

**CMP: INR 1,755**

**Rating: Accumulate**

**Target Price: INR 1,995**

**Stock Info**

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (INR)	10
Equity Capital (INR mn)	629
Mkt Cap (INR mn)	108,282
52W H/L (INR)	1,942/1,386
Avg Yearly Vol (in 000')	166

**Shareholding Pattern %**

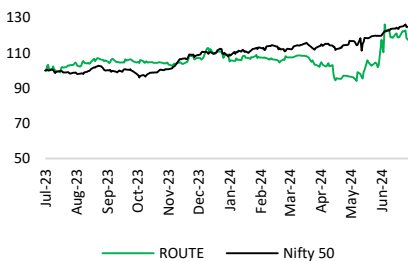
*(As on June, 2024)*

Promoters	83.11
Public & Others	16.89

**Stock Performance (%)**

	1m	3m	12m
Route	13.0	13.3	16.0
Nifty 50	4.5	10.0	24.4

**Route Mobile Vs Nifty Price Chart**



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Route Mobile reported a mixed performance. Revenue is above our estimate, while EBITDA margin & PAT are below our estimates due to high employee expenses Proximus Opal acquired an 83.1% stake in Route Mobile, facilitating its entry into mature markets like the USA and Europe, expanding its product portfolio, and unlocking synergies with Telesign. Rajdip Gupta will remain as CEO and lead the global CPaaS business. Reported revenue of INR 11,034 Mn up 8.5% QoQ/ 14.1% YoY above our estimate of INR 10,950 Mn. Strong growth in Q1FY25, the synergies are starting to emerge, like the deal between Proximus and Microsoft which will further expand the reach of the solutions and open new opportunities. Overseas grew by 20.5% QoQ/ 22.4% YoY, India business grew by 43.3% YoY/15.3% QoQ. Consolidated Gross profit stood at INR 2,397 Mn in Q1FY25 up by 8.2%QoQ/ 15.7% YoY. A gross Profit margin of 21.72% in Q1FY25 against 21.78% in Q4FY24. Consolidated EBITDA stood at INR 1,238 Mn, flat 0.5% YoY/down 1.3% QoQ below our estimate of INR 1,402 Mn due to higher employee cost (27% QoQ). EBITDA margin was contracted 112bps QoQ/ down 152bps YoY at 11.2% below with our estimate of 12.8%. The contraction in margin is due to an increase in other expenses (+13.5% QoQ/68% YoY) and employee cost (27% QoQ/21.2% YoY). Consolidated PAT stood at INR 811.6 Mn, down by 11.5%QoQ/ down 11.5% YoY below with our estimate of INR 1041 Mn.

**Strategic Synergies to Drive Route Mobile's Growth:** Proximus Opal's acquisition of an 83.1% stake in Route Mobile will help the company enter mature markets like the USA and Europe, expand its product portfolio, and unlock synergies with TeleSign. Thanks to minority shareholders for approving related party transactions, which may take time to ramp up. The synergy was validated by Proximus and Microsoft's five-year strategic partnership on digital communication services, including CPaaS, expected to generate annual revenues of \$380 Mn, with Route Mobile's share being 20%. Route Mobile continues to gain significant MS in India, with a 25% YoY growth and 12% sequential growth.

**Route Mobile's Strategic Growth Roadmap for FY25:** New product revenue shows strong momentum with 94% YoY growth and 16% sequential growth, positioning the company as India's largest WhatsApp ticketing enabler for metros and a premier Meta partner. Similar use cases have been demonstrated over RCS as well. For FY '25, revenue growth is expected to be between 18%-22% with an EBITDA margin around 13%.

**Valuation and Outlook**

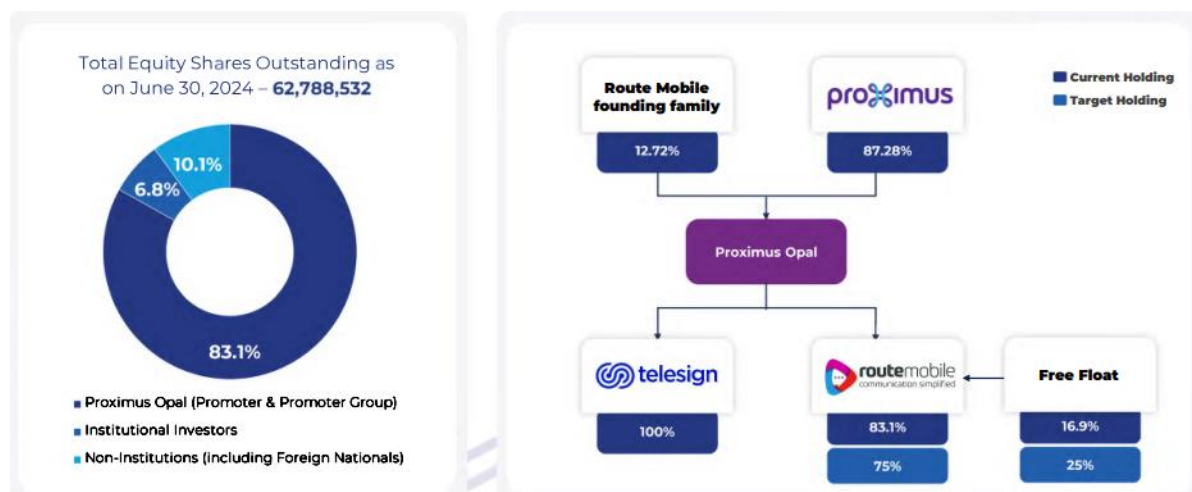
The strong top line in Q1FY25, led by the large global deal won by Proximus Group and the Vodafone Idea Firewall deal going live, provides a strong foundation for a robust FY25. New product revenue shows 94% YoY and 16% sequential growth, with FY25 revenue growth expected at 18%-22% and a 13% EBITDA margin. A five-year strategic partnership between Proximus and Microsoft on digital communication services, including CPaaS, has led to combined deals and ongoing efforts on similar large deals. With Vodafone's imminent go-live, the company expresses enthusiasm for the promising trajectory and growth. Positioned for improved growth, it aims to expand its clientele globally, leveraging new products and ramping up efforts across multiple countries.

**We value the stock at a PE multiple of 22x to its FY27E EPS of INR 95, which yield a revised target price of INR 1,995 per share ( earlier target price; INR 1,689 per share). We upgrade our rating to Accumulate from Hold earlier.**

**Exhibit 2: Q1FY25 performance**

INR Mn (Route Mobiles Ltd.)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Net Revenue	11,034	10,170	9,673	8.5%	14.1%
Purchase of messaging service	8,637	7,955	7,602	8.6%	13.6%
Gross Profit	2,397	2,216	2,071	8.2%	15.7%
Gross Profit (%)	21.72%	21.78%	21.41%	-0.3%	1.5%
Employee cost	650	513	537	26.9%	21.2%
Other Expenses	509	449	303	13.5%	68.1%
EBITDA	1,238	1,254	1,232	-1.3%	0.5%
EBITDA margin %	11.2%	12.3%	12.7%	-112bps	-152bps
Other Income	106	115	149	-40.9%	-21.1%
Depreciation	223	219	211	2.1%	5.5%
EBIT	1,120	1,151	1,169	-2.7%	-4.2%
EBIT margin %	10.2%	11.3%	12.1%	-117bps	-194bps
Finance cost	91	75	67	21.4%	36.1%
Exceptional Item	-	18	-	-	-
Profit Before Exceptional item	1,028.8	1,093.9	1,102	-6.0%	-6.7%
Exceptional Item					
Tax Expense	217	142	185	52.6%	17.2%
Effective tax rate %	21.1%	13.0%	16.8%	810bps	429bps
PAT	811.6	951.6	916.9	-14.7%	-11.5%
Non-controlling interest	24.4	70.6	-7.5	-65.4%	-425.3%
adjusted PAT	787	881	924	-10.6%	-14.8%
PAT margin %	7.1%	8.7%	9.6%	-153bps	-242bps
EPS (INR)	12.5	14.1	14.8	-11.0%	-15.5%
<b>Segment Revenue INR Mn.</b>	<b>Q1FY25</b>	<b>Q4FY24</b>	<b>Q1FY24</b>	<b>Q-o-Q</b>	<b>Y-o-Y</b>
India (Companies registered in India)	2,376	2,060	1,659	15.3%	43.3%
Overseas (Companies registered outside India)	10,918	9,064	8,919	20.5%	22.4%
Inter segment revenue	(2,260)	(954)	(905)	-	-

Source: Company, Arihant Research



### Q1FY25-Key Conference call Highlights

For FY25, the company expects revenue growth between 18% and 22%, which is considered industry-leading. The EBITDA margin is anticipated to be around 13%. Free cash generation is projected to improve significantly, with cash conversion from EBITDA in the 50% to 75% range. The company plans to maintain a dividend payout ratio of up to 20% of its consolidated profit. Additionally, gross margin is expected to be maintained due to growth in the new product line.

#### Acquisition

Proximus Opal completed the acquisition of an 83.1% stake in Route Mobile through Proximus Opal, facilitating entry into mature markets like the USA and Europe, expanding its product portfolio, and unlocking synergies with TeleSign. The inorganic strategy prioritizes augmenting the existing product portfolio with cutting-edge technologies through acquisitions, some of which may not require significant capital deployment.

#### Planned Sell-Off

8% of the company's shares are projected to be sold within one year. (The company cannot hold more than a 75% stake in a listed company.)

#### Synergy with Proximus

A five-year strategic partnership between Proximus and Microsoft on digital communication services, including CPaaS, was announced. This partnership has enabled combined deals, including one with Microsoft. Proximus management is supportive, and the company is working on similar large strategic deals with updates to come.

#### New Products

The company's new product revenue grew 94% YoY and 16% sequentially, with strong momentum; demonstrated WhatsApp ticketing for metros and RCS use cases; plans to enhance its portfolio with new technologies; stopped capitalizing on TrueSense, now expensing and amortizing it as monetized; aims to cross-sell its omnichannel and TrueSense stacks despite regulatory hurdles; expects major deals in RCS and WhatsApp in the coming quarters.

Enterprise Access Large enterprise accounts are contributing significantly to overall deal value.

#### cPaaS Market

The Communications Platform as a Service (cPaaS) market is growing at a low single-digit rate. This sector is particularly strong in LATAM and America, with substantial growth in the domestic market driven by digital adoption.

Incremental Development Continuous development and enhancement are taking place, with a focus on true essence rather than superficial changes.

#### Regulatory Changes

Adjustments are being made to comply with regulatory changes and privacy considerations.

Supplier Opportunities Suppliers are providing new opportunities for growth.

#### ILD

The company received a discount for advance payment, to be used by Nov/Dec, despite potential loss; high ILD prices (\$0.15-\$0.20) push enterprises to explore alternatives; RCS and WhatsApp cost more than SMS; operators offer around \$0.05, but the company's price remains confidential..

No Change Post M&A No significant changes are anticipated post-merger and acquisition activities, even with increasing volumes in India.

Margin Expansion Direct margin expansion is expected, maintaining current margin levels. New products are likely to further expand margins, although EBITDA might be slightly diluted initially.

#### Employee

The company experienced a 27% sequential increase in employee benefit expenses, onboarded 61 new employees, saw 60 employees leave, and expensed INR 14.5 mn for the digital identity project True Sense at Mycelium.

Tax margin declined from 9.5% in Q1FY24 and 9.2% in Q4F24 to 8.4% in Q1 FY25, primarily due to an increase in the effective tax rate to 21%.

Exhibit 2: In line with our estimate led by cost optimization

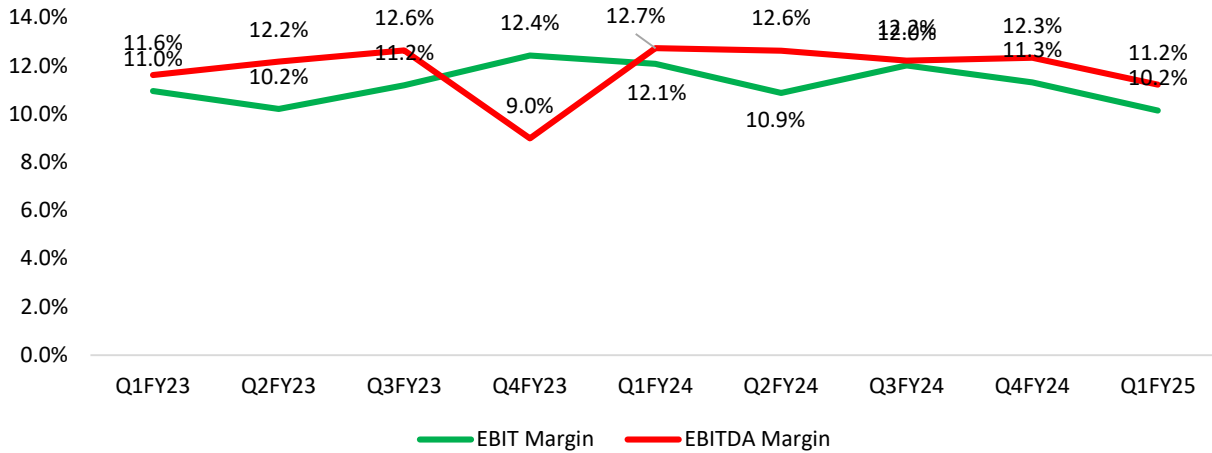


Exhibit 3: Growing number of Multi-million dollar accounts with Improving Client Diversification

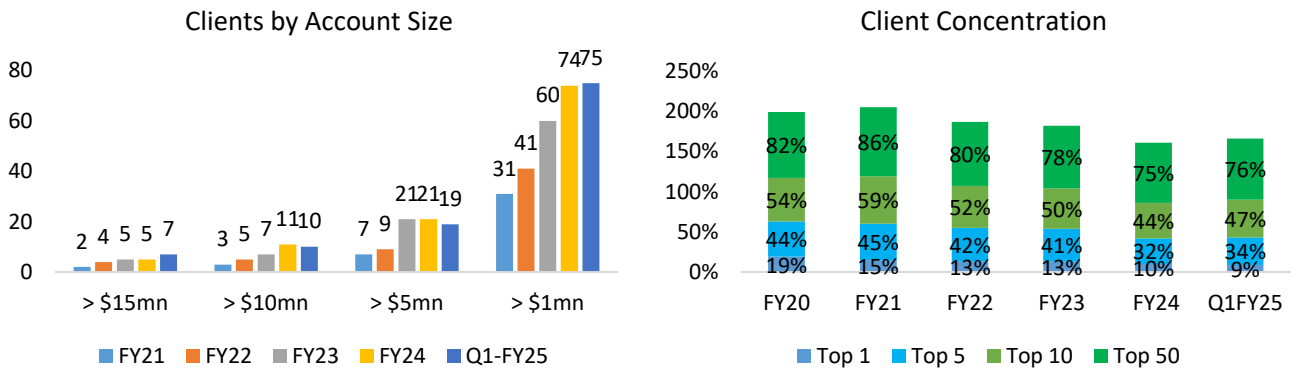
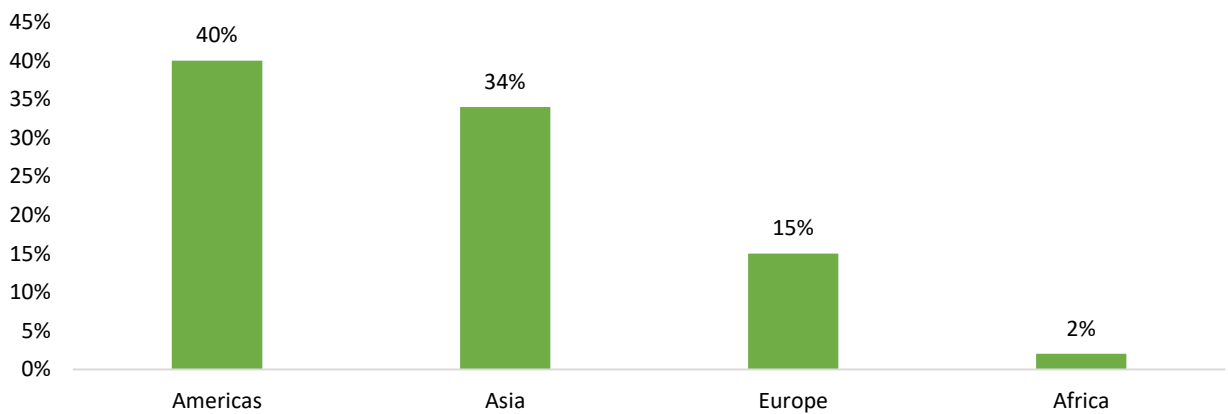


Exhibit 4: Revenue by customer HQ continent



Source: Company, Arianth Research

Income Statement				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
<b>Revenues</b>	<b>40,233</b>	<b>45,463</b>	<b>52,283</b>	<b>61,171</b>
<i>Change (%)</i>	12.7%	13.0%	15.0%	17.0%
Cost of Goods Sold	31,628	35,552	41,042	47,958
Employee costs	1,982	2,410	2,719	3,181
<b>Other expenses</b>	<b>1,513</b>	<b>1,682</b>	<b>1,778</b>	<b>2,080</b>
Total operating Expense	<b>35,122</b>	<b>39,644</b>	<b>45,538</b>	<b>53,219</b>
<b>EBITDA</b>	<b>5,111</b>	<b>5,819</b>	<b>6,744</b>	<b>7,952</b>
<b>EBITDA Margin (%)</b>	<b>12.7%</b>	<b>12.8%</b>	<b>12.9%</b>	<b>13.0%</b>
Other Income	405	413	421	430
Depreciation	861	459	534	639
Interest	273	285	286	287
<b>PBT</b>	<b>4,382</b>	<b>5,489</b>	<b>6,345</b>	<b>7,456</b>
Extra-ordinary	-	-	-	-
<b>PBT after ext-ord.</b>	<b>4,382</b>	<b>5,489</b>	<b>6,345</b>	<b>7,456</b>
Tax	662	1,098	1,269	1,491
<i>Rate (%)</i>	15.1%	20.0%	20.0%	20.0%
<b>PAT</b>	<b>3,720</b>	<b>4,391</b>	<b>5,076</b>	<b>5,965</b>
<i>Change (%)</i>	11.7%	18.0%	15.6%	17.5%

Balance Sheet				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	628	628	628	628
Reserves & Surplus	20,868	24,468	28,631	33,522
Minority Interest	213	213	213	213
<b>Net Worth</b>	<b>21,708</b>	<b>25,309</b>	<b>29,471</b>	<b>34,363</b>
Long term debt	1,350	1,354	1,357	1,360
Short term debt	2,146	2,232	2,321	2,414
<b>Total Debt</b>	<b>3,496</b>	<b>3,586</b>	<b>3,678</b>	<b>3,774</b>
<b>Capital Employed</b>	<b>34,719</b>	<b>41,536</b>	<b>47,545</b>	<b>54,696</b>
Application of Funds				
Net Block	378	510	629	752
other intangible Asset	8,599	9,030	8,890	8,840
Deffered Tax & Non Current Asset & Financial Asset	3,492	3,492	3,492	3,492
Other Non-Current Assets	691	691	691	691
Capital WIP	-	-	-	-
<b>Non Current Asset</b>	<b>13,160</b>	<b>13,722</b>	<b>13,701</b>	<b>13,774</b>
Investments	149	149	149	149
Debtors	10,716	11,086	12,748	14,916
Cash & bank balance	5,423	11,879	15,863	20,273
other Financial & Current Asset	2,873	2,557	2,941	3,440
<b>Total current assets</b>	<b>19,160</b>	<b>25,670</b>	<b>31,701</b>	<b>38,778</b>
<b>Total Assets</b>	<b>34,719</b>	<b>41,536</b>	<b>47,545</b>	<b>54,696</b>

Source: Company, Arihant Research

Key Ratios				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
<b>Per share (INR)</b>				
EPS	59.1	69.9	80.8	95.0
CEPS	75.6	77.2	89.4	105.2
BVPS	345.7	403.1	469.4	547.3
<b>Valuation (x)</b>				
P/E	30.9	26.1	22.5	19.2
P/BV	5.3	4.5	3.9	3.3
EV/EBITDA	27.4	23.0	19.3	15.8
<b>Return Ratios (%)</b>				
Gross Margin	21.4%	21.8%	21.5%	21.6%
EBIDTA Margin	12.7%	12.8%	12.9%	13.0%
PAT Margin	9.7%	9.7%	9.7%	9.8%
ROE	17.9%	17.3%	17.2%	17.4%
ROCE	16.9%	18.6%	18.7%	19.2%
<b>Leverage Ratio (%)</b>				
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.2	1.1	1.1	1.1
Receivable Days	97	89	89	89
Payable days	61	86	86	86

Cash Flow Statement				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
<b>PBT</b>	<b>4,551</b>	<b>5,489</b>	<b>6,345</b>	<b>7,456</b>
Depreciation	861	459	534	639
Interest Exp	-2	285	286	287
Other Non Cash Item	-35	-21	-21	-21
Cash flow before WC changes	5,374	6,211	7,144	8,360
<b>(Inc)/dec in working capital</b>	<b>-5,494</b>	<b>3,355</b>	<b>-316</b>	<b>-488</b>
Operating CF after WC changes	-230	7,829	5,092	6,137
Less: Taxes	-662	-1,098	-1,269	-1,491
<b>Operating cash flow</b>	<b>-892</b>	<b>6,731</b>	<b>3,822</b>	<b>4,646</b>
(Inc)/dec in F.A	-118	-132	-119	-123
Other	42	42	42	42
<b>Cash flow from investing</b>	<b>-22</b>	<b>-90</b>	<b>-77</b>	<b>-81</b>
<b>Free cash flow (FCF)</b>	<b>-1,010</b>	<b>6,599</b>	<b>3,704</b>	<b>4,523</b>
Proceeds/(Repayment) of current borrowings	1,521.40	85.84	89.28	92.85
Proceeds/(Repayment) of non-current borrowings	2,414.70	-	-	1.00
Interest & Lease Liability	(250.80)	-	-	-
Dividend	-668	-790	-914	-1074
Interest exp	-273	-285	-286	-287
<b>Cash flow from financing activities</b>	<b>2745.2</b>	<b>-962.6</b>	<b>240.3</b>	<b>-153.5</b>
<b>Currency fluctuation arising on consolidation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net inc/(dec) in cash</b>	<b>1,831</b>	<b>5,679</b>	<b>3,986</b>	<b>4,412</b>
Opening balance of cash	4,372	6,201	11,879	15,863
Closing balance of cash	6,201	11,879	15,863	20,273

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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