

Strong revenue visibility however margins to remain under pressure

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CMP: INR 2174

Rating: Accumulate

Target Price: INR 2465

Stock Info

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (Rs)	10
Equity Capital (INR mn)	577
Mkt Cap (INR mn)	125504
52W H/L (INR)	2308/625
Avg Yearly Vol (in 000')	1179

Shareholding Pattern %

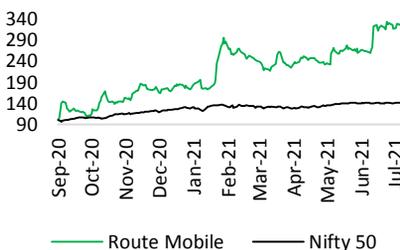
(As on June 2021)

Promoters	65.3
Public & Others	34.7

Stock Performance (%)

	1m	3m.	1 Yr
Route	29.3	35.5	99.7
Nifty50	-1.1	5.1	38.3

Route Mobile Price Chart



Route Mobile Limited reported weak set of numbers in Q1FY22 and were below our estimates on all front. Although company showed a decent growth on YoY basis due to lower base, QoQ results were poor. Revenue from operation grew by 21% YoY & 4.2 % QoQ to INR 3775 mn below our estimate of INR 3974 mn. Revenue miss was largely due to business volume impacted in India and Middle East in Q1FY22. Revenue from Indian business declined by 28% YoY and 32% QoQ to INR 939 mn . mainly due to DLT issue faced by enterprises and second wave of covid.

Company also had reduction in Banking traffic as the company was alleged of data breach from their servers. Company's banking customers requested to resume the traffic post third party audit. After conducting third party audit no breach was found and banking traffic is resuming to normalcy. However due to this revenue from high margin banking segment was impacted in April.

EBIDTA grew by 21% YoY however declined by 8.6% QOQ to INR 455 mn below our estimate of 516 mn EBIDTA margin contracted by 10 bps YoY & 169 bps QoQ to 12.1% Rise in operating cost coupled with higher employee cost led to contraction in margin. Employee cost rose by 50% YoY and 15% QoQ to INR 196 Mn..

Reported PAT grew by 27.5% YoY however declined by 3.1% QOQ to INR 343 mn below our estimate of 378 mn. PAT Margin expanded mutedly by 40 bps YoY and contracted by 68 bps QoQ to 9.1%. Weak operating performance coupled with higher tax expenses led to pressure on margin.

Valuation and Outlook

At a CMP of INR 2174 Stock in trading at P/E of 74.6(x) & 54.7(x) to its FY22E & FY23E We have a positive view on the company backed by recent acquisition of email platform from sarv which is expected to generate a revenue of 30 mn USD in next 3 years. RCS (Rich communication Services) has been increasingly adopted by enterprises and it will be key component of services provided by route as the industry progresses. Factors such as more and more digital adoption by enterprises, strong recurring revenue growth, strong revenue contribution from new products, company strategy to acquire more and more clients and generating more and more free cash flow remain key positives for the company. However we believe factors such as DLT issue faced by enterprises, high operating cost mainly due to higher employee cost is likely to continue as company plan to hire more and more requisite talent going ahead for the new product launches. Can pit pressure on margin going ahead. We value the stock at a P/E multiple of 62 (x) to its FY23 EPS of INR 39.8 to arrive at a target price of INR 2465. Considering weak Q1FY22 results and margin pressure going ahead we downgrade our rating from Buy to Accumulate on the stock.

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Q1FY22 Result analysis & Con-call Highlights

Rs Mn	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Net Revenue	3,775	3,624	3,096	4.2%	21.9%
Purchase of messaging services	3,006	2,829	2,494	6.3%	20.5%
Employee cost	196	170	130	15.3%	50.4%
Other Expenses	118	127	95	-7.1%	23.6%
EBITDA	455	498	376	-8.6%	21.0%
<i>EBITDA margin %</i>	<i>12.1%</i>	<i>13.7%</i>	<i>12.2%</i>	<i>-169bps</i>	<i>-10bps</i>
Other Income	45	-6	27	-837.7%	67.8%
Depreciation	66	64	60	3.1%	9.6%
EBIT	434	428	343	1.4%	26.6%
Finance cost	5	4	10	25.0%	-49.4%
Profit Before Exceptional items	429	424	333	1.2%	28.8%
Exceptional item					
Tax Expense	86	70	64	22.9%	34.4%
Effective tax rate %	20.0%	16.5%	19.2%	353bps	83bps
PAT	343	354	269	-3.1%	27.5%
<i>PAT margin %</i>	<i>9.1%</i>	<i>9.8%</i>	<i>8.7%</i>	<i>-68bps</i>	<i>40bps</i>
EPS (Rs)	5.8	6.1	5.4	-4.9%	7.4%

Key Con-Call Highlights

- Company acquired email platform from Sarv branded as Sand clean . Company will Invest 12 mn USD in Send clean INC over next 3 years. Company intends to increase the team from current team of 10 employees to 100 employees in a year. This business will be driven from two geographies US & India. Company intends to generate revenue of USD 30 mn over next 3 years .
- Route Mobile has announced a technology partnership with telephone search engine True caller This agreement allows Route Mobile to provide enhanced business identification services to enterprises for building a trustworthy business communication ecosystem.
- RML propelling the adoption of RCS (Rich Communication Service) with enterprises to render better User Experience. Total 310 Mn + RCS messaging sent out of which 77% got delivered. More than 10 enterprise clients adopted RCS business messages.
- Company 40% revenue comes from America, 38% from Asia, 13% from Europe and 9% from Africa .
- Revenue from top 15 enterprise customers grew by 10% YoY to INR 1439 mn.
- Recurring revenue growth as % of operating revenue stood at 90% as on LTM Q1FY22.
- 150 new customers were on boarded during Q1FY22 across all products.
- Sales from new product increased by 130% YOY to 113 Mn.
- EBITDA per transaction stood at INR 0.072 in Q1FY22
- Billable transaction stood at 6.86 bn in Q1FY22 as compared to 6.96 bn in Q1 FY21.

Consolidated Financial Statement

Income Statement

Y/E March (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
Revenues	8,447	9,563	14,062	17,578	23,730
Change (%)	67.3%	13.2%	47.1%	25.0%	35.0%
Cost of Goods Sold	6,670	7,642	11,291	14,062	18,984
Employee costs	554	582	615	879	1,186
Other expenses	300	339	416	527	712
Total operating Expense	7,524	8,563	12,322	15,468	20,882
EBITDA	923	1,000	1,740	2,109	2,848
Other Income	77	119	160	216	290
Depreciation	219	227	258	252	318
Interest	131	49	27	27	27
PBT	650	843	1,615	2,047	2,792
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	650	843	1,615	2,047	2,792
Tax	105	111	288	365	498
Rate (%)	16.1%	13.2%	17.8%	17.8%	17.8%
PAT	545	732	1,327	1,682	2,294
Change (%)	16.8%	34.2%	81.3%	26.7%	36.4%

Source: Company, Aриhant Research

Balance Sheet

Y/E March (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share Capital	500	500	577	577	577
Reserves & Surplus	1,618	2,194	5,945	7,324	9,205
Minority Interest	-19	-22	-27		
Net Worth	2,099	2,672	6,495	7,901	9,782
Long term debt	40	37	34	34	34
Short term debt	732	373	0	0	0
Total Debt	772	410	34	34	34
Deferred Tax and other liability	2,187	3,173	3,692	4,654	5,708
Capital Employed	5,058	6,255	10,221	12,589	15,525
Application of Funds					
Net Block	217	224	211	296	374
other intangible Asset	1,649	1,531	1,717	1,697	1,688
Deferred Tax & other Non Current Asset	212	383	506	506	506
Other Non-Current Assets	163	75	78	78	78
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Non Current Asset	2,241	2,214	2,523	2,577	2,646
Investments	107	119	128	128	128
Debtors	1,447	2,037	2,173	2,697	3,641
Cash & bank balance	957	1,026	4,676	5,598	6,964
other Financial & Current Asset	307	859	721	1,589	2,145
Total current assets	2,817	4,041	7,698	10,012	12,878
Total Assets	5,058	6,255	10,221	12,589	15,525

Consolidated Financial Statement

Cash Flow Statement

Y/E March (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
PBT	650	694	1,615	2,047	2,792
Depreciation	219	227	258	252	318
Interst Exp	131	49	27	27	27
Other Non Cash Item	-47	-40	-59	-56	-56
Cash flow before WC changes	953	929	1,841	2,269	3,082
(Inc)/dec in working capital	-597	259	627	-760	-352
Operating CF after WC changes	349	1,164	2,467	3,642	2,346
Less: Taxes	-66	-179	-173	-365	-498
Operating cash flow	284	985	2,294	3,277	1,848
(Inc)/dec in F.A + CWIP	-105	-72	-77	-85	-78
(Pur)/sale of investment	-100	0	0	0	0
Other Investing activity	155	74	-2,184	36	36
Cash flow from investing	-50	2	-2,261	-49	-42
Free cash flow (FCF)	178	913	2,217	3,192	1,770
Proceeds/(Repayment) of current borrowings	520	-54	-358	-73	12
Proceeds of Non Current Borrowing	38	5	-1	0	0
Interest & Lease Liability	-52	-68	-71	-18	0
Dividend	-75	-90	-165	-189	-227
Other Interest exp	-8	-18	-28	-40	-42
Proceed from fresh Issue of equity share				2400	
Cash flow from financing activities	424	-226	-623	2,080	-257
Net inc/(dec) in cash	58	321	2,071	2,898	1,366
Opening balance of cash	234	294	615	2,700	5,598
Closing balance of cash	294	615	2,700	5,598	6,964

Key Ratios

Y/E March (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
Per share (Rs)					
EPS	10.9	11.7	23.0	29.1	39.8
CEPS	15.3	16.2	27.5	33.5	45.3
BVPS	42.0	53.4	112.6	136.9	169.5
DPS	1.4	2.9	2.0	5.2	7.2
Valuation (x)					
P/E	0.0	186.5	94.5	74.6	54.7
P/BV	0.0	40.7	19.3	15.9	12.8
EV/EBITDA	0.0	108.1	69.4	56.8	41.6
Return Ratios (%)					
Gross Margin	21.0%	20.1%	19.7%	20.0%	20.0%
EBIDTA Margin	10.9%	10.5%	12.4%	12.0%	12.0%
PAT Margin	6.5%	6.1%	9.4%	9.6%	9.7%
ROE	26.0%	21.8%	20.4%	21.3%	23.5%
ROCE	24.5%	25.1%	22.7%	23.4%	25.8%
Leverage Ratio (%)					
Total D/E	0.4	0.2	0.0	0.0	0.0
Turnover Ratios					
Asset Turnover (x)	1.7	1.5	1.4	1.4	1.5
Receivable Days	63	78	56	56	56
Payable days	26	69	62	62	62

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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