

**CMP: INR 1,401**

**Rating: Accumulate**

**Target Price: INR 1,631**

**Stock Info**

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (INR)	10
Equity Capital (INR mn)	629
Mkt Cap (INR mn)	89,017
52W H/L (INR)	2,389/1,052
Avg Yearly Vol (in 000')	214

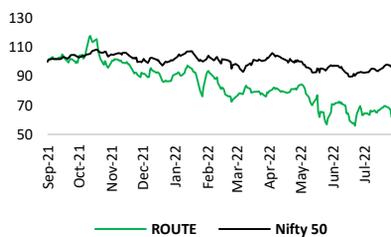
**Shareholding Pattern %**

(As on June, 2022)

Promoters	59.82
Public & Others	40.18

Stock Performance (%)	1m	3m	12m
Route	12.9	-14.5	-32.4
Nifty 50	8.6	0.3	8.7

**Route Mobile Price Chart**



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**Route Mobile beat revenue estimates in Q1FY23:** Reported revenue of INR 7,290 Mn up 16.4% QoQ/ 101.1% YoY against our estimate of INR 7200 Mn. The growth was led by digital acceleration which also helps increase client acquisition. The company, gross profit margin stood at 22.4% in Q1FY23 against 21.1% in Q4FY22 and 21.95% in Q1FY22 respectively.

**Strong growth momentum in Net profit:** The company consolidated PAT stood at INR 711 Mn, increased by 50%QoQ/+100.3% YoY above our estimate of INR 500 Mn. PAT adjusted for ESOP benefit expenses; non-cash amortization associated with the intangible assets added as a result of purchase price allocation for acquisitions and tax refund pertaining to prior period for 365squared amounting to INR 38mn (in Q4 FY22) and Intangible assets under development of INR 59mn (in Q1 FY23).

**Expansion in margin front:** EBITDA stood at INR 847 Mn, increased by 50.4% QoQ/70% against our estimate of INR 7500 mn margin was expanded 262bps QoQ/-215bpsYoY at 11.6% against our estimates of 10.4%. Margin expansion led by better growth momentum. We believe the margin will see improvement from Q2FY23 onwards.

**Strong client retention:** The company has reduced client concentration risk by diversifying it's customer base. The company also increased its recurring revenues reflecting strong client retention. We believe, the company will perform in the coming quarters which is led by the addition of a client base.

**Traction in new products and ability to deliver industry-leading growth:** The company revenue from new products in LTM June FY22 INR 1,060 Mn increased by 8% QoQ/184% YoY. Route Mobile has laid a very robust global foundation on the bedrock of trust, innovation, and commitment to simplify communications and deliver superlative customer experience across the globe. Backed by a seasoned & experienced leadership team, Route Mobile is well positioned to execute its growth strategy and deliver industry-leading growth by leveraging its cutting-edge CPaaS platform and global presence.

**Valuation and Outlook**

The company reported robust revenue growth and expansion in margin during Q1FY23 due to the structured approach and diversified scale of operation ability. The company indicated growth of 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 Ecuador which are key market growth within LATAM. Also, the company continue to gain market share in India as some of the large deal won in the BFSI segment will be beneficial going forward

**We value the stock at a PE multiple of 27x to its FY24E EPS of INR ~60, which yield a revised target price of INR 1,631 per share ( earlier target price; INR 1,389 per share). We upgrade our rating to Accumulate from Hold earlier.**

YE March (INR Mn)	Revenues	EBITDA	EBITDA Margin (%)	PATEPS (INR)	RoE (%)	P/E (x)
FY21	14062	1,740	12.37%	1,327	24.8	20.43%
FY22	20020	2,186	10.92%	1,701	27.8	21.30%
FY23E	29430	3,502	11.90%	2,693	46.7	23.50%
FY24E	37670	4,596	12.20%	3,487	60.4	23.50%

Source: Company, Arihant Research

**Exhibit 1: Q1FY23 performance**

INR Mn (Route Mobiles Ltd.)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>7,290</b>	<b>6,261</b>	<b>3,624</b>	<b>16.4%</b>	<b>101.1%</b>
Purchase of messaging service	5,658	4,942	2,829	14.5%	100.0%
Gross Profit	1,632	1,319	796	23.8%	105.1%
<b>Gross Profit (%)</b>	<b>22.39%</b>	<b>21.06%</b>	<b>21.95%</b>	<b>133bps</b>	<b>43bps</b>
Employee cost	459	494	170	-7.0%	169.9%
Other Expenses	326	261	127	24.6%	157.5%
<b>EBITDA</b>	<b>847</b>	<b>563</b>	<b>499</b>	<b>50.4%</b>	<b>69.7%</b>
<i>EBITDA margin %</i>	<i>11.6%</i>	<i>9.0%</i>	<i>13.8%</i>	<i>262bps</i>	<i>-215bps</i>
Other Income	148	84	-6	75.9%	
Depreciation	196	145	64	34.7%	206.3%
<b>EBIT</b>	<b>799</b>	<b>502</b>	<b>429</b>	<b>59.2%</b>	<b>86.3%</b>
<i>EBIT margin %</i>	<i>11.0%</i>	<i>8.0%</i>	<i>11.8%</i>	<i>294bps</i>	<i>-88bps</i>
Finance cost	42	34	4	23.0%	847.7%
Exceptional Item	-	-	-		
<b>Profit Before Exceptional item</b>	<b>757</b>	<b>468</b>	<b>425</b>	<b>61.8%</b>	<b>78.4%</b>
<b>Exceptional Item</b>					
Tax Expense	47	-6	70	-865.6%	-33.1%
Effective tax rate %	6.2%	-1.3%	16.4%	747bps	-1027bps
<b>PAT</b>	<b>710.70</b>	<b>474.20</b>	<b>354.8</b>	<b>49.9%</b>	<b>100.3%</b>
Non-controlling interest	16.6	17.4	5	-4.6%	232.0%
adjusted PA	694.10	456.80	349.80	51.9%	98.4%
<i>PAT margin %</i>	<i>9.5%</i>	<i>7.3%</i>	<i>9.7%</i>	<i>222bps</i>	<i>-13bps</i>
<b>EPS (INR)</b>	<b>11.0</b>	<b>7.3</b>	<b>5.9</b>	<b>51.2%</b>	<b>88.1%</b>

Source: Company, Arianth Research

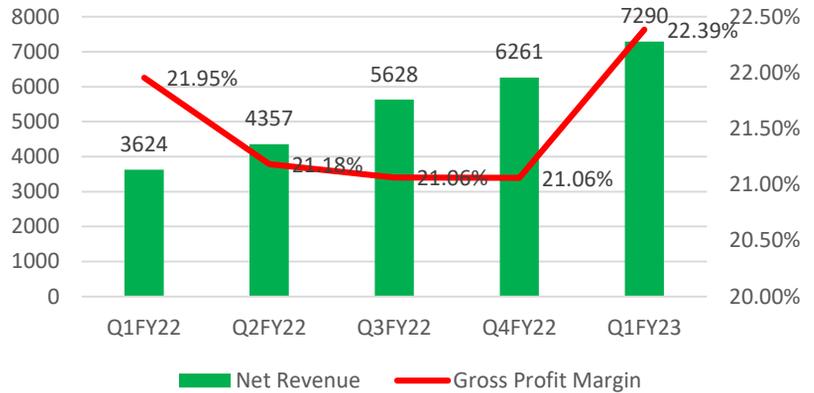
**Key Conference call Highlights**

- **Performance:** Despite global headwind and the geopolitical situation the company, excellent start of the year FY23 and revenue growth of 101% YoY/16% QoQ. The company has performed well and was able to expand margin. The company structure approach and diversified scale of operation ability. The company have been is well on track to achieve 40% revenue growth guidance for FY23 and considering current growth momentum starving to achieve over 50% YoY growth in FY23.
- **Guidance:** The company structure approach and diversified scale of operation ability. The company have been is well on track to achieve 14% revenue growth guidance for FY23 and considering current growth momentum looking for 15% YoY growth. The company outlook during Q4FY22 was 100-150bps adjusted and Margin as per Q1FY23 reported basis its 11.5-12% for the full year.
- **Large client win:** The company continue to gain market share in India as some of the large BFSI client that won in last FY22 will go live sales in FY23. The deep integration take 4-6 month which is why there is lag. The company is in process to integrate all the platform which acquired in FY22 and seeing this synergy paying out from next few quarter onwards.
- **Expansion:** As part of the rapid initiative, the company has open new R&D center in Bengaluru. The company is seeing good traction from enterprises in digitation customer transaction experience over business massaging platform such as whatsapp, viber and Facebook. Route Mobile has enabled Coca-Cola UAE to connect with their customers and make it easier for them to order the beverage online.
- **Employee:** In Q1FY23 76 New Employees joined and 66 Employees resigned respectively. The company believe attrition will normalized historical level in couple of quarter.
- **Customer:** The company has added 200+ new customer on boarded in Q1FY23.
- **Gross Margin:** The company grow margin 30% in 3 years and near-term 25%. The company will increase prices for ILD customer services as they are continue with route mobile due to good services instead of getting 20mn traffic everyday while company is happy to get 10mn on higher paid.
- **Product:** Viber and email doing pretty well and Viber doing well in Bangladesh.
- **Capital Allocation:** The company is doing good in term of capital allocation with geographical expansion intuitive. The company, current in-organic strategy is to augment on existing product portfolio with few cutting edge technology. Some of the propose acquisition may not warrant for significant capital to deployed. Hence, considering current capital commitment plus the purpose acquisition the company may have surplus cash from next in 2 year roadmap, which are returning to shareholder through open market buyback programmes up to 1200mn that was launch on 28<sup>th</sup> July. Also , intended to increase dividend programme as per the stated by the management.

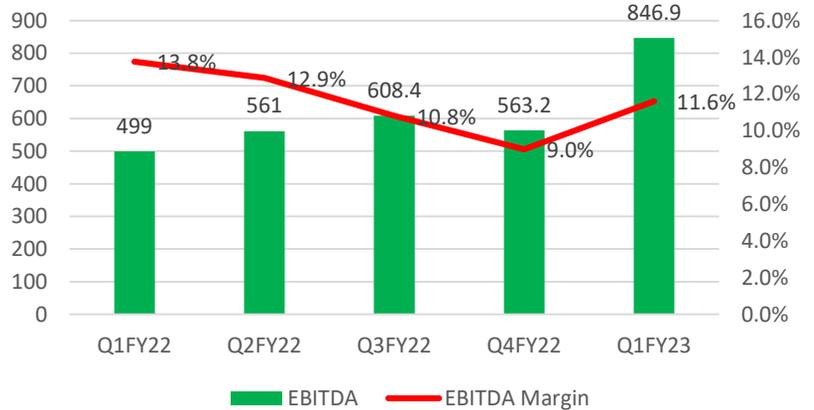
### Key Conference call Highlights on the services front

- In LATAM, the company expanding in Chile, Mexico further the technology team in Masivian is building Omani channel platform that will be personalised communication through AI&ML and have customer data platform ability into it. This development cost INR 59mn, it been capitalised in Q1FY23.
- **Cpaas:** The company, is bullish about the future growth prospects that the global CPaaS market has to offer and has carved out a clear roadmap to emerge as a market leader. Historically, the company has delivered a consistent revenue growth over the past three years clocking 33% revenue CAGR on the back of well executed organic growth strategy and by consummating value accretive acquisitions. The company is very well positioned in the global CPaaS arena by the virtue of our diversified global operations coupled with comprehensive bouquet of product offerings. The company, intend to capitalize on global footprint, group synergies, product innovation, focus on cutting edge technologies and continuing to strengthen communication stack to deliver next level customer experience with tangible outcomes.
- **Global Footprint and Group Synergies:** Route Route Mobile has a strong footprint globally, with presence across 20 countries, serving several blue-chip enterprises including some of the largest technology giants in the US and other parts of the globe. Global operations offer us multiple levers to create sustainable growth momentum in the business. Route Mobile has created significant dominance in the emerging markets, particularly select markets in Asia, GCC countries and Africa. The company has established as a leader in the UAE market servicing marquee enterprises in the private as well as in the government sector. The company is now expanding in Kuwait, through the acquisition of Interteleco International, and Saudi Arabia.
- **In Europe,** the company is based out of the United Kingdom and Malta and have further strengthened their presence post the acquisition of M.R Messaging.
- The company has large part of success across the globe is attributable to the Super Network, direct connectivity with over 280 mobile network operators and over 950+ operators reach that the company has built over 18 years of the existence.
- **Mobile Network:** The company has further deepened the relationship with these mobile network operators by leveraging firewall product, added through the acquisition of 365squared, offered on a pure-play SAAS mode. This product is being used by 10 mobile network operators globally. In addition to firewall, the company also offer SMSC, MMSC, Hubbing solutions to mobile network operators.
- **Product Innovation:** A2P messaging continuous to be the most widely used communications channel by the enterprises, Route Mobile has developed a very comprehensive product portfolio encompassing WhatsApp Business Platform, Viber Business Messaging, RCS Business Messaging, Email (SendClean acquisition) and Tollfree short code/long code/10 DLC business. These alternative communication channel offerings are witnessing increased traction from enterprises across verticals.
- **OTT massaging:** Enhanced Business Communication or OTT messaging has emerged as a platform of choice for orchestrating various conversational interactions that can inspire and help maintain two-way interactions with the customers. Various channels like WhatsApp, Viber, Apple, Google, RCS will see significant adoption.
- **Next focus area:** On technology front are Mobile Identity and UCaaS (Unified Communications as a Service). We are also working on some of the use cases of blockchain beyond mobile operators. We strongly believe that blockchain is a critical technology that can help solve age-old industry challenges, and it will evolve to fit the new digital world, aiding transformation in the true sense.

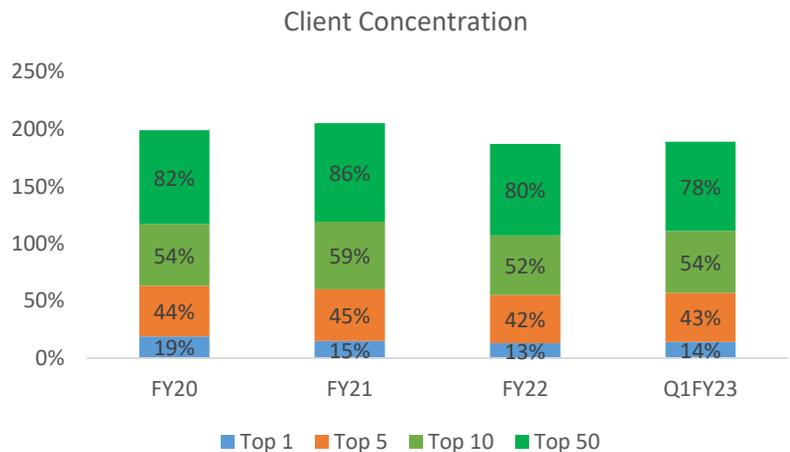
**Exhibit 2: Strong growth momentum in revenue front and traction on the gross profit margin.**



**Exhibit 3: Margin expansion led by better growth momentum. We believes margin will see improvement from Q2FY23 onwards.**



**Exhibit 4: The company has reduced client concentration risk by diversifying its customer based.**



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Income Statement				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>14,062</b>	<b>20,020</b>	<b>29,430</b>	<b>37,670</b>
Change (%)	47.1%	42.4%	47.0%	28.0%
Cost of Goods Sold	11,291	15,825	23,102	29,383
Employee costs	615	1,261	1,766	2,260
<b>Other expenses</b>	<b>416</b>	<b>748</b>	<b>1,059</b>	<b>1,431</b>
Total operating Expense	<b>12,322</b>	<b>17,834</b>	<b>25,928</b>	<b>33,074</b>
<b>EBITDA</b>	<b>1,740</b>	<b>2,186</b>	<b>3,502</b>	<b>4,596</b>
<b>EBITDA Margin (%)</b>	<b>12.4%</b>	<b>10.9%</b>	<b>11.9%</b>	<b>12.2%</b>
Other Income	160	201	289	295
Depreciation	258	383	634	824
Interest	27	52	65	65
<b>PBT</b>	<b>1,615</b>	<b>1,952</b>	<b>3,092</b>	<b>4,002</b>
Extra-ordinary	-	-	-	-
<b>PBT after ext-ord.</b>	<b>1,615</b>	<b>1,952</b>	<b>3,092</b>	<b>4,002</b>
Tax	288	251	398	515
Rate (%)	17.8%	12.9%	12.9%	12.9%
<b>PAT</b>	<b>1,327</b>	<b>1,701</b>	<b>2,693</b>	<b>3,487</b>
Change (%)	81.3%	28.2%	58.4%	29.4%

Balance Sheet				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>				
Share Capital	577	629	629	629
Reserves & Surplus	5,945	16,097	17,969	20,496
Minority Interest	(27)	21	21	21
<b>Net Worth</b>	<b>6,495</b>	<b>16,746</b>	<b>18,618</b>	<b>21,145</b>
Long term debt	34	-	-	-
Short term debt	-	-	-	-
<b>Total Debt</b>	<b>34</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Capital Employed</b>	<b>10,221</b>	<b>26,587</b>	<b>29,329</b>	<b>33,388</b>
<b>Application of Funds</b>				
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	-	-	-
<b>Non Current Asset</b>	<b>2,523</b>	<b>9,901</b>	<b>7,713</b>	<b>8,225</b>
Investments	128	134	134	134
Debtors	2,173	4,871	7,176	9,185
Cash & bank balance	2,700	4,073	7,101	8,191
other Financial & Current Asset	721	1,421	2,088	2,673
<b>Total current assets</b>	<b>5,722</b>	<b>10,498</b>	<b>15,428</b>	<b>18,975</b>
<b>Total Assets</b>	<b>10,221</b>	<b>26,587</b>	<b>29,329</b>	<b>33,388</b>

Cash Flow Statement				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
<b>PBT</b>	<b>1,615</b>	<b>1,952</b>	<b>3,092</b>	<b>4,002</b>
Depreciation	258	383	634	824
Interst Exp	27	(10)	65	65
Other Non Cash Item	(59)	(156)	(148)	(148)
Cash flow before WC changes	1,841	2,169	3,643	4,742
<b>(Inc)/dec in working capital</b>	<b>627</b>	<b>(658)</b>	<b>(1,121)</b>	<b>(980)</b>
Operating CF after WC changes	2,467	1,795	3,884	2,597
Less: Taxes	(173)	(450)	(398)	(515)
<b>Operating cash flow</b>	<b>2,294</b>	<b>1,346</b>	<b>3,486</b>	<b>2,082</b>
(Inc)/dec in F.A	(77)	(171)	(107)	(118)
Other	(2,184)	(4,083)	37	37
<b>Cash flow from investing</b>	<b>(2,261)</b>	<b>(8,384)</b>	<b>(69)</b>	<b>(80)</b>
<b>Free cash flow (FCF)</b>	<b>2,217</b>	<b>1,175</b>	<b>3,379</b>	<b>1,964</b>
Proceeds/(Repayment) of current borrowings	-374	-	-	-
Proceeds/(Repayment) of non-current borrowings	(3)	(40)	-	-
Interest & Lease Liability	(70)	(14)	-	-
Dividend	0	-300	-411	-628
Intereset exp	-21	-5	-65	-65
<b>Cash flow from financing activities</b>	<b>2111</b>	<b>8241</b>	<b>-475.7</b>	<b>-692.6</b>
<b>Currency fluctuation arising on consolidation</b>	<b>(73)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net inc /(dec) in cash</b>	<b>2,071</b>	<b>1,202</b>	<b>2,849</b>	<b>1,309</b>
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
<b>Per share (INR)</b>				
EPS	24.8	27.8	46.7	60.4
CEPS	27.5	36.1	57.7	74.7
BVPS	112.6	266.4	296.1	336.3
<b>Valuation (x)</b>				
P/E	56.6	50.3	30.0	23.2
P/BV	12.4	5.3	4.3	3.8
EV/EBITDA	73.5	57.9	40.5	29.6
<b>Return Ratios (%)</b>				
Gross Margin	19.7%	21.0%	21.5%	22.0%
EBIDTA Margin	12.4%	10.9%	11.9%	12.2%
PAT Margin	9.4%	8.5%	9.2%	9.3%
ROE	20.4%	10.2%	12.3%	14.6%
ROCE	22.7%	10.8%	13.4%	16.1%
<b>Leverage Ratio (%)</b>				
<b>Turnover Ratios</b>				
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, Arihant Research

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### Stock Rating Scale

BUY  
ACCUMULATE  
HOLD  
NEUTRAL  
REDUCE  
SELL

### Absolute Return

>20%  
12% to 20%  
5% to 12%  
-5% to 5%  
-5% to -12%  
<-12%

### Research Analyst Registration No.

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