Equity Research
May 22, 2022
BSE Sensex: 54326

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Q4FY22 result review and re-initiating

Technology

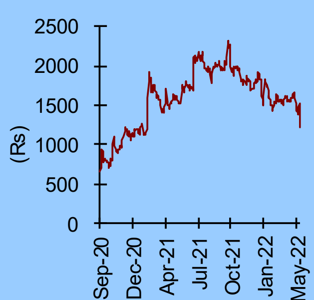
Target price: Rs1,490

Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	60.3	60.0	59.8
Institutional investors	27.1	26.4	26.0
MFs and others	2.7	3.1	2.6
Insurance	0.2	0.2	0.0
FIIs	24.2	23.1	23.4
Others	12.6	13.6	14.2

Source: www.nseindia.com

Price chart



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INDIA

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Route Mobile

BUY

Poised for strong growth

Rs1,285

Route Mobile (Route) reported its Q4FY22 revenues at Rs6,261mn, up 11.2% QoQ and 72.7% YoY. While the quarter included inorganic contributions from Masivian, Intertelco and MR Messaging, organic revenues were flat QoQ and up 46% YoY. Management expects organic growth ahead to be strong on the back of new deal wins. EBITDA margins contracted 180bps QoQ to 9% due to one-offs like: 1) weak margins in Masivian business, 2) incremental employee costs (6.4% of revenues *vs* 4.7% in Q3FY22), and 3) participation in global conferences. Management is confident of significant margin expansion in FY23 on account of recent acquisitions and operating leverage.

For FY23, Route has guided for revenue growth of at least 40% YoY and EBITDA margin improvement of >150bps driven by gross margin expansion and significant operating leverage. Company's focus on new geographies (Europe, South Africa and Japan), through its MR Messaging acquisition and Spanish-speaking LatAm markets through Masivian, should drive incremental revenues. Further, management intends to create use cases around block chain (DLT acquisition) and expand the company's portfolio of services by making acquisitions in areas such as digital fraud and voice. This should position the company well for growth ahead. We build-in revenue growth of 49.6%/18.0% for FY23E/FY24E along with EBITDA margins of 12.1%/12.7%.

As communication channels of enterprises evolve from disparate A2P-based messaging system to CPaaS-based communications, we believe Route is favourably placed to benefit from industry tailwinds. Company's key strengths include: 1) network pipe developed with MNOs, 2) firewall-based offering (aids in strengthening MNO-based relationships), 3) robust client economics with companies such as Facebook and Google providing strong client referenceability, and 4) leadership positioning in regions where Route operates. We reinitiate coverage on the stock with a BUY rating and a DCF based target price of Rs1,490 (implied multiple of ~31x on FY24E EPS).

Risks: 1) Accelerated shift to newer channels of communication (which will put pressure on SMS-based messaging volumes); 2) any potential stagnation in top-5 client spends, which contribute ~42% of revenues; and 3) Route's pricing vis-à-vis competition can come under pressure, as larger global players (Twilio, Sinch) consolidate their operations. It may be noted that Route also works with global aggregators in terminating traffic in certain geographies, hence any adverse consolidation by these global aggregators may negatively affect Route's revenue profile.

Market Cap	Rs81bn/US$1bn
Reuters/Bloomberg	ROUTE IN
Shares Outstanding (mn)	63.0
52-week Range (Rs)	2307/1213
Free Float (%)	40.2
FII (%)	23.4
Daily Volume (US$'000)	5,474
Absolute Return 3m (%)	(15.4)
Absolute Return 12m (%)	(15.0)
Sensex Return 3m (%)	(5.9)
Sensex Return 12m (%)	10.9

Year to March	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	14,062	20,020	29,952	35,354
Net Income (Rs mn)	1,333	1,662	2,311	3,023
EPS (Rs)	24.6	27.6	36.9	48.2
% Chg YoY	111.1	12.2	33.7	30.8
P/E (x)	52.2	46.6	34.8	26.6
CEPS (Rs)	10.7	4.6	4.2	3.7
EV/E (x)	38.1	30.3	18.3	14.8
Dividend Yield	0.0	0.4	0.4	0.4
RoCE (%)	56.1	34.7	38.8	82.4
RoE (%)	28.9	14.3	12.9	14.7

- **Robust revenue growth.** Revenues for Q4FY22 stood at Rs6,261mn, up 11.2% QoQ and 72.7% YoY. While the quarter included inorganic contributions from Masivian, Intertelco and MR Messaging, organic revenues were flat QoQ and grew 46% YoY. Management expects organic growth ahead to be strong on the back of new deal wins. On YoY basis, realisation per billable transaction reduced to Rs0.34 from Rs0.41 in Q4FY21 due to lower realisations in acquired businesses and Send Clean business.

- **Acquisitions.** Route is consistently gaining market share in India having won several large clients in this geography in Q4FY22 as well. Further, company now intends to focus on new geographies like Europe, South Africa and Japan through its MR Messaging acquisition. Spanish speaking LatAm markets will now be the focus area for Masivian and the company believes the investments should drive incremental revenues in Q3FY23.

  Route has entered into a contract with Teledger for its DLT (distributed ledger technology) platform to focus on creating use cases around block chain in order to cross-sell to existing partners and telecom operators. Management is confident of strong demand in this space in the coming quarters. Going ahead, management intends to expand the company's portfolio of services by making acquisitions in areas such as digital fraud and voice.

- **Margins impacted due to one-offs.** EBITDA margins contracted 180bps QoQ to 9% due to one-offs like: 1) weak margins in Masivian business, 2) incremental employee costs (6.4% of revenues *vs* 4.7% in Q3FY22), and 3) participation in global conferences. Management is confident of significant margin expansion in FY23 on account of recent acquisitions and operating leverage.

  Increase in employee costs was on account of variable payoffs and global employee meet during the quarter. Further, management intends to roll out wage hikes in Q1FY23 in line with industry standards. Other costs from Masivian acquisition is expected to have a material impact in Q1FY23 and, in the course of FY23, amortisation and interest cost will have an impact of Rs580mn and Rs140mn respectively.

- **Outlook.** Management has guided for at least 40% YoY growth in FY23 though internal targets are higher given the Mar'22 monthly run-rate and addition of several new BFS logos. In terms of margins, FY23 should witness an EBITDA margin improvement of >150bps driven by improvement in gross margins and significant operating leverage. Management expects the India business to generate more than US$175mn in FY23.

- **Reappointment of Independent director.** Ms. Sudha Navandar was reappointed as a non-executive director for the second term from Nov'22 to Nov'27 and is not liable to retire by rotation, subject to approval of the shareholders.

  Ms. Navandar is a qualified chartered accountant. She is a certified public accountant, US, and also an insolvency professional. She is currently a partner in M/s. Pravin R. Navandar & Co., Chartered Accountants. She is also an independent director on the board of Kolte-Patil Developers Limited, Anand Rathi Wealth Limited, and Tribhovandas Bhimji Zaveri Limited.

Table 1: Q4FY22 actuals

Rs mn	Q4FY22	Q3FY22	QoQ	Q4FY21	YoY
Sales	6,261	5,628	11.2%	3,624	72.7%
EBITDA Margin	9.0%	10.8%	-181 bps	13.8%	-477 bps
PBT	468	551	-15.0%	425	10.2%
Tax	-6	88	-106.9%	70	-108.7%
Tax Rate	-1.3%	16.0%	-1,727 bps	16.5%	-1,776 bps
Reported PAT	474	463	2.4%	355	33.7%
EPS	7.3	7.4	-1.2%	5.6	29.3%

Source: Company data, I-Sec research

Table 2: Financial estimates

	FY21	FY22	FY23	FY24
Revenue (Rs mn)	14,062	20,020	29,952	35,354
Growth YoY %	47.0%	42.4%	49.6%	18.0%
Gross margin	19.7%	21.0%	21.1%	20.8%
EBITDA margin	12.4%	10.9%	12.1%	12.7%
EBIT margin	10.5%	9.0%	9.1%	9.7%
PAT (Rs mn)	1,333	1,662	2,311	3,023
Diluted EPS	24.6	27.6	36.9	48.2

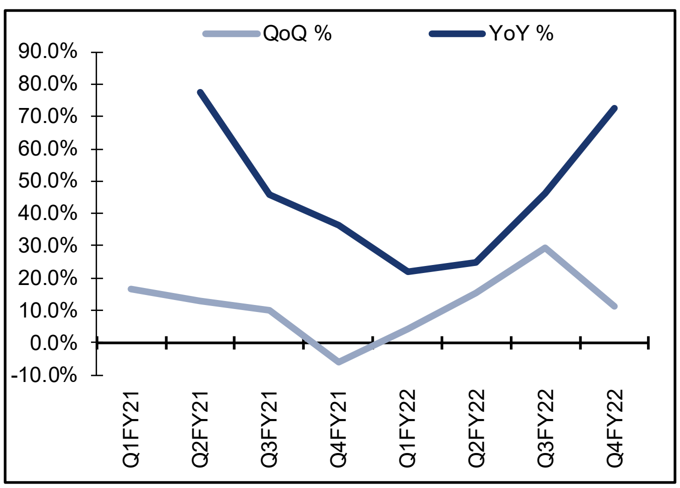
Source: Company data, I-Sec research

Table 3: DCF calculation

Rs mn	
PV of FCF for forecasting period (FY23-32E)	32,627
PV of terminal cashflow	46,490
EV	79,117
Less: Net debt/(cash)	10,396
Equity value	**89,513**
Number of shares (mn)	60.2
Target price (Rs/share)	**1,490**

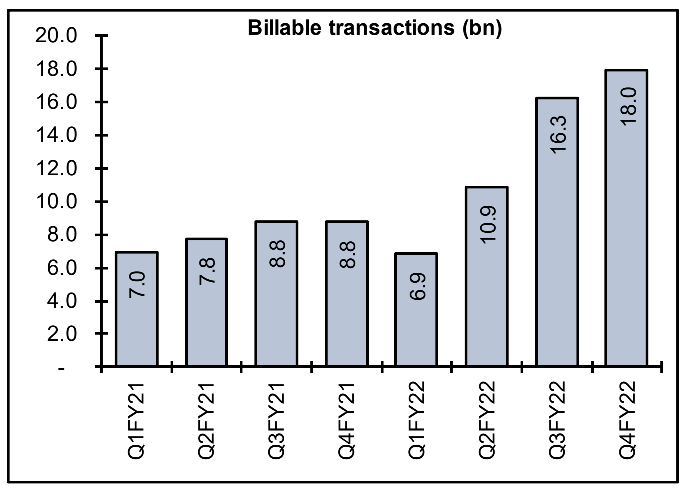
Source: Company data, I-Sec research. Note: No. of shares is average for FY22.

Chart 1: Route reported robust growth



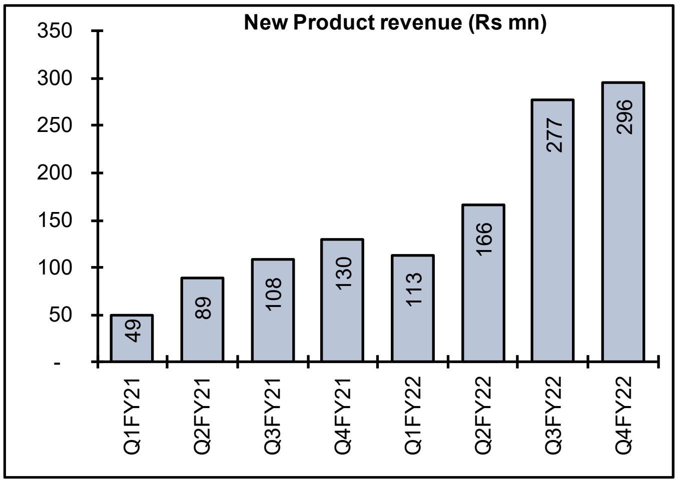
Source: Company, I-Sec research

Chart 2: Billable transactions grew



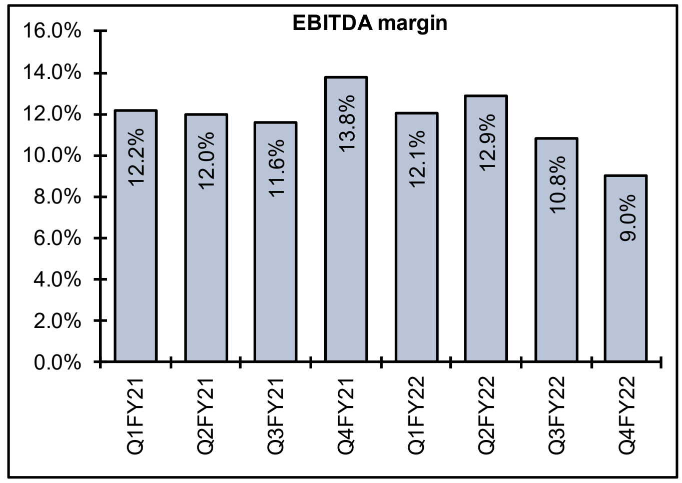
Source: Company, I-Sec research

Chart 3: New product sales grew



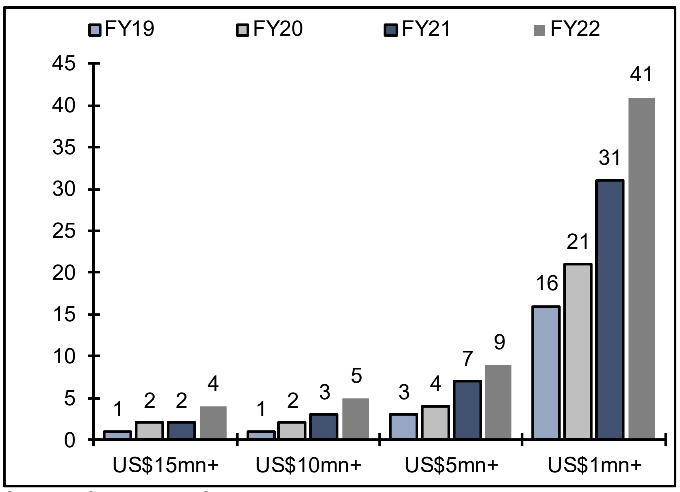
Source: Company, I-Sec research

Chart 4: Margins declined 180bps QoQ



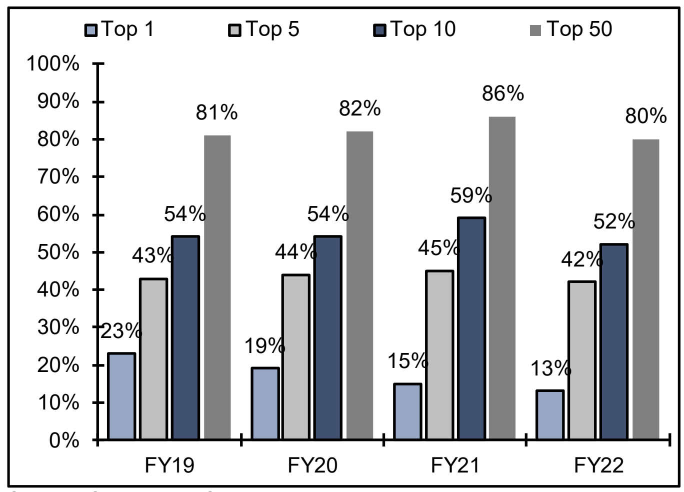
Source: Company, I-Sec research

Chart 5: Clients by account size



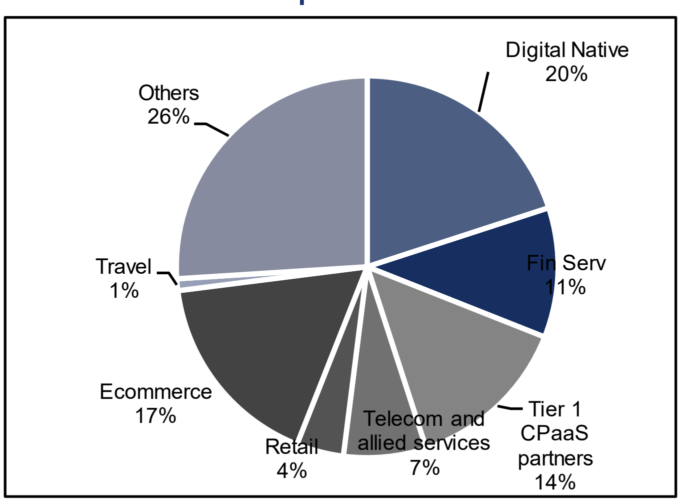
Source: Company, I-Sec research

Chart 6: Client concentration



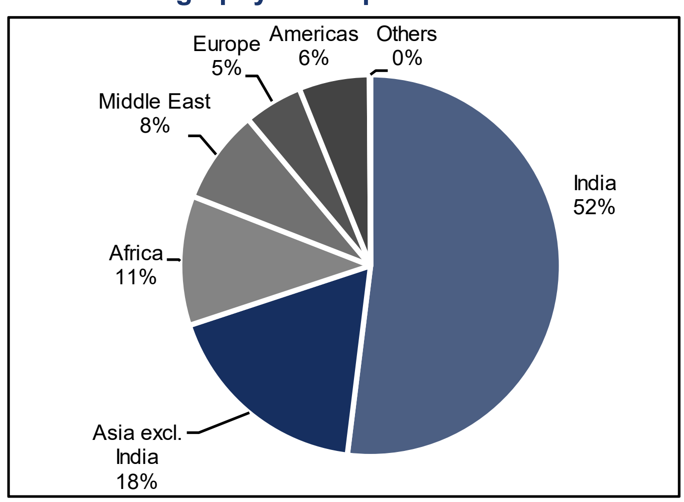
Source: Company, I-Sec research

Chart 7: Sector-wise split of revenues



Source: Company, I-Sec research

Chart 8: Geography-wise split of revenues



Source: Company, I-Sec research

Financial summary

Table 4: Profit and Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Revenue from operations	**14,062**	**20,020**	**29,952**	**35,354**
Operating Expenses	**12,321**	**17,834**	**26,340**	**30,864**
EBITDA	**1,741**	**2,187**	**3,612**	**4,490**
% margins	*12.4%*	*10.9%*	*12.1%*	*12.7%*
Depreciation & Amortisation	258	383	899	1,061
EBIT	**1,483**	**1,804**	**2,714**	**3,429**
% margins	*10.5%*	*9.0%*	*9.1%*	*9.7%*
Other Income (net)	132	149	120	283
Recurring PBT	**1,615**	**1,953**	**2,833**	**3,712**
Less: Taxes	288	251	538	705
Recurring Net Income	**1,328**	**1,701**	**2,295**	**3,007**
Less: Minority Interest	(6)	39	(16)	(16)
Add: Extraordinaries Inc/(Exp)	-	-	-	-
Reported Net Income	**1,333**	**1,662**	**2,311**	**3,023**

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
LIABILITIES				
Shareholders' funds	6,521	16,726	19,021	22,028
Minority Interest	(27)	21	5	(11)
Borrowings	34	-	-	-
Other non-current liabilities	142	813	219	229
Current liabilities	3,550	9,027	13,257	15,590
Total Liabilities	**10,221**	**26,587**	**32,501**	**37,835**
ASSETS				
Fixed Assets	-	-	8,924	8,217
Other non-current assets	2,523	9,901	378	378
Total non-current assets	**2,523**	**9,901**	**9,302**	**8,595**
Current Assets	7,697	16,687	23,199	29,241
Total Assets	**10,221**	**26,587**	**32,501**	**37,835**

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, Year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Cashflow before W Cap changes	**1,667**	**2,004**	**3,074**	**3,785**
Working Capital Inflow / (Outflow)	627	(658)	1,811	880
Capex	(77)	(171)	(300)	(354)
Free Cashflow	**2,218**	**1,175**	**4,586**	**4,311**
Cashflow from other Invst Act (Ex Capex)	(2,184)	(8,214)	210	354
Proceeds from Issue of Share Capital	2,400	-	-	-
Inc/(Dec) in Borrowings	(24)	(45)	(90)	(71)
Others	(252)	8,282	(16)	(16)
Increase/(Decrease) in Cash	**2,157**	**1,198**	**4,690**	**4,578**

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
Earnings per share (Diluted Reported)	24.6	27.6	36.9	48.2
Earnings per share (Basic Reported)	24.8	27.9	36.9	48.2
Cash earnings per share	29.3	34.0	51.2	65.2
Book Value per share	120	278	304	352
Growth Ratios (%)				
Operating Income (Sales)	47.0	42.4	49.6	18.0
EBITDA	73.9	25.6	65.2	24.3
Recurring Net Income	128.1	24.7	39.1	30.8
Diluted Recurring EPS	111.1	12.2	33.7	30.8
Diluted Recurring CEPS	81.5	15.7	50.8	27.2
Valuation Ratios (x)				
P/E	52.2	46.6	34.8	26.6
P/CEPS	43.8	37.8	25.1	19.7
P/BV	10.7	4.6	4.2	3.7
EV / EBITDA	38.1	30.3	18.3	14.8
EV / Sales	4.7	3.3	2.2	1.9
EV / FCF	29.9	56.4	14.4	15.4
Operating Ratios				
Operating Expense/Sales (%)	87.6	89.1	87.9	87.3
Other Income / PBT (%)	9.9	10.3	7.4	9.5
Effective Tax Rate (%)	17.8	12.9	19.0	19.0
Fixed Asset Turnover (x) on average	7.6	3.5	3.2	4.1
Receivables (days) on average	56.4	88.8	73.0	73.0
Payables (days) on average	61.9	70.2	70.2	70.2
D/E Ratio (x)	0.0	0.0	0.0	0.0
Return/Profitability Ratios (%)				
Recurring Net Income Margins	9.5	8.3	7.7	8.6
RoCE (Based on Avg)	56.1	34.7	38.8	82.4
RoNW (Based on Avg)	28.9	14.3	12.9	14.7
Dividend Yield	0.0	0.4	0.4	0.4
EBITDA Margin	12.4	10.9	12.1	12.7

Source: Company data, I-Sec research

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