

CMP: INR 1,398

Rating: Accumulate

Target Price: INR 1,595

Stock Info

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (INR)	10
Equity Capital (INR mn)	629
Mkt Cap (INR mn)	85,153
52W H/L (INR)	1,590/1052
Avg Yearly Vol (in 000')	434

Shareholding Pattern %

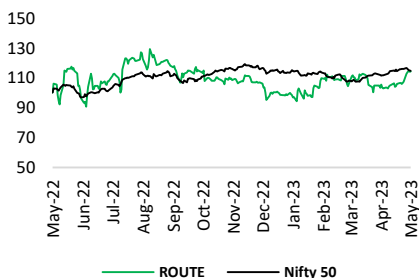
(As on March, 2023)

Promoters	58.32
Public & Others	41.68

Stock Performance (%)

	1m	3m	12m
Route	0.3	-11.5	-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

Route Mobile beat revenue estimates in Q4FY23: Reported revenue of INR 10,087 Mn up 2.3% QoQ/ 61.1% YoY against our estimate of INR 9500 Mn. The growth was led by digital acceleration which also helps increase client acquisition. This growth has been driven by strategy of developing numerous growth levers across various geographies, new product launches, entrepreneurial collaborations, and unwavering determination to deliver high-quality contract wins across the CPaaS value chain.

Contraction in gross margin led by seasonality in the business of Maccabean and certain markets for MR messaging: Consolidated Gross profit stood at INR 2,144 Mn in Q4FY23 de-increased by 2.7%QoQ/+62.6% YoY against Q4FY22 of INR 1,319 Mn. A gross Profit margin of 21.25% in Q4FY23 against 21.06% in Q4FY22. The slight contraction in gross margin is attributable to the seasonality in the business of Maccabean and certain markets for MR messaging. For MR Messaging being affected due to geopolitical issues. January, February, March, is seasonally the weakest quarter for Maccabean and as the company head into the subsequent quarter, this will improve significantly

Strong growth momentum in Net profit: Consolidated PAT stood at INR 1,040.5 Mn, increased by 21.9%QoQ/+119.4% YoY above our estimate of INR 788 Mn.

Expansion on margin front: Consolidated EBITDA stood at INR 1,320 Mn, increased by 6.0%QoQ/+134.3% YoY above our estimate of INR 1,113 Mn. EBITDA margin was expanded 45bps QoQ/ 409bpsYoY at 13.1% against our estimates of 11.7%. Margin expansion led by better growth momentum. Adjusted for ESOP benefit expenses; non-cash amortization associated with the intangible assets added as a result of purchase price allocation for acquisitions and Intangible assets under development of INR 140mn (in FY 22-23).

Valuation and Outlook

The company reported robust revenue growth and expansion in margin during Q4FY23 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 24x to its FY25E EPS of INR ~66.5, which yield a revised target price of INR 1,595 per share (earlier target price; INR 1,309 per share). We maintain our Accumulate rating on the stock.**

Exhibit 1: Snapshot of Financial

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%	50.3
FY23	35,692	4,442	12.44%	3,331	52.3	18.22%	26.7
FY24E	42,831	5,354	12.50%	3,684	59.0	17.29%	23.7
FY25E	49,255	6,354	12.90%	4,150	66.5	16.80%	21.0

Source: Company, Arihant Research

Exhibit 2: Q4FY23 performance

INR Mn (Route Mobiles Ltd.)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Net Revenue	10,087	9,857	6,261	2.3%	61.1%
Purchase of messaging service	7,943	7,654	4,942	3.8%	60.7%
Gross Profit	2,144	2,203	1,319	-2.7%	62.6%
Gross Profit (%)	21.25%	22.35%	21.06%	-110bps	19bps
Employee cost	506	432	494	17.0%	2.4%
Other Expenses	318	525	261	-39.4%	21.8%
EBITDA	1,320	1,246	563	6.0%	134.3%
<i>EBITDA margin %</i>	<i>13.1%</i>	<i>12.6%</i>	<i>9.0%</i>	<i>45bps</i>	<i>409bps</i>
Other Income	146	78	84	88.4%	73.6%
Depreciation	212	219.60	145	-3.3%	46.1%
EBIT	1,253	1,103	502	13.6%	149.7%
<i>EBIT margin %</i>	<i>12.4%</i>	<i>11.2%</i>	<i>8.0%</i>	<i>123bps</i>	<i>441bps</i>
Finance cost	50	72	34	-30.9%	46.9%
Exceptional Item	-	-	-	-	-
Profit Before Exceptional item	1,204	1,031	468	16.7%	157.1%
Exceptional Item					
Tax Expense	163	177.7	-6	-8.2%	-2773.8%
Effective tax rate %	13.6%	17.2%	-1.3%	-368bps	1485bps
PAT	1,041	854	474	21.9%	119.4%
Non-controlling interest	24.4	29.2	17.4	-16.4%	40.2%
adjusted PAT	1,016	824	456.80	23.3%	122.4%
<i>PAT margin %</i>	<i>10.1%</i>	<i>8.4%</i>	<i>7.3%</i>	<i>171bps</i>	<i>278bps</i>
EPS (INR)	16.3	13.2	7.3	23.2%	123.5%

Source: Company, Arianth Research

Exhibit 3: Strong growth momentum in revenue front and traction on the gross profit margin (INR Mn).

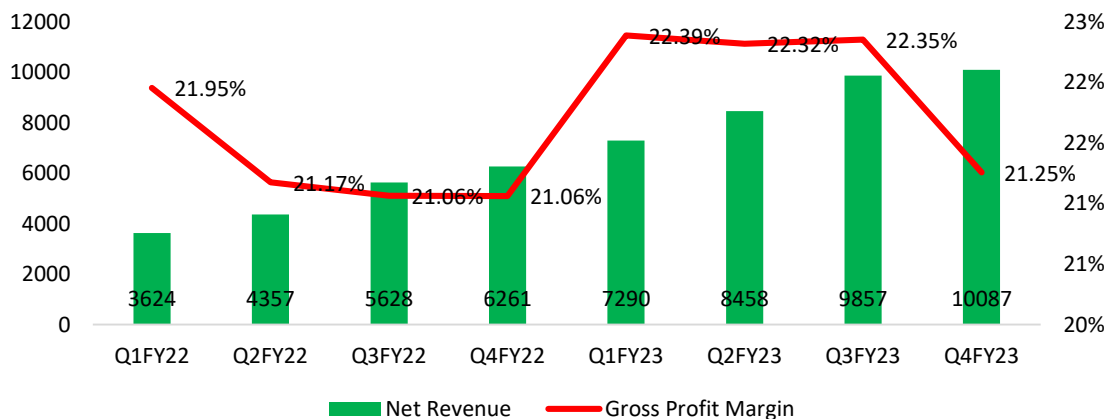
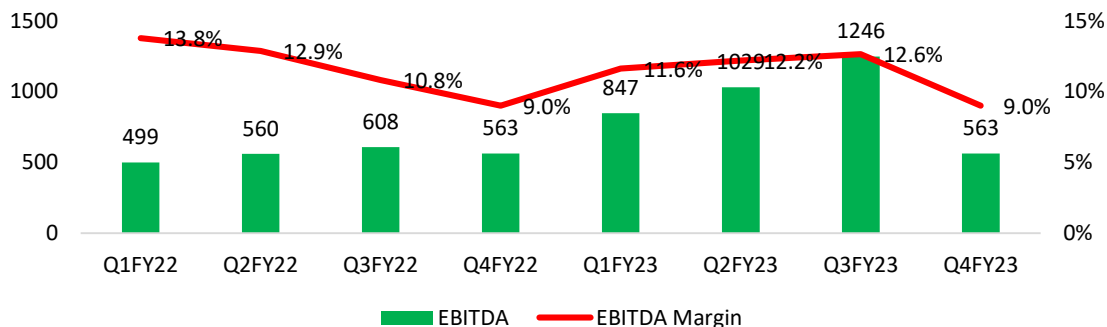


Exhibit 4: Margin expansion led by better growth momentum (INR Mn).



Key Conference call Highlights

- The management has guided for 20% growth in FY24
- Route Mobile has reached a significant milestone, achieving an annual run rate of \$ 0.5 bn in revenue. The company aspires to become a \$1 bn revenue company over the 3-4 years through a strategic blend of organic and inorganic growth
- Reported EBITDA margin expected to be in the range 12.5% - 13%. In light of the robust action from new product has been gaining, the company has established dedicated SBUs for each unit, which includes Trusense. Trusense, the strategic division headquartered in the UK is dedicated to addressing mobile identity and digital fraud.
- Secured 2-3 new firewall contracts since Q3FY23 with several other significant deals in the pipeline. Additionally, the company deployed the first UTAS solution for Robbie Exeata to cater to the needs of enterprise customers, supporting their customer care and marketing operations.
- Two strategic acquisitions, MesaVian, and Mr.Messaging. These entities became integral to the value proposition in the CPaaS marketplace. The firewall is going live in Sri Lanka from 21st of May
- Volume: Registered over 107bn transactions in FY23, a growth of over 106% on a y/y. In FY23.
- Revenue from termination in India, which is a key focus market for Route, including both domestic and international termination into India, to that \$207 mn, which translates to INR1,638 crore value.
- Besides India, key focus markets for the company in FY24 will be GCC countries, LATAM, and Indian subcontinents.
- The company's primary focus is to enhance its operating cash flow, aiming to achieve a CFO to EBITDA conversion rate within the range of 50% to 75% in FY24, despite a current conversion rate of 45% in FY23. With stabilized receivable and payable cycles, management anticipates a significant improvement in normalized operating cash flow moving forward.
- Average receivable and payable days were around 62 days for FY23.
- ROC in the range of 25%-50% based on some past such firewall deal experience.
- Average realization for deliver transaction improved to INR0.037 as compared to INR0.036 in Q3FY23.
- The slight contraction in gross margin is attributable to the seasonality in the business of Maccabean and certain markets for MR messaging. For MR. Messaging is being affected due to geopolitical issues.
- In terms of certain KPIs, billable transactions increased to 107 bn transactions as compared to 52 bn in FY22.
- The company has on-boarded large banks as customers in India as well as in Ghana and Nigeria. Additionally, the company has observed significant engagement and opportunities in the Middle East and LATAM Markets.
- In the previous quarter, MR Messaging faced disruptions in its operations as it had to terminate its communication messages directed toward Russia. But it's coming back to normalcy. Russia's revenue contribution is very low. Mr Messaging's revenue was INR 147 Cr and messaging revenue was INR 50 Cr in Q4FY23.
- ILD price increase by 25% on 22nd April onward 2023.
- Payout: Payout of about \$6 mn to Masivian (JFM weak quarter). And from the earn-out, it's about \$2.3 mn that the company has to pay to Masivian at the end of this month. payout to MR Messaging of around EUR 6 mn. There is no other payout that is due in FY24.
- Borrowing has been done in the UK entity and against the cash collateral that the company has as deposits.
- Organic revenue growth was 53% and the rest was inorganic.
- India Market share over 20% for this year.

Income Statement				
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E
Revenues	20,020	35,692	42,831	49,255
Change (%)	42.4%	78.3%	20.0%	15.0%
Cost of Goods Sold	15,825	27,826	33,408	38,419
Employee costs	1,261	1,969	2,270	2,660
Other expenses	748	1,456	1,799	1,822
Total operating Expense	17,834	31,251	37,477	42,901
EBITDA	2,186	4,442	5,354	6,354
EBITDA Margin (%)	10.9%	12.4%	12.5%	12.9%
Other Income	201	394	402	410
Depreciation	383	816	886	1,292
Interest	52	205	265	285
PBT	1,952	3,815	4,605	5,187
Extra-ordinary	-	-	-	-
PBT after ext-ord.	1,952	3,815	4,605	5,187
Tax	251	484	921	1,037
Rate (%)	12.9%	12.7%	20.0%	20.0%
PAT	1,701	3,331	3,684	4,150
Change (%)	28.2%	95.9%	10.6%	12.6%

Balance Sheet				
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Share Capital	629	624	624	624
Reserves & Surplus	16,097	17,580	20,601	24,004
Minority Interest	21	80	80	80
Net Worth	16,746	18,284	21,305	24,708
Long term debt	-	436.80	437.86	438.91
Short term debt	-	624.70	649.69	675.68
Total Debt	-	1,061.50	1,087.54	1,114.59
Capital Employed	26,587	28,852	29,593	33,924
Application of Funds				
Net Block	290	344	554	807
other intangible Asset	9,233	9,180	8,318	9,030
Deffered Tax & Non Current Asset & Financial Asset	373	514	514	514
Other Non-Current Assets	5	732	732	732
Caoital WIP	-	10.90	10.90	10.90
Non Current Asset	9,901	10,771	10,118	11,084
Investments	134	203	203	203
Debtors	5,165	7,015	9,153	10,526
Cash & bank balance	4,073	4,836	3,860	5,508
other Financial & Current Asset	1,126	1,914	2,297	2,641
Total current assets	10,498	13,968	15,512	18,877
Total Assets	26,587	28,852	29,593	33,924

Source: Company, Arihant Research

Cash Flow Statement				
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E
PBT	1,952	3,815	4,605	5,187
Depreciation	383	816	886	1,292
Interst Exp	-10	-5	265	285
Other Non Cash Item	-156	-151	-145	-145
Cash flow before WC changes	2,169	4,475	5,611	6,619
(Inc)/dec in working capital	-658	-3,768	-1,572	-835
Operating CF after WC changes	1,795	1,067	4,039	5,784
Less: Taxes	-450	-334	-921	-1,037
Operating cash flow	1,346	732	3,118	4,746
(Inc)/dec in F.A	-171	-381	-209	-254
Other	-4,083	2,471	57	259
Cash flow from investing	-8,384	1,122	-152	7
Free cash flow (FCF)	1,175	352	2,909	4,493
Proceeds/(Repayment) of current borrowings	-	(154.00)	24.99	25.99
Proceeds/(Repayment) of non-current borrowings	(40)	(154)	-	-
Interest & Lease Liability	(14)	(29.30)	-	-
Dividend	-304	-686	-663	-747
Intereset exp	-5	-56	-265	-285
Cash flow from financing activities	8237	-1078.7	-3952.3	-3103.6
Currency fluctuation arising on consolidation	-	-	-	-
Net inc /(dec) in cash	1,198	776	-987	1,649
Opening balance of cash	2,699	4,073	4,847	3,860
Closing balance of cash	4,073	4,847	3,860	5,508

Key Ratios				
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E
Per share (INR)				
EPS	27.8	52.3	59.0	66.5
CEPS	33.1	66.4	73.2	87.1
BVPS	266.4	292.8	341.2	395.7
Valuation (x)				
P/E	50.3	26.7	23.7	21.0
P/BV	5.2	4.8	4.1	3.5
EV/EBITDA	63.2	31.0	25.9	21.5
Return Ratios (%)				
Gross Margin	21.0%	22.0%	22.0%	22.0%
EBIDTA Margin	10.9%	12.4%	12.5%	12.9%
PAT Margin	8.5%	9.3%	8.6%	8.4%
ROE	10.2%	18.2%	17.3%	16.8%
ROCE	10.8%	18.7%	20.0%	19.6%
Leverage Ratio (%)				
Turnover Ratios				
Asset Turnover (x)	0.8	1.2	1.4	1.5
Receivable Days	94	72	78	78
Payable days	87	48	48	48

Source: Company, Arianth Research

Arihant Research Desk

Email: 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

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

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