

**CMP: Rs 1134**

**Rating: Buy**

**Target Price: Rs 1437**

**Stock Info**

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (Rs)	10
Equity Capital (Rs mn)	568
Mkt Cap (Rs mn)	64863
52W H/L (Rs)	1305/625
Avg Yearly Vol (in 000')	1451

**Shareholding Pattern %**

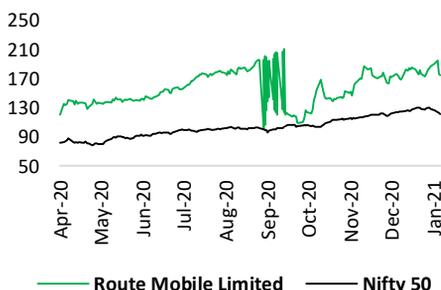
(As on December 2020)

Promoters	66.75
Public & Others	34.22

**Stock Performance (%)**

	3m	6m.	1 Yr
Route	19	0	0
Nifty50	17	22	12

**Route Mobile Price Chart**



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*Route Mobile Limited reported strong set of numbers in Q3FY21 beating our estimates on all fronts. Revenue from operation grew by 46% YoY & 10% QoQ to Rs 3,848 mn against our estimate of Rs 2,710 mn due to strong performance across all geographies. EBIDTA grew by 21% YoY & 6.7% QoQ to Rs 446 mn against our estimate of 290 mn EBIDTA margin contracted by 241 bps YoY & 38nps QoQ to 11.6% Higher operating expenses backed by rise in purchase of messaging service expense and employee benefit expense put pressure on margin. PAT grew by 117% YoY & 15% QoQ to Rs 376 mn against our estimate of Rs 170 mn supported by healthy top line growth, higher other income and lower finance cost. PAT margin expanded by 322 bps YoY and 41 bps QoQ to 9.8%.*

*For 9M ending 31st December 2020 Revenue from operation grew by 51% YoY to Rs 10437 mn. EBIDTA grew by 66%YoY to Rs 1241 mn. PAT grew by 124% YoY to Rs 972 mn.*

**Key Business Highlights**

- For 9M ending 31<sup>st</sup> December 2020 company had 23.5 billion billable transactions.
- Key growth drivers for the company would be strong industry tailwinds, Omni channel platform capabilities and flexible engagement model.
- Next generation products in the pipeline and to be launched soon include MIDaaS (Mobile Identity as a Service), GBM (Google Business Messaging) amongst others.
- Revenue from new products grew from Rs 49mn in Q1FY21 to Rs 108 mn in Q3FY21.
- 67 new customer added in Q3FY21.
- Company is at beta stage with Apple business chat once it is finalized it will be able to provide apple business solution to enterprises.
- New products likely to contribute 5 to 10% revenue contribution going ahead.
- Company will focus on Philippines, Indonesia & Latin America market in next two quarters and is planning to hire more people in these markets.
- Top 50 clients contribute 88% of Revenue as on 9MFY21.
- Revenue per transaction has improved from Rs 0.239 in FY18 to Rs 0.447 in 9MFY21.
- EBIDTA per transaction improved from Rs 0.034 in FY18 to Rs 0.056 in 9MFY21.

**Valuation and Outlook**

At CMP of Rs 1134, Route Mobile is trading at PE of 82.1(x) to its FY20 EPS of Rs 13.8 and is enjoying expensive valuations due to its strong market positioning. Company does not have any listed player as peers. We have a positive outlook on the stock from longer prospective backed by strong Q3 performance, strong recurring revenue growth with good revenue retention. Also company is aggressively working on strategy of acquiring new clients and generating more free cash flow which augurs well for the company. We value the stock at a P/E multiple of 60(x) to its FY22E EPS to arrive at a target price of Rs 1437. Which gives a potential upside of 27% from the current level. We upgrade our rating from Accumulate to Buy.

## Q3FY21 Result analysis &amp; Con-call Highlights

Rs Mn (Route Mobiles Ltd.)	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y	9MFY21	9MFY20	YoY
<b>Net Revenue</b>	<b>3,848</b>	<b>3,493</b>	<b>2,642</b>	<b>10.2%</b>	<b>45.6%</b>	<b>10437</b>	<b>6905</b>	51.2%
Purchase of messaging services	3,155	2,813	2,030	12.2%	55.4%	8462	5454	55.2%
Employee cost	169	146	143	15.8%	18.2%	445	439	1.4%
Other Expenses	78	116	99	-32.8%	-21.2%	289	264	9.5%
<b>EBITDA</b>	<b>446</b>	<b>418</b>	<b>370</b>	<b>6.7%</b>	<b>20.5%</b>	<b>1241</b>	<b>748</b>	65.9%
<i>EBITDA margin %</i>	<i>11.6%</i>	<i>12.0%</i>	<i>14.0%</i>	<i>-38bps</i>	<i>-241bps</i>	<i>11.9%</i>	<i>10.8%</i>	<i>320 bps</i>
Other Income	87	52	39	67.3%	123.1%	166	118	40.7%
Depreciation	65	68	59	-4.4%	10.2%	194	165	17.6%
<b>EBIT</b>	<b>468</b>	<b>402</b>	<b>350</b>	<b>16.4%</b>	<b>33.7%</b>	<b>1213</b>	<b>701</b>	73.0%
Finance cost	4	9	12	-55.6%	-66.7%	23	34	-32.4%
<b>Profit Before Exceptional items</b>	<b>464</b>	<b>393</b>	<b>338</b>	<b>18.1%</b>	<b>37.3%</b>	<b>1190</b>	<b>667</b>	78.4%
<b>Exceptional item</b>			<b>148</b>				<b>148</b>	
Tax Expense	88	66	17	33.3%	417.6%	218	85	156.5%
Effective tax rate %	19.0%	16.8%	5.0%	217bps	1394bps	18.3%	12.7%	1703 bps
<b>PAT</b>	<b>376</b>	<b>327</b>	<b>173</b>	<b>15.0%</b>	<b>117.3%</b>	<b>972</b>	<b>434</b>	124.0%
<i>PAT margin %</i>	<i>9.8%</i>	<i>9.4%</i>	<i>6.5%</i>	<i>41bps</i>	<i>322bps</i>	<i>9.3%</i>	<i>6.3%</i>	<i>290bps</i>
<b>EPS (Rs)</b>	<b>6.6</b>	<b>6.5</b>	<b>2.6</b>	<b>1.5%</b>	<b>158.8%</b>	<b>18.6</b>	<b>8.9</b>	109.0%

## Key Con-Call Highlights

- Company reported strong set of numbers in the quarter on back of good momentum and strong industry tailwinds like accelerated adoption of digital communication solution by enterprise. Company technical capabilities have allowed the company to win new clients and simplify the communication service for clients
- Distributed Ledger Technology (DLT) is a block-chain based registration system. According to TRAI (Telecom Regulatory Authority of India), telemarketers have to be registered in the DLT platform. It is being issued in the public interest to control the SMS spam from various marketing firms.
- Introduction of DLT has resulted in many changes for domestic market and company is fully ready with new guidelines.
- As the enterprise start to adopt newer channel of communication company is witnessing heavy demand over IP messaging & Voice.
- In 9MFY21 result company has surpassed FY20 revenue EBIDTA & PAT handsomely which has led to high operating leverage .
- Company continues to deliver very strong recurring revenue growth with 142% revenue retention and zero churn in top 50 customer which accounts to 88% of revenue.
- Company is closely working on few acquisition targets and expect it to complete soon.
- Strategy for Q3FY21 and going forward will be to drive revenue growth and generate more and more free cash flow.
- Pressure on EBIDTA margin was due to introduction DLT which is charged to enterprises while communicating with customer. Company in order to win customer in India did not pass on the DLT charges charged to them by telephone operators to enterprise in this quarter but from next quarter company will pass it on to enterprise so margin will improve going ahead and back to H1FY21 levels also new product launches will help to drive margin growth further.
- Also some UK business of company was impacted due to lockdown in UK.
- Company vision to add more product portfolio and focus more on customer experience side.

## Consolidated Financial Statement

## Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>5,049</b>	<b>8,447</b>	<b>9,563</b>	<b>14000</b>	<b>17220</b>
<i>Change (%)</i>		67.3%	13.2%	46.4%	23.0%
Cost of Goods Sold	3,407	6,670	7,642	11,060	13,604
Employee costs	505	554	582	840	1033
<b>Other expenses</b>	<b>381</b>	<b>300</b>	<b>341</b>	<b>499</b>	<b>614</b>
Total operating Expense	<b>4,294</b>	<b>7,524</b>	<b>8,564</b>	<b>10,628</b>	<b>13,338</b>
<b>EBITDA</b>	<b>756</b>	<b>923</b>	<b>998</b>	<b>1,601</b>	<b>1,969</b>
Other Income	45	77	119	119	119
Depreciation	158	219	227	304	389
Interest	78	131	49	40	42
<b>PBT</b>	<b>565</b>	<b>650</b>	<b>841</b>	<b>1,376</b>	<b>1,656</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>565</b>	<b>650</b>	<b>841</b>	<b>1,376</b>	<b>1,656</b>
Tax	98	105	150	246	296
<i>Rate (%)</i>	<i>17.4%</i>	<i>16.1%</i>	<i>17.9%</i>	<i>17.9%</i>	<i>17.9%</i>
<b>PAT</b>	<b>467</b>	<b>545</b>	<b>691</b>	<b>1,130</b>	<b>1,361</b>
<i>Change (%)</i>		16.8%	26.7%	63.5%	20.4%

Source: Company, Aриhant Research

## Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Sources of Funds</b>					
Share Capital	500	500	500	568	568
Reserves & Surplus	1,109	1,618	2,204	5,477	6,610
Minority Interest	-7	-19	-22		
<b>Net Worth</b>	<b>1,602</b>	<b>2,099</b>	<b>2,682</b>	<b>6,045</b>	<b>7,178</b>
Long term debt	36	40	37	40	42
Short term debt	778	732	373	300	312
<b>Total Debt</b>	<b>814</b>	<b>772</b>	<b>410</b>	<b>340</b>	<b>355</b>
Deferred Tax and other liability	2,058	2,187	3,173	3,687	4,460
<b>Capital Employed</b>	<b>4,474</b>	<b>5,058</b>	<b>6,265</b>	<b>10,071</b>	<b>11,993</b>
<b>Application of Funds</b>					
Net Block	207	217	224	304	389
other intangible Asset	1,806	1,649	1,543	1,804	1,693
Deferred Tax & other Non Current Asset	169	212	383	600	600
Other Non-Current Assets	95	163	75	75	75
<b>Non Current Asset</b>	<b>2,277</b>	<b>2,241</b>	<b>2,226</b>	<b>2,783</b>	<b>2,758</b>
Investments	0	107	118	125	125
Debtors	973	1,447	2,037	2,685	3,302
Cash & bank balance	1,026	957	1,025	3,213	4,251
other Financial & Current Asset	198	307	859	1,266	1,557
<b>Total current assets</b>	<b>2,197</b>	<b>2,817</b>	<b>4,039</b>	<b>7,289</b>	<b>9,235</b>
<b>Total Assets</b>	<b>4,474</b>	<b>5,058</b>	<b>6,265</b>	<b>10,071</b>	<b>11,993</b>

## Consolidated Financial Statement

## Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>565</b>	<b>650</b>	<b>841</b>	<b>1,376</b>	<b>1,656</b>
Depreciation	158	219	227	304	389
Interest Exp	78	131	49	40	42
Other Non Cash Item	-11	-47	-40	-10	-10
Cash flow before WC changes	790	953	1,077	1,709	2,078
<b>(Inc)/dec in working capital</b>	<b>-384</b>	<b>-597</b>	<b>61</b>	<b>-870</b>	<b>-428</b>
Operating CF after WC changes	406	349	1,113	840	1,650
Less: Taxes	-84	-66	-180	-246	-296
<b>Operating cash flow</b>	<b>322</b>	<b>284</b>	<b>934</b>	<b>594</b>	<b>1,354</b>
(Inc)/dec in F.A + CWIP	-59	-105	-73	-79	-86
(Pur)/sale of investment	0	-100	-11	-7	0
<b>Other Investing activity</b>	<b>-1,244</b>	<b>155</b>	<b>75</b>	<b>25</b>	<b>26</b>
<b>Cash flow from investing</b>	<b>-1,304</b>	<b>-50</b>	<b>-9</b>	<b>-61</b>	<b>-59</b>
<b>Free cash flow (FCF)</b>	<b>262</b>	<b>178</b>	<b>861</b>	<b>515</b>	<b>1,268</b>
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				2,400	
<b>Cash flow from financing activities</b>	<b>424</b>	<b>-226</b>	<b>-623</b>	<b>2,080</b>	<b>-257</b>
<b>Net inc/(dec) in cash</b>	<b>-578</b>	<b>58</b>	<b>309</b>	<b>2,613</b>	<b>1,038</b>
Opening balance of cash	808	234	291	601	3,213
Closing balance of cash	234	291	601	3,213	4,251

## Key Ratios

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>					
EPS	9.3	10.9	13.8	19.9	24.0
CEPS	12.5	15.3	18.4	25.2	30.8
BVPS	32.0	42.0	53.6	106.4	126.4
DPS	1.5	1.4	2.9	2.8	3.4
<b>Valuation (x)</b>					
P/E	0.0	0.0	82.1	57.0	47.3
P/BV	0.0	0.0	21.1	10.7	9.0
EV/EBITDA	0.0	0.0	56.2	38.4	30.7
<b>Return Ratios (%)</b>					
Gross Margin	32.5%	21.0%	20.1%	21.0%	21.0%
EBIDTA Margin	15.0%	10.9%	10.4%	11.4%	11.4%
PAT Margin	9.2%	6.5%	7.2%	8.1%	7.9%
ROE	29.1%	26.0%	25.8%	18.7%	19.0%
ROCE	24.7%	24.5%	24.9%	20.3%	21.0%
<b>Leverage Ratio (%)</b>					
Total D/E	0.5	0.4	0.2	0.1	0.0
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.1	1.7	1.5	1.4	1.4
Receivable Days	70	63	78	70	70
Payable days	41	26	69	51	51

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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