

CMP: INR 1,143

Rating: Accumulate

Target Price: INR 1,309

Stock Info

| | |
|--------------------------|---------------|
| BSE | 543228 |
| NSE | ROUTE |
| Bloomberg | ROUTE IN |
| Sector | Communication |
| Face Value (INR) | 10 |
| Equity Capital (INR mn) | 629 |
| Mkt Cap (INR mn) | 72,684 |
| 52W H/L (INR) | 1886/1052 |
| Avg Yearly Vol (in 000') | 301 |

Shareholding Pattern %

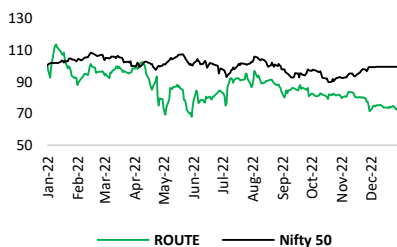
(As on December, 2022)

| | |
|-----------------|-------|
| Promoters | 58.44 |
| Public & Others | 41.56 |

Stock Performance (%)

| | 1m | 3m | 12m |
|----------|------|--------|--------|
| Route | 0.3 | -11.53 | -35.33 |
| Nifty 50 | 1.74 | 3.07 | 2.83 |

Route Mobile Price Chart



Abhishek Jain
abhishek.jain@arihantcapital.com
022 6711485

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Strong set of numbers and surpassed pre-IPO 2020 revenue & PAT in a single quarter Q3FY23. The company is on track to surpass the guidance of \$175 mn in revenue from India in FY23.

Route Mobile beat revenue estimates in Q3FY23: Reported revenue of INR 9,857 Mn up 16.5% QoQ/ 75.2% YoY against our estimate of INR 9,047 Mn (Bloomberg estimates of INR 8,996 Mn). The growth was led by digital acceleration which also helps increase client acquisition. The company has surpassed pre-IPO 2020 audited revenue of INR 9,563Mn and adjusted PAT of INR 843Mn in Q3FY23.

Strong growth momentum in Net profit: Consolidated PAT stood at INR 854 Mn, increased by 17.5%QoQ/+84.4% YoY above our estimate of INR 795 Mn (Bloomberg estimates of INR 673.5Mn).

Expansion on margin front: Consolidated EBITDA stood at INR 1,246 Mn, increased by 21%QoQ/+105% YoY above our estimate of INR 1,110 Mn (Bloomberg estimates of INR 1,029 Mn). EBITDA margin was expanded 47bps QoQ/ 183bpsYoY at 12.6% against our estimates of 12.3% (Bloomberg estimates of 11.4%). Margin expansion led by better growth momentum. Certain one-off costs, bad debts amounting to INR58.4 million were written off in Q3FY23, it relates to Mr Messaging pre-acquisition period. Amount shall be adjusted while computing the EBITDA for Mr Messaging for the purposes of calculating the deferred payouts for the shareholders of Mr Messaging. ESOP expense of INR82.5 mn going to resignation of some employees, with this backdrop

Billable: The company billable transactions increased from INR16.3 bn in Q3FY22 and INR26.9 bn in Q2FY23 to INR27.7 billion in Q3. Average realization per billable transactions increased from 31% in Q2FY23 to 36% in Q3 FY23.

Strong clientele: The company added over 700 new customers in the Q3FY23 across all products. The company believe the EBITDA to OCF conversion will start to trend 50% and above, from Q1FY24 onwards.

Valuation and Outlook

The company reported robust revenue growth and expansion in margin during Q3FY23 due to the structured approach and diversified scale of operation ability. The company growth is coming from Latin America, Europe, Asia, and other markets. The company is fairly balanced in Africa flattened and Asia and the Middle East. The company is bullish about LATAM and believes the LATAM growth trajectory will be strong. Also strong growth from Saudi, Kuwait, and India. We believe, i) The company has demonstrated decent resilience despite macro headwinds; ii) it is poised for better growth due to the potential to expand its large-client base globally across multiple countries. **We value the stock at a PE multiple of 22x to its FY25E EPS of INR ~60, which yield a revised target price of INR 1,309 per share (earlier target price; INR 1,631 per share). We maintain our Accumulate rating on the stock.**

| YE March (INR Mn) | Revenues | EBITDA | EBITDA Margin (%) | PAT | EPS (INR) | RoE (%) | P/E (x) |
|----------------------|----------|--------|-------------------|-------|-----------|---------|---------|
| FY22 | 20,020 | 2,186 | 10.92% | 1,701 | 27.8 | 10.16% | 41.8 |
| FY23E | 34,035 | 4,356 | 12.80% | 3,024 | 52.4 | 15.73% | 22.2 |
| FY24E | 37,438 | 4,829 | 12.90% | 3,228 | 56.0 | 14.76% | 20.8 |
| FY25E | 41,182 | 5,312 | 12.90% | 3,433 | 59.5 | 13.90% | 19.6 |

Source: Company, Arihant Research

Exhibit 1: Q3FY23 performance

| INR Mn (Route Mobiles Ltd.) | Q3FY23 | Q2FY23 | Q3FY22 | Q-o-Q | Y-o-Y |
|---------------------------------------|----------------|---------------|---------------|---------------|---------------|
| Net Revenue | 9,857 | 8,458 | 5,628 | 16.5% | 75.2% |
| Purchase of messaging service | 7,654 | 6,571 | 4,442 | 16.5% | 72.3% |
| Gross Profit | 2,203 | 1,888 | 1,185 | 16.7% | 85.9% |
| Gross Profit (%) | 22.35% | 22.32% | 21.06% | 3bps | 129bps |
| Employee cost | 432 | 474 | 357 | -8.7% | 21.0% |
| Other Expenses | 525 | 385 | 220 | 36.6% | 139.0% |
| EBITDA | 1,246 | 1,029 | 608 | 21.0% | 104.8% |
| <i>EBITDA margin %</i> | <i>12.6%</i> | <i>12.2%</i> | <i>10.8%</i> | <i>47bps</i> | <i>183bps</i> |
| Other Income | 78 | 23 | 47 | 242.9% | 63.8% |
| Depreciation | 219.60 | 188 | 99 | -3.7% | 122.9% |
| EBIT | 1,103 | 864 | 557 | 27.8% | 98.1% |
| <i>EBIT margin %</i> | <i>11.2%</i> | <i>10.2%</i> | <i>9.9%</i> | <i>98bps</i> | <i>129bps</i> |
| Finance cost | 72 | 41 | 6 | 76.3% | 1062.9% |
| Exceptional Item | - | - | - | - | - |
| Profit Before Exceptional item | 1,031.3 | 822.70 | 551 | 25.4% | 87.2% |
| Exceptional Item | | | | | |
| Tax Expense | 177.7 | 96 | 88 | 84.3% | 101.9% |
| Effective tax rate % | 17.2% | 11.7% | 16.0% | 551bps | 126bps |
| PAT | 853.6 | 726.30 | 462.90 | 17.5% | 84.4% |
| Non-controlling interest | 29.2 | -9.7 | | -401.0% | 850.0% |
| adjusted PAT | 824 | 736.00 | 462.90 | 12.0% | 78.1% |
| <i>PAT margin %</i> | <i>8.4%</i> | <i>8.7%</i> | <i>8.2%</i> | <i>-34bps</i> | <i>14bps</i> |
| EPS (INR) | 13.2 | 11.8 | 7.4 | 12.4% | 78.6% |

Source: Company, Arianth Research

Key Conference call Highlights

- **RML** is now exclusive partner for international A2P messaging for leading as well as for telecom cooperation in Uganda, while there is a lots of discussion about mobile network operators, stepping into domain deal wins.
- **Geography:** The company is expanding Route Mobile strengthening its presence in GCC region with entry to the Kingdom of Saudi Arabia with ticket license win.
- **Subsidiary:** The company formed a step down subsidiary in Mexico as a part of LATAM expansion strategy and step down subsidiary in UK to focus on mobile identity and other products.
- **Mobile App:** The company is launching a mobile identity management product that will help enterprise to gain actionable insight and digital fraud and provide a simple at more practical solutions such as password less authentication. **Solution is already live in Colombia, and Peru and it's being used by enterprises including banks.**
- **Email:** The company has upgraded email infrastructure, which was delayed, but due to the hardware supply challenges this new setup will enable to bid large enterprises for businesses that include banks. **The company is very optimistic about email play.**
- **Dividend:** Board has decided to meet on January 26 to discuss the proposed interim dividend considering the superlative performance of the Company in Q3 FY23.
- **Growth:** The company growth is coming from Latin America, Europe, Asia and other markets. The company is fairly balanced in Africa flattened and Asia and Middle East. The company is bullish about LATAM and believe the LATAM growth trajectory will be strong. Also strong growth from Saudi, Kuwait and India.
- **SMS Firewall product,** is the kind of deployment, Route is doing right now with various operators that particular division is doing really good and the company is in talks with multiple operators, and very soon the will announce some more was exclusive partnerships.
- **New Product Launch:** The company is launching a product in Barcelona probably, which will be in very unique solutions to mitigate the risk of digital fraud and that is exactly like the FinTech company and most of the like banks are facing right now. So, probably can say Route Mobile launching their first Intex Solution in the month of February. And to lead that definitely hiring somebody from the industry who has multiple years of experience to lead this product.

Exhibit 2: Strong growth momentum in revenue front and traction on the gross profit margin (INR Mn).

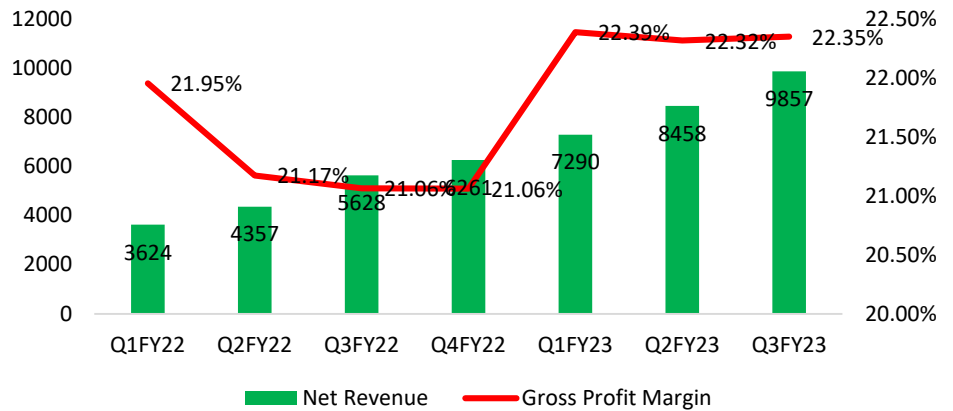


Exhibit 3: Margin expansion led by better growth momentum (INR Mn).

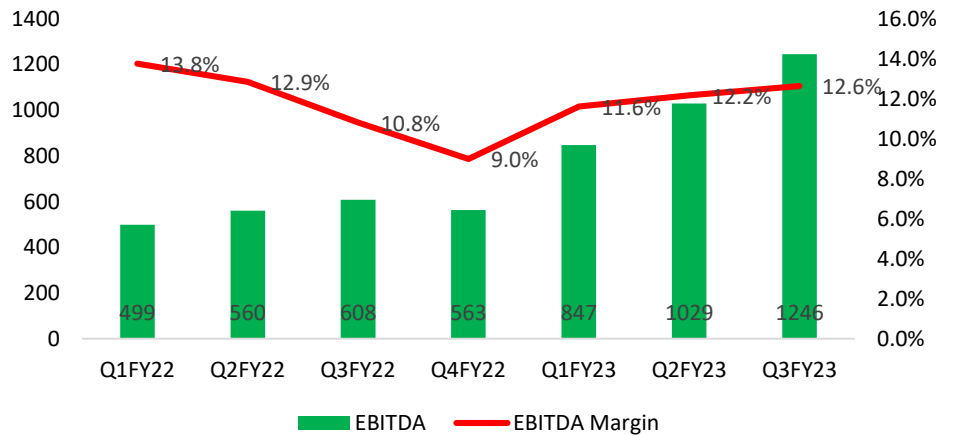
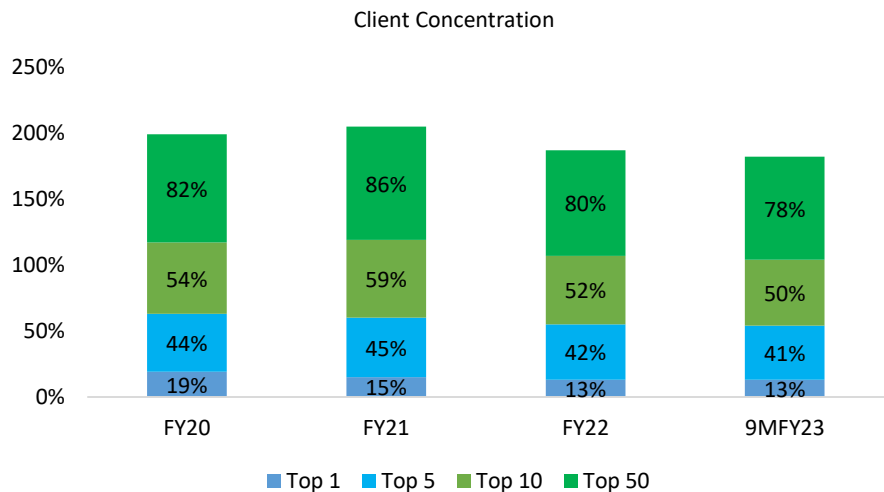


Exhibit 4: The company has reduced client concentration risk by diversifying its customer based.



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Exhibit 5: Revenue from new products in LTM Dec 2022 INR 1,400mn

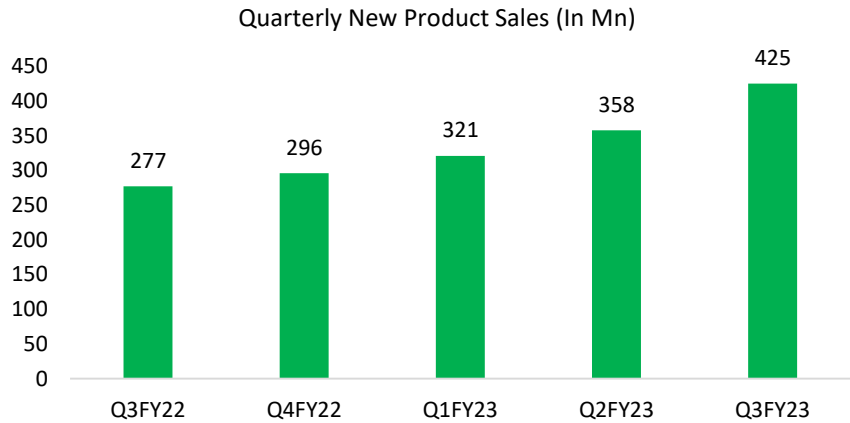


Exhibit 6: Revenue from operations & Total Billable Transaction.

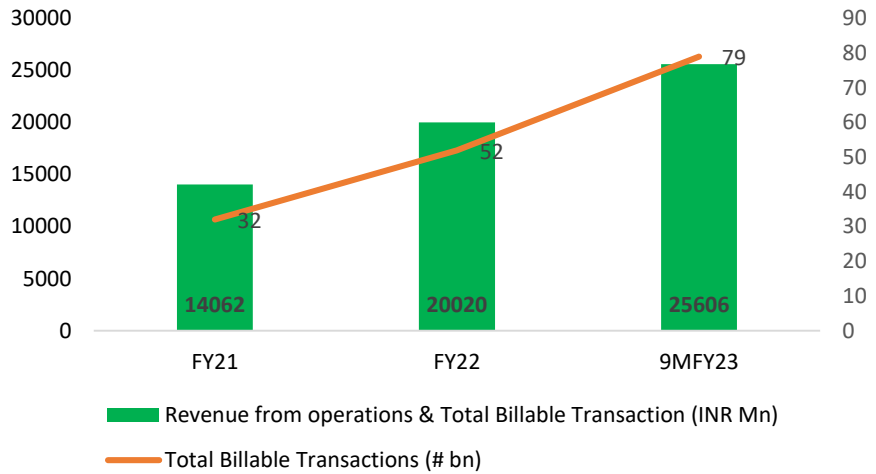
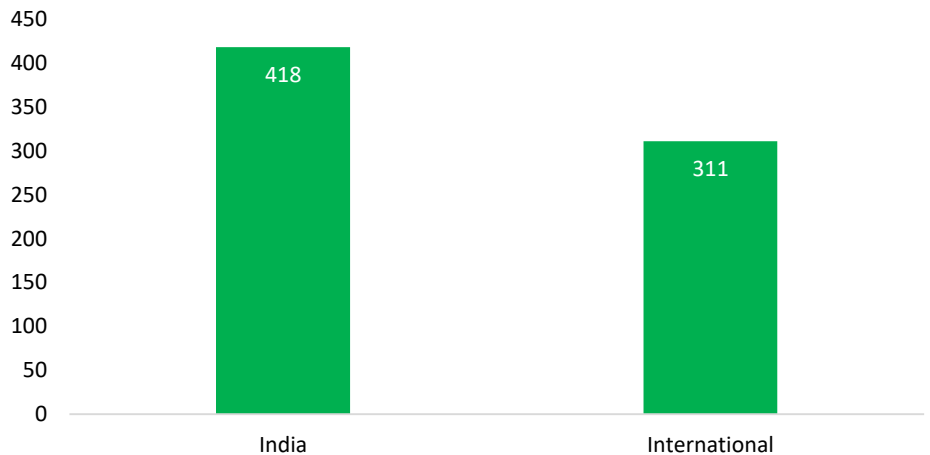


Exhibit 7: Human Resource Capital- Location wise break-up



66 New Employees joined in Q3 FY22-23
61 Employees left in Q3 FY22-23

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

| Income Statement | | | | |
|---------------------------|---------------|---------------|---------------|---------------|
| Y/E March (INR Mn) | FY22 | FY23E | FY24E | FY25E |
| Revenues | 20,020 | 34,035 | 37,438 | 41,182 |
| <i>Change (%)</i> | 42.4% | 70.0% | 10.0% | 10.0% |
| Cost of Goods Sold | 15,825 | 26,717 | 29,202 | 32,122 |
| Employee costs | 1,261 | 1,872 | 1,984 | 2,224 |
| Other expenses | 748 | 1,089 | 1,423 | 1,524 |
| Total operating Expense | 17,834 | 29,678 | 32,608 | 35,869 |
| EBITDA | 2,186 | 4,356 | 4,829 | 5,312 |
| EBITDA Margin (%) | 10.9% | 12.8% | 12.9% | 12.9% |
| Other Income | 201 | 289 | 295 | 298 |
| Depreciation | 383 | 714 | 824 | 1,035 |
| Interest | 52 | 244 | 265 | 285 |
| PBT | 1,952 | 3,688 | 4,036 | 4,291 |
| Extra-ordinary | - | - | - | - |
| PBT after ext-ord. | 1,952 | 3,688 | 4,036 | 4,291 |
| Tax | 251 | 664 | 807 | 858 |
| <i>Rate (%)</i> | 12.9% | 18.0% | 20.0% | 20.0% |
| PAT | 1,701 | 3,024 | 3,228 | 3,433 |
| <i>Change (%)</i> | 28.2% | 77.8% | 6.8% | 6.3% |

| Cash Flow Statement | | | | |
|--|----------------|----------------|---------------|---------------|
| Y/E March (INR Mn) | FY22 | FY23E | FY24E | FY25E |
| PBT | 1,952 | 3,688 | 4,036 | 4,291 |
| Depreciation | 383 | 714 | 824 | 1,035 |
| Interest Exp | (10) | 244 | 265 | 285 |
| Other Non Cash Item | (156) | (148) | (148) | (148) |
| Cash flow before WC changes | 2,169 | 4,497 | 4,976 | 5,462 |
| (Inc)/dec in working capital | (658) | (1,641) | (433) | (428) |
| Operating CF after WC changes | 1,795 | 4,060 | 3,275 | 3,297 |
| Less: Taxes | (450) | (664) | (807) | (858) |
| Operating cash flow | 1,346 | 3,396 | 2,468 | 2,439 |
| (Inc)/dec in F.A | (171) | (107) | (118) | (132) |
| Other | (4,083) | 37 | 37 | 171 |
| Cash flow from investing | (8,384) | (69) | (80) | 41 |
| Free cash flow (FCF) | 1,175 | 3,289 | 2,349 | 2,307 |
| Proceeds/(Repayment) of current borrowings | - | - | - | - |
| Proceeds/(Repayment) of non-current borrowings | (40) | - | - | - |
| Interest & Lease Liability | (14) | - | - | - |
| Dividend | -300 | -544 | -581 | -618 |
| Interest exp | -5 | -244 | -265 | -285 |
| Cash flow from financing activities | 8241 | -788.1 | -846.1 | -902.9 |
| Currency fluctuation arising on consolidation | - | - | - | - |
| Net inc / (dec) in cash | 1,202 | 2,539 | 1,541 | 1,577 |
| Opening balance of cash | 2,699 | 4,076 | 6,791 | 8,507 |
| Closing balance of cash | 4,076 | 6,791 | 8,507 | 10,259 |

Source: Company, Arianth Research

| Balance Sheet | | | | |
|--|---------------|---------------|---------------|---------------|
| Y/E March (INR Mn) | FY22 | FY23E | FY24E | FY25E |
| Sources of Funds | | | | |
| Share Capital | 629 | 629 | 629 | 629 |
| Reserves & Surplus | 16,097 | 18,577 | 21,224 | 24,039 |
| Minority Interest | 21 | 21 | 21 | 21 |
| Net Worth | 16,746 | 19,226 | 21,873 | 24,688 |
| Capital Employed | 26,587 | 31,540 | 34,839 | 38,404 |
| Application of Funds | | | | |
| Net Block | 290 | 397 | 515 | 647 |
| other intangible Asset | 9,233 | 6,938 | 7,332 | 7,834 |
| Deffered Tax & Non Current Asset & Financial Asset | 373 | 373 | 373 | 373 |
| Other Non-Current Assets | 5 | 5 | 5 | 5 |
| Caioital WIP | - | - | - | - |
| Non Current Asset | 9,901 | 7,713 | 8,225 | 8,859 |
| Investments | 134 | 134 | 134 | 134 |
| Debtors | 4,871 | 8,299 | 9,129 | 10,042 |
| Cash & bank balance | 4,073 | 6,791 | 8,507 | 10,259 |
| other Financial & Current Asset | 1,421 | 2,415 | 2,657 | 2,922 |
| Total current assets | 10,498 | 17,638 | 20,426 | 23,357 |
| Total Assets | 26,587 | 31,540 | 34,839 | 38,404 |

| Key Ratios | | | | |
|---------------------------|-------|-------|-------|-------|
| Y/E March (INR Mn) | FY22 | FY23E | FY24E | FY25E |
| Per share (INR) | | | | |
| EPS | 27.8 | 52.4 | 56.0 | 59.5 |
| CEPS | 36.1 | 64.8 | 70.2 | 77.4 |
| BVPS | 266.4 | 305.8 | 347.9 | 392.7 |
| Valuation (x) | | | | |
| P/E | 41.1 | 21.8 | 20.4 | 19.2 |
| P/BV | 4.3 | 3.7 | 3.3 | 2.9 |
| EV/EBITDA | 57.9 | 28.4 | 25.3 | 22.6 |
| Return Ratios (%) | | | | |
| Gross Margin | 21.0% | 21.5% | 22.0% | 22.0% |
| EBIDTA Margin | 10.9% | 12.8% | 12.9% | 12.9% |
| PAT Margin | 8.5% | 8.9% | 8.6% | 8.3% |
| ROE | 10.2% | 15.7% | 14.8% | 13.9% |
| ROCE | 10.8% | 18.9% | 18.3% | 17.3% |
| Leverage Ratio (%) | | | | |
| Turnover Ratios | | | | |
| Asset Turnover (x) | 0.8 | 1.1 | 1.1 | 1.1 |
| Receivable Days | 89 | 89 | 89 | 89 |
| Payable days | 70 | 70 | 69 | 69 |

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

| Head Office | Registered Office |
|---|---|
| #1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880 | Arihant House 6, Lad Colony, Y.N Road, , Indore, Madhya Pradesh, 452001 Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199 |

| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

| Research Analyst Registration No. | Contact | Website | Email Id |
|-----------------------------------|--------------------------------|--|--|
| INH000002764 | SMS: 'Arihant' to 56677 | www.arihantcapital.com | instresearch@arihantcapital.com |

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880