

HOLD Route Mobile

Focus on transaction synergies; cash conversion to remain weak

Your success is our success

Information Technology ▶ Company Update ▶ September 12, 2023

TARGET PRICE (Rs): 1,720

Route Mobile has steadily gained market share, particularly in India, over the last few quarters and growth momentum will be further aided by benefits accruing from: i) exclusive partnership with Vodafone Idea for International A2P SMS Services, ii) capturing higher share of message termination in India and other emerging markets from Telesign, and iii) ILD and NLD enterprise message price hikes wef 22-Apr and 1-Aug, respectively. We believe there could be some upside to the company's current at least 20% revenue growth guidance for FY24, while it is on track to deliver EBITDAM within the guided range of 12.5-13%. Cash conversion remained weak over the last few quarters (OCF/EBITDA: 16.5% in FY23) and the few recently-signed large firewall contracts are expected to weigh on cash conversion in FY24. We revise our EPS by 1.7-2.3% for FY24-26E, factoring-in the better revenue growth and weaker cash conversion. We roll forward our TP to Sep-25E and retain HOLD with revised TP of Rs1,720/share, while reducing our multiple to 22x Sep-25E EPS (from 23x), given the poor cash conversion and slower scaling of the non-SMS business.

Route Mobile: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,020	35,692	44,054	52,154	59,461
EBITDA	2,186	4,442	5,563	6,651	7,670
Adj. PAT	1,662	3,271	3,899	4,421	5,348
Adj. EPS (Rs)	26.1	52.4	62.3	70.6	85.4
EBITDA margin (%)	10.9	12.4	12.6	12.8	12.9
EBITDA growth (%)	25.6	103.1	25.3	19.5	15.3
Adj. EPS growth (%)	22.9	100.4	18.9	13.4	21.0
RoE (%)	14.3	18.7	19.9	19.6	20.6
RoIC (%)	35.1	34.9	27.6	26.3	28.7
P/E (x)	60.0	29.9	25.2	22.2	18.4
EV/EBITDA (x)	40.9	20.3	16.8	13.8	11.6
P/B (x)	6.0	5.4	4.7	4.1	3.5
FCFF yield (%)	1.3	0.4	(0.2)	4.1	5.5

Source: Company, Emkay Research

Revenue momentum supported by market-share gain and price hike

Route Mobile has steadily gained market share, particularly in India, over the last few quarters. It has recently entered into an exclusive partnership with Vodafone Idea to deploy its firewall solution and SMS hub for international A2P SMS services. As per media interviews and social media updates by Management, it has the potential to contribute USD100mnpa incremental revenue. The company should benefit from the ILD and NLD price hikes that have been implemented from 22-April and 1-August, respectively. While ILD price should fully reflect from Q2, NLD price-hike benefits should entirely reflect from Q3. Some initial volume dip is likely due to the hike; however, the net impact is still expected to be positive. Telesign has sizable traffic termination in India and other emerging markets, and Route Mobile is likely to benefit from this terminating portion of traffic as it is the beneficiary of the common parentage. Based on these factors, coupled with a healthy pipeline, we believe that the 20% guidance for revenue growth can have upside risks. Progress on scaling the new-products revenue stream remains slow so far, though Management has rolled out incentive schemes on driving growth here.

Cash conversion is expected to stay weak

Route Mobile is seeing strong traction in the Firewall business, which requires upfront investments in terms of security deposits. Growing revenue contribution from Firewall deals has led to deterioration in cash generation over the last few quarters. Working Capital is also likely to be impacted, as the enterprise segment continues to distend. Some of the enterprise business in India and the Middle East has higher working capital requirements. Consequently, reported OCF-to-EBITDA declined to 16.5% in FY23 (vs >90% over FY20-22) and is likely to remain weak in FY24E. Management indicated that normalized OCF/EBITDA (adj. for security deposits given to telcos) was ~45% in FY23, and has guided for normalized OCF/EBITDA conversion of >50% in FY24.

Focus on Proximus Opal deal timelines and synergy benefits

Route expects to receive regulatory approvals for transaction with Proximus Opal by the end of Nov-2023. Proximus Opal will come out with an open offer post receiving such approvals and expects the overall process to be completed within a couple of months thereafter. Proximus Opal's Management guided for EBITDA synergies of at least EUR90mn, to be realized in 3 years post closure of the deal, and also suggested that 1/4th of the synergy benefits would accrue from revenue synergies via footprint expansion and cross-sell opportunities, while the balance would be realized from opex savings with consolidation of the CPaaS platform, purchase efficiencies from scale, and cost efficiencies. We believe that some synergy benefits should also accrue to Route Mobile, though the quantum remains unclear for now. Route can also take advantage of synergies via collaboration with TruSense and Telesign products.

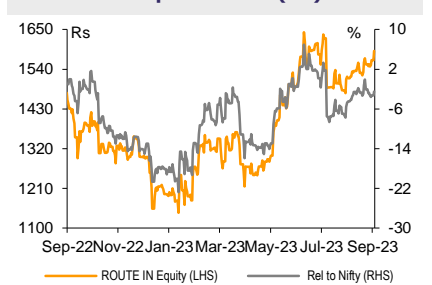
Target Price – 12M	Sep-24
Change in TP (%)	3.0
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	9.7
CMP (12-Sep-23) (Rs)	1,568.6

Stock Data	Ticker
52-week High (Rs)	1,760
52-week Low (Rs)	1,131
Shares outstanding (mn)	62.6
Market-cap (Rs bn)	98
Market-cap (USD mn)	1,185
Net-debt, FY24E (Rs mn)	-4,681
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	678.7
ADTV-3M (USD mn)	8.2
Free float (%)	42.0
Nifty-50	19,993
INR/USD	82.9
Shareholding, Jun-23	
Promoters (%)	58.3
FPIs/MFs (%)	21.3/6.8

Price Performance

(%)	1M	3M	12M
Absolute	3.6	4.7	6.2
Rel. to Nifty	0.6	(2.6)	(4.8)

1-Year share price trend (Rs)



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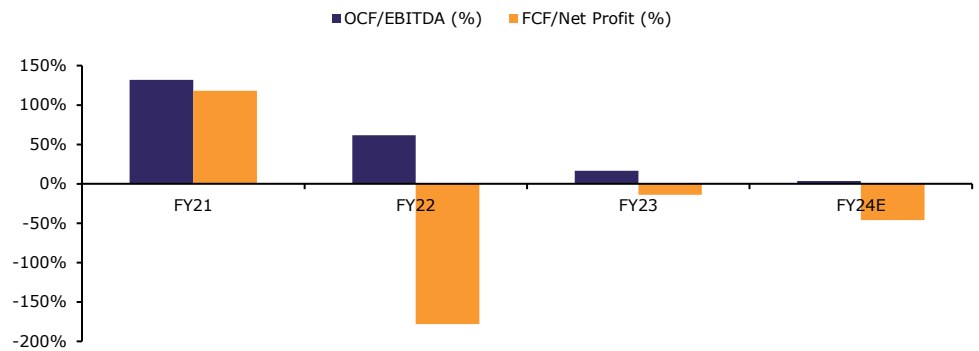
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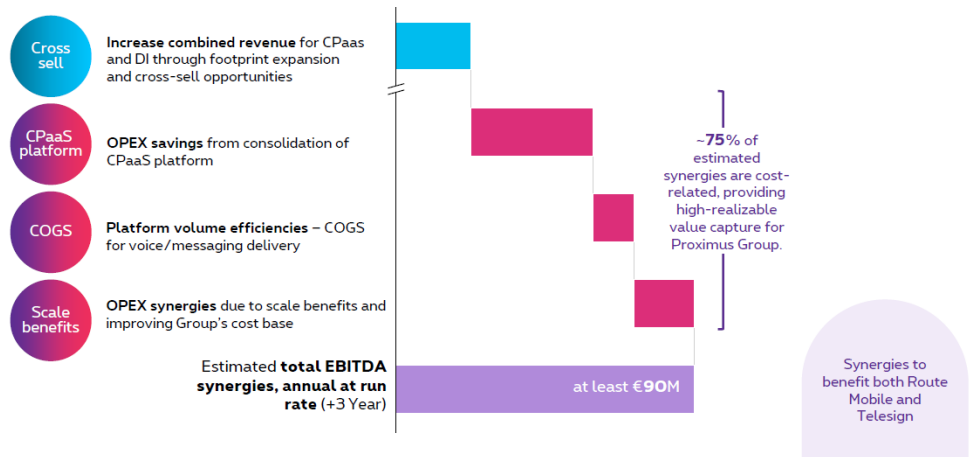
Story in Charts

Exhibit 1: Cash conversion to remain weak in FY24 on account of growing firewall business



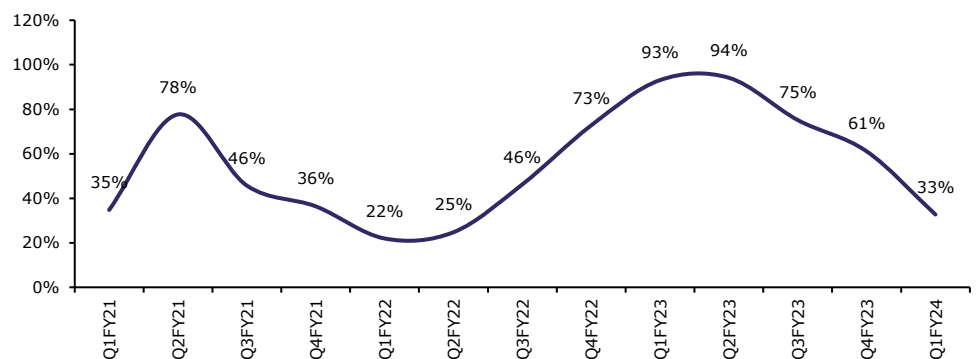
Source: Company, Emkay Research

Exhibit 2: Proximus Opal expects EUR90mn synergies to be realized over 3 years

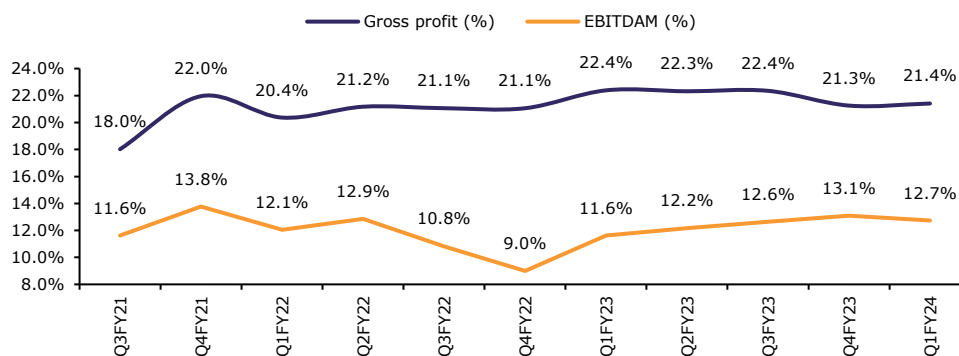


Source: Proximus, Emkay Research

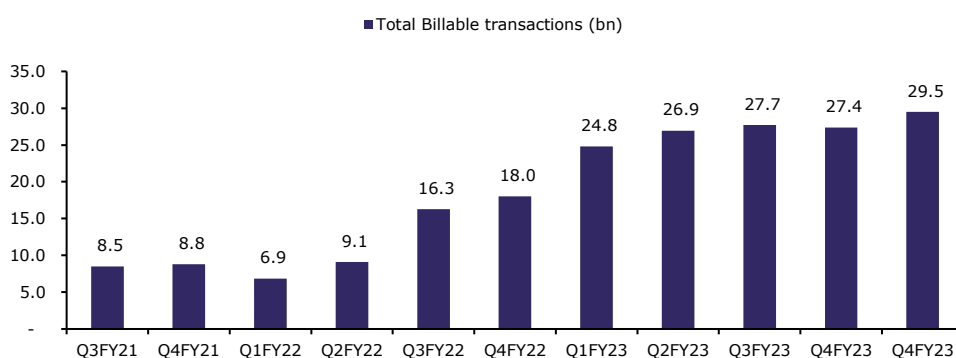
Exhibit 3: Revenue growth remains healthy



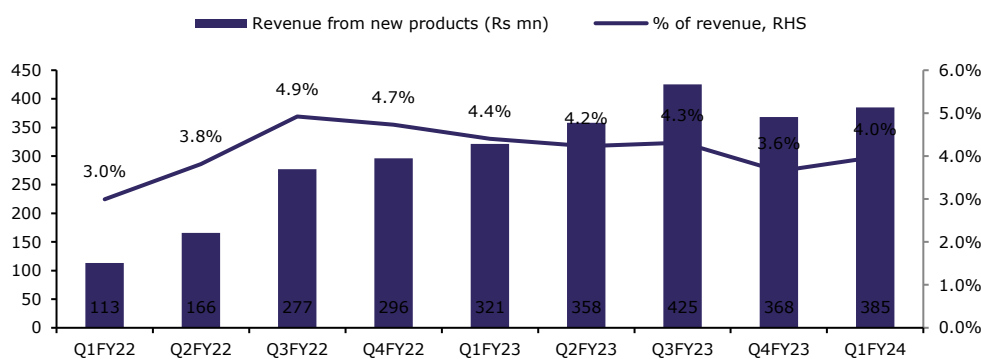
Source: Company, Emkay Research

Exhibit 4: Margins remain robust

Source: Company, Emkay Research

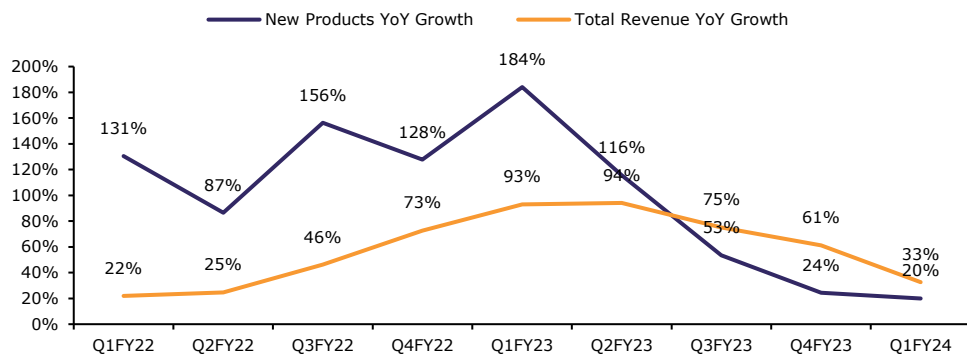
Exhibit 5: Highest-ever billable transactions in Q1FY24

Source: Company, Emkay Research

Exhibit 6: New product revenue has remained weak in the last year

Source: Company, Emkay Research

Exhibit 7: New Products revenue growth has now fallen below overall revenue growth



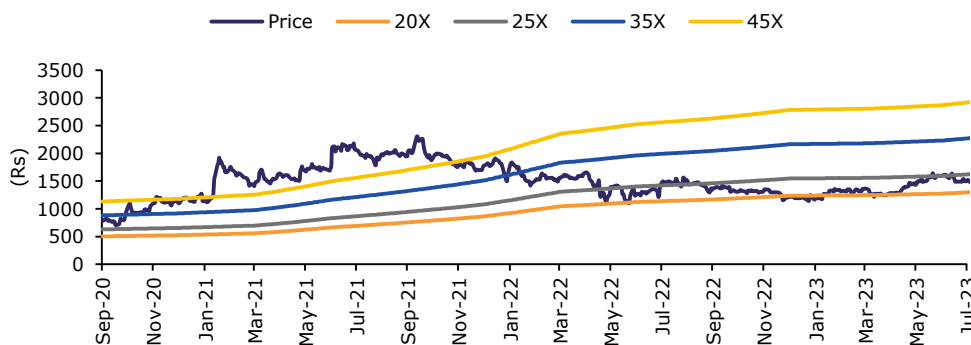
Source: Company, Emkay Research

Exhibit 8: Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	43,013	44,054	2.4%	49,017	52,154	6.4%	55,910	59,461	6.3%
YoY growth (%)	20.5	23.4		14.0	18.4		14.1	14.0	
EBIT	4,535	4,649	2.5%	5,302	5,722	7.9%	6,304	6,720	6.6%
EBIT margin (%)	10.5	10.6		10.8	11.0		11.3	11.3	
Net profit	3,801	3,899	2.6%	4,334	4,421	2.0%	5,226	5,348	2.3%
EPS (Rs)	60.9	62.3	2.3%	69.4	70.6	1.7%	83.7	85.4	2.1%

Source: Emkay Research

Exhibit 9: Route Mobile – One-year forward P/E



Source: Company, Emkay Research

Route Mobile: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,020	35,692	44,054	52,154	59,461
Revenue growth (%)	42.4	78.3	23.4	18.4	14.0
EBITDA	2,186	4,442	5,563	6,651	7,670
EBITDA growth (%)	25.6	103.1	25.3	19.5	15.3
Depreciation & Amortization	383	816	915	929	950
EBIT	1,803	3,626	4,649	5,722	6,720
EBIT growth (%)	21.6	101.1	28.2	23.1	17.5
Other operating income	0	0	0	0	0
Other income	201	394	463	338	428
Financial expense	52	205	327	459	389
PBT	1,952	3,815	4,784	5,601	6,760
Extraordinary items	0	0	0	0	0
Taxes	251	484	848	1,120	1,352
Minority interest	(39)	(61)	(38)	(60)	(60)
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,662	3,271	3,899	4,421	5,348
PAT growth (%)	24.6	96.8	19.2	13.4	21.0
Adjusted PAT	1,662	3,271	3,899	4,421	5,348
Diluted EPS (Rs)	26.1	52.4	62.3	70.6	85.4
Diluted EPS growth (%)	22.9	100.4	18.9	13.4	21.0
DPS (Rs)	5.0	5.0	18.0	21.0	25.0
Dividend payout (%)	19.0	9.5	28.9	29.7	29.3
EBITDA margin (%)	10.9	12.4	12.6	12.8	12.9
EBIT margin (%)	9.0	10.2	10.6	11.0	11.3
Effective tax rate (%)	12.9	12.7	17.7	20.0	20.0
NOPLAT (pre-IndAS)	1,571	3,166	3,824	4,577	5,376
Shares outstanding (mn)	63.6	62.4	62.6	62.6	62.6

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,952	3,815	4,784	5,601	6,760
Others (non-cash items)	501	1,019	915	929	950
Taxes paid	(450)	(334)	(848)	(1,120)	(1,352)
Change in NWC	(658)	(3,768)	(4,662)	(1,195)	(913)
Operating cash flow	1,346	732	189	4,216	5,445
Capital expenditure	(171)	(380)	(330)	(440)	(580)
Acquisition of business	(4,131)	(810)	(1,654)	(650)	(700)
Interest & dividend income	115	284	0	0	0
Investing cash flow	(8,385)	1,122	(2,157)	(2,690)	(2,680)
Equity raised/(repaid)	8,646	(1,492)	2	0	0
Debt raised/(repaid)	(40)	1,258	1,875	0	(1,000)
Payment of lease liabilities	(60)	(102)	0	0	0
Interest paid	(5)	(56)	0	0	0
Dividend paid (incl tax)	(304)	(686)	(1,127)	(1,315)	(1,566)
Others	175	(13)	0	0	0
Financing cash flow	8,412	(1,092)	750	(1,315)	(2,566)
Net chg in Cash	1,373	763	(1,218)	211	199
OCF	1,346	732	189	4,216	5,445
Adj. OCF (w/o NWC chg.)	2,004	4,500	4,851	5,410	6,358
FCFF	1,175	352	(141)	3,776	4,865
FCFE	1,238	431	(468)	3,317	4,476
OCF/EBITDA (%)	61.5	16.5	3.4	63.4	71.0
FCFE/PAT (%)	74.5	13.2	(12.0)	75.0	83.7
FCFF/NOPLAT (%)	74.8	11.1	(3.7)	82.5	90.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	629	624	626	626	626
Reserves & Surplus	16,097	17,580	20,351	23,457	27,240
Net worth	16,726	18,204	20,977	24,083	27,866
Minority interests	21	80	117	177	237
Deferred tax liability (net)	596	481	481	481	481
Total debt	162	1,401	3,276	3,276	2,276
Total liabilities & equity	17,504	20,166	24,852	28,018	30,861
Net tangible fixed assets	290	344	500	745	965
Net intangible assets	4,066	3,655	2,959	2,281	1,630
Net ROU assets	156	324	279	223	284
Capital WIP	0	151	151	151	151
Goodwill	5,011	5,202	5,202	5,202	5,202
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	10,396	9,001	7,957	9,768	11,367
Current assets (ex-cash)	6,614	10,092	17,419	20,131	22,415
Current Liab. & Prov.	9,028	8,603	9,615	10,482	11,152
NWC (ex-cash)	(2,414)	1,489	7,804	9,649	11,262
Total assets	17,504	20,166	24,852	28,018	30,861
Net debt	(10,233)	(7,600)	(4,681)	(6,491)	(9,090)
Capital employed	17,504	20,166	24,852	28,018	30,861
Invested capital	7,109	11,014	16,744	18,100	19,343
BVPS (Rs)	263.1	291.5	335.0	384.6	445.0
Net Debt/Equity (x)	(0.6)	(0.4)	(0.2)	(0.3)	(0.3)
Net Debt/EBITDA (x)	(4.7)	(1.7)	(0.8)	(1.0)	(1.2)
Interest coverage (x)	0.0	0.1	0.1	0.1	0.1
RoCE (%)	16.6	21.3	22.7	22.9	24.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	60.0	29.9	25.2	22.2	18.4
P/CE(x)	48.8	24.0	20.4	18.4	15.6
P/B (x)	6.0	5.4	4.7	4.1	3.5
EV/Sales (x)	4.5	2.5	2.1	1.8	1.5
EV/EBITDA (x)	40.9	20.3	16.8	13.8	11.6
EV/EBIT(x)	49.6	24.9	20.1	16.0	13.3
EV/IC (x)	12.6	8.2	5.6	5.1	4.6
FCFF yield (%)	1.3	0.4	(0.2)	4.1	5.5
FCFE yield (%)	1.2	0.4	(0.5)	3.4	4.6
Dividend yield (%)	0.3	0.3	1.1	1.3	1.6
DuPont-RoE split					
Net profit margin (%)	8.3	9.2	8.8	8.5	9.0
Total asset turnover (x)	1.7	1.9	2.0	2.0	2.0
Assets/Equity (x)	1.0	1.1	1.1	1.2	1.1
RoE (%)	14.3	18.7	19.9	19.6	20.6
DuPont-RoIC					
NOPLAT margin (%)	7.8	8.9	8.7	8.8	9.0
IC turnover (x)	4.5	3.9	3.2	3.0	3.2
RoIC (%)	35.1	34.9	27.6	26.3	28.7
Operating metrics					
Core NWC days	(44.0)	15.2	64.7	67.5	69.1
Total NWC days	(44.0)	15.2	64.7	67.5	69.1
Fixed asset turnover	2.9	3.2	3.7	4.3	4.7
Opex-to-revenue (%)	89.1	87.6	87.4	87.2	87.1

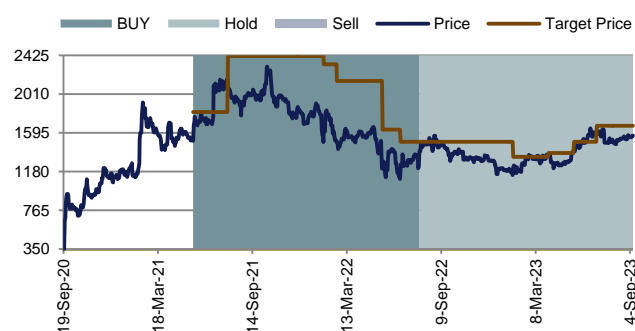
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
28-Jul-23	1,501	1,670	Hold	Dipeshkumar Mehta
17-Jul-23	1,488	1,670	Hold	Dipeshkumar Mehta
02-Jul-23	1,593	1,670	Hold	Dipeshkumar Mehta
20-May-23	1,398	1,500	Hold	Dipeshkumar Mehta
01-Apr-23	1,366	1,380	Hold	Dipeshkumar Mehta
24-Jan-23	1,230	1,340	Hold	Dipeshkumar Mehta
02-Jan-23	1,216	1,500	Hold	Dipeshkumar Mehta
22-Oct-22	1,308	1,500	Hold	Dipeshkumar Mehta
04-Oct-22	1,392	1,500	Hold	Dipeshkumar Mehta
30-Jul-22	1,401	1,500	Hold	Dipeshkumar Mehta
23-Jun-22	1,194	1,500	Buy	Dipeshkumar Mehta
20-May-22	1,286	1,630	Buy	Dipeshkumar Mehta
01-Apr-22	1,566	2,150	Buy	Dipeshkumar Mehta
22-Feb-22	1,500	2,150	Buy	Dipeshkumar Mehta
28-Jan-22	1,609	2,330	Buy	Dipeshkumar Mehta
27-Aug-21	1,889	2,420	Buy	Dipeshkumar Mehta
29-Jul-21	2,075	2,420	Buy	Dipeshkumar Mehta
02-Jul-21	2,102	1,820	Buy	Dipeshkumar Mehta
24-May-21	1,511	1,820	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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