

CMP: INR 1,526

Rating: Hold

Target Price: INR 1,689

Stock Info

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (INR)	10
Equity Capital (INR mn)	629
Mkt Cap (INR mn)	96,958
52W H/L (INR)	1,760/1253
Avg Yearly Vol (in 000')	385

Shareholding Pattern %

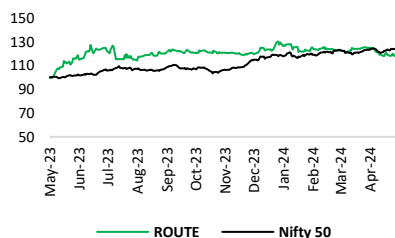
(As on March, 2024)

Promoters	58.18
Public & Others	41.82

Stock Performance (%)

	1m	3m	12m
Route	-5.4	-4.8	18.8
Nifty 50	0.14	2.8	24.7

Route Mobile Vs Nifty Price Chart



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Route Mobile reported a weak set of numbers. Reported revenue of INR 10,170 Mn -0.7% QoQ/ +0.8% YoY below our estimate of INR 10,650 Mn. Q4FY24 growth constraints were mainly attributed to The CPaaS industry is facing headwinds, but the company remains vigilant and has secured strategic deals for FY25. Consolidated Gross profit stood at INR 2,216 Mn in Q4FY24 up by 2.2%QoQ/ 0.2% YoY. A gross Profit margin of 21.78% in Q4FY24 against 21.17% in Q3FY24. Consolidated EBITDA stood at INR 1,254 Mn, flat QoQ/ down 4.9% YoY. EBITDA margin was contracted 75bps YoY/+11bps at 12.3% in-line with our estimate of 12.2%. The contraction in margin is due to high other expenses. Consolidated PAT stood at INR 951.6 Mn, down by 16.3%QoQ/-8.5% YoY below with our estimate of INR 1150 Mn. The exceptional item of INR 18 Mn reflects the fair value gain as of Q4FY24 related to the contingent consideration about acquisition of a subsidiary in previous years. DSO climbs to 80 days with OTT and client payments in April, impacting receivables' distribution, with INR 700 Mn consumed out of INR 4480 Mn in FY24. The Board has recommended a third interim dividend of INR 2 per equity share.

International challenge led to decline in Mr Messaging: Vodafone & Idea show promising growth prospects, and the firewall has driven significant revenue growth in ILD services within India. However, the MR Messaging revenue experienced a decline due to geopolitical issues in Russia and Ukraine, leading to de-growth in other countries.

OTT Platforms Favor SMS Authentication Amid WhatsApp's Price Hike: OTT platforms are recognizing the potential of SMS authentication over other channels due to data, security, and other factors. This indicates a promising future for ILD businesses, especially with WhatsApp's price hike to 2.5 cents, prompting a shift towards OTP channels. Additionally, the company plans to offer WhatsApp API globally and is pleased with the Vi deal going live. The CPaaS industry is affected by WhatsApp pricing, which is now at 2.8 cents, close to ILD pricing.

Valuation and Outlook

We anticipate growth in revenue and profitability, driven by synergies with Proximus Group and our focus on expanding our product portfolio with new offerings such as Email, Conversational Bot, and TruSense. Optimistic about the Indian market and the overall growth potential of the CPaaS industry. 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. Near-term concern in Europe due to geopolitical issues. We value the stock at a PE multiple of 21x to its FY27E EPS of INR ~80.4, which yield a revised target price of INR 1,689 per share. We downgrade our rating to Hold from Accumulate earlier on the stock.**

Exhibit 2: Q4FY24 performance

INR Mn (Route Mobiles Ltd.)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Net Revenue	10,170	10,243	10,087	-0.7%	0.8%
Purchase of messaging service	7,955	8,075	7,943	-1.5%	0.2%
Gross Profit	2,216	2,169	2,144	2.2%	3.3%
Gross Profit (%)	21.78%	21.17%	21.25%	2.9%	2.5%
Employee cost	513	511	506	0.3%	1.3%
Other Expenses	449	406	318	10.6%	40.9%
EBITDA	1,254	1,252	1,320	0.2%	-4.9%
EBITDA margin %	12.3%	12.2%	13.1%	11bps	-75bps
Other Income	115	195	146	-40.9%	-21.1%
Depreciation	219	216	212	1.0%	2.9%
EBIT	1,151	1,231	1,253	-6.5%	-8.2%
EBIT margin %	11.3%	12.0%	12.4%	-70bps	-111bps
Finance cost	75	65	50	16.2%	51.0%
Exceptional Item	18	150	-	-	-
Profit Before Exceptional item	1,093.9	1,316	1,204	-16.9%	-9.1%
Exceptional Item					
Tax Expense	142	180	163	-20.9%	-12.8%
Effective tax rate %	13.0%	13.7%	13.6%	-66bps	-54bps
PAT	951.6	1,136.4	1,041	-16.3%	-8.5%
Non-controlling interest	70.6	79	24.4	-10.6%	189.3%
adjusted PAT	881	1,057	1,016	-16.7%	-13.3%
PAT margin %	8.7%	10.3%	10.1%	-166bps	-141bps
EPS (INR)	14.1	16.9	16.3	-16.8%	-13.8%
Segment Revenue INR Mn.	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
India (Companies registered in India)	2,060	1,963	1,478	5.0%	39.4%
Overseas (Companies registered outside India)	9,064	9,354	9,831	-3.1%	-7.8%
Inter segment revenue	(954)	(1,074)	(1,223)	-11.1%	-21.9%

Source: Company, Arianth Research

Q4FY24-Key Conference call Highlights

- Guidance for FY25 and beyond will be issued upon the closure of the Proximus deal, anticipated later this month. The future outlook is positive, with a focus on revenue and profitability growth, expanding product portfolio, and optimism about the CPaaS industry. Concerns include industry headwinds and specific market challenges.
- DSO increased by 14 days to 80 led by payment from several OTTs and clients during the first ten days of April impacted the receivable skew, with an estimated consumption of INR 70 cr in FY24 out of INR 448 cr. A substantial portion of receivables is derived from PSU lines with QoQ settlements, contributing to a slight skew in the receivables.
- With strategic deals secured and groundwork set for FY25, significant revenue and profitability growth is anticipated, fueled by synergies within the Proximus group, direct contracts with top e-commerce cloud computing firms, and exclusive monetization deals with Vi India.
- The CPaaS industry is facing headwinds, but the company remains vigilant and has secured strategic deals for FY25.
- Merger: Proximus to acquire 57.56% of Route Mobile shares, for ~ INR 59bn cash at INR 1,626.4 per shares. Proximus anticipates to close this month. The imminent Proximus deal promises to bolster the portfolio and expand the global presence, but despite this, company has fallen short of the revised guidance of \$1bn.
- In FY24, Mr Messaging's was declined 9% to INR 7103 Mn by due to geopolitical issues in Europe and industry consolidation among a key client, impacting revenue, payouts, and resulting in impairment captured on the financials In terms of business KPIs, Mr Messaging processed 34 bn transactions in Q4FY24 and 126 bn for the entire FY24, with India remaining the largest market by contributing over 48% of revenue.
- India termination revenues grew by 19% in FY24, while the revenue contribution from US headquartered clients as a percentage of total operating income decline to 42% against 46% in FY23. Despite this, revenues from US headquartered customers only saw a 4% growth.
- CFO to EBITDA conversion was 56% as against 45% in FY 23.
- Average realization per billable transaction declined to 30 paisa compared to 33 paisa in Q3FY24 due to significant increase in the domestic volumes in India.
- Margin: 60bps one-off in FY24 led by a few expenses related to MWC and a few other events conducted by the company in Q4FY24. It should bounce back FY25.
- In Q4FY24, added 43 employees against left 53 employees in Q4FY24.
- India ILD has grown but issue on the rest of the world. Anticipates significant growth potential in customer onboarding via RCS, WhatsApp, and other communication channels, with plans for scaling based on the current pipeline.
- Masivian possesses a strong portfolio of new products, facilitating cross-selling efforts; however, this seasonally weak Q4FY24 slightly dampened the growth trajectory.
- OTT platforms are recognizing the potential of SMS authentication over other channels due to data, security, and other factors, indicating a promising future for ILD businesses, especially with WhatsApp's price hike to 2.5 cents, prompting a shift towards OTP channels, while company plans to offer WhatsApp API globally and is pleased with the Vi deal going live. CPaaS industry is affected by WhatsApp pricing, which is now at 2.8 cents, close to ILD pricing.
- The firewall has effectively blocked domestic and international leakages, mitigating risks and leading to growth in ILD business, especially with the identification and blocking of new channels like flash calls, with detailed information shared with Vodafone for collaboration in implementing mechanisms to counter these threats.
- Enterprises, has seen growth on the domestic front and as a company is very bullish to focus more on the enterprise side.
- New Products: The company's new metro ticket booking service on WhatsApp and RCS for select Indian cities attracted significant user traffic within 3 hours, boosting new product revenue, despite a seasonally weak Q4FY24. These products offer higher margins than SMS services, with a margin profiles 30% to 80%, and an average blended margin of 30-35%, consistent with earlier guidance.
- The company is working on certain firewall deals in LATAM market.
- Route Mobile received several industry recognitions, including being ranked as a Tier 1 vendor in the A2P messaging market by Rocco.
- New customer wins include a leading e-commerce and cloud computing company and an exclusive A2P monetization deal with an APAC MNO.
- Average realization per billable transaction decreased due to a rise in domestic volumes with lower margins.
- Naira devaluation affecting revenue from the Nigerian market.

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

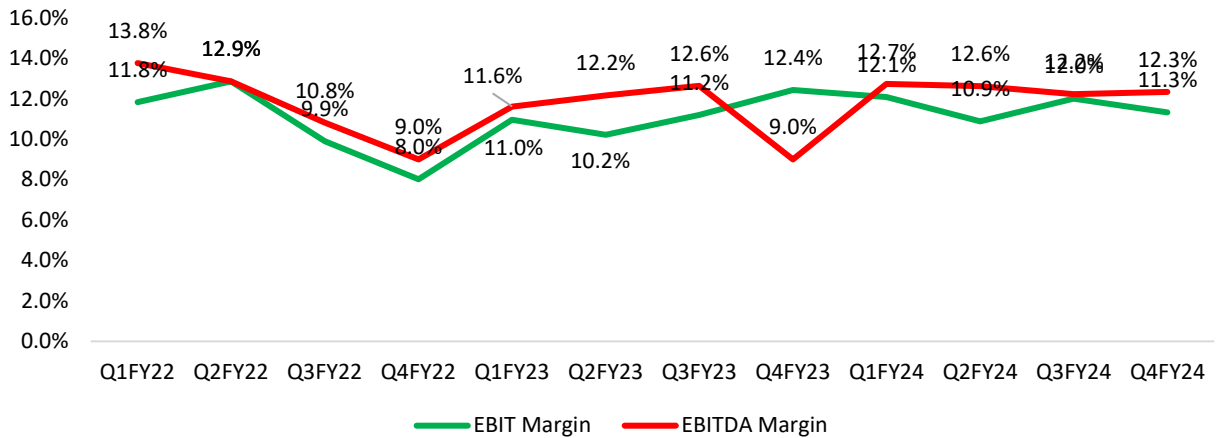


Exhibit 3: Growing number of Multi-million dollar accounts with Improving Client Diversification

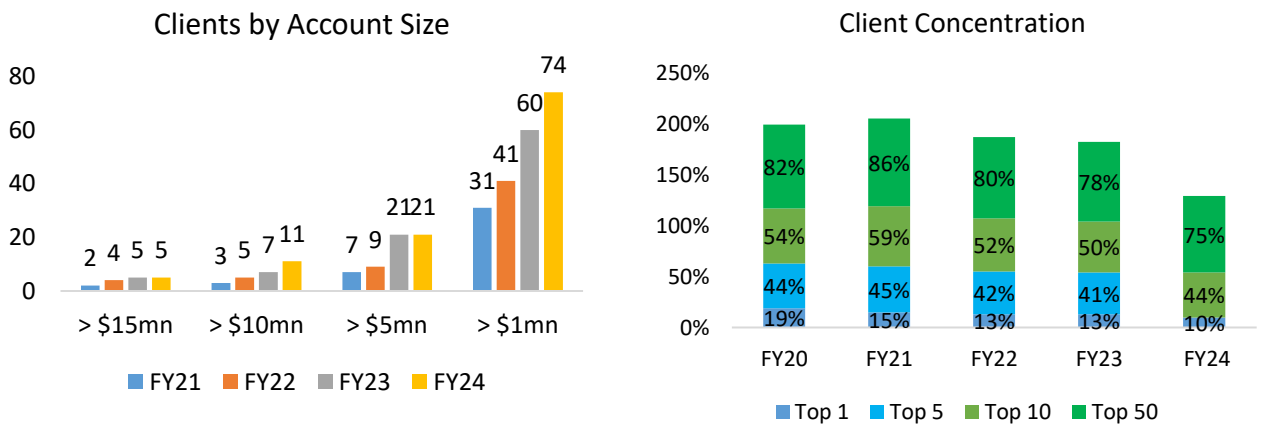
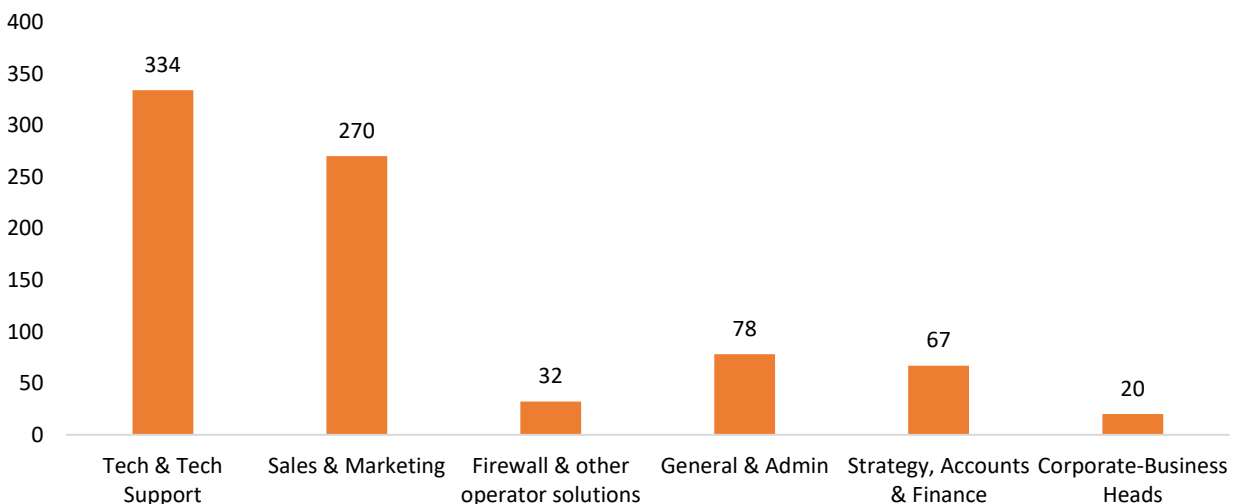


Exhibit 4: Function wise break-up



Source: Company, Arianth Research

Income Statement

Y/E March (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	35,692	40,233	45,463	50,919	57,029
<i>Change (%)</i>	78.3%	12.7%	13.0%	12.0%	12.0%
Cost of Goods Sold	27,826	31,628	35,739	40,028	44,831
Employee costs	1,969	1,982	2,410	2,648	2,966
Other expenses	1,456	1,513	1,682	1,782	1,939
Total operating Expense	31,251	35,122	39,831	44,458	49,736
EBITDA	4,442	5,111	5,632	6,461	7,293
EBITDA Margin (%)	12.4%	12.7%	12.4%	12.7%	12.8%
Other Income	394	405	413	421	430
Depreciation	816	861	764	962	1,090
Interest	205	273	295	310	320
PBT	3,815	4,382	4,986	5,610	6,313
Extra-ordinary	-	-	-	-	-
PBT after ext-ord.	3,815	4,382	4,986	5,610	6,313
Tax	484	662	997	1,122	1,263
<i>Rate (%)</i>	12.7%	15.1%	20.0%	20.0%	20.0%
PAT	3,331	3,720	3,989	4,488	5,050
<i>Change (%)</i>	95.9%	11.7%	7.2%	12.5%	12.5%

Balance Sheet

Y/E March (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Share Capital	624	628	628	628	628
Reserves & Surplus	17,580	20,868	24,139	27,819	31,960
Minority Interest	80	213	213	213	213
Net Worth	18,284	21,708	24,979	28,659	32,801
Long term debt	437	1,350	1,354	1,357	1,360
Short term debt	625	2,146	2,232	2,321	2,414
Total Debt	1,062	3,496	3,586	3,678	3,774
Capital Employed	28,852	34,719	41,265	46,414	52,148
Application of Funds					
Net Block	344	378	510	629	752
other intangible Asset	9,180	8,599	9,030	8,890	8,840
Deffered Tax & Non Current Asset & Financial Asset	514	3,492	3,492	3,492	3,492
Other Non-Current Assets	732	691	691	691	691
Capital WIP	10.90	-	-	-	-
Non Current Asset	10,771	13,160	13,722	13,701	13,774
Investments	203	149	149	149	149
Debtors	7,015	10,716	11,086	12,416	13,906
Cash & bank balance	4,836	5,423	11,608	15,141	18,969
other Financial & Current Asset	1,914	2,873	2,557	2,864	3,207
Total current assets	13,968	19,160	25,399	30,569	36,231
Total Assets	28,852	34,719	41,265	46,414	52,148

Source: Company, Arihant Research

Cash Flow Statement

Y/E March (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	3,815	4,382	4,986	5,610	6,313
Depreciation	816	861	764	962	1,090
Interst Exp	-5	273	295	310	320
Other Non Cash Item	-151	-145	-145	-145	-145
Cash flow before WC changes	4,475	5,370	5,900	6,737	7,578
(Inc)/dec in working capital	-3,768	-1,703	3,414	-285	-320
Operating CF after WC changes	1,067	2,398	7,577	4,715	5,523
Less: Taxes	-484	-662	-997	-1,122	-1,263
Operating cash flow	583	1,736	6,580	3,593	4,260
(Inc)/dec in F.A	-107	-118	-132	-119	-123
Other	57	42	42	42	42
Cash flow from investing	-118	-22	-90	-77	-81
Free cash flow (FCF)	476	1,618	6,448	3,474	4,137
Proceeds/(Repayment) of current borrowings	624.70	1,521.40	85.84	89.28	92.85
Proceeds/(Repayment) of non-current borrowings	-	-	-	-	1.00
Interest & Lease Liability	-	-	-	-	-
Dividend	-587	-668	-718	-808	-909
Interest exp	-205	-273	-295	-310	-320
Cash flow from financing activities	-167.3	581.3	-304.5	18.4	-349.3
Currency fluctuation arising on consolidation	-	-	-	-	-
Net inc /(dec) in cash	297	2,295	6,185	3,534	3,830
Opening balance of cash	4,076	4,836	5,423	11,608	15,141
Closing balance of cash	4,836	5,423	11,608	15,141	18,969

Key Ratios

Y/E March (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Per share (INR)					
EPS	52.3	59.1	63.5	71.5	80.4
CEPS	66.4	75.6	75.7	86.8	97.8
BVPS	292.8	345.7	397.8	456.4	522.4
Valuation (x)					
P/E	29.2	25.8	24.0	21.3	19.0
P/BV	5.2	4.4	3.8	3.3	2.9
EV/EBITDA	31.0	27.4	23.8	20.2	17.4
Return Ratios (%)					
Gross Margin	22.0%	21.4%	21.4%	21.4%	21.4%
EBIDTA Margin	12.4%	12.7%	12.4%	12.7%	12.8%
PAT Margin	9.3%	9.7%	8.8%	8.8%	8.9%
ROE	18.2%	17.9%	16.0%	15.7%	15.4%
ROCE	18.7%	16.9%	17.0%	17.0%	17.0%
Leverage Ratio (%)					
Turnover Ratios					
Asset Turnover (x)	1.2	1.2	1.1	1.1	1.1
Receivable Days	72	97	89	89	89
Payable days	48	61	86	86	86

Source: Company, Arihant 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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