

CMP: INR 1,624

Rating: Accumulate

Target Price: INR 1,819

Stock Info

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (INR)	10
Equity Capital (INR mn)	629
Mkt Cap (INR mn)	101,493
52W H/L (INR)	1,760/1131
Avg Yearly Vol (in 000')	313

Shareholding Pattern %

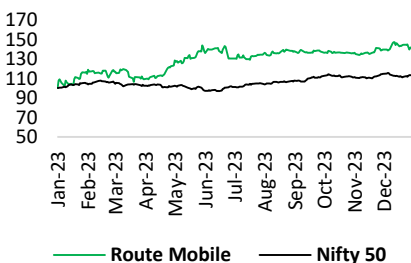
(As on Dec, 2023)

Promoters	58.18
Public & Others	41.82

Stock Performance (%)

	1m	3m	12m
Route	1.7	4.2	42.1
Nifty 50	-0.5	10.1	17.2

Route Mobile Vs Nifty Price Chart



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Route Mobile reported a weak set of numbers. Revenue stood of INR 10,243 Mn up 1% QoQ/ +3.9% YoY below with our estimate of INR 10,708 Mn. Q3FY23 growth constraints were mainly attributed to OTTs implementing layoffs and trimming non-critical communication activities. Consolidated Gross profit stood at INR 2,169 Mn in Q3FY24 up by 0.9%QoQ/ -1.6% YoY against estimate of INR 2,071 Mn. A gross Profit margin of 21.17% in Q3FY24 against 21.19% in Q2FY24. Consolidated EBITDA stood at INR 1,231 Mn, up by 11.5% in both QoQ/ YoY below our estimate of INR 1,381 Mn. EBITDA margin was contracted 41bps in both QoQ/ YoY at 12.2% below with our estimate of 12.9%. The contraction in margin is due to an increase in travel costs. Consolidated PAT stood at INR 1,057 Mn, down by 19.1%QoQ/+28.3% YoY below with our estimate of INR 929Mn. The exceptional item of INR 150.4 Mn reflects the fair value gain as of Q3FY24 related to the contingent consideration payable for the acquisition of 100% equity stake in the step-down subsidiary, M.R Messaging FZE, in prior years. The Board has recommended a third interim dividend of INR 3 per equity share.

Momentum in New product: Route Mobile reports a strong 58% YoY and 14% QoQ growth in next-gen products, contributing to an LTM revenue of \$25 million. With widespread adoption by enterprises and imminent large contracts, the company foresees a robust trajectory for FY25. Engaged in contracts where monthly run rates exceed current sizes, Route Mobile anticipates an inflection year for new products in the current fiscal year.

Route Mobile's Strategic Growth Roadmap for FY25: The decision to shift the go-live date from December 1st to April 1st, driven by an exclusive deal with Vodafone Idea, is indicative of strategic planning. The ongoing migration of the firewall, expected to wrap up by March-end, foresees a notable revenue surge from April 1st, supported by early signs of growth. The imminent closure of the Telesign and BITS deal aligns seamlessly with the company's growth strategy. Despite the extended testing transition, the commitment to ensuring seamless functionality demonstrates strategic diligence. We believe this will enhance Route Mobile growth in the FY25

Valuation and Outlook

The company's Q3FY23 growth constraints were primarily linked to OTTs implementing layoffs and reducing non-critical communication activities. FY24 guidance revised down to 15%-17% from 20%-25%, but high growth potential remains. Q4FY24 expected to surpass Q3FY24. Vodafone Idea contract go-live extended to April. Company reiterates \$1 bn revenue goal over three to four years. In our assessment, **anticipating heightened wallet share with clients, particularly with Vodafone's imminent go-live, the company expresses enthusiasm for the promising trajectory and growth. Positioned for improved growth, it aims to expand clientele globally, leveraging new products and ramp-up efforts across multiple countries. We value the stock at a PE multiple of 20x to its FY25E EPS of INR ~91, which yield a revised target price of INR 1,819 per share (earlier target price; INR 1,839 per share). We maintain our Accumulate rating on the stock.**

Exhibit 2: Q3FY24 performance

INR Mn (Route Mobiles Ltd.)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Net Revenue	10,243	10,146	9,857	1.0%	3.9%
Purchase of messaging service	8,075	7,996	7,654	1.0%	5.5%
Gross Profit	2,169	2,150	2,203	0.9%	-1.6%
Gross Profit (%)	21.17%	21.19%	22.35%	-0.1%	-5.3%
Employee cost	511	422	432	21.0%	18.2%
Other Expenses	406	447	525	-9.2%	-22.8%
EBITDA	1,252	1,281	1,246	-2.3%	0.5%
EBITDA margin %	12.2%	12.6%	12.6%	-41bps	-41bps
Other Income	195	37	78	429.9%	151.6%
Depreciation	216	214	219.60	0.9%	-1.5%
EBIT	1,231	1,104	1,103	11.5%	11.5%
EBIT margin %	12.0%	10.9%	11.2%	113bps	82bps
Finance cost	65	66	72	-1.2%	-10.3%
Exceptional Item	150	-	-	-	-
Profit Before Exceptional item	1,316	1,038	1,031	26.8%	27.6%
Exceptional Item					
Tax Expense	180	155	177.7	16.2%	1.2%
Effective tax rate %	13.7%	14.9%	17.2%	-124bps	-356bps
PAT	1,136.4	883.5	854	28.6%	33.1%
Non-controlling interest	79	-4.5	29.2	-	170.5%
adjusted PAT	1,057	888	824	19.1%	28.3%
PAT margin %	10.3%	8.8%	8.4%	157bps	196bps
EPS (INR)	16.9	14.2	13.2	18.9%	27.8%
Segment Revenue INR Mn.	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
India (Companies registered in India)	1,963	1,792	1,493	9.5%	31.5%
Overseas (Companies registered outside India)	9,354	9,618	9,737	-2.7%	-3.9%
Inter segment revenue	(1,074)	(1,265)	(1,373)	-15.1%	-21.8%

Source: Company, Aриhant Research

Q3FY24-Key Conference call Highlights

FY24 guidance revised down to 15%-17% from 20%-25%, but high growth potential remains. Q4FY24 expected to surpass Q3FY24. Vodafone Idea contract go-live extended to April. Company reiterates \$1 billion revenue goal over three to four years.

Margin leavers

- Leveraging email, WhatsApp, RCS, and voice, our platforms are positioned strongly for the upcoming year, with significant partnerships, particularly as a top-five Google RCS partner and premium partner on WhatsApp, indicating continued success in mobile omnichannel experiences.

Tax

- Effective tax rate will be in the range of 18-20% for the next couple of years.

Volume

- Processed 31.2 billion transactions in volume, consistent with Q2 FY'24, reflecting muted sentiment globally despite Q3's seasonal strength. India remains the largest market, contributing over 47% of revenue by termination, while revenues from US Headquartered customers declined due to the mentioned reasons.

Vodafone-Idea

- The go-live date, initially set for December 1st, has been extended to April 1st due to an exclusive partnership deal with Vodafone Idea. The migration of the firewall for various circles is almost complete, with the entire shift expected to be finalized by the end of March. Anticipating a significant revenue growth on the firewall side, it will be effective from April 1st. Notably, there is already notable growth observed in the current month.
- In addition to the Vodafone and other deals, we anticipate the proximate deal between Telesign and BITS to close soon, bringing valuable synergies. With these deals and synergies aligning with Route Mobile, company has a high level of achievement in sight.
- The company initiated the process of migrating traffic from one firewall to the firewall starting in January, but due to testing and ensuring seamless functionality, the transition period is extended by two months. Therefore, the expected go-live date is set for April 1st, making them exclusive from that date onward with all traffic flowing through our firewall.

Employee

- On boarded 35 new employees and witnessed 29 employees left in Q3FY24.

Bonus

- Some subsidiaries follow a January to December cycle, resulting in bonus payouts typically occurring at the end of December. INR 550 Mn run rate for the near future.

Budget

- The company believes that by incorporating the spending patterns of 9 to 10 countries into its platform, it could potentially add an additional \$3 million to \$4 million in savings. The remaining portion is expected to come organically.

RCS Vs Whatsapp

- . With RCS now available in almost 95 to 100 countries, the observed shift from WhatsApp to RCS is notable, particularly as RCS is priced lower at INR 0.25 compared to WhatsApp's INR 0.75 in India, reflecting a trend the company is capitalizing on as an omnichannel provider

DSO

- The average receivable days remained constant at 73 days in 9MFY23.

Outlook

- 1. Industry-wide headwinds affect two segments, including cPaaS players serving large global enterprises, but an improvement is expected as enterprises revisit budgeting.**
- 2. Cautiously optimistic, the anticipation of increased wallet share with clients is heightened, particularly with Vodafone's imminent go-live.**
- 3. Enthusiastic about the promising trajectory and growth, especially regarding new products and ramp-up.**

Exhibit 2: Contraction in margin led by increase in travel cost

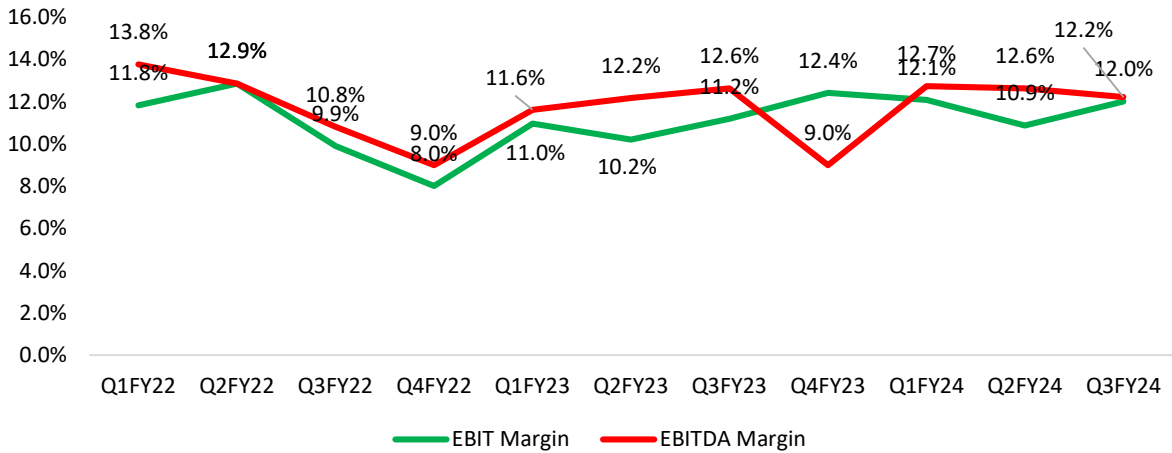


Exhibit 3: Growing number of Multi-million dollar accounts with Improving Client Diversification

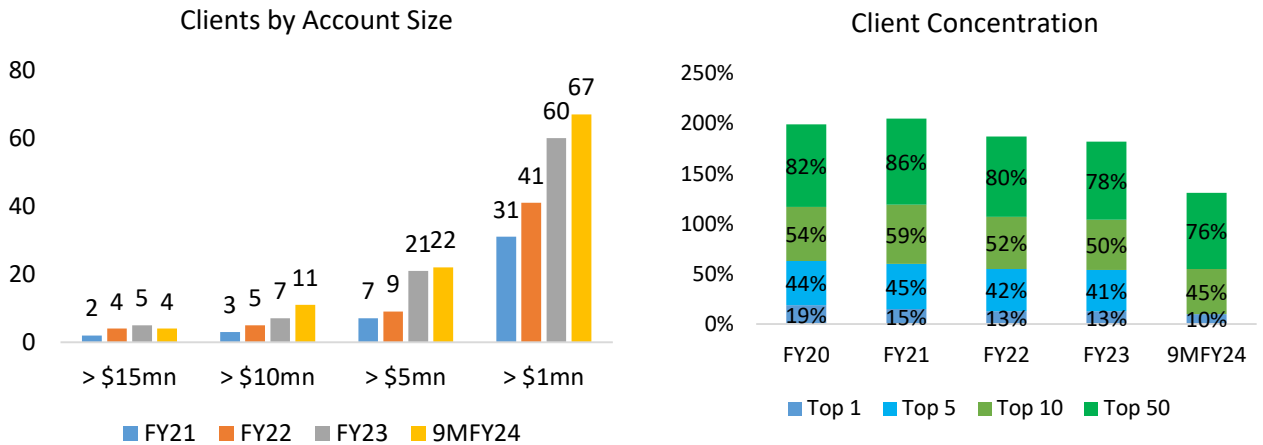
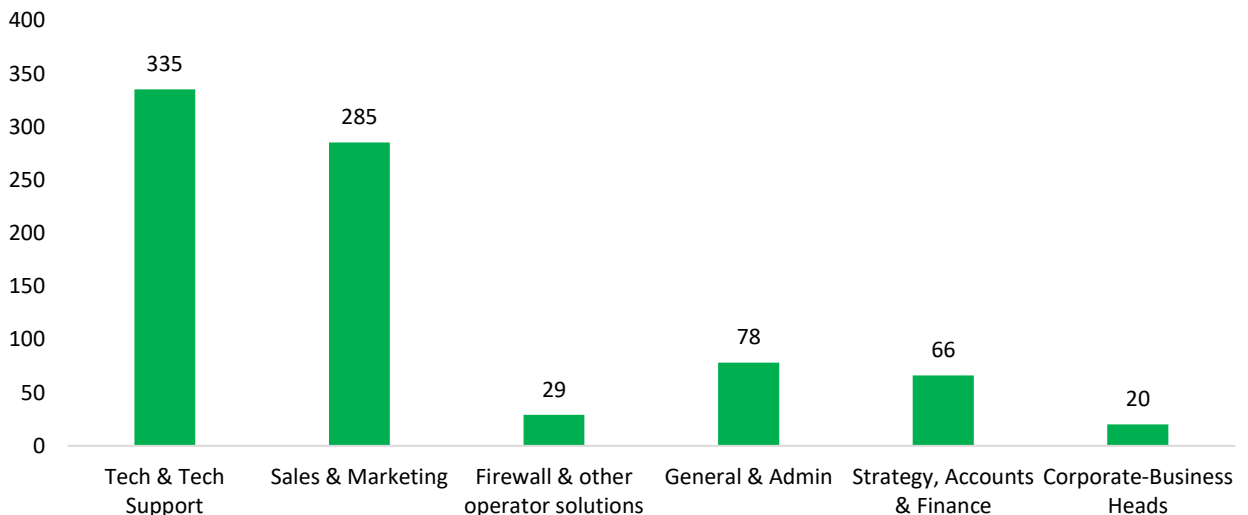


Exhibit 4: Function wise break-up



Source: Company, Arianth Research

Income Statement					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	20,020	35,692	41,474	48,318	56,532
Change (%)	42.4%	78.3%	16.2%	16.5%	17.0%
Cost of Goods Sold	15,825	27,826	32,350	37,688	44,095
Employee costs	1,261	1,969	2,198	2,561	2,940
Other expenses	748	1,456	1,576	1,788	1,922
Total operating Expense	17,834	31,251	36,124	42,036	48,956
EBITDA	2,186	4,442	5,350	6,281	7,575
EBITDA Margin (%)	10.9%	12.4%	12.9%	13.0%	13.4%
Other Income	201	394	400	408	416
Depreciation	383	816	453	535	606
Interest	52	205	265	285	286
PBT	1,952	3,815	5,032	5,869	7,099
Extra-ordinary	-	-	-	-	-
PBT after ext-ord.	1,952	3,815	5,032	5,869	7,099
Tax	251	484	1,006	1,174	1,420
Rate (%)	12.9%	12.7%	20.0%	20.0%	20.0%
PAT	1,701	3,331	4,025	4,695	5,679
Change (%)	28.2%	95.9%	20.8%	16.6%	21.0%

Balance Sheet					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Share Capital	629	624	624	624	624
Reserves & Surplus	16,097	17,580	20,881	24,731	29,387
Minority Interest	21	80	80	80	80
Net Worth	16,746	18,284	21,585	25,435	30,092
Long term debt	-	437	438	439	440
Short term debt	-	625	650	676	703
Total Debt	-	1,062	1,088	1,115	1,143
Capital Employed	26,587	28,852	34,186	39,764	46,490
Application of Funds					
Net Block	290	344	462	594	713
other intangible Asset	9,233	9,180	8,318	9,030	8,843
Deffered Tax & Non Current Asset & Financial Asset	373	514	514	514	514
Other Non-Current Assets	5	732	732	732	732
Capital WIP	-	10.90	10.90	10.90	10.90
Non Current Asset	9,901	10,771	10,027	10,871	10,802
Investments	134	203	203	203	203
Debtors	5,165	7,015	10,113	11,782	13,784
Cash & bank balance	4,073	4,836	7,548	10,229	14,558
other Financial & Current Asset	1,126	1,914	2,333	2,718	3,180
Total current assets	10,498	13,968	20,197	24,931	31,725
Total Assets	26,587	28,852	34,186	39,764	46,490

Source: Company, Arianth Research

Cash Flow Statement					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,952	3,815	5,032	5,869	7,099
Depreciation	383	816	453	535	606
Interest Exp	-10	-5	265	285	286
Other Non Cash Item	-156	-151	-145	-145	-145
Cash flow before WC changes	2,169	4,475	5,605	6,544	7,846
(Inc)/dec in working capital	-658	-3,768	1,840	-371	-446
Operating CF after WC changes	1,795	1,067	6,176	4,435	5,664
Less: Taxes	-450	-484	-1,006	-1,174	-1,420
Operating cash flow	1,346	583	5,169	3,261	4,244
(Inc)/dec in F.A	-171	-107	-118	-132	-119
Other	-4,083	57	57	259	462
Cash flow from investing	-8,384	-118	-61	129	345
Free cash flow (FCF)	1,175	476	5,051	3,129	4,125
Proceeds/(Repayment) of current borrowings	-	624.70	24.99	25.99	27.03
Proceeds/(Repayment) of non-current borrowings	(40)	-	-	-	-
Interest & Lease Liability	(14)	-	-	-	-
Dividend	-300	-587	-725	-845	-1022
Interest exp	-5	-205	-265	-285	-286
Cash flow from financing activities	8241	-167.3	-1930.5	-707.7	-259.2
Currency fluctuation arising on consolidation	-	-	-	-	-
Net inc/(dec) in cash	1,202	297	3,178	2,682	4,330
Opening balance of cash	2,699	4,076	4,372	7,548	10,229
Closing balance of cash	4,076	4,372	7,548	10,229	14,558

Key Ratios					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Per share (INR)					
EPS	27.8	52.3	64.5	75.2	91.0
CEPS	33.1	66.4	71.7	83.8	100.7
BVPS	266.4	292.8	345.7	407.3	481.9
Valuation (x)					
P/E	58.4	31.1	25.2	21.6	17.9
P/BV	6.1	5.5	4.7	4.0	3.4
EV/EBITDA	63.2	31.0	25.2	21.0	16.9
Return Ratios (%)					
Gross Margin	21.0%	22.0%	22.0%	22.0%	22.0%
EBIDTA Margin	10.9%	12.4%	12.9%	13.0%	13.4%
PAT Margin	8.5%	9.3%	9.7%	9.7%	10.0%
ROE	10.2%	18.2%	18.6%	18.5%	18.9%
ROCE	10.8%	18.7%	21.6%	21.6%	22.3%
Leverage Ratio (%)					
Turnover Ratios					
Asset Turnover (x)	0.8	1.2	1.2	1.2	1.2
Receivable Days	94	72	89	89	89
Payable days	87	48	86	86	86

Source: Company, Arianth Research

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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%

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