

Route Mobile Ltd

Subscribe

Price Band: INR 345-350

ISSUE SUMMARY

Issue Opens	9-Sep-20
Issue Closes	11-sep-20
Offer Price (INR per share)	345-350
Bid Lot	40 shares
Face Value (INR)	10.0
Pre Issue Shares o/s (mn)	50.0
^Offer for Sale (No of sh. mn)	10.3
^Fresh Issue (No of sh. mn)	6.9
^Post Issue shares o/s (mn)	56.9
^*Issue Size (INR bn)	6.0
QIB	=>50%
Non-institutional	<15%
Retail	<35%
^ Issue Size (@INR350)	

POST ISSUE DETAILS

M.Cap @INR350/sh. (INR bn)	19.9
Shareholding pattern	
Promoters	66.3%
Non-Promoters	33.7%

Route Mobile Ltd (RML) is among the leading CPaaS (Communications Platform as a Service) provider. Its services include Message, Voice, Email, SMS Filtering, Analytics & Monetization.

Omni-channel cloud communication platform service provider: RML is a leading omni-channel CPaaS provider with its A2P (Application-to-peer) service being ranked 2nd globally among tier-1. A2P SMS market is currently the largest segment; expected to grow at 4.4% CAGR over FY18-FY23. With growing internet penetration, demand for CPaaS is increasing to streamline back-end operations as well as to engage with various stakeholders. RML processed >3,031cr billable transactions in FY20 (20% CAGR over FY18-20), while in Q1FY21, it processed >695cr transactions.

Diversified and global client base across industries: RML is well diversified globally/across industries, with presence in high potential markets. RML also enjoys strong relationship with 240 MNOs (mobile network operators) globally by offering them focused suite of products. This relationship provides RML with access to over 800 mobile networks and helps in serving its enterprise clients better with flexibility of multiple routes, better speed delivery and cost optimization/message.

Improving Financials: Over FY18-20, RML Revenue/EBITDA/PAT grew at a CAGR of 38%/15%/22%. The balance sheet is lean with negligible debt and healthy return ratios (RoE/RoCE at 29%/24%). RML's WC is negligible as it has a large pre-paid client base that pays upfront. Further, revenue is directly linked to usage based on each communication sent by clients and RML follows flexible pricing policy based on prevailing market rates.

Issue Size: The INR6bn IPO consists of fresh issue of INR2.4bn and OFS of INR3.6bn (by promoters) which would result in promoter's stake reducing from 96.0% pre-IPO to 66.3% post-IPO. The funds raised from fresh issue will be utilized to repay debt, make strategic acquisition, purchase office premises in Mumbai and balance for general corporate purpose.

Valuation & View: At the higher end of the price band, the issue is valued at 29x FY20 P/E (fully diluted), which is comparable to mid-sized IT firms (no listed peers available). We recommend Subscribe to the IPO given RML's strong presence in niche CPaaS market with high entry barrier and healthy financials. Further given the small offer size and presence in niche IT space, one may get listing gains too.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY18	FY19	FY20	Q1FY21
Revenue	5,049	8,447	9,563	3,096
Growth (%)	-	67.3	13.2	29.5
Adj PAT	467	545	691	269
Growth (%)	-	16.8	26.7	55.9
EPS (INR)	8.2	9.6	12.2	18.9
RoE (%)	NA	29.3	28.7	24.3
PE (x)	42.6	36.5	28.8	18.5

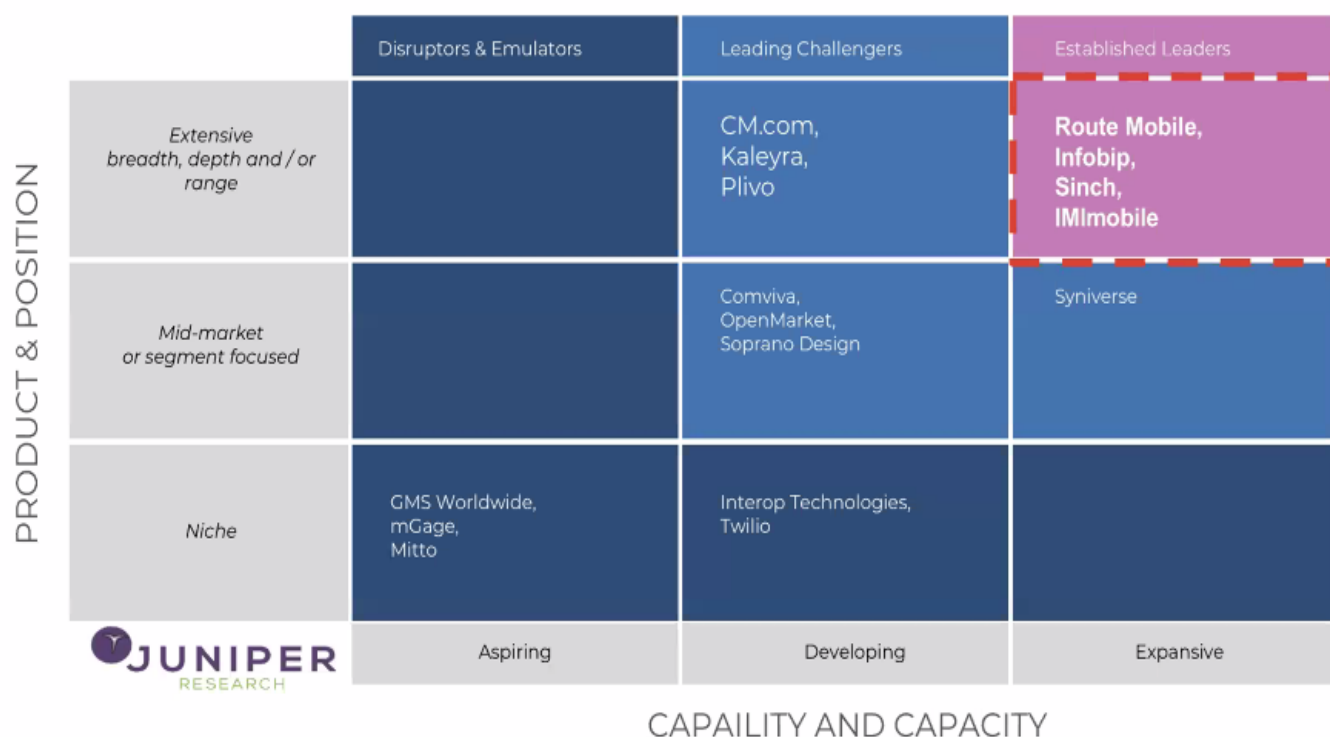
Source: Company RHP, MOFSL

Ratios are calculated on annualized and post issue basis, at the upper price band of INR350

About the Company

Incorporated in 2004, Route Mobile Ltd (RML) provides cloud-communication platform as a service (CPaaS) to enterprises, over-the-top (OTT) players and mobile network operators (MNOs). It was ranked as a tier 1 application-to-peer (A2P) service provider internationally. It ranked 2nd globally as a tier 1 A2P service provider and also ranked 1st for 'value added services' provided, its 'implementation process' and its 'uptime performance' among tier 1 vendors in 2017 (Source: ROCCO Report 2017).

Exhibit 2: CPaaS: The Competitive Market Landscape – Juniper Research Leaderboard

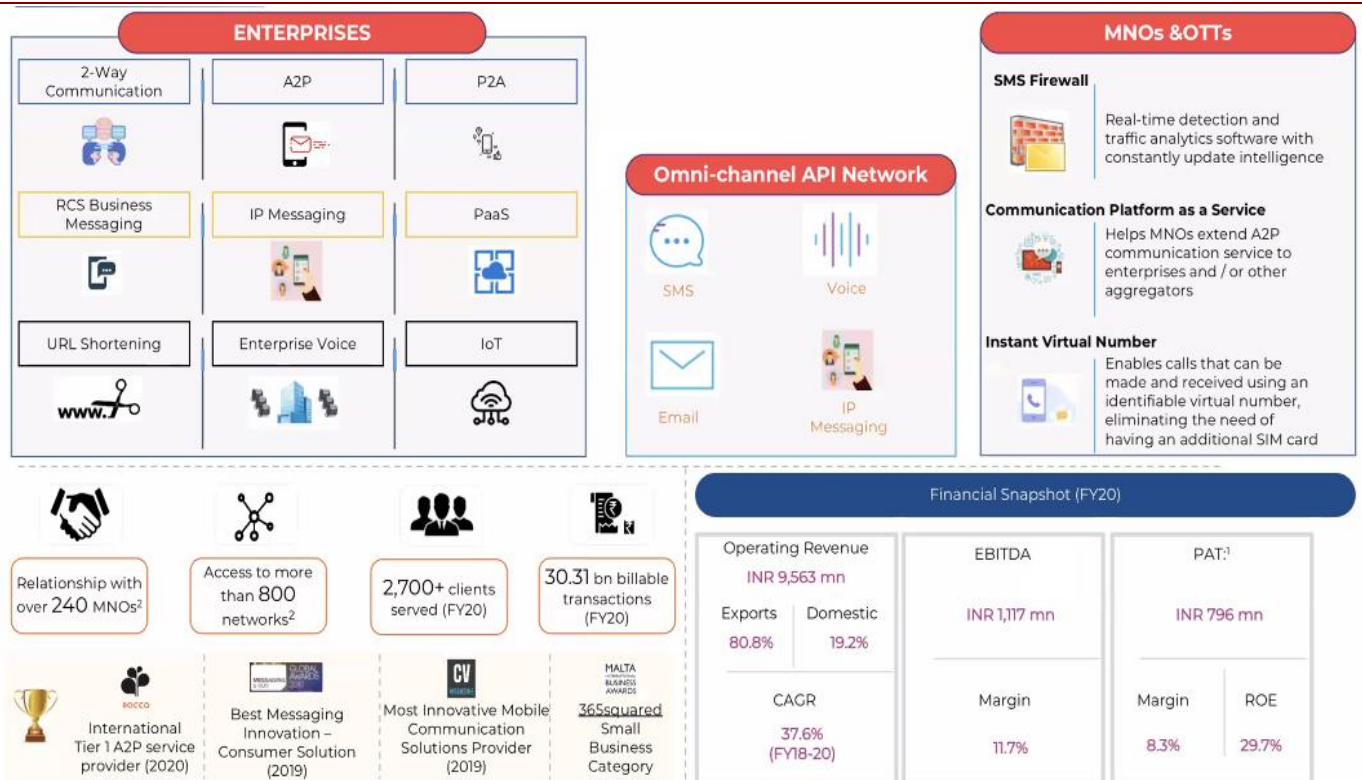


Source: RHP, MOFSL

RML's Enterprise solution comprises 2 primary components – (i) the front-end that provides an interface for enterprises to integrate with, and (ii) a back-end which is directly integrated with over 240 MNOs, and provides access to over 800 MNOs across the globe (as of June 30, 2020), enabling enterprises to leverage their SMS and voice channels for digital communication (Super Network). Further, the backend is also integrated with OTT business messaging solution providers, and is capable of supporting Rich Communication Services (RCS) business messaging, offering multiple channels of communication to enterprises. RML's strong relationship with MNOs allows it to provide services at a competitive cost.

Its omni-channel platform enables enterprises to leverage various modes of digital communication to engage with their stakeholders – including customers, employees and vendors. Its services include application-to-peer (A2P)/ peer-to-application (P2A)/ 2Way Messaging, RCS, OTT business messaging, voice, email and omni-channel communication. Further, it offers SMS analytics, firewall, filtering and monetization, SMS hubbing and Instant Virtual Number (IVN) solutions to MNOs globally.

Exhibit 3: Company overview



Source: RHP, MOFSL

A2P messaging is currently the largest CPaaS segment where RML is one of the leading players. It is present in high potential markets including EMEA, India, APAC, North America and Latin America, where A2P industry is expected to grow at 5.8% CAGR vs 4.4% globally from 2017-22. Going ahead, RCS, OTT products (Whatsapp for business, Viber business) and IoT segments are likely to drive the next leg of growth.

Exhibit 4: RML present in fastest growing geographies (Mobile Subscribers - mn)

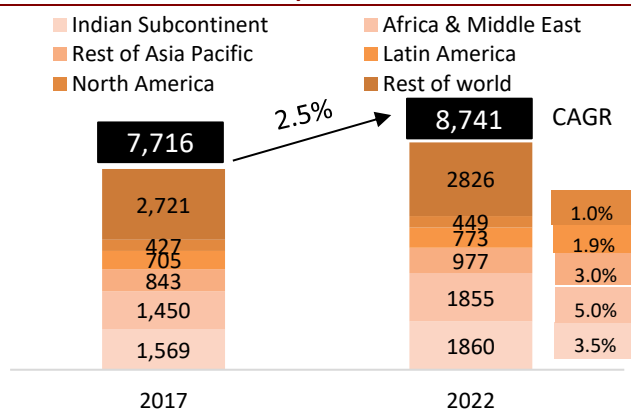
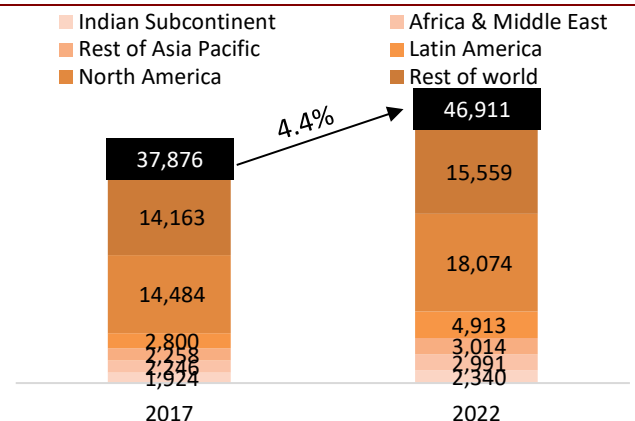


Exhibit 5: A2P SMS to experience healthy growth



Source: RHP, MOFSL

Its clients include some of the world's largest and well-known organizations, including a number of Fortune Global 500 companies. As of June 30, 2020, Route Mobile has serviced over 30,150 clients, cumulatively since inception, across sectors including social media, banking and financial services, aviation, retail, internet / e-commerce, logistics, healthcare, hospitality, media/ entertainment, pharmaceuticals and telecom.

Exhibit 6: Diversified client base



Source: RHP, MOFSL

Currently its global operations included 9 direct and 12 step-down subsidiaries serving its clients through 18 locations across Africa, Asia Pacific, Europe, Middle East and North America. Consistent with its strategy of pursuing inorganic growth to deepen its relationship with MNOs and broaden its product and service portfolio, Route Mobile acquired 365squared Limited with effect from October 1, 2017, which operates in SMS analytics, firewall, filtering and monetization. Further, they also acquired Call2Connect, effective April 1, 2017, a company which offers voice, non-voice and consulting BPO services to some of the largest enterprises in India.

Exhibit 7: Inorganic opportunities

Acquisitions				
Category	Product capability		Geography reach	
Value add	Added SMS filtering, analytics and monetization		Expanded into Middle East and Africa	
Effective Date	October 1, 2017		September 9, 2016	
Cost of acq.	Eur 19 mn ¹		INR 113 mn	INR 20 mn
Revenue (FY20)	INR 1,158 mn		INR 43 mn	INR 16 mn

Source: RHP, MOFSL

Business Units

Enterprise

RML's enterprise vertical primarily provides cloud based communication platform to enterprises to enable digital communication through multiple channels including RCS, A2P / P2A messaging, 2Way Messaging, OTT business messaging, enterprise email and URL shortening; and Mail2SMS. This platform also provides enterprise voice application services including interactive voice response, Click2Call, missed call facility and outbound dialer, which enable enterprises, to connect incoming and outgoing voice calls to their applications and systems. The CPaaS platform gives its current and potential customers the ability to leverage its Super Network and APIs to build out their digital communication service needs. RML provides a suite of APIs for various communication channels, across multiple geographies that are scalable and flexible to fit the customers' requirements.

Mobile Operator

RML's main service offerings in this segment include SMS analytics, firewall, filtering, monetization and CPaaS and hubbing solutions. Its analytics based SMS firewall solution helps MNOs identify grey route traffic terminating on their networks, block grey route traffic, identify the source of such grey route traffic, and monetize such traffic. It has developed multiple engagement models, to offer flexibility to MNOs while using its solution. RML typically engages with MNOs on a revenue share model when deploying this solution. Certain MNOs also engage with RML for its hubbing solution and CPaaS offerings, to leverage its global connectivity and A2P platform.

Business Process Outsourcing (BPO)

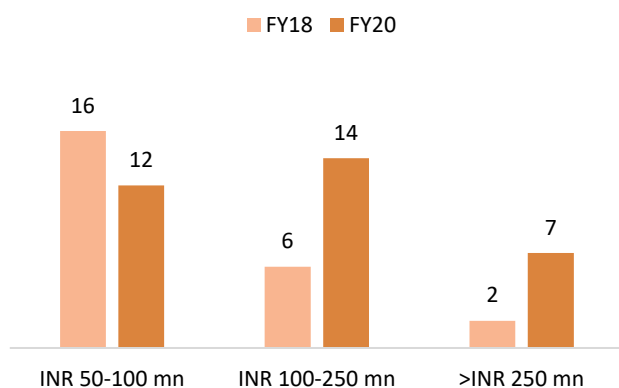
RML provides a range of BPO services including client support, technical support, booking and collection services. The strategic objective is to integrate its BPO capabilities with its enterprise voice platform and deliver end-to-end offerings to enterprise customers. RML is an associate member of the GSMA and an accredited open hub connectivity solution provider with its internally developed cloud communications platform allowing them to handle both A2P and peer-to-peer (P2P) traffic for enterprises, OTT players and MNOs. In Q1FY21, through its cloud communications platform, RML processed more than 695cr billable transactions. In FY20, its platform managed more than 3,031cr billable transactions from its clients and was used by more than 2,700 clients while it managed more than 2,474 crore billable transactions in FY19. RML has established direct relationships with MNOs that provide its clients with global connectivity. As of Q1FY21, it has direct relationships with over 240 MNOs and 4 short messaging service centres hosted in various geographies across the globe. They are able to access more than 800 networks across the world.

Risk and concerns

- RML's business depends on the success of its relationship with MNOs for connectivity in various regions around the world to provide services to its clients.
- RML relies on 3rd party technology systems and Infrastructure where defects, delays and failures can adversely affect its business.
- Top 5 clients contributed 41% to the FY20 revenue. Any loss of such clients or reduction in their services could adversely affect the RML's business.
- RML's clients can misuse its platform and send unauthorized SMS messages in violation of TRAI regulations.

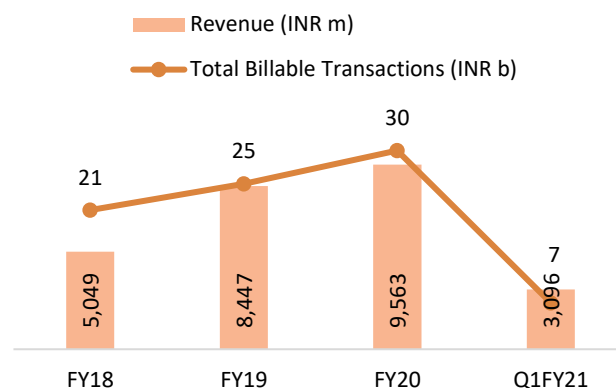
Story in Charts

Exhibit 8: Successful scale up of client base



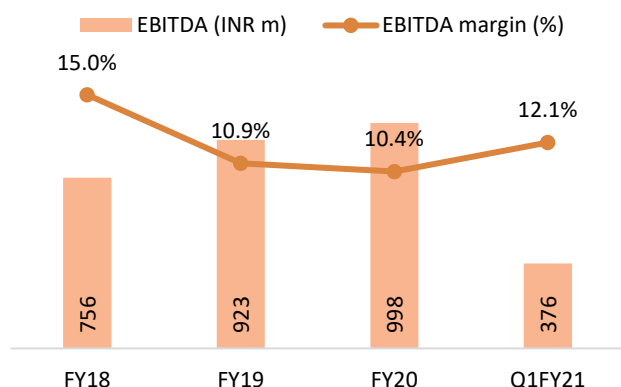
Source: RHP, MOFSL

Exhibit 9: Revenue grew at a 38% CAGR over FY18-20



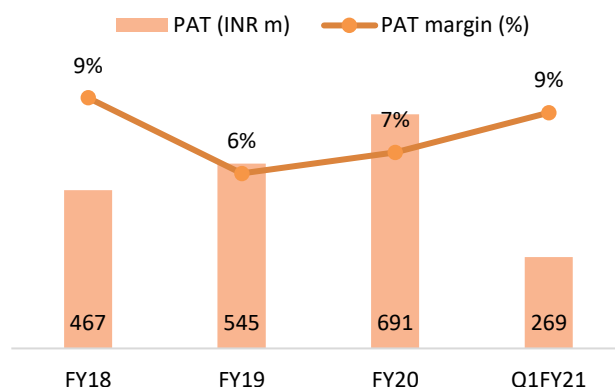
Source: RHP, MOFSL

Exhibit 10: Stable EBITDA margins



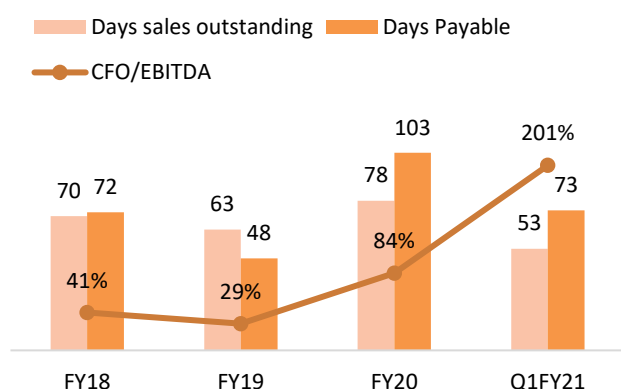
Source: RHP, MOFSL

Exhibit 11: PAT grew at 22% CAGR over FY18-20



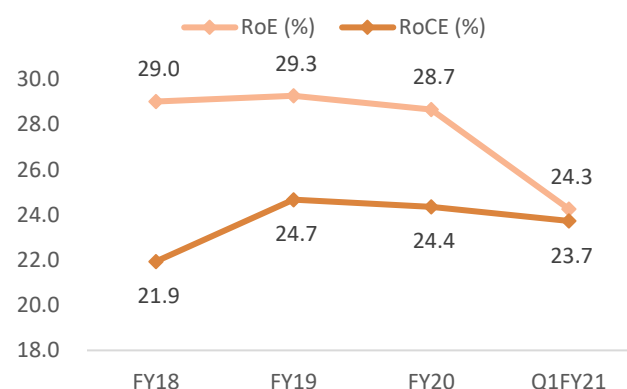
Source: RHP, MOFSL

Exhibit 12: Working Capital trend



Source: RHP, MOFSL

Exhibit 13: Healthy Return ratios



Source: RHP, MOFSL

Financials

Income Statement

(INR mn)

Y/E March	FY18	FY19	FY20	1QFY21
Net Sales	5,049	8,447	9,563	3,096
Change (%)	-	67.3	13.2	29.5
Total Expenditure	4,294	7,524	8,564	2,720
% of Sales	85.0	89.1	89.6	87.9
EBITDA	756	923	998	376
Margin (%)	15.0	10.9	10.4	12.1
Depreciation	158	219	227	60
EBIT	598	704	771	316
Int. and Finance Charges	78	131	49	10
Other Income	45	77	119	27
PBT	565	650	841	333
Tax	98	105	150	64
Tax Rate (%)	17.4	16.1	17.9	19.1
Min. Int. & Assoc. Share	0	0	0	0
Reported PAT	467	545	691	269
Adjusted PAT	467	545	691	269
Change (%)	-	16.8	26.7	55.9
Margin (%)	9.2	6.5	7.2	8.7

Source: Company RHP, MOFSL

Balance Sheet

(INR mn)

Y/E March	FY18	FY19	FY20	1QFY21
Share Capital	500	500	500	500
Reserves	1,109	1,618	2,204	2,470
Net Worth	1,609	2,118	2,704	2,970
Minority Interest	-7	-19	-22	-23
Debt	813	771	411	425
Deferred Tax (Net)	-68	-75	-33	-22
Total Capital Employed	2,347	2,795	3,059	3,350
Net Fixed Assets	207	217	224	213
Goodwill on Consolidation	0	0	0	0
Capital WIP	0	0	0	0
Intangibles	1,806	1,649	1,542	1,491
Investments	0	107	119	124
Current Assets	2,392	3,010	4,342	4,494
Inventory	0	0	0	0
Debtors	973	1,447	2,037	1,840
Cash and Bank Balance	1,026	957	1,026	1,587
Loans and Advances & OCA	393	606	1,279	1,067
Curr. Liability & Provisions	2,058	2,188	3,168	2,971
Account Payables	561	597	1,813	1,717
Current Liabilities	1,302	1,451	1,268	1,174
Other Long Term Liab. & Provs.	194	139	87	80
Net Current Assets	334	822	1,174	1,522
Misc Expenditure	0	0	0	0
Appl. of Funds	2,347	2,795	3,059	3,350

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY18	FY19	FY20	1QFY21
Basic (INR)				
EPS	8.2	9.6	12.2	18.9
Cash EPS	11.0	13.4	16.1	23.2
BV/Share	28.3	37.2	47.6	108.7
DPS	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	42.6	36.5	28.8	18.5
Cash P/E	31.8	26.0	21.7	15.1
P/BV	12.4	9.4	7.4	3.2
EV/Sales	3.9	2.3	2.0	5.6
EV/EBITDA	26.0	21.4	19.3	46.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
Return Ratios (%)				
RoE	NA	29.3	28.7	24.3
RoCE	NA	24.7	24.4	23.7
Working Capital Ratios				
Asset Turnover (x)	2.2	3.0	3.1	3.7
Inventory (Days)	0	0	0	0
Debtor (Days)	70	63	78	54
Creditor (Days)	41	26	69	51
Leverage Ratio (x)				
Net Debt/Equity	-0.1	-0.1	-0.3	-0.4

Source: Company RHP, MOFSL

*All ratios calculated on annualized and fully diluted basis

#Calculated on the upper price band of INR350

Cash Flow Statement**(INR mn)**

Y/E March	FY18	FY19	FY20	1QFY21
OP/(Loss) before Tax	565	650	841	333
Depreciation	158	219	227	60
Interest paid	42	105	16	1
Income Taxes paid	-84	-66	-180	-3
(Inc)/Dec in WC	-384	-597	61	393
CF from Operations	297	311	966	784
Others	24	-27	-31	27
CF from Operating (Net)	322	285	934	811
(Pur)/Sale of FA	-58	-105	-73	-3
(Pur)/Sale of Investments	-1,280	28	54	-281
Interest Received	36	27	21	7
CF from Investments	-1,302	-50	2	-277
Proceeds from borrowings	558	-49	-359	14
Interest Paid	-8	-18	-28	-7
Dividend paid	-75	-90	-165	-
Payment of lease liabilities	-52	-68	-71	-17
CF from Fin. Activity	424	-226	-623	-11
Net Inc/Dec of Cash	-556	9	313	524

Source: Company RHP, MOFSL

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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