

HOLD Route Mobile

Mixed performance; Proximus deal on track

Information Technology ▶ Result Update ▶ October 28, 2023

TARGET PRICE (Rs): 1,720

Route reported a mixed Q2 performance. Revenue grew by 4.9% QoQ to Rs10.1bn, short of our estimate of Rs10.4bn. EBITDAM of 12.6% was in-line with our estimates. Billable transactions grew 6.1% QoQ to 31.3bn in a seasonally weak quarter, aided by double-digit volume growth in the domestic market. The recent partnership with Vi is likely to garner USD100mn in annual revenue and mgmt. expects it to start gradually ramping up from Dec-23. Mgmt. indicated that transaction with Proximus is on track and expects to close the deal by FY24-end. Route will be a beneficiary from Telesign's traffic termination in India and other emerging markets, bulk of which are likely to flow once the deal is closed. Mgmt. remains confident of achieving closer to the upper end of 20-25% revenue growth guidance in FY24 due to H2 seasonality and planned ramp-up in deals with a leading e-commerce company and Vi. We tweak our FY24-26E EPS marginally, factoring in the Q2 performance. We maintain HOLD with an unchanged TP of Rs1,720 at 22x its Sep-25E EPS.

Route Mobile: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,020	35,692	44,047	52,867	59,738
EBITDA	2,186	4,442	5,566	6,714	7,706
Adj. PAT	1,662	3,271	3,932	4,451	5,355
Adj. EPS (Rs)	26.1	52.4	62.8	71.1	85.5
EBITDA margin (%)	10.9	12.4	12.6	12.7	12.9
EBITDA growth (%)	25.6	103.1	25.3	20.6	14.8
Adj. EPS growth (%)	22.9	100.4	19.9	13.2	20.3
RoE (%)	14.3	18.7	20.1	19.7	20.6
RoIC (%)	35.1	34.9	27.6	25.8	28.0
P/E (x)	60.4	30.2	25.2	22.2	18.5
EV/EBITDA (x)	41.2	20.5	17.0	13.9	11.7
P/B (x)	6.0	5.4	4.7	4.1	3.5
FCFF yield (%)	1.2	0.4	(0.5)	3.4	5.1

Source: Company, Emkay Research

Results Summary

Revenue grew by 4.9% QoQ/20% YoY to Rs10.1bn, lower than our estimate of Rs10.4bn. The number of billable transactions increased to 31.3bn in Q2FY24 from 29.5bn in Q1FY24, while average realization fell to 32.4paise from 32.8paise in Q1 largely due to an increase in the domestic business. New product revenue jumped 53% QoQ to Rs589mn. Gross margin fell 20bps QoQ to 21.2%, below our estimate of 21.8%. EBITDA margin of 12.6% was in line with our estimate. Net revenue retention for the quarter was 115%, with recurring revenue of 89% for H1FY24. Top-50 client concentration for H1FY24 declined marginally to 77%, from 78% in FY23. Reported OCF was negative in H1FY24; however, adjusted for security deposits of ~Rs3bn for two service providers, adjusted OCF/EBITDA was ~77% in H1. Route has declared an interim dividend of Rs3/share. **What we liked:** Sharp growth in new product revenue and growth in billable transactions. **What we did not like:** Revenue and gross margin miss.

Earnings Call KTAs

1) Mgmt. is confident about the FY25 revenue growth trajectory on account of full-year benefit from the recent large deal signings and synergy benefits accruing from the Proximus deal. Mgmt. has retained its USD1bn revenue guidance in 3 years. 2) The company expects USD100mn revenue from the Vi deal, with contribution likely to commence from Dec-23. 3) Mgmt. has reaffirmed estimated synergies of USD100mn to accrue from a) leveraging Telesign's digital identity platform in emerging markets, b) driving economies of scale by consolidating cloud infra, software licenses and vendors, c) making inroads into untapped large global accounts through Telesign to service its requirements in EM, and d) direct cost synergies, which will drive better efficiencies owing to higher economies of scale and deepen and expand the exclusive MNO connects. These initiatives will accelerate Route's journey towards USD1bn revenue, with 15% EBITDA margin target. 4) Telesign and Route were working together before their deal as well, and while throughput has increased, the lion's share of synergies should start flowing post-closing the deal. 5) An integration governance committee has been set up, with senior leaders from Proximus, Route, and Telesign to ensure the smooth completion of the deal. Mgmt. expects the deal to be consummated by Q4FY24. 6) Employee benefit expenses decreased QoQ, primarily due to the roll-back of performance-based stock options and cancellation of ESOPs owing to the resignation by few employees. 7) DSO increased to 73 days in H1 due to delay in payment from a large OTT client. Mgmt. expects it to return back to the normal level of 60-65 days.

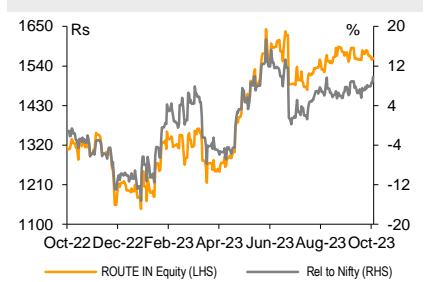
Target Price – 12M	Sep-24
Change in TP (%)	-
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	8.9
CMP (27-Oct-23) (Rs)	1,579.2

Stock Data	Ticker
52-week High (Rs)	1,760
52-week Low (Rs)	1,131
Shares outstanding (mn)	62.6
Market-cap (Rs bn)	99
Market-cap (USD mn)	1,188
Net-debt, FY24E (Rs mn)	-4,320
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	323.5
ADTV-3M (USD mn)	3.9
Free float (%)	42.0
Nifty-50	19,047
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	58.2
FPIs/MFs (%)	21.8/5.5

Price Performance

(%)	1M	3M	12M
Absolute	1.2	2.7	19.7
Rel. to Nifty	4.7	6.0	11.5

1-Year share price trend (Rs)



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Net sales	10,146	9,673	4.9	8,458	20.0
Operating expenses	8,865	8,442		7,429	
EBITDA	1,281	1,232	4.1	1,029	24.5
Margins (%)	12.6	12.7	-10.0	12.2	50.0
Depreciation	214	211		188	
EBIT	1,067	1,020	4.6	841	26.9
Margins (%)	10.5	10.5	0	9.9	60.0
Other income	-29	82		-18	
Pre-tax profit	1,038	1,102	-5.8	823	
Tax provided	155	185		96	
Profit after tax	884	917		726	
Emkay Net profit	888	924	-3.9	736	20.7
EPS, Rs	14.2	14.8	-4.2	11.8	20.6

Source: Company, Emkay Research

Exhibit 2: Actuals vs. estimates

(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate	Variation (%)		Comment
				Emkay	Consensus	
Sales (Rs mn)	10,146	10,440	10,263	-2.8%	-1.1%	Revenue was lower than our expectations
EBIT	1,067	1,081	1,035	-1.3%	3.1%	Margins stood in-line with our expectations
EBIT Margin	10.5%	10.4%	10.1%	20 bps	40 bps	
PAT	888	886	832	0.2%	6.7%	Profit was in-line with our expectations

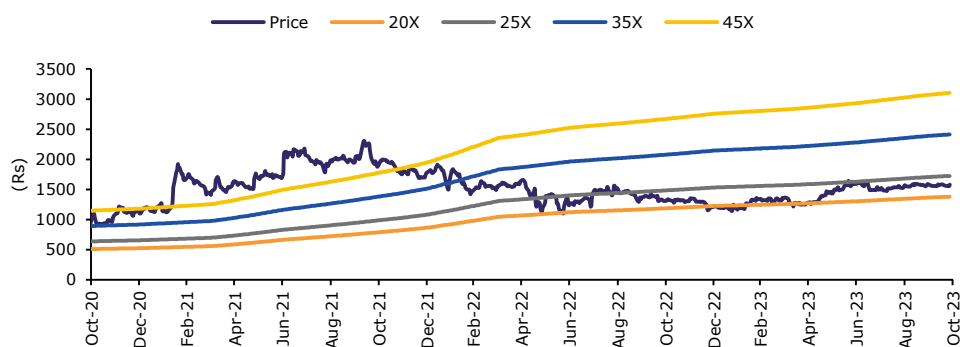
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	44,054	44,047	0.0%	52,154	52,867	1.4%	59,461	59,738	0.5%
YoY Growth (%)	23.4	23.4		18.4	20.0		14.0	13.0	
EBIT	4,649	4,669	0.4%	5,722	5,803	1.4%	6,720	6,785	1.0%
EBIT Margin (%)	10.6	10.6		11.0	11.0		11.3	11.4	
Net Profit	3,899	3,932	0.8%	4,421	4,451	0.7%	5,348	5,355	0.1%
EPS (Rs)	62.3	62.8	0.8%	70.6	71.1	0.7%	85.4	85.5	0.1%

Source: Company, Emkay Research

Exhibit 4: Route Mobile – One-year forward P/E



Source: Company, Emkay Research

Route Mobile : Consolidated Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,020	35,692	44,047	52,867	59,738
Revenue growth (%)	42.4	78.3	23.4	20.0	13.0
EBITDA	2,186	4,442	5,566	6,714	7,706
EBITDA growth (%)	25.6	103.1	25.3	20.6	14.8
Depreciation & Amortization	383	816	897	912	922
EBIT	1,803	3,626	4,669	5,803	6,785
EBIT growth (%)	21.6	101.1	28.8	24.3	16.9
Other operating income	0	0	0	0	0
Other income	201	394	396	269	353
Financial expense	52	205	327	459	389
PBT	1,952	3,815	4,737	5,613	6,749
Extraordinary items	0	0	0	0	0
Taxes	251	484	808	1,123	1,350
Minority interest	(39)	(61)	2	(40)	(44)
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,662	3,271	3,932	4,451	5,355
PAT growth (%)	24.6	96.8	20.2	13.2	20.3
Adjusted PAT	1,662	3,271	3,932	4,451	5,355
Diluted EPS (Rs)	26.1	52.4	62.8	71.1	85.5
Diluted EPS growth (%)	22.9	100.4	19.9	13.2	20.3
DPS (Rs)	5.0	5.0	18.0	21.0	25.0
Dividend payout (%)	19.0	9.5	28.7	29.5	29.2
EBITDA margin (%)	10.9	12.4	12.6	12.7	12.9
EBIT margin (%)	9.0	10.2	10.6	11.0	11.4
Effective tax rate (%)	12.9	12.7	17.0	20.0	20.0
NOPLAT (pre-IndAS)	1,571	3,166	3,873	4,642	5,428
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	4,737	5,613	6,749
Others (non-cash items)	501	1,019	897	912	922
Taxes paid	(450)	(334)	(808)	(1,123)	(1,350)
Change in NWC	(658)	(3,768)	(5,148)	(1,428)	(902)
Operating cash flow	1,346	732	(321)	3,974	5,419
Capital expenditure	(171)	(380)	(180)	(590)	(390)
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	(1,007)	(2,540)	(2,590)
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	(578)	119	263
OCF	1,346	732	(321)	3,974	5,419
Adj. OCF (w/o NWC chg.)	2,004	4,500	4,827	5,402	6,321
FCFF	1,175	352	(501)	3,384	5,029
FCFE	1,238	431	(828)	2,925	4,640
OCF/EBITDA (%)	61.5	16.5	(5.8)	59.2	70.3
FCFE/PAT (%)	74.5	13.2	(21.1)	65.7	86.6
FCFF/NOPLAT (%)	74.8	11.1	(12.9)	72.9	92.6

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	20,384	23,520	27,310
Net worth	16,726	18,204	21,010	24,146	27,936
Minority interests	21	80	78	118	162
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	24,846	28,021	30,855
Net tangible fixed assets	290	344	353	751	922
Net intangible assets	4,066	3,655	2,974	2,311	1,675
Net ROU assets	156	324	279	223	156
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	7,597	9,016	10,779
Current assets (ex-cash)	6,614	10,092	17,900	20,981	23,172
Current Liab. & Prov.	9,028	8,603	9,610	10,613	11,202
NWC (ex-cash)	(2,414)	1,489	8,290	10,368	11,970
Total assets	17,504	20,166	24,846	28,021	30,855
Net debt	(10,233)	(7,600)	(4,320)	(5,739)	(8,502)
Capital employed	17,504	20,166	24,846	28,021	30,855
Invested capital	7,109	11,014	17,098	18,855	19,925
BVPS (Rs)	263.1	291.5	335.5	385.6	446.1
Net Debt/Equity (x)	(0.6)	(0.4)	(0.2)	(0.2)	(0.3)
Net Debt/EBITDA (x)	(4.7)	(1.7)	(0.8)	(0.9)	(1.1)
Interest coverage (x)	0.0	0.1	0.1	0.1	0.1
RoCE (%)	16.6	21.3	22.5	23.0	24.2

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	60.4	30.2	25.2	22.2	18.5
P/CE(x)	49.1	24.1	20.5	18.4	15.8
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)	41.2	20.5	17.0	13.9	11.7
EV/EBIT(x)	50.0	25.1	20.3	16.1	13.3
EV/IC (x)	12.7	8.3	5.5	4.9	4.5
FCFF yield (%)	1.2	0.4	(0.5)	3.4	5.1
FCFE yield (%)	1.2	0.4	(0.8)	3.0	4.7
Dividend yield (%)	0.3	0.3	1.1	1.3	1.6
DuPont-RoE split					
Net profit margin (%)	8.3	9.2	8.9	8.4	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	20.1	19.7	20.6
DuPont-RoIC					
NOPLAT margin (%)	7.8	8.9	8.8	8.8	9.1
IC turnover (x)	4.5	3.9	3.1	2.9	3.1
RoIC (%)	35.1	34.9	27.6	25.8	28.0
Operating metrics					
Core NWC days	(44.0)	15.2	68.7	71.6	73.1
Total NWC days	(44.0)	15.2	68.7	71.6	73.1
Fixed asset turnover	2.9	3.2	3.7	4.3	4.7
Opex-to-revenue (%)	89.1	87.6	87.4	87.3	87.1

Source: Company, Emkay Research

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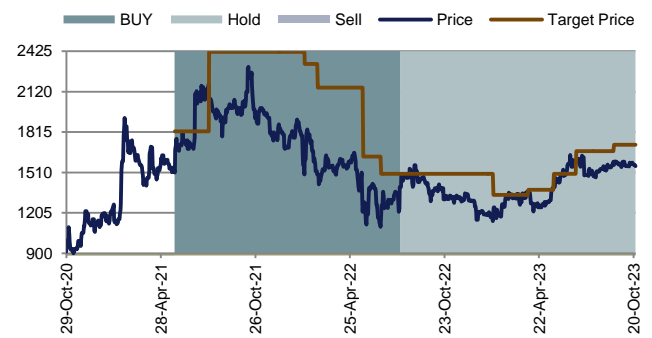
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Date	CMP (INR)	TP (INR)	Rating	Analyst
02-Oct-23	1,591	1,720	Hold	Dipeshkumar Mehta
12-Sep-23	1,569	1,720	Hold	Dipeshkumar Mehta
28-Jul-23	1,501	1,670	Hold	Dipeshkumar Mehta
17-Jul-23	1,488	1,670	Hold	Dipeshkumar Mehta
02-Jul-23	1,593	1,670	Hold	Dipeshkumar 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: Bloomberg, Company, Emkay Research

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