side. So, the expectations and internal workings are quite aggressive, Anil, but it can be substantial. But maybe I will wait to kind of have a much more detailed out plan in terms of what we are doing before I kind of commit. What kind of percentages it can be done.

Anil Nahata: Okay. I know it's ahead of time. And I mean Aravind if you are okay, can I ask more question or should I come back in the queue?

Aravind Viswanathan: No, I would suggest you to come back, because I think there is a queue list, right.

Anil Nahata: Fair enough.

Aravind Viswanathan: Everybody is there and we have time.

Anil Nahata: Absolutely. Fair enough. Thanks Aravind.

Operator: Thank you. The next question is from the line of Deepak Chokhani from Reed Capital Partners. Please go ahead.

Deepak Chokhani: Hi, Uday and Tanla team. Congrats on this acquisition. Great move which will surely solidify Tanla's pole position in India. I have two questions. First is I understand ValueFirst is largely into enterprise business. Just want to understand, given Tanla's foray into Wisely platforms and other business. What could be the cross-sell opportunity to ValueFirst customers more on the platform business side? Number one.

Number two, you mentioned that the international business can grow 2x, 2.5x in few months. Is that like a few months? I mean can you throw some light on this?

And the third is ₹50 crore EBITDA is on ₹950 crores or ₹650 crores?

Aravind Viswanathan: So, let me answer the third question first. The ₹50 crore EBITDA is on ₹950 crores, right. We see that the EBITDA doesn't change because of intercompany, only the revenue changes, okay? Both organizations keep that profit. It's just the consolidated revenue comes up. That is why you will feel that adjustment happens only at the revenue line, but not at the EBITDA line. So that's my first point, right.

The second question is in terms of the platform?

Uday Kumar Reddy: So, Deepak basically like a couple of things, right. One is, for example, in India alone, only 50% of their traffic comes on to our DLT platform, remaining 50% goes to our competitors. So now, going forward, probably from tomorrow, day after tomorrow, 100% of traffic comes to our DLT platform. That's number one, right.

So, number two is, what we noticed is 40% of their revenues are net new to us, okay. So, we are listing down all these clients and we're also working on how to up sell and cross sell some of our Karix and Tanla services, to these customers. So we are pretty excited and we see a huge value there. And of course, in Dubai also, we have been operating for the last two years, we have reasonably big. We also see the clear opportunity over there. I can anticipate, we have our own customers, and they have their own set of customers in Dubai. So, there is a clear opportunity for us to upsell and cross sell value. So, it's only the beginning. There's a long way to go, but we are very excited about the opportunity.

Deepak Chokhani: Perfect. Thank you. Just my one question, which remains. The 2x, 3x growth in few months in the international expansion, can you throw some light on this, sir?

Aravind Viswanathan: Sure. So, when it comes to the NLD business that we specifically talked about. Especially where we have geographies like Indonesia, where we have just made an entry. And if you look at that slide deck, right. You have significant headroom, because it's a very, very large market, right. So, what we are planning is to see how do we accelerate the growth in some of those geographies where we can quickly turn around and get a quick update.

Obviously, we will assess in more details, but that's the kind of potential we are seeing Deepak, right. So that is our approach. Specifically in these geographies where the base is small and we feel that if we can put our full might and our investments behind it, the opportunity to scale up that specific segment is very, very high.

Deepak Chokhani: Okay, all the best. Thank you so much.

Aravind Viswanathan: Thanks Deepak.

Operator: Thank you. The next question is from the line of Meet Rachchh from Anubhuti Advisors LLP. Please go ahead.

Meet Rachchh: Yeah, thanks for the opportunity and congrats on the transaction. So, first question is in terms of margins. So in Slide number 16 of the presentation, where you have mentioned that there's an opportunity to improve 140 basis points, 150 basis points on consolidated basis. So, just wanted to know, this is on the Q4 exit rate or the FY '23 average of 18%?

Aravind Viswanathan: So, I kind of talked about this in my opening remarks, right. So what we are saying, right and that was -- it is both -- it is to say that our exit margin is 20%, okay.

Meet Rachchh: Correct.

Aravind Viswanathan: We have an ability. I mean, if you take the entire impact of the ValueFirst, the impact is about 200 basis points roughly, right? And we are saying over the 12-month period, as we exit, we will kind of get that dilution back largely through the improvements in ValueFirst, EBITDA, right which we have talked about.

Meet Rachchh: Right. Okay, okay, okay. Second question is in terms of the business which we had earlier with ValueFirst. So, can you elaborate what was the business we were doing with ValueFirst for last 10 years?

Aravind Viswanathan: So Tanla has always been a very large platform provider, right. We've been a large platform provider and we have served all of our big CPaaS players, right. Because our platforms are deployed at the telco end and our customers of Tanla historically have been with the CPaaS providers in the other end.

So, in fact, interestingly, when we bought Karix, Karix was probably one of the largest customer of Tanla at that time. So Tanla has been serving the CPaaS players, right, from inception. So that's the kind of so it's typically A2P messaging service where we deploy, I mean, they send the messages and we run it through our platforms in the telco.

Meet Rachchh: Okay. Fine. That's it from my side. Thanks.

Aravind Viswanathan: Thanks.

Operator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Yeah, sir. Thanks for the opportunity. So, my question is on the synergy benefit. So, sir you mentioned that there is obviously like around a lot of synergy benefits that you see. So, if you can, now tell me what are the immediate kind of synergy benefits, we'll see and what are the long to medium-term synergy benefits. And also, we mentioned about pricing benefits that we can get as a larger entity. So if you can, throw some light on that.

And also, if I see the gross margins for both entities, they're mostly the same. So, the difference is mostly on the EBITDA margins. So the margin benefit we're talking about, is it through gross margin expansion or it's like cutting the cost and the tariffs levels -- sorry, at the ValueFirst level, sorry?

Aravind Viswanathan: Sure, Amit. So let me give you my view and request Uday or Deepak to add on, right. So, what we are saying clearly is, I mean, the first point is at an integrated level, the gross margin of Tanla's upwards of 25%, right. For the year, it's 27% as we exit, right. And it's much lower for ValueFirst, right. There is no dilution in gross margin, because when we do the consolidation in many ways, if the company revenue knocks off, but the gross margin remains. So, there is a significant gap in terms of the gross margin.

Now, two, three elements there, Amit, one clearly is the sourcing cost because there is a benefit that we can get as far as that is concerned. Two is, and I think, Uday mentioned that we have a lot of cross leverage through platforms that you have the benefit of -- you have multiple of our platforms deploy not all our ValueFirst traffic goes through that. So, we will definitely create some downstream benefit there. There will be certain indirect cost synergies that we will identify, and we've already identified and we will execute on that, right.

So, I don't think the business is very different for us to operate at very different margin. That's the hypothesis that we are starting with. And obviously, with synergies around platform, et cetera, that they do not have, but like we will get a benefit of that. It is easy for us to kind of drive profitability.

Amit Chandra: Yeah. Okay. And sir in terms of the customer overlaps, obviously you have given very clearly where the overlaps are. But if you can also quantify what could be the overlap in terms of revenues and how do we see these individual customers, which are common in terms of spending, if they work in both the entities?

Aravind Viswanathan: So, Deepak do you want to comment on it? Well, I can give some numbers, right. But from a concept perspective, if you want to give your color, right. And I can provide the number.

Deepak Goyal: Yeah, so -- see it's like this. We have overlap with some customers, and they are pretty large customers, but we don't see any risk whatsoever. The primary reason is that the two separate platforms.

Aravind Viswanathan: So why don't I cover that Amit, till Deepak joins back right. See one point what we have mentioned is 40% of ValueFirst revenues are customers who are net new to Tanla, right. So, to that extent, that gives you a sense, right. The balance of revenues are obviously having an overlap.

Now, not all overlaps necessarily is bad, right. We have a situation where we can coexist. That is not an issue. We are retaining the brand. So, to that extent, it's not that two of them will combine into one. So, we don't see an issue. But what will happen is a huge ability to cross sell upsell that Uday also talked about in his opening remarks, right. That we will have with customers and that's where we see a big opportunity.

Amit Chandra: Why I was trying to understand this. As you said that 60% is overlap. So that's a big overlap, right. So, any risk you see to that in terms of some customers scaling down in one entity or some any kind of risk that you see in the overlap. So that's what I was trying to understand?

Uday Kumar Reddy: Deepak are you there?

Operator: Mr. Deepak your line is in talk mode.

Uday Kumar Reddy: Okay, let Deepak come back and answer that. Meanwhile, we can go with other questions.

Deepak Goyal: I'm there.

Uday Kumar Reddy : Yeah, Deepak, go ahead. Sorry, Deepak go ahead.

Deepak Goyal: Aravind would you please clarify about the 60% overlap thing?

Aravind Viswanathan: Yeah. So, I think the question Deepak that Amit wants is where there is an overlap, do we see a risk of customer pushing out either of the players, right? Is there a risk that we will lose revenues, because of whatever overlap we have? And I just kind of gave a headline saying we don't see that risk. But maybe you may want to elaborate a little bit on that.

Deepak Goyal: Right. First of all, Aravind it is not a 60% overlap of our business between Karix and ValueFirst, right.

Aravind Viswanathan: So, from a revenue standpoint, we did that. So, it is 60%. It has 40% in revenue. But what I mean by that is where we have even one message goes, right. We call it overlap, right. So you may not feel that it's an overlap, but it is.

Deepak Goyal: Yeah. Anyway, so Amit to answer your question, in fact, we have done this exercise, okay. And how it works is a customer usually has a minimum two or more than two providers, okay. Maybe three or four; large customers usually have three or four providers. Usually with the large customers Karix has about 45% to 50% share wallet share, others have to be 20%, 30% or so on, right.

As we see this that for the customer, there are two separate platforms hosted in different geographies, different data centers and our services business is very people oriented. So, customers are used to dealing with a certain set of people in a particular provider. So, if you look at all of that, I don't see any risk. In fact, we see a huge opportunity where we can actually enter into ValueFirst customers, where we are not present. And ValueFirst can come as another provider to our customers where they are not present. So, I am looking as an opportunity where we can look for incremental business rather.

Amit Chandra: Okay. And sir the last question is on the retention program that we have. So, can you please throw some more light on how it is structured? Is it only for the top management or it is across all employees for the ValueFirst data and how the payouts will be?

Aravind Viswanathan: So, we talked -- no, no so -- doing a RSU plan is probably cover top 20, 25 employees there, right with a focused view on how to retain. So, we have an RSU plan for about ₹50 crores in ValueFirst, right. So and that will vest over a two year period for driving both retention as well as performance, right. So that is really how the incentive plan is structured, Amit.

Amit Chandra: Okay, sir. Thank you and all the best sir. Thank you.

Aravind Viswanathan: Thank you.

Operator: Thank you. Participants to ask a question, you may press * and 1. The next question is from the line of Mohit Motwani from Nuvama. Please go ahead.

Mohit Motwani: Hi. Thank you for the opportunity and congratulations on the transaction. I have a question on around, can you give some sense on what led to you selling ValueFirst. I understand that Twilio works with you as well. But I believe that, they wanted to enter India, which is a fast-growing market and that's the reason they had gone in the acquisition way. And they ended up acquiring ValueFirst.

But what I'd like to know is them selling the business and that also at relatively lower valuations. It is good from Tanla's perspective that you are getting, and you can turn around and scale and gain more market share. But just wanted to get some color on that if you can provide? Thank you so much.

Uday Kumar Reddy: Mohit, Uday here. We cannot really comment on behalf of Twilio, but we are very, very excited. We understand this market well. We understand this terrain very well. So, we have been working with ValueFirst for one decade. So, we are pretty excited. So, I don’t know why they left and why they acquired, why they sold it. We cannot really answer those questions. This is completely left with Twilio.

Mohit Motwani: Sure. And that's it. Thank you so much.

Uday Kumar Reddy: Thanks Mohit.

Operator: Thank you. The next question is from the line of Sharad Kohli, an Individual Investor. Please go ahead.

Sharad Kohli: Hi, I have basically three questions, actually two questions and one suggestion. The first question I have is in terms of this industry consolidation. So Karix were number one, ValueFirst was number four. So, they have become part of Tanla over the last two, three years. You basically have three sizable players left now, right? Besides Tanla now, which is Route, Gupshup and ACL which is Sinch.

My question is, in terms of negotiating your share of the cuts from the telcos. Does this make the CPaaS players in a better position to get a higher percentage of the revenue share from telcos? That's my first question.

The second question I have is more on the stats that you gave on the TAM on the Asian markets. The first clarification I have is, is the Indonesian market led by CPaaS players like Tanla or is it kind of like the Airtel model where the CPaaS divisions of the telcos control the market for the most case? And I'm trying to get an understanding of how easy or difficult it might be for a standalone CPaaS player to kind of making inroads, if in fact the telcos are the ones that control the CPaaS market?

And my last one, just given that we are absorbing so much data on the different markets mid-market versus large market. One suggestion I would like to offer is when you guys present your numbers for Q1, is there a slide you can show where we look at each of Tanla's five businesses, whether it's engage or communicate, everything? If you can just do a matrix, maybe a 3x4 matrix or a 4x4 matrix, where you say, here are the divisions, here's which markets we cater to, here's where our share in that market of -- revenue share of the market is, and here are the drivers of those markets, whether it comes from startups or BFSI, whatever. Because it just makes it easier to understand which segments each of Tanla's five divisions is playing. In terms of just modeling out potential revenues. And if you can also disclose TAM numbers for each of those revenues? That's it from my side.

Aravind Viswanathan: In terms of the second question, what I can say is, if you look at any marketing, including Indonesia, it is completely driven by the aggregators or the CPaaS players, not necessarily by the mobile carriers. So, it's a customer in every market, including India and other markets, right. So, it's not different from many other markets. So, that's number one.

Sharad Kohli: Source thing?

Uday Kumar Reddy: Yeah, definitely it would help us. Even now, we have better access to the telcos. And with this acquisition, like, it is definitely that. So, we have move power to negotiate harder with the telcos. In terms of the metrics. Yes, definitely we'll consider that.

Sharad Kohli: Okay. Thank you.

Aravind Viswanathan: Thanks, Sharad.

Operator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Ritu Mehta for closing comments.

Ritu Mehta: Thank you, everyone. That was the last question for today. In case we could not take your questions due to time constraint, please feel free to reach out to our investor relations team. Thank you.

Operator: Thank you. Ladies and gentlemen, on behalf of Tanla Platforms Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.
