

# Route Mobile

Refer to important disclosures at the end of this report

## Muted volume growth; Mix change led realization growth and earnings beat

Route Mobile reported better-than-expected operating performance in Q3. Revenue grew by 16.5% QoQ/75.2% YoY to Rs9.9bn (organic 34%) due to change in business mix driving realization, benefits accruing from firewall deal, uptick in ILD rates in India, and continued market share gains. Management is confident of achieving 70%+ revenue growth in FY23; but considering the seasonality, Q4 revenue is expected to be lower than that of Q3. Sequential growth in billable transactions was muted and stood at 27.4bn in Q3 vs. 27.2bn in Q2; growth was impacted by bulk of promotional spends and festivals-led volume uptick, largely captured in Q2, and reduction in non-critical volume of ILD messages due to price increases. Management remains watchful of global macro headwinds such as rising inflation, energy prices, potential slowdown, and geopolitical uncertainties; however, management suggested that the bulk of its revenue comes from traffic terminated in emerging markets and the impact in these markets remains limited so far. We have raised our EPS estimates by 0.8-5.8% for FY23E-25E, factoring in the Q3 performance beat. We remain positive on medium-term growth prospects of the CPaaS industry and Route; however, poor cash conversion and potential growth moderation would weigh on the valuation multiple in our view. We maintain our Hold rating with a TP of Rs1,340 at 23x Dec-24E EPS (earlier Rs1,500/26x).

**Result summary:** Route reported revenue growth of 75.2% YoY/16.5% QoQ to Rs9.9bn in Q3FY23, ~10% ahead of our estimates. Billable transactions were flat QoQ to 27.4bn in Q3FY23, which were impacted due to the Diwali festival-led volume uptick, largely captured in Q2, and reduction in non-critical volume of ILD messages due to price increases; however, medium-term trends remain healthy, driven by new client additions and market share gains. Gross profit margin expanded by ~10bps QoQ to 22.4%, 70bps above our expectations. Reported EBITDAM expanded by ~50bps QoQ to 12.6%, ~120bps above our expectations. Net profit grew by 12% QoQ to Rs824mn, beating our expectations due to better operating performance and lower ETR. Route continues to see strong momentum in the non-SMS business (up 19% QoQ/53% YoY to Rs425mn), as next-generation messaging channels (IP-based messaging, email, enterprise voice solutions, and unified communication solutions) continue to witness increased adoption by enterprises. Route's deep customer engagement continues to drive high recurring revenue (88% in Q3). Management has guided for at least 70% (earlier 60%) revenue growth in FY23. **What we liked:** Strong operating performance and healthy FY23 guidance. **What we did not like:** Weak OCF conversion (~2% OCF/EBITDA in 9M) and muted sequential growth in the number of billable transactions (27.4bn vs. 27.2bn in Q2).

**Earnings call KTAs:** 1) Management is focused on integrating all the acquisitions smoothly and deriving synergies by leveraging cross-selling opportunities. 2) Masivian reported revenue of ~Rs0.6bn in Q3. Masivian is performing well, based on the investments done over the past three quarters, and management expects 20%+ growth in FY24. 3) Mr. Messaging reported revenue of Rs2bn in Q3. 4) OCF was weak for the quarter due to strategic business initiatives (two large firewall deals) and discharge of GST liability. Management expects cash conversion to remain over 50% of EBITDA. 5) Realization per transaction was Rs0.36 in Q3 vs. Rs0.31 in Q2, led by business mix change in favor of RoW and ILD price increase. 6) The board is scheduled to meet on January 26, 2023, to consider the interim dividend. 7) Route plans to realign the senior management as well as hire a few seasoned industry professionals to drive the next phase of growth and profitability. 8) Net cash as of Q3-end stood at Rs7.5bn. 9) Management expects Q4 revenue to be a little muted compared to Q3.

### Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	14,062	20,020	34,250	39,041	44,885
EBITDA	1,741	2,375	4,116	4,685	5,476
EBITDA Margin (%)	12.4	11.9	12.0	12.0	12.2
APAT	1,333	1,850	2,863	3,155	3,795
EPS (Rs)	21.3	29.1	45.9	50.6	60.9
EPS (% chg)	45.3	36.9	57.9	10.2	20.3
ROE (%)	28.9	15.9	16.6	16.5	17.2
P/E (x)	53.7	39.2	24.9	22.6	18.8
EV/EBITDA (x)	38.5	26.3	15.4	13.5	11.2
P/BV (x)	11.0	4.3	4.0	3.5	3.0

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
Rs 1,142 as of (January 24, 2023)	Rs 1,340 (▼) 12 months
<b>Rating</b>	<b>Upside</b>
HOLD (■)	17.3 %

### Change in Estimates

EPS Chg FY23E/FY24E (%)	5.8/0.8
Target Price change (%)	(10.7)
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	45.9	50.6
Consensus	43.1	51.9
Mean Consensus TP (12M)	Rs 1,679	

### Stock Details

Bloomberg Code	ROUTE IN
Face Value (Rs)	10
Shares outstanding (mn)	63
52 Week H/L	1,889 / 1,052
M Cap (Rs bn/USD bn)	71 / 0.88
Daily Avg Volume (nos.)	113,208
Daily Avg Turnover (US\$ mn)	1.8

### Shareholding Pattern Dec '22

Promoters	58.4%
FIIIs	21.1%
DIIIs	7.2%
Public and Others	13.2%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(1)	(13)	(16)	(36)
<b>Rel. to Nifty</b>	(3)	(15)	(22)	(38)

### Relative price chart



Source: Bloomberg

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**Exhibit 1: Quarterly snapshot (Q3FY23)**

Rs mn	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)
Net sales	9,857	8,458	16.5	5,628	75.2
Operating expenses	8,612	7,429		5,019	
EBITDA	1,246	1,029	21.0	608	104.8
Margins (%)	12.6	12.2	50.0	10.8	180.0
Depreciation	220	188		99	
EBIT	1,026	841	22.0	510	101.2
Margins (%)	10.4	9.9	50	9.1	130.0
Other income	5	-18		41	
Pre-tax profit	1,031	823	25.4	551	
Tax provided	178	96		88	
Profit after tax	854	726		463	
Emkay Net profit	824	736	12.0	445	85.2
EPS, Rs	13.2	11.8	12.4	7.7	71.5

Source: Company, Emkay Research

**Exhibit 2: Actuals vs. estimates (Q3FY23)**

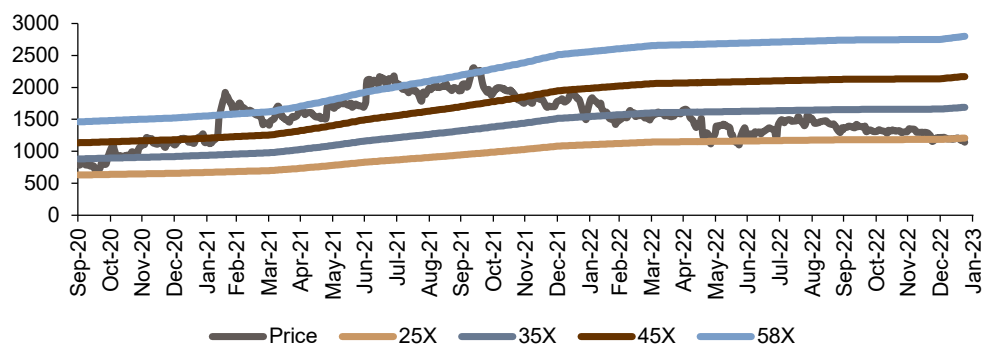
(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate	% variation		Comment
				Emkay	Consensus	
Sales (Rs mn)	9,857	8,991		9.6%	9.6%	Revenue came ahead of our expectations
EBIT	1,026	827	830	24.1%	23.6%	Reported margins were better than expectations, partly aided by the reversal of the provision of ESOPs
EBIT, margin	10.4%	9.2%	9.2%	120 bps	120 bps	
PAT	824	674	674	22.3%	22.4%	Strong operating performance and lower ETR led to profit beat

Source: Company, Bloomberg, Emkay Research

**Exhibit 3: Changes in estimates**

All figures in Rs mn, except EPS and %	FY23E			FY24E			FY25E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	33,385	34,250	2.6%	38,740	39,041	0.8%	44,567	44,885	0.7%
YoY growth, %	66.8	71.1		16.0	14.0		15.0	15.0	
EBIT	3,080	3,321	7.8%	3,703	3,855	4.1%	4,450	4,623	3.9%
EBIT margin, %	9.2	9.7		9.6	9.9		10.0	10.3	
Net profit	2,724	2,863	5.1%	3,150	3,155	0.2%	3,783	3,795	0.3%
EPS	43.4	45.9	5.8%	50.2	50.6	0.8%	60.3	60.9	1.0%

Source: Company, Emkay Research

**Exhibit 4: Route Mobile's one-year forward P/E**

Source: Company, Emkay Research

**Key Financials (Consolidated)****Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>14,062</b>	<b>20,020</b>	<b>34,250</b>	<b>39,041</b>	<b>44,885</b>
<b>Expenditure</b>	<b>12,321</b>	<b>17,645</b>	<b>30,134</b>	<b>34,356</b>	<b>39,409</b>
<b>EBITDA</b>	<b>1,741</b>	<b>2,375</b>	<b>4,116</b>	<b>4,685</b>	<b>5,476</b>
Depreciation	258	383	795	830	853
<b>EBIT</b>	<b>1,483</b>	<b>1,992</b>	<b>3,321</b>	<b>3,855</b>	<b>4,623</b>
Other Income	160	201	269	272	306
Interest expenses	28	52	214	109	109
<b>PBT</b>	<b>1,615</b>	<b>2,141</b>	<b>3,376</b>	<b>4,018</b>	<b>4,819</b>
Tax	288	251	458	804	964
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(6)	39	54	60	60
<b>Reported Net Income</b>	<b>1,333</b>	<b>1,850</b>	<b>2,863</b>	<b>3,155</b>	<b>3,795</b>
<b>Adjusted PAT</b>	<b>1,333</b>	<b>1,850</b>	<b>2,863</b>	<b>3,155</b>	<b>3,795</b>

**Balance Sheet**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	577	629	623	623	623
Reserves & surplus	5,944	16,097	17,125	19,843	23,140
<b>Net worth</b>	<b>6,521</b>	<b>16,726</b>	<b>17,748</b>	<b>20,466</b>	<b>23,763</b>
<b>Minority Interest</b>	<b>(27)</b>	<b>21</b>	<b>75</b>	<b>135</b>	<b>195</b>
<b>Loan Funds</b>	<b>200</b>	<b>162</b>	<b>1,162</b>	<b>1,162</b>	<b>1,162</b>
Net deferred tax liability	(44)	596	582	582	582
<b>Total Liabilities</b>	<b>6,651</b>	<b>17,504</b>	<b>19,567</b>	<b>22,345</b>	<b>25,702</b>
<b>Net block</b>	<b>1,928</b>	<b>9,523</b>	<b>9,062</b>	<b>9,136</b>	<b>8,547</b>
<b>Investment</b>	<b>128</b>	<b>134</b>	<b>134</b>	<b>134</b>	<b>134</b>
<b>Current Assets</b>	<b>8,107</b>	<b>16,876</b>	<b>20,753</b>	<b>22,347</b>	<b>26,301</b>
Cash & bank balance	4,677	10,262	8,907	8,773	10,610
Other Current Assets	1,012	1,287	2,556	2,878	3,270
<b>Current liabilities &amp; Provision</b>	<b>3,524</b>	<b>9,028</b>	<b>10,392</b>	<b>9,282</b>	<b>9,290</b>
<b>Net current assets</b>	<b>4,584</b>	<b>7,848</b>	<b>10,361</b>	<b>13,065</b>	<b>17,011</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>6,651</b>	<b>17,504</b>	<b>19,567</b>	<b>22,345</b>	<b>25,702</b>

**Cash Flow**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>1,456</b>	<b>1,940</b>	<b>3,107</b>	<b>3,746</b>	<b>4,513</b>
Other Non-Cash items	(33)	(71)	0	0	0
Chg. in working cap	627	(658)	(2,582)	(1,138)	(1,444)
<b>Operating Cashflow</b>	<b>2,294</b>	<b>1,346</b>	<b>1,130</b>	<b>2,906</b>	<b>3,265</b>
Capital expenditure	(722)	(4,301)	(1,644)	(2,604)	(929)
<b>Free Cash Flow</b>	<b>1,572</b>	<b>(2,956)</b>	<b>(514)</b>	<b>302</b>	<b>2,336</b>
Investments	(1,590)	(4,198)	688	500	(2,000)
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(2,261)</b>	<b>(8,385)</b>	<b>(956)</b>	<b>(2,104)</b>	<b>(2,929)</b>
Equity Capital Raised	2,578	8,646	(1,467)	0	0
Loans Taken / (Repaid)	(439)	(86)	1,000	0	0
Dividend paid (incl tax)	0	(304)	(374)	(436)	(498)
Other Financing Cash Flow	0	0	0	0	0
<b>Financing Cashflow</b>	<b>2,110</b>	<b>8,237</b>	<b>(841)</b>	<b>(436)</b>	<b>(498)</b>
<b>Net chg. in cash</b>	<b>2,143</b>	<b>1,198</b>	<b>(666)</b>	<b>366</b>	<b>(162)</b>
Opening cash position	615	2,700	4,073	3,407	3,773
<b>Closing cash position</b>	<b>4,677</b>	<b>10,262</b>	<b>8,907</b>	<b>8,773</b>	<b>10,610</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBITDA Margin	12.4	11.9	12.0	12.0	12.2
EBIT Margin	10.5	9.9	9.7	9.9	10.3
Effective Tax Rate	17.8	11.7	13.6	20.0	20.0
Net Margin	9.4	9.4	8.5	8.2	8.6
ROCE	33.5	18.2	19.4	19.7	20.5
ROE	28.9	15.9	16.6	16.5	17.2
RoIC	63.1	39.3	32.6	25.8	26.1

<b>Per Share Data (Rs)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	21.3	29.1	45.9	50.6	60.9
CEPS	25.4	35.1	58.7	63.9	74.6
BVPS	104.0	263.1	284.8	328.4	381.3
DPS	1.8	5.0	6.0	7.0	8.0

<b>Valuations (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
PER	53.7	39.2	24.9	22.6	18.8
P/CEPS	45.0	32.5	19.5	17.9	15.3
P/BV	11.0	4.3	4.0	3.5	3.0
EV / Sales	4.8	3.1	1.8	1.6	1.4
EV / EBITDA	38.5	26.3	15.4	13.5	11.2
Dividend Yield (%)	0.2	0.4	0.5	0.6	0.7

<b>Gearing Ratio (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Debt/ Equity	(0.7)	(0.6)	(0.4)	(0.4)	(0.4)
Net Debt/EBIDTA	(2.6)	(4.3)	(1.9)	(1.7)	(1.7)
Working Cap Cycle (days)	(2.4)	(44.0)	15.5	40.1	52.1

<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenue	47.1	42.4	71.1	14.0	15.0
EBITDA	74.2	36.4	73.3	13.8	16.9
EBIT	91.9	34.3	66.7	16.1	19.9
PAT	128.8	38.8	54.7	10.2	20.3

<b>Quarterly (Rs mn)</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>	<b>Q3FY23</b>
Revenue	5,628	6,261	7,290	8,458	9,857
EBITDA	608	563	847	1,029	1,246
<b>EBITDA Margin (%)</b>	<b>10.8</b>	<b>9.0</b>	<b>11.6</b>	<b>12.2</b>	<b>12.6</b>
PAT	445	457	694	736	824
<b>EPS (Rs)</b>	<b>7.0</b>	<b>7.2</b>	<b>10.9</b>	<b>11.6</b>	<b>13.2</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>	<b>Dec-22</b>
Promoters	60.0	59.8	59.8	58.6	58.4
FII	19.8	20.2	19.9	21.3	21.1
DII	6.7	5.8	7.0	7.2	7.2
Public and Others	13.6	14.2	13.2	13.0	13.2

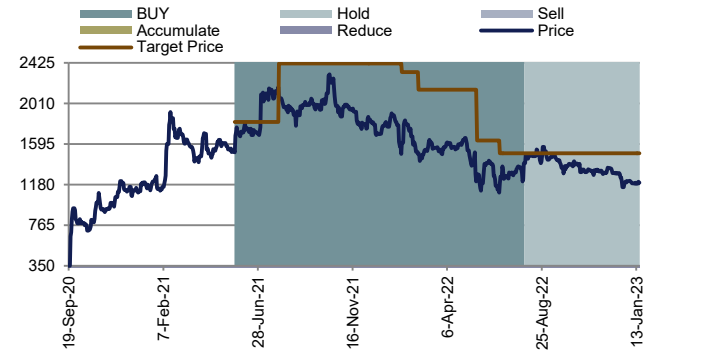
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
2-Jan-23	1,216	1,500	12m	Hold	Dipeshkumar Mehta
22-Oct-22	1,308	1,500	12m	Hold	Dipeshkumar Mehta
4-Oct-22	1,392	1,500	12m	Hold	Dipeshkumar Mehta
30-Jul-22	1,401	1,500	12m	Hold	Dipeshkumar Mehta
23-Jun-22	1,194	1,500	12m	Buy	Dipeshkumar Mehta
20-May-22	1,286	1,630	12m	Buy	Dipeshkumar Mehta
1-Apr-22	1,566	2,150	12m	Buy	Dipeshkumar Mehta
22-Feb-22	1,500	2,150	12m	Buy	Dipeshkumar Mehta
28-Jan-22	1,609	2,330	12m	Buy	Dipeshkumar Mehta
27-Aug-21	1,889	2,420	12m	Buy	Dipeshkumar Mehta
29-Jul-21	2,075	2,420	12m	Buy	Dipeshkumar Mehta
2-Jul-21	2,102	1,820	12m	Buy	Dipeshkumar Mehta
24-May-21	1,511	1,820	12m	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 24 Jan 2023 04:01:02 (SGT)

Dissemination Date: 24 Jan 2023 04:02:02 (SGT)

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