

Route Mobile | BUY



Steady operating performance; revenue guidance conservative

Route's top line grew 8.5% QoQ (+14% YoY), a decent recovery after 2 consecutive quarters of muted trends on the back of VI deal ramp-up and stabilisation of ILD volume decline, albeit it was a slight 1.5% miss on JMFe. EBITDA margin too improved 40bps QoQ (flattish YoY) and was ahead of JMFe by c.50bps. Hence, EBITDA was marginally better than JMFe by 2.5%. PAT (ex-exceptional), however, was down c.4% QoQ (-11% YoY), below JMFe by c.13% due to FX losses (Naira devaluation) and higher-than-expected D&A and ETR. While Route's India messaging volumes continued to grow at a healthy rate, industry headwinds in the form of curtailed spends by OTT's and geopolitical issues in some countries continued to weigh on growth. These headwinds along with ramp-up delays in recently announced deals/Telesign synergies led to a conservative revenue growth guidance of 18-22% YoY for FY25. Our DCF-based Sep'25 TP is revised to INR 1,880 (target FY26/27 PER of ~22x/18x).

- Operating profit beat driven by margins, exceptionals affect PAT:** Route's 1Q revenue grew 14.1% YoY (8.5% QoQ) to INR 11.03bn, slightly missing JMFe/Cons. by 1.5%/0.5%. Billable transactions grew 25.7% YoY (+9.1% QoQ) to 37.1bn, driven by NLD volumes while realisation was affected by lower ILD volumes. Gross margin (adjusted for VI deal related non-cash expenses) improved 67bps YoY (+29bps) to 22.1%, a beat on JMFe of 21.6%. EBITDA margin stood at 12.4% (flattish YoY, +40bps QoQ) and was ahead of JMFe/Cons. by c.50/10bps due to better-than-expected gross margin. Sharp sequential increase in employee costs as % of revenue due to certain one-offs was offset by a proportionate moderation in other expenses. Overall, EBITDA stood at INR 1.37bn (13.7% YoY, 12.3% QoQ) above JMFe by 2.5% (in-line Cons). Adj. PAT (ex-exceptional) declined 11.1% YoY (-3% QoQ) to INR 795mn, a miss on JMFe/Cons. by 13.1%/12.8% due to FX losses and higher-than-expected D&A and ETR.
- FY25 guidance:** Route guided for 18-22% YoY revenue growth in FY25, which we believe is conservative as it has already announced several deal wins in the recent past. Some of these include the VI firewall deal (incremental revenue potential of INR 5-6bn), Amazon deal (termination services across 10 countries), the Microsoft deal with Proximus (a large, 5-year deal) and Telesign synergies. The management mentioned long lead times are affecting the ramp-up of these deals and hence its cautious approach. Apart from that, it guided for EBITDA margin (non-GAAP) of c.13%, CFO/EBITDA (normalised) between 50-75% and dividend payout of up 20% of PAT.
- Maintain 'BUY' with revised TP to INR 1,880:** While we continue to bake-in c.19% YoY revenue growth in FY25 for Route amidst conservative guidance, FY26-27 estimates are raised by 1-2% assuming better ramp-up in new deals. Similarly, while we maintain our FY25 margin estimate, FY26-27 estimates are tweaked by 10-20bps to factor in lower margins in incremental Telesign-related revenue. Overall, our FY25 PAT estimate is down c.5% due to exceptionals, while there is c.1% change in FY26-27. We roll-forward and maintain 'BUY' rating with a 10-year DCF (WACC of 13% and Tg of 5%) based Sep'25 TP of INR 1,880 (INR 1,820 earlier).

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,880
Upside/(Downside)	7.1%
Previous Price Target	1,820
Change	3.3%

Key Data – ROUTE IN

Current Market Price	INR1,755
Market cap (bn)	INR110.2/US\$1.3
Free Float	17%
Shares in issue (mn)	62.3
Diluted share (mn)	62.8
3-mon avg daily val (mn)	INR604.3/US\$7.2
52-week range	1,942/1,386
Sensex/Nifty	80,502/24,509
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	14.7	6.9	17.8
Relative*	10.0	-6.6	-2.4

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	35,692	40,233	47,854	56,567	66,575
Sales Growth (%)	78.3	12.7	18.9	18.2	17.7
EBITDA	4,351	5,011	6,110	7,434	8,967
EBITDA Margin (%)	12.2	12.5	12.8	13.1	13.5
Adjusted Net Profit	3,130	3,483	4,056	5,274	6,636
Diluted EPS (INR)	50.0	55.5	64.6	84.0	105.7
Diluted EPS Growth (%)	79.9	10.9	16.4	30.1	25.8
ROIC (%)	36.6	25.2	23.9	29.1	34.1
ROE (%)	17.9	17.5	17.5	19.5	20.6
P/E (x)	35.1	31.6	27.2	20.9	16.6
P/B (x)	6.0	5.1	4.4	3.8	3.1
EV/EBITDA (x)	23.2	20.9	16.7	13.2	10.4
Dividend Yield (%)	0.5	0.6	0.7	0.8	0.9

Source: Company data, JM Financial. Note: Valuations as of 22/Jul/2024

Management commentary: Key takeaways

- **Guidance:** 1) Top line growth of 18-22% YoY in FY25 led by large global deal wins and VI deal revenue accrual. Gross margin expected to be around c.22% going ahead and EBITDA margin c.13% in FY25. 2) Effective tax rate expected to be ~18-20% in medium term. In 1Q, it was 21% due to higher profitability in UK (25% tax rate) and implementation of tax in UAE.

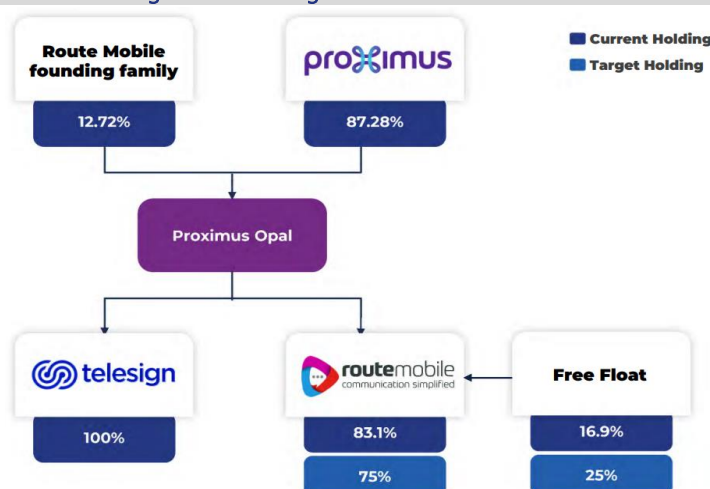
Exhibit 1. Management guidance for FY25

Group (underlying)	Guidance FY24-25
Revenue from operations	18%-22% Y-o-Y growth
EBITDA (Non-GAAP) Margin	c.13% margin
CFO/EBITDA	50%-75%
Dividend Payout	Up to 20% of Profit after Tax (PAT)

Source: Company

- **Deals update:** 1) **VI firewall deal update** - VI deal has gone live Apr'24 onwards with a few teething issues/leakages which were resolved in April. The company says that with its current firewall capabilities, volumes will rise going ahead. 2) **Proximus – Microsoft deal** - Proximus and Microsoft announced a 5-year strategic partnership on digital communication services, including CPaaS. Management noted that there is a lot of incentive for Microsoft to start using the Proximus CPaaS stack for termination. 3) **Amazon deal** – Management noted that it has started getting traffic for UK and India termination from Amazon. Remaining geographies are being tested currently and will take another few weeks before completion. 4) Company is working with Proximus on few deals with large IT companies and other enterprises which they will announce soon.
- **Realisation:** Average realisation/billable transaction was INR 0.294 in 1QFY25 vs. INR 0.323/ INR 0.295 in 1QFY24/4QFY24 resp. Realisation since last few quarters as it is a function of geography mix. In 1Q, it fell due to increase in domestic volumes.
- **Employee cost:** Increase in employee costs in 1Q was mainly due to annual salary increments and retention incentives aimed at maintaining and attracting talent in a competitive market. Company has stopped capitalising its digital identity platform 'TruSense'. Employee cost with respect to this capitalisation of INR 14.5mn was expensed out in 1Q. Expect INR 200mn-210mn monthly employee cost going ahead.
- **Other operational highlights:** 1) The company reported net revenue retention of 105% in 1QFY25. 2) New product revenue in 1Q grew 94% YoY to INR 745mn (+16% QoQ).
- **Proximus stake:** The management noted that they are working on various avenues to lower Proximus shareholding from 83.1% to 75% (in order comply with regulations on promoter holding) either through a block deal up to 2% or through an offer for sale within next 12 months.

Exhibit 2. Current and Target shareholding structure



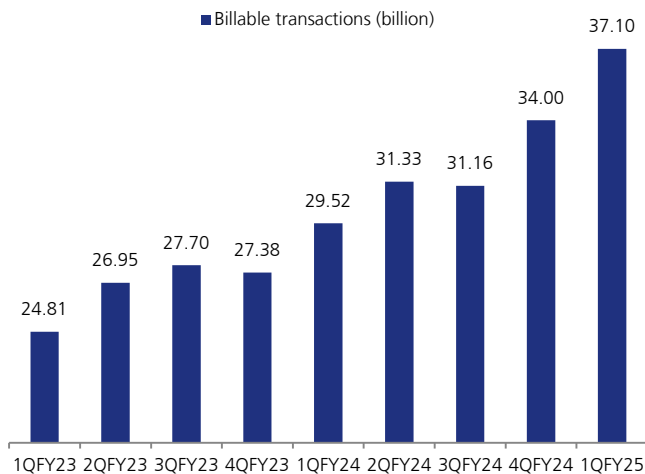
Source: Company

Exhibit 3. Financial snapshot

INR mn	FY23	1QFY24	2QFY24	3QFY24	4QFY24	FY24	1QFY25	Comments
Total revenues (INR mn)	35,692	9,673	10,146	10,243	10,170	40,233	11,034	• Revenue was up 14% YoY (+8.5% QoQ) to INR 11.03bn, a slight miss on JMFe/Cons. by 1.5%/0.5%.
Change (YoY)	78.3%	32.7%	20.0%	3.9%	0.8%	12.7%	14.1%	
Purchase of messaging services	27,826	7,602	7,996	8,075	7,955	31,628	8,637	• Gross margin (adjusted for VI deal related noncash costs) stood at 22.1% (+67bps YoY, +29bps QoQ) versus JMFe of 21.6%.
Gross profit	7,867	2,071	2,150	2,169	2,216	8,605	2,397	
Gross margin	22.0%	21.4%	21.2%	21.2%	21.8%	21.4%	21.7%	
Total operating expense	3,516	869	808	919	999	3,594	1,030	• EBITDA margin improved 40bps sequentially to 12.4% (flattish YoY), and was ahead of JMFe and Cons. by 50bps/10bps, respectively. Higher than expected employee costs as % of revenue were offset by lower other expenses.
Operating profit (EBITDA)	4,351	1,202	1,342	1,250	1,217	5,011	1,367	
Operating margin	12.2%	12.4%	13.2%	12.2%	12.0%	12.5%	12.4%	
Depreciation & amortization	816	211	214	216	219	861	223	• Adj. EBITDA (ex-ESOPs) margin stood at 12.5%, ~40bps ahead of JMFe.
EBIT	3,535	991	1,128	1,034	998	4,151	1,144	
EBIT margin	9.9%	10.2%	11.1%	10.1%	9.8%	10.3%	10.4%	
Other income	140	82	-120	130	40	132	-105	• Adj. PAT (i.e. ex-one offs) stood at INR 795mn (-11.1% YoY, -3% QoQ), a miss on JMFe/Cons. by 13.1%/12.8% due to FX losses and higher than expected D&A and ETR.
Profit before tax	3,815	1,102	1,102	1,316	1,094	4,551	1,029	
Income tax expense	484	185	155	180	142	662	217	
Adj. PAT (excl. minority and excep)	3,130	895	857	905	825	3,483	795	• Adj. PAT (i.e. ex-one offs) stood at INR 795mn (-11.1% YoY, -3% QoQ), a miss on JMFe/Cons. by 13.1%/12.8% due to FX losses and higher than expected D&A and ETR.
Change (YoY)	88.3%	40.9%	22.5%	13.0%	-17.0%	11.3%	-11.1%	
Adjusted diluted EPS	50.04	14.35	13.69	14.45	13.15	55.47	12.75	
Change (YoY)	79.9%	42.3%	22.5%	12.6%	-17.7%	10.9%	-11.1%	

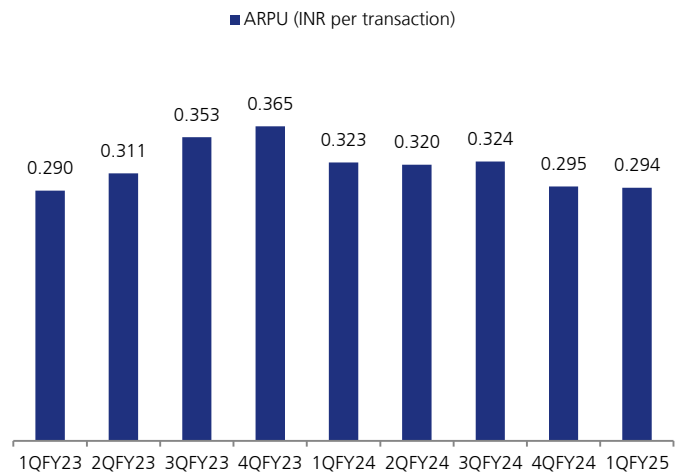
Source: Company, JM Financial

Exhibit 4. Billable transactions trend



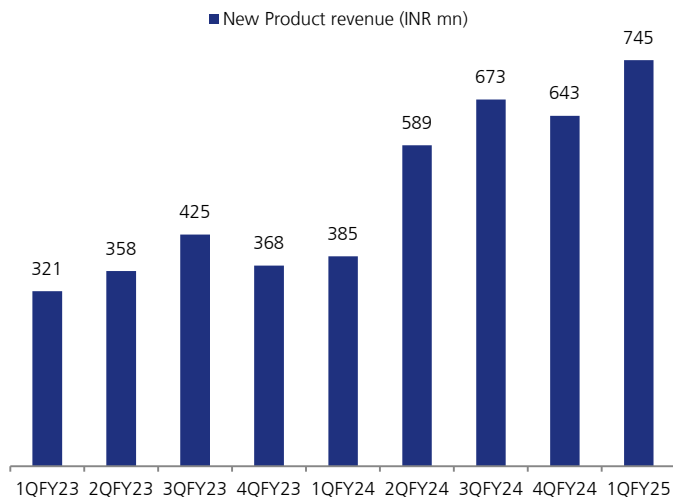
Source: Company, JM Financial

Exhibit 5. Average realisation trend



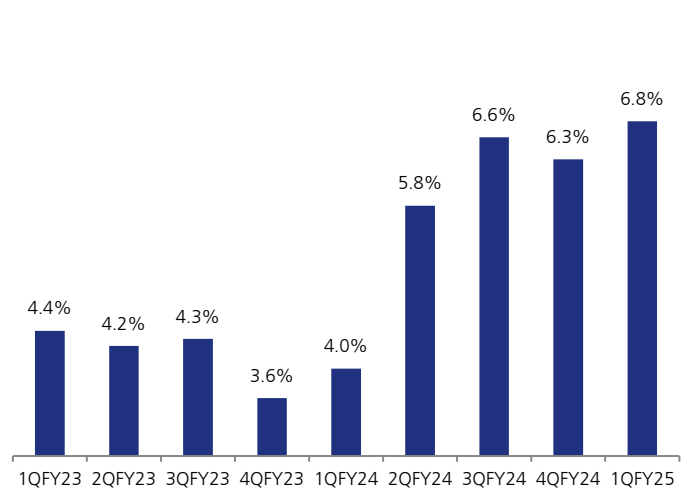
Source: Company, JM Financial

Exhibit 6. New product revenue trend



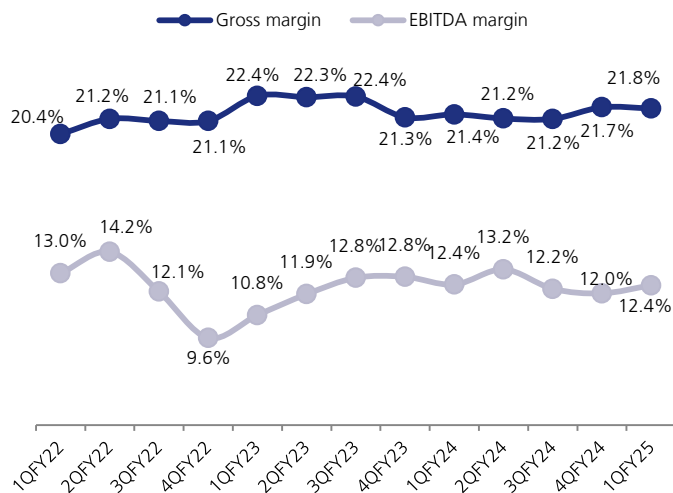
Source: Company, JM Financial

Exhibit 7. New product revenue as % of total revenue



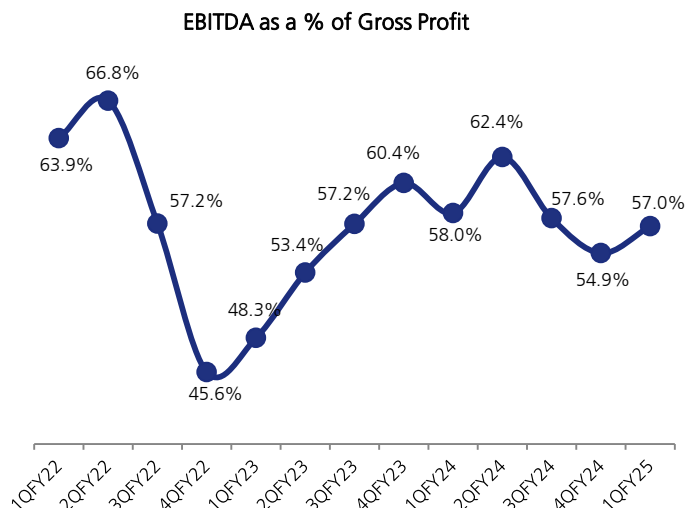
Source: Company, JM Financial

Exhibit 8. Margin trend



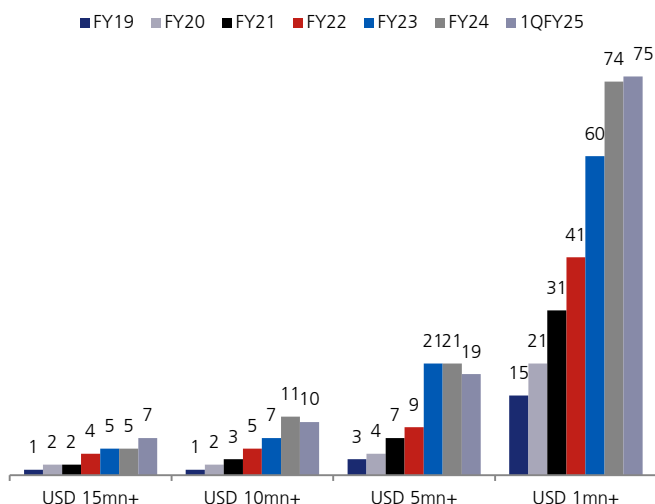
Source: Company, JM Financial

Exhibit 9. EBITDA as a % of gross profit trend



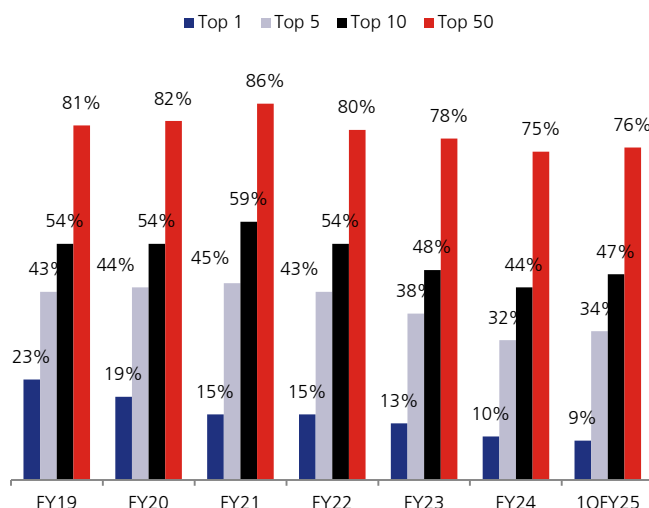
Source: Company, JM Financial

Exhibit 10. Clients by account size



Source: Company, JM Financial

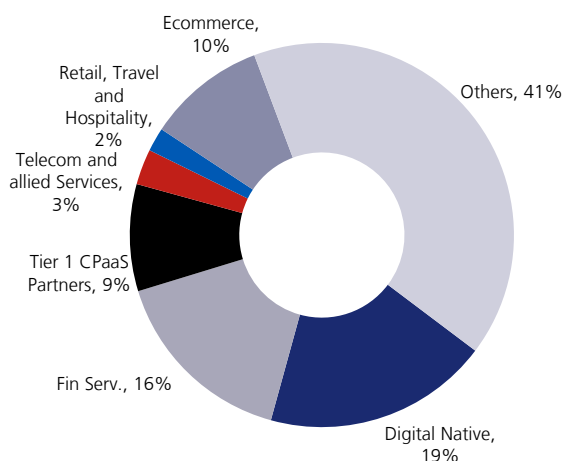
Exhibit 11. Client concentration



Source: Company, JM Financial

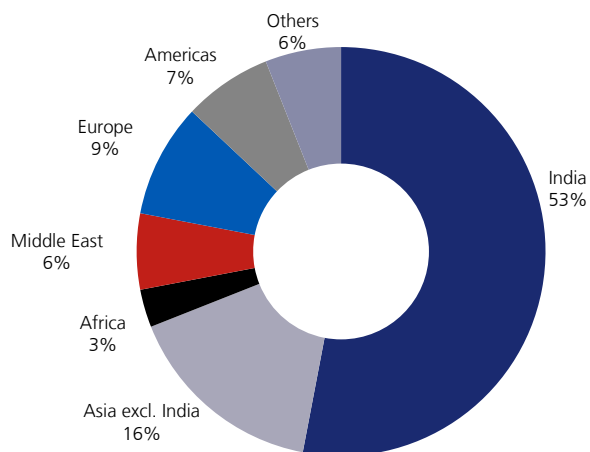
Exhibit 12. Revenue contribution from select industries for 1QFY25

Sectorwise revenue split



Source: Company, JM Financial

Exhibit 13. Revenue split across Top 50 countries for 1QFY25 (based on termination of communication)



Source: Company, JM Financial

Maintain BUY; target price raised to INR 1,880

Exhibit 14. What has changed in our forecasts and assumptions?

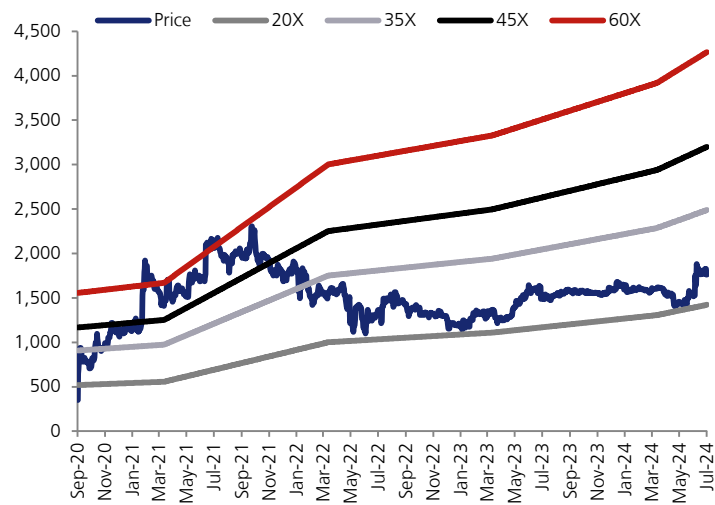
	Old			New			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Consolidated revenue (INR mn)	48,001	56,033	65,296	47,854	56,567	66,575	-0.3%	1.0%	2.0%
Revenue growth rate (YoY)	19.3%	16.7%	16.5%	18.9%	18.2%	17.7%	-37bp	147bp	116bp
Gross Margin	21.8%	21.9%	22.0%	21.8%	21.8%	21.8%	5bp	-11bp	-22bp
EBITDA (INR mn)	6,056	7,368	8,903	6,110	7,434	8,967	0.9%	0.9%	0.7%
EBITDA margin	12.6%	13.1%	13.6%	12.8%	13.1%	13.5%	15bp	-1bp	-17bp
EBIT (INR mn)	5,259	6,514	7,972	5,204	6,488	8,016	-1.0%	-0.4%	0.6%
EBIT margin	11.0%	11.6%	12.2%	10.9%	11.5%	12.0%	-8bp	-15bp	-17bp
Adj. PAT (INR mn)	4,263	5,340	6,662	4,056	5,274	6,636	-4.9%	-1.2%	-0.4%
Adj. EPS (INR)	67.89	85.05	106.10	64.59	84.00	105.69	-4.9%	-1.2%	-0.4%

Source: JM Financial

Key Risks

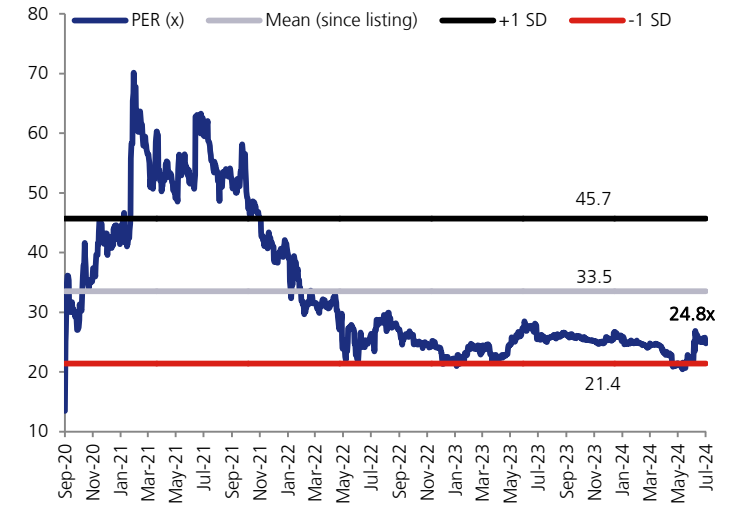
- **Key upside risks** to our price target are: (1) strong industry tailwinds drive better-than-expected growth; (2) Growing share of new product sales leads to faster-than-expected gross margin expansion; and (3) Any substantial value-accretive acquisitions.
- **Key downside risks** are: (1) Substantial increase in competitive intensity; (2) Failure to enter into or maintain long-term relationships with MNOs and/or OTT players; (3) Inability or failure to acquire/upgrade new technologies, clients or expand geographic reach organically or through strategic M&As. (4) Technology failures and data breaches. (5) Client concentration risk.

Exhibit 15. Route - NTM forward PER bands



Source: Bloomberg, JM Financial

Exhibit 16. Route – NTM forward PER Valuation chart



Source: Bloomberg, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	35,692	40,233	47,854	56,567	66,575	
Sales Growth	78.3%	12.7%	18.9%	18.2%	17.7%	
Other Operating Income	0	0	0	0	0	
Total Revenue	35,692	40,233	47,854	56,567	66,575	
Cost of Goods Sold/Op. Exp	27,826	31,628	37,413	44,212	52,048	
Personnel Cost	2,011	2,111	2,704	3,055	3,462	
Other Expenses	1,504	1,483	1,627	1,867	2,097	
EBITDA	4,351	5,011	6,110	7,434	8,967	
EBITDA Margin	12.2%	12.5%	12.8%	13.1%	13.5%	
EBITDA Growth	82.2%	15.2%	21.9%	21.7%	20.6%	
Depn. & Amort.	816	861	906	945	952	
EBIT	3,535	4,151	5,204	6,488	8,016	
Other Income	140	132	-94	66	199	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	3,675	4,283	5,110	6,554	8,215	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	3,675	4,283	5,110	6,554	8,215	
Taxes	484	662	969	1,180	1,479	
Extraordinary Inc./Loss(-)	-140	-268	10	0	0	
Assoc. Profit/Min. Int.(-)	-61	-138	-85	-100	-100	
Reported Net Profit	3,271	3,751	4,046	5,274	6,636	
Adjusted Net Profit	3,130	3,483	4,056	5,274	6,636	
Net Margin	8.8%	8.7%	8.5%	9.3%	10.0%	
Diluted Share Cap. (mn)	62.6	62.8	62.8	62.8	62.8	
Diluted EPS (INR)	50.0	55.5	64.6	84.0	105.7	
Diluted EPS Growth	79.9%	10.9%	16.4%	30.1%	25.8%	
Total Dividend + Tax	498	691	753	879	1,005	
Dividend Per Share (INR)	8.0	11.0	12.0	14.0	16.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	18,204	21,496	24,851	29,372	35,129	
Share Capital	624	628	628	628	628	
Reserves & Surplus	17,580	20,868	24,223	28,744	34,501	
Preference Share Capital	0	0	0	0	0	
Minority Interest	80	213	298	398	498	
Total Loans	1,062	3,496	3,496	3,496	3,496	
Def. Tax Liab. / Assets (-)	481	390	370	348	322	
Total - Equity & Liab.	19,827	25,594	29,015	33,613	39,444	
Net Fixed Assets	9,676	9,233	8,791	8,419	8,341	
Gross Fixed Assets	1,509	1,577	1,929	2,393	2,471	
Intangible Assets	8,997	8,596	7,926	7,247	7,247	
Less: Depn. & Amort.	841	940	1,064	1,221	1,377	
Capital WIP	11	0	0	0	0	
Investments	4,102	2,292	2,292	2,292	2,292	
Current Assets	14,991	23,091	27,017	34,817	42,774	
Inventories	0	0	0	0	0	
Sundry Debtors	7,015	10,716	10,786	13,391	15,063	
Cash & Bank Balances	4,836	5,423	8,497	12,283	16,952	
Loans & Advances	0	0	0	0	0	
Other Current Assets	3,140	6,953	7,734	9,142	10,760	
Current Liab. & Prov.	8,942	9,022	9,085	11,915	13,963	
Current Liabilities	4,939	6,928	5,802	8,038	9,407	
Provisions & Others	4,003	2,094	3,283	3,877	4,556	
Net Current Assets	6,049	14,069	17,932	22,901	28,811	
Total - Assets	19,827	25,594	29,015	33,613	39,444	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	3,815	4,551	5,099	6,554	8,215	
Depn. & Amort.	816	861	906	945	952	
Net Interest Exp. / Inc. (-)	-163	64	94	-66	-199	
Inc (-) / Dec in WCcap.	-3,772	-5,494	-900	-1,275	-1,346	
Others	371	-212	0	0	0	
Taxes Paid	-334	-746	-969	-1,180	-1,479	
Operating Cash Flow	732	-976	4,231	4,979	6,143	
Capex	-381	-356	-464	-574	-873	
Free Cash Flow	352	-1,332	3,767	4,405	5,269	
Inc (-) / Dec in Investments	1,219	113	0	0	0	
Others	284	222	270	437	577	
Investing Cash Flow	1,122	-21	-194	-137	-296	
Inc / Dec (-) in Capital	-1,353	112	0	0	0	
Dividend + Tax thereon	-686	-696	-691	-753	-879	
Inc / Dec (-) in Loans	1,119	2,415	0	0	0	
Others	-171	-248	-272	-302	-299	
Financing Cash Flow	-1,092	1,584	-962	-1,056	-1,178	
Inc / Dec (-) in Cash	763	586	3,074	3,786	4,669	
Opening Cash Balance	4,073	4,836	5,422	8,497	12,283	
Closing Cash Balance	4,836	5,422	8,497	12,283	16,952	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin		8.8%	8.7%	8.5%	9.3%	10.0%
Asset Turnover (x)		1.3	1.3	1.3	1.3	1.3
Leverage Factor (x)		1.6	1.6	1.6	1.5	1.5
RoE		17.9%	17.5%	17.5%	19.5%	20.6%

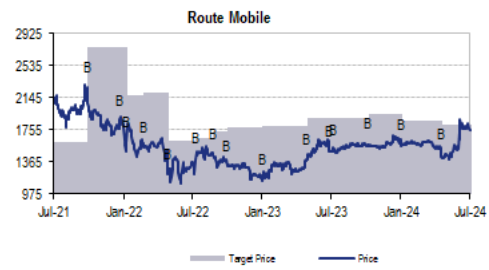
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)		291.0	342.4	395.8	467.8	559.5
ROIC		36.6%	25.2%	23.9%	29.1%	34.1%
ROE		17.9%	17.5%	17.5%	19.5%	20.6%
Net Debt/Equity (x)		-0.4	-0.2	-0.3	-0.4	-0.4
P/E (x)		35.1	31.6	27.2	20.9	16.6
P/B (x)		6.0	5.1	4.4	3.8	3.1
EV/EBITDA (x)		23.2	20.9	16.7	13.2	10.4
EV/Sales (x)		2.8	2.6	2.1	1.7	1.4
Debtor days		72	97	82	86	83
Inventory days		0	0	0	0	0
Creditor days		54	70	49	58	57

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
4-Feb-21	Buy	1,500	
29-Apr-21	Buy	1,500	0.0
19-May-21	Buy	1,610	7.3
18-Oct-21	Buy	2,750	70.8
11-Jan-22	Buy	2,750	0.0
28-Jan-22	Buy	2,180	-20.7
15-Mar-22	Buy	2,210	1.4
19-May-22	Buy	1,630	-26.2
30-Jul-22	Buy	1,660	1.8
14-Sep-22	Buy	1,730	4.2
22-Oct-22	Buy	1,790	3.5
23-Jan-23	Buy	1,800	0.6
21-May-23	Buy	1,900	5.6
18-Jul-23	Buy	1,900	0.0
29-Jul-23	Buy	1,900	0.0
29-Oct-23	Buy	1,950	2.6
24-Jan-24	Buy	1,860	-4.6
7-May-24	Buy	1,820	-2.2

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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