

CMP: INR 1,579

Rating: Accumulate

Target Price: INR 1,839

Stock Info

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (INR)	10
Equity Capital (INR mn)	629
Mkt Cap (INR mn)	99,144
52W H/L (INR)	1,760/1131
Avg Yearly Vol (in 000')	303

Shareholding Pattern %

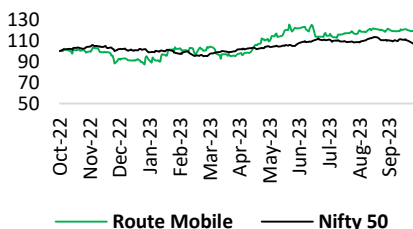
(As on June, 2023)

Promoters	58.32
Public & Others	41.68

Stock Performance (%)

	1m	3m	12m
Route	1.18	2.7	19.6
Nifty 50	-3.3	-3.1	7.3

Route Mobile Vs Nifty Price Chart



Route Mobile reported a flattish quarter. Reported revenue of INR 10,146 Mn up 4.9% QoQ/ +20% YoY against our estimate of INR 10,035 Mn. The growth was backed by better deal momentum. Consolidated Gross profit stood at INR 2,150 Mn in Q2FY24 up by 3.8%QoQ/ +13.9% YoY against Q1FY24 of INR 2,071 Mn. A gross Profit margin of 21.19% in Q2FY24 against 21.41% in Q1FY24. Consolidated EBIT stood at INR 1,104 Mn, down by 5.6%QoQ/+28% YoY against our estimate of INR 1,226 Mn. EBIT margin was contracted 121bps QoQ/ +67bpsYoY at 10.9% against our estimate of 12.2%.The contraction in margin due to increase in travel cost. Consolidated PAT stood at INR 883.5 Mn, down by 3.6%QoQ/+21.6% YoY against our estimate of INR 989Mn. The Board has recommended a second interim dividend of INR 3 per equity share

Momentum in New product: The company has achieved a significant 64% increase in new product revenue, underlining its unwavering commitment to innovative product development. This dedication is exemplified through fruitful collaborations, such as the WhatsApp-based ticketing system for the Delhi Metro, providing a promising outlook for the future.

Realizing Synergies with Proximus: The partnership with Proximus Group is proceeding as scheduled, with a targeted completion set for the Q4FY24. To guarantee seamless integration, the company has established an integration governance committee, comprising senior leaders from Proximus and TeleSign, collaborating effectively. With the achievement of each milestone, confidence in the partnership's robustness and its potential for success steadily strengthens. The company stands to gain from harnessing TeleSign's digital identity platform, which presents opportunities for increased revenue and cross-selling synergies in emerging markets.

Valuation and Outlook

The company's strengthened confidence is underpinned by their partnership with Proximus Group and the confirmation of significant EBITDA synergies. The utilization of TeleSign's digital identity platform, the establishment of an innovation lab, and the pursuit of cost-effective models all contribute to their potential for sustained growth and enhanced efficiency. In our assessment, the company has exhibited commendable resilience in the face of macroeconomic challenges and is well-positioned for improved growth, with the capacity to expand its clientele across multiple countries on a global scale. **We value the stock at a PE multiple of 24x to its FY25E EPS of INR ~76.6, which yield a revised target price of INR 1,839 per share (earlier target price; INR 1,595 per share). We maintain our Accumulate rating on the stock.**

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Exhibit 1: Snapshot of Financial

YE March (INR Mn)	Revenues	EBITDA	EBITDA Margin (%)	PAT	EPS (INR)	RoE (%)	P/E (x)
FY23	35,692	4,442	12.44%	3,331	52.3	18.22%	30.2
FY24E	42,831	5,525	12.90%	3,714	59.5	17.41%	26.5
FY25E	49,255	6,403	13.00%	4,175	66.9	16.87%	23.6
FY26E	56,644	7,420	13.10%	4,785	76.6	16.69%	20.6

Source: Company, Arihant Research

Exhibit 2: Q2FY24 performance

INR Mn (Route Mobiles Ltd.)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Net Revenue	10,146	9,673	8,458	4.9%	20.0%
Purchase of messaging service	7,996	7,602	6,571	5.2%	21.7%
Gross Profit	2,150	2,071	1,888	3.8%	13.9%
Gross Profit (%)	21.19%	21.41%	22.32%	-1.0%	-5.0%
Employee cost	422	537	474	-21.3%	-10.9%
Other Expenses	447	303	385	47.5%	16.1%
EBITDA	1,281	1,232	1,029	4.1%	24.5%
<i>EBITDA margin %</i>	<i>12.6%</i>	<i>12.7%</i>	<i>12.2%</i>	<i>-10bps</i>	<i>46bps</i>
Other Income	37	149	23	-75.3%	62.8%
Depreciation	214	211	188	1.5%	13.8%
EBIT	1,104	1,169	864	-5.6%	27.8%
<i>EBIT margin %</i>	<i>10.9%</i>	<i>12.1%</i>	<i>10.2%</i>	<i>-121bps</i>	<i>67bps</i>
Finance cost	66	67	41	-2.4%	60.1%
Exceptional Item	-	-	-	-	-
Profit Before Exceptional item	1,038	1,102	822.70	-5.8%	26.2%
Exceptional Item					
Tax Expense	155	185	96	-16.5%	60.6%
Effective tax rate %	14.9%	16.8%	11.7%	-191bps	319bps
PAT	883.5	916.9	726.30	-3.6%	21.6%
Non-controlling interest	-4.5	-7.5	-9.7	-40.0%	-53.6%
adjusted PAT	888	924	736.00	-3.9%	20.7%
<i>PAT margin %</i>	<i>8.8%</i>	<i>9.6%</i>	<i>8.7%</i>	<i>-80bps</i>	<i>5bps</i>
EPS (INR)	14.2	14.8	11.8	-4.0%	20.8%
Segment Revenue INR Mn.	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
India (Companies registered in India)	1,792	1,659	1,572	8.1%	14.0%
Overseas (Companies registered outside India)	9,618	8,919	8,845	7.8%	8.7%
Inter segment revenue	(1,265)	(905)	(1,958)	39.8%	-35.4%

Source: Company, Arihant Research

Q2FY24-Key Conference call Highlights

The company anticipates a 25% growth for FY24, driven by the addition of an ecommerce client in this and the next quarter, along with the impact of the Vodafone deal. Moreover, there's another forthcoming firewall deal, which is expected to yield margins ranging from 20% to 50% in some cases.

Revenue Mix

- Revenue is split, with H1 accounting for 45% and H2 for 55%, and with upcoming festive seasons, any recent dip in revenue is likely due to seasonality, not a cause for concern, as October showed growth, and Company anticipate this trend to continue in November and December for ILD business.
- Re-engagement with the merged entity Vodafone Idea highlights platform's strength, with the potential to generate approximately \$100 mn in revenue, and the company is actively deploying a forthcoming firewall.

Deal wins

- Secured a major international A to B termination and firewall management service deal in Southeast Asia, currently operational.

E-commerce Deal

- Partnered with a global ecommerce giant onboarded in Q1FY24, contributing to expectations of increased international traffic, including India, and an annual revenue growth target of 20%-25%, possibly even surpassing the upper limit.

New Product

- New product revenue increased by a remarkable 64%, showcasing dedication to innovation.
- Successful collaborations, like the WhatsApp-based ticketing system for Delhi Metro, exemplify strong product development.
- Deal with Proximus Group is on track, with plans to wrap it up by Q4 2024.
- An integration governance committee, comprising senior leaders from Proximus, and TeleSign, is ensuring a smooth partnership transition.

Synergy with Proximus deal

- Validated the anticipated synergy, confirming the EUR90 mn or \$100 mn EBITDA synergy. Company's benefits include leveraging TeleSign's digital identity platform for revenue and cross-selling synergies in emerging markets.
- Digital identity, a unique SaaS product, addresses digital fraud and boasts gross margins exceeding 80%.
- Synergy bucket focuses on OPEX savings and includes setting up a cutting-edge product innovation lab in India for new product initiatives, automation, and AI/ML capabilities.
- Economies of scale will be achieved by consolidating cloud infrastructure software licenses and vendors across the group, aiming for a cost-efficient operating model through Shared Service Centers and leveraging the capabilities of their BPO Arm, Connect.
- In Q2 FY 24, processed over 31 bn transactions, marking highest quarterly volume to date.

Billable Transactions

- Billable transactions up from 26.9 bn in Q2FY23 to 29.5 bn in Q1FY24, and further increased to 31.3 billion in Q2 FY 24, with a marginal decrease in average realization per billable transaction from 32.8 pesa in Q1 FY 24 to 32.4 pesa in Q2 FY 24 due to domestic volume growth in India; India remains the largest market, constituting 47% of revenue, while domestic volumes witnessed double-digit growth, and new product revenues saw a 64% YoY and 53% QoQ increase in Q2FY24.
- India is going to be at least about 50% of the revenue and remaining 50% will come from international.
- Vodafone Idea's launch in December has a revenue potential of around \$100 mn, and this income is expected to start in Q4FY24.
- DSO should be around 64-65 days.

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

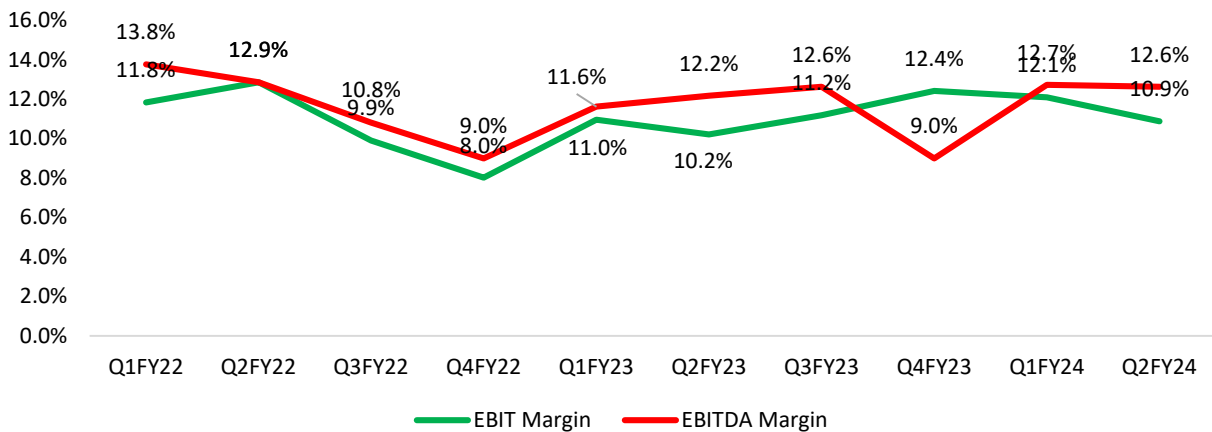


Exhibit 3: Growing number of Multi-million dollar accounts with Improving Client Diversification

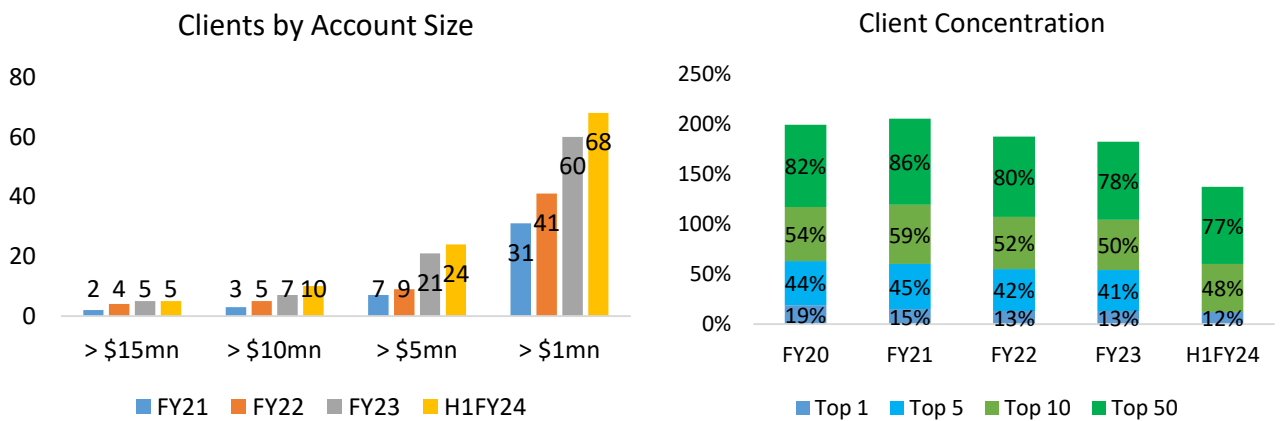
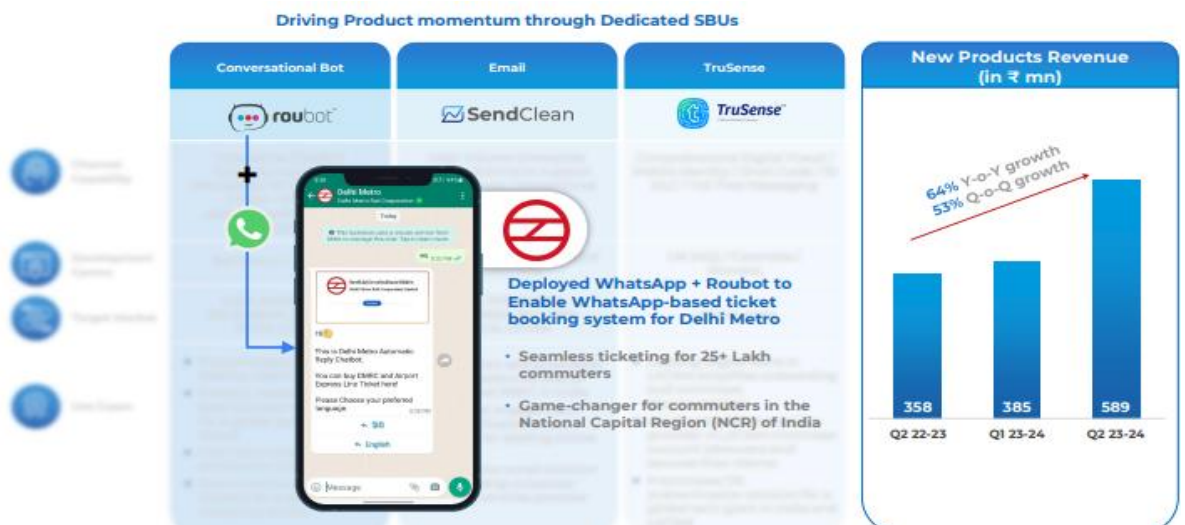


Exhibit 4: Focus on Expanding Product Portfolio



Source: Company, Arianth Research

Income Statement					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	20,020	35,692	42,831	49,255	56,644
<i>Change (%)</i>	42.4%	78.3%	20.0%	15.0%	15.0%
Cost of Goods Sold	15,825	27,826	33,408	38,419	44,182
Employee costs	1,261	1,969	2,270	2,611	2,945
Other expenses	748	1,456	1,628	1,822	2,096
Total operating Expense	17,834	31,251	37,306	42,852	49,223
EBITDA	2,186	4,442	5,525	6,403	7,420
EBITDA Margin (%)	10.9%	12.4%	12.9%	13.0%	13.1%
Other Income	201	394	400	408	416
Depreciation	383	816	1,017	1,307	1,569
Interest	52	205	265	285	286
PBT	1,952	3,815	4,643	5,219	5,981
Extra-ordinary	-	-	-	-	-
PBT after ext-ord.	1,952	3,815	4,643	5,219	5,981
Tax	251	484	929	1,044	1,196
<i>Rate (%)</i>	12.9%	12.7%	20.0%	20.0%	20.0%
PAT	1,701	3,331	3,714	4,175	4,785
<i>Change (%)</i>	28.2%	95.9%	11.5%	12.4%	14.6%

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	20,625	24,049	27,972
Minority Interest	21	80	80	80	80
Net Worth	16,746	18,284	21,329	24,753	28,676
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	34,265	39,313	45,102
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	10,444	12,010	13,812
Cash & bank balance	4,073	4,836	7,220	9,497	13,137
other Financial & Current Asset	1,126	1,914	2,409	2,770	3,186
Total current assets	10,498	13,968	20,275	24,480	30,337
Total Assets	26,587	28,852	34,265	39,313	45,102

Source: Company, Arianth Research

Cash Flow Statement					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,952	3,815	4,643	5,219	5,981
Depreciation	383	816	1,017	1,307	1,569
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	5,780	6,666	7,691
(Inc)/dec in working capital	-658	-3,768	1,766	-349	-401
Operating CF after WC changes	1,795	1,067	6,277	4,580	5,554
Less: Taxes	-450	-484	-929	-1,044	-1,196
Operating cash flow	1,346	583	5,349	3,536	4,357
(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	5,230	3,404	4,239
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	-669	-751	-861
Interest exp	-5	-205	-265	-285	-286
Cash flow from financing activities	8241	-167.3	-2438.5	-1386.4	-1061.0
Currency fluctuation arising on consolidation	-	-	-	-	-
Net inc /(dec) in cash	1,202	297	2,849	2,278	3,642
Opening balance of cash	2,699	4,076	4,372	7,220	9,497
Closing balance of cash	4,076	4,372	7,220	9,497	13,137

Key Ratios					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Per share (INR)					
EPS	27.8	52.3	59.5	66.9	76.6
CEPS	33.1	66.4	75.8	87.8	101.8
BVPS	266.4	292.8	341.6	396.4	459.3
Valuation (x)					
P/E	56.8	30.2	26.5	23.6	20.6
P/BV	5.9	5.4	4.6	4.0	3.4
EV/EBITDA	63.2	31.0	24.5	20.8	17.4
Return Ratios (%)					
Gross Margin	21.0%	22.0%	22.0%	22.0%	22.0%
EBIDTA Margin	10.9%	12.4%	12.9%	13.0%	13.1%
PAT Margin	8.5%	9.3%	8.7%	8.5%	8.4%
ROE	10.2%	18.2%	17.4%	16.9%	16.7%
ROCE	10.8%	18.7%	20.1%	19.7%	19.6%
Leverage Ratio (%)					
Turnover Ratios					
Asset Turnover (x)	0.8	1.2	1.3	1.3	1.3
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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