

CMP: INR 1,286

Rating: Hold

Target Price: INR 1,389

Stock Info

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (INR)	10
Equity Capital (INR mn)	629
Mkt Cap (INR mn)	76,408
52W H/L (INR)	2,389/1,175
Avg Yearly Vol (in 000')	607

Shareholding Pattern %

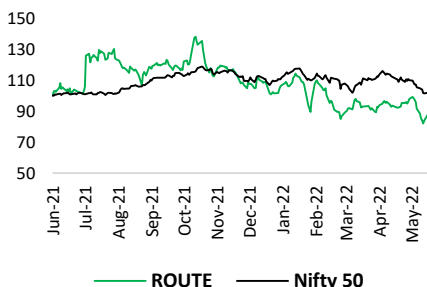
(As on March, 2022)

Promoters	59.98
Public & Others	40.02

Stock Performance (%)

	1m	3m	12m
Route	-21.5	-20.1	-21.5
Nifty 50	-6.8	-8.5	5.1

Route Mobile Price Chart



Abhishek Jain
abhishek.jain@arihantcapital.com
022 6711485

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Route Mobile; Sharp contraction seen on the Margins. The route has reported consolidated revenue of INR 6,261 Mn, +72.7% YoY/11.2% QoQ in Q4FY22 above our estimate of INR 5,890 Mn driven by growth across the segment. Consolidated EBITDA stood at INR 563 Mn, up by 12.9% YoY. While de-grew by 7.4% QoQ below our estimate of INR 590 Mn. On the margins front, EBITDA margin contracted by 477bps YoY/ 181 bps QoQ to 9.0% below our estimate of 10.01% due to amortization of charges related to acquisition. Consolidated PAT stood at INR 474 Mn, up by 33.7% YoY/2.4% QoQ above our estimate of INR 460 Mn due to tax reversal. PAT has been adjusted for non-cash ESOP benefit expenses and amortization associated with the intangible assets added as a result of purchase price allocation for acquisitions Q4 FY22 is adjusted for tax refund pertaining to prior period for 365squared amounting to INR 38mn. The company has recommended Interim dividend of INR 5 per share. Net cash flow from operations declined to INR 1795 Mn in FY22 vs INR 2394.8 Mn in FY21.

Guidance: The company is already witnessing very strong growth momentum and confident to deliver it at least 40% growth YoY in FY23

Margin: The company believes Margin will see improvement in forthcoming quarters. Management confident to deliver EBITDA Margin by 150bps improvement in FY23 or in the range of 13%-13.5%.

Amortisation and acquisition: Amortisation likely to see impact of INR 580mn in FY23. And Interest cost likely to INR 140 mn in FY23 as per the management expectations.

Valuation and Outlook

At a CMP of INR 1,286 Stock is trading at a P/E of 24.1(x) to its FY24E EPS of INR ~53. In Q4FY22, the contraction in EBITDA margin is partially attributable to the seasonality of the business, especially of massive yen and certain one-off expenses Q4 FY2022 which incidentally happens to be Q1CY22 historically accounts for around 20% of their revenue and they have very high fixed overheads, which is largely the human capital cost. While the company indicated growth of at least 40% backed by strong growth momentum in FY23 and is confident to deliver EBITDA Margin by 150bps improvement YoY basis. We believe as the company is invested in Chile, Mexico, and Brazil which is key market growth for Route mobile within Latin will be going to benefit from FY23 onwards.

We value the stock at a PE multiple of 26x to its FY24E EPS of INR ~53, which yield a revised target price of INR 1,389 per share (earlier target price; INR 1,695 per share). We downgrade our rating to Hold from Accumulate earlier.

YE March (INR Mn)	Revenues	EBITDA	EBITDA Margin (%)	PAT	EPS (INR)	RoE (%)	P/E (x)
FY21	14062	1,740	12.37%	1,327	24.8	20.43%	51.9
FY22	20020	2,186	10.92%	1,701	27.8	21.30%	46.2
FY23E	26026	3,045	11.70%	2,283	39.6	23.50%	32.5
FY24E	33834	4,128	12.20%	3,082	53.4	23.50%	24.1

Source: Company, Arihant Research

INR Mn (Route Mobiles Ltd.)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Net Revenue	6,261	5,628	3,624	11.2%	72.7%
Purchase of messaging service	4,942	4,442	2,829	11.3%	74.7%
Employee cost	494	357	170	38.2%	190.2%
Other Expenses	261	220	127	18.9%	106.6%
EBITDA	563	608	499	-7.4%	12.9%
<i>EBITDA margin %</i>	<i>9.0%</i>	<i>10.8%</i>	<i>13.8%</i>	<i>-181bps</i>	<i>-477bps</i>
Other Income	84	47	-6	77.8%	-1478.7%
Depreciation	145	99	64	47.5%	127.4%
EBIT	502	557	429	-9.9%	17.0%
<i>EBIT margin %</i>	<i>8.0%</i>	<i>9.9%</i>	<i>11.8%</i>	<i>-188bps</i>	<i>-382bps</i>
Finance cost	34	6	4	446.8%	670.5%
Exceptional Item	-	-	-		
Profit Before Exceptional item	468	551	425	-15.0%	10.2%
Exceptional Item					
Tax Expense	-6	88	70	-106.9%	-108.7%
Effective tax rate %	-1.3%	16.0%	16.4%	-1728bps	-1774bps
PAT	474	463	355	2.4%	33.7%
<i>PAT margin %</i>	<i>7.6%</i>	<i>8.2%</i>	<i>9.8%</i>	<i>-65bps</i>	<i>-221bps</i>
EPS (INR)	7.3	7.4	6.2	-1.4%	18.2%

Key Conference call Highlights

- The company future plans to acquire more companies and complete the ecosystem. The company has the company has INR 10,000+ cash on books.
- Mr Messaging revenue likely to similar going forward as Q4FY22.
- India continues strong for RML and gaining market share and gain few larger customers in BFSI segment.
- Route Mobile (UK) Limited listed as one of the Top 3 Fastest - growing Indian companies in the United Kingdom. The company has gain market share in India and in FY23, expect to deliver \$175mn included both Indian and international.
- The company recent acquisition was all from accruals. Most of the acquisition will help kick operating leverage going ahead.
- The company has completed the acquisition of MRM during the quarter gone by. MRM's acquisition will help expand Route Mobile's reach to new geographies primarily Europe, South Africa and Japan. Total purchase consideration will be paid out as follows; Upfront cash consideration of EUR 19.38 mn (INR 1,628 mn) paid at closing - Deferred payouts spread over three (3) years, viz. FYE March 31, 2023, 2024 and 2025 and linked to EBITDA performance of MRM for the respective years.
- Billable: 4QFY21 9mn Q3FY2216 and 18bn during the Q4FY22 and this is the highest billable till date. Realisation reduced to 35 paisa vs 41 paisa in Q4FY21.
- News customers: 18 new customers across all brand.
- The company recently signed Business Transfer Agreement with Teledgers to acquire DLT, trusted blockchain and Alpowered solutions. The closure of this transaction is subject to completion of condition precedents including the outcome of an ongoing arbitration proceeding.
- The company has signed 3 new firewall contracting quarter Q422. Route participated in events like MWC Barcelona, Dubai.
- Headcount: The company has added 21 employees to expand reach and gain market share in Mexican, Chile and Brazil. The company believes this will have started showing result by Q3FY23 onwards in term of penetration in Latin market.
- Latin market very high margin market and some macro market within Latin is highly under penetrated. At this point of time the company is going to digital transformation.
- As the company is invested in Chile, Mexico and Brazil which is key market growth for Route mobile within latin. The company is expected this investment will be going to accrue by Q3FY23 onwards.
- The company further expenses of INR 55 million related to event expenses.
- ESOP; The company has done INR 95 mn non cash.

Income Statement				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
Revenues	14,062	20,020	26,026	33,834
Change (%)	47.1%	42.4%	30.0%	30.0%
Cost of Goods Sold	11,291	15,825	20,483	26,391
Employee costs	615	1,261	1,562	2,030
Other expenses	416	748	937	1,286
Total operating Expense	12,322	17,834	22,981	29,707
EBITDA	1,740	2,186	3,045	4,128
EBITDA Margin (%)	12.4%	10.9%	11.7%	12.2%
Other Income	160	201	195	195
Depreciation	258	383	555	721
Interest	27	52	65	65
PBT	1,615	1,952	2,620	3,537
Extra-ordinary	-	-	-	-
PBT after ext-ord.	1,615	1,952	2,620	3,537
Tax	288	251	337	456
Rate (%)	17.8%	12.9%	12.9%	12.9%
PAT	1,327	1,701	2,283	3,082
Change (%)	81.3%	28.2%	34.2%	35.0%

Balance Sheet				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
Sources of Funds				
Share Capital	577	629	629	629
Reserves & Surplus	5,945	16,097	17,969	20,496
Minority Interest	-27	21	21	21
Net Worth	6,495	16,746	18,618	21,145
Long term debt	34	-	-	-
Short term debt	-	-	-	-
Total Debt	34	0	0	0
Capital Employed	10,221	26,587	29,329	33,388
Application of Funds				
Net Block	211	290	397	515
other intangible Asset	1,717	9,233	6,938	7,332
Deferred Tax & Non Current Asset & Financial Asset	506	373	373	373
Other Non-Current Assets	78	5	5	5
Caotial WIP	10.50	-	-	-
Non Current Asset	2,523	9,901	7,713	8,225
Investments	128	134	134	134
Debtors	2,173	4,871	6,346	8,250
Cash & bank balance	2,700	4,073	7,101	8,191
other Financial & Current Asset	721	1,421	1,847	2,401
Total current assets	5,722	10,498	15,428	18,975
Total Assets	10,221	26,587	29,329	33,388

Cash Flow Statement				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
PBT	1,615	1,952	2,620	3,537
Depreciation	258	383	555	721
Interst Exp	27	-10	65	65
Other Non Cash Item	-59	-156	-148	-148
Cash flow before WC changes	1,841	2,169	3,092	4,175
(Inc)/dec in working capital	627	-658	-723	-939
Operating CF after WC changes	2,467	1,795	3,731	2,070
Less: Taxes	-173	-450	-337	-456
Operating cash flow	2,294	1,346	3,394	1,614
(Inc)/dec in F.A	-77	-171	-107	-118
Other	-2,184	-4,083	37	37
Cash flow from investing	-2,261	-8,384	-69	-80
Free cash flow (FCF)	2,217	1,175	3,287	1,496
Proceeds/(Repayment) of current borrowings	-374	-	-	-
Proceeds/(Repayment) of non-current borrowings	-3.3	(39.70)	-	-
Interest & Lease Liability	(70.00)	(14.00)	-	-
Dividend	0	-300	-411	-555
Intereset exp	-21	-5	-65	-65
			475.7187	619.7021
Cash flow from financing activities	2110.7	8240.5	8	1
Currency fluctuation arising on consolidation	(73.00)	-	-	-
Net inc / (dec) in cash	2,071	1,202	2,849	914
Opening balance of cash	615	2,699	4,076	7,101
Closing balance of cash	2,699	4,076	7,101	8,191

Key Ratios				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
Per share (INR)				
EPS	24.8	27.8	39.6	53.4
CEPS	27.5	36.1	49.2	65.9
BVPS	112.6	266.4	296.1	336.3
Valuation (x)				
P/E	51.9	46.2	32.5	24.1
P/BV	11.4	4.8	4.3	3.8
EV/EBITDA	73.5	57.9	40.5	29.6
Return Ratios (%)				
Gross Margin	19.7%	21.0%	21.3%	22.0%
EBIDTA Margin	12.4%	10.9%	11.7%	12.2%
PAT Margin	9.4%	8.5%	8.8%	9.1%
ROE	20.4%	10.2%	12.3%	14.6%
ROCE	22.7%	10.8%	13.4%	16.1%
Leverage Ratio (%)				
Turnover Ratios				
Asset Turnover (x)	1.4	0.8	0.9	1.0
Receivable Days	56	89	89	89
Payable days	62	70	70	69

Source: Company, Aриhant 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

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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