

Route Mobile | BUY



Weak quarter due to multiple one-offs

Route reported muted topline growth of 0.8% YoY (-0.7% QoQ) vs. our expectation of c.9% in 4Q. Localised issues for the company's international subsidiaries, MR Messaging (Europe) and Masivian (LATAM) and devaluation of Nigerian currency Naira, together had an adverse impact on growth. On the other hand, domestic messaging volumes in India grew double digits YoY, as per the management. While there was also one month of revenue contribution from VI firewall deal, meaningful ramp up is only expected in the forthcoming quarters. Despite gross margin expansion by 50bps YoY, EBITDA margin was under pressure in 4Q, down c.90bps YoY (below JMFe by c.60bps) due to revenue weakness, especially in MRM business (drag of c.60bps in FY24). We expect revenue growth trends to improve starting 1QFY25, as we factor in a ramp-up in VI deal (full year incremental revenue potential of INR 5-6bn), deal wins announced earlier (a large eCommerce company) and revenue synergies with Telesign (post completion of takeover of control by Proximus Opal).

- Operating performance was subdued in 4Q:** Route's 4Q revenue grew only 0.8% YoY (-0.7% QoQ) to INR 10.17bn, below JMFe/Cons. by 7.3%/3.6%. Billable transactions grew 24.2% YoY (+9% QoQ) to 34bn, driven by NLD volumes while realisation was affected by lower ILD volumes. Gross margin improved 53bps/61bps YoY/QoQ to 21.8%, a beat on JMFe of 21.2%. EBITDA margin stood at 12.0% (-87bps YoY, -24bps QoQ), below JMFe/Cons. by c.60/30bps. The miss on profitability was mainly due to lower-than-expected operating leverage. As a result, EBITDA declined by 6% YoY (-2.7% QoQ) to INR 1.22bn, a miss on JMFe/Cons. by 11.5%/6.1% respectively. Consequently, despite lower than expected ETR of 13% (vs. JMFe of 19%), Adj. PAT declined 17.7% YoY (-9% QoQ) to INR 825mn.
- Proximus takeover likely to be concluded by May'24:** The management noted that all regulatory approvals have been secured for the takeover of Route by Proximus Opal. With mandatory takeover offer tendering period also completed, the M&A is likely to be completed by 1QFY25. The deal is likely to unlock combined synergies of at least USD 100mn for Telesign and Route Mobile over the next 3-4 years, as per the management. It also re-iterated that the deal will accelerate Route's path to achieve USD 1bn revenue over the next 2-3 years.
- Maintain 'BUY' with revised TP of INR 1,820:** We see several tailwinds for Route's revenue growth in FY25 such as 1) incremental revenue accrual from the VI firewall deal, 2) recently announced deal wins, and 3) synergies between Telesign and Route Mobile. However, in the absence of a concrete guidance from the management and multiple one-offs in recent quarters, we only partially bake-in these developments in our model, while noting that actual delivery could lead to sharp upgrades in our estimates. We maintain 'BUY' rating with a 10-year DCF (WACC of 13% and Tg of 5%) based Jun'25 TP of INR 1,820 (implied target FY26E PER of ~21x versus ~17x at CMP).

Swapnil Potdukhe
swapnil.potdukhe@jmfl.com | Tel: (91 22) 62241876

Sachin Dixit
sachin.dixit@jmfl.com | Tel: (91 22) 66303078

Eksha Modi
eksha.modi@jmfl.com | Tel: (91 22) 66303054

Atul Borse
atul.borse@jmfl.com | Tel: (91 22) 66303134

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,820
Upside/(Downside)	18.6%
Previous Price Target	1,860
Change	-2.2%

Key Data – ROUTE IN

Current Market Price	INR1,535
Market cap (bn)	INR96.4/US\$1.2
Free Float	42%
Shares in issue (mn)	62.3
Diluted share (mn)	62.8
3-mon avg daily val (mn)	INR299.5/US\$3.6
52-week range	1,760/1,277
Sensex/Nifty	73,896/22,443
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	-4.8	-1.6	19.5
Relative*	-4.4	-13.5	-1.2

* 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	47,768	56,410	66,284
Sales Growth (%)	78.3	12.7	18.7	18.1	17.5
EBITDA	4,351	5,011	6,339	7,669	9,229
EBITDA Margin (%)	12.2	12.5	13.3	13.6	13.9
Adjusted Net Profit	3,130	3,483	4,428	5,526	6,896
Diluted EPS (INR)	50.0	55.5	70.5	88.0	109.8
Diluted EPS Growth (%)	79.9	10.9	27.1	24.8	24.8
ROIC (%)	36.6	25.2	25.6	30.1	34.8
ROE (%)	17.9	17.5	19.0	20.0	20.9
P/E (x)	30.7	27.7	21.8	17.4	14.0
P/B (x)	5.3	4.5	3.8	3.2	2.7
EV/EBITDA (x)	20.1	18.2	13.9	11.0	8.6
Dividend Yield (%)	0.5	0.7	0.8	0.9	1.0

Source: Company data, JM Financial. Note: Valuations as of 06/May/2024

Management commentary: Key takeaways

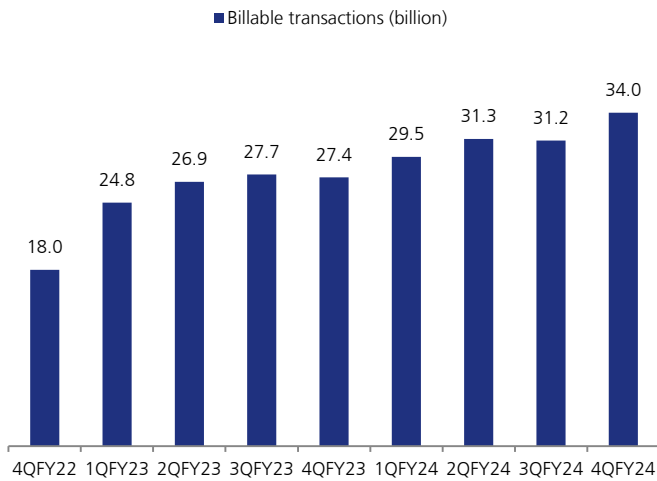
- **Guidance:** 1) The management has refrained from providing guidance with respect to topline growth until the Proximus deal is completed and they are better aware of the synergy benefits. 2) However, it also reiterated expectations of incremental revenue potential following the Proximus takeover in addition to cross-sell opportunities and cost synergies that could accelerate the company's path to achieve USD 1bn revenue over the next 2-3 years.
- **Recent industry trends:** 1) The CPaaS industry has been facing headwinds since Nov'23, including cost optimisation initiatives and shift in communication channels. While these are structural changes that will take some time to stabilise, the management remains confident of the growth prospects in FY25. 2) Multi-channel approach adopted by customers will drive transactions growth for all the players in the CPaaS industry.
- **VI firewall deal update:** The management noted that the VI deal has gone live April'24 onwards and full impact of revenue contribution from the same will be observed 1QFY25 onwards. As per the management, this deal has incremental revenue potential of INR 5-6bn.
- **Factors during Q4 impacting financial performance:** 1) Regional challenges faced by the company's MRM (Europe) and Masivian (LATAM) businesses along with the impact of weak seasonality in Q4. 2) Devaluation of Nigerian currency Naira, adversely impacting revenue by c.INR 110mn (c.INR 260mn for FY24). 3) A provision to the extent of INR 265.4mn for an onerous contract, the terms of which are under re-negotiation.
- **Realisation:** Average realisation per billable transaction was INR 0.295 in 4QFY24 vs. INR 0.324 in 3QFY24.
- **Other operational highlights:** 1) The company reported net revenue retention of 106% in 4QFY24. 2) New product revenue in 4Q grew 74.7% YoY to INR 643mn (4.5% QoQ de-growth). 3) While NLD volumes grew double digits YoY, ILD volumes continued to be impacted by recent price hikes (by telcos) and cost optimisation efforts by a few large clients. However, the management remains confident of recovering ILD volumes in FY25.
- **Dividend:** The company announced a dividend of INR 2 per share.

Exhibit 1. Financial snapshot

INR mn	4QFY23	FY23	1QFY24	2QFY24	3QFY24	4QFY24	FY24	Comments
Total revenues (INR mn)	10,087	35,692	9,673	10,146	10,243	10,170	40,233	
Change (YoY)	61.1%	78.3%	32.7%	20.0%	3.9%	0.8%	12.7%	
Purchase of messaging services	7,943	27,826	7,602	7,996	8,075	7,955	31,628	• Revenue grew 0.8% YoY and declined 0.7% QoQ to INR 10.17bn, and was below JMFe by 7.3%.
Gross profit	2,144	7,867	2,071	2,150	2,169	2,216	8,605	
Gross margin	21.3%	22.0%	21.4%	21.2%	21.2%	21.8%	21.4%	• Gross margin stood at 21.8% (+53bps YoY, +61bps QoQ) versus JMFe of 21.2%.
Total operating expense	849	3,516	869	808	919	999	3,594	
Operating profit (EBITDA)	1,295	4,351	1,202	1,342	1,250	1,217	5,011	• EBITDA margin stood at 12.0% (-87bps YoY, -24bps QoQ) below JMFe by ~60bps. The miss was mainly due to lower than expected operating leverage.
Operating margin	12.8%	12.2%	12.4%	13.2%	12.2%	12.0%	12.5%	
Depreciation & amortization	212	816	211	214	216	219	861	
EBIT	1,083	3,535	991	1,128	1,034	998	4,151	
EBIT margin	10.7%	9.9%	10.2%	11.1%	10.1%	9.8%	10.3%	• Adj. EBITDA (ex-ESOPs) margin stood at 11.8%, below JMFe by ~190bps.
Other income	100	140	82	-120	130	40	132	
Profit before tax	1,204	3,815	1,102	1,102	1,316	1,094	4,551	
Income tax expense	163	484	185	155	180	142	662	
Adj. PAT (excl. minority and excep)	995	3,130	895	857	905	825	3,483	• Adj. PAT stood at INR 825mn (-17.0% YoY, -8.8% QoQ), a miss on JMFe by 15.8%, due to miss on revenue as well as EBITDA.
Change (YoY)	117.8%	88.3%	40.9%	22.5%	13.0%	-17.0%	11.3%	
Adjusted diluted EPS	15.96	50.04	14.35	13.69	14.45	13.15	55.47	
Change (YoY)	119.0%	79.9%	42.3%	22.5%	12.6%	-17.7%	10.9%	

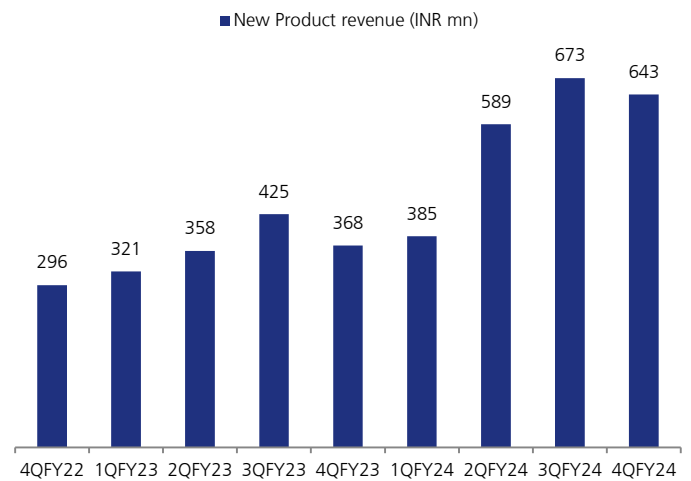
Source: Company, JM Financial

Exhibit 2. Billable transactions trend



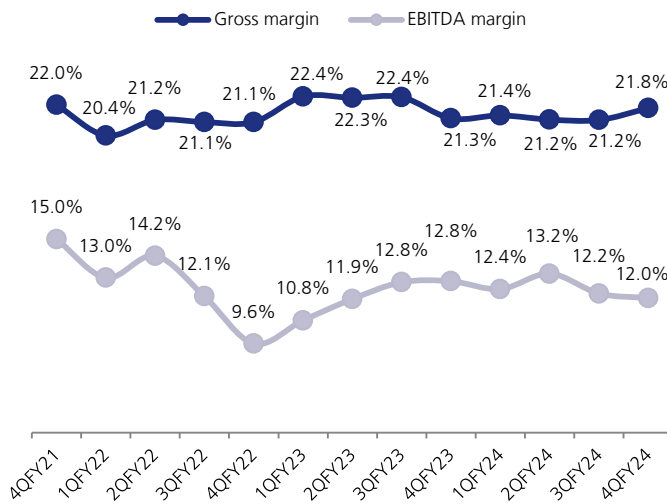
Source: Company, JM Financial

Exhibit 3. New product revenue trend



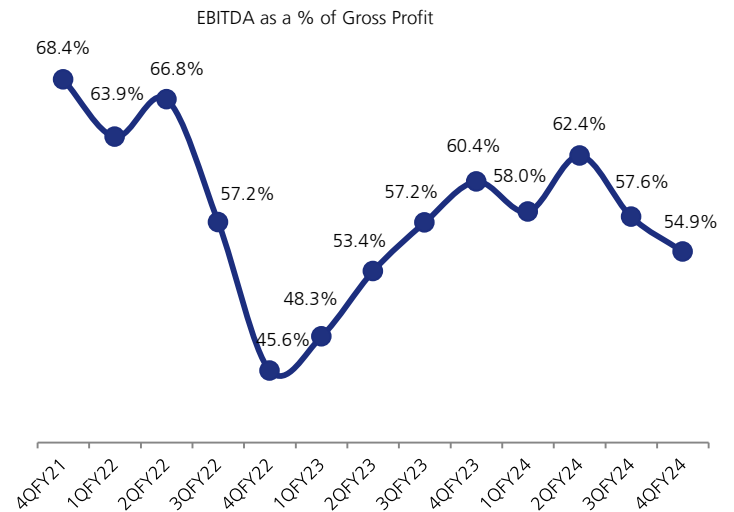
Source: Company, JM Financial

Exhibit 4. Margin trend



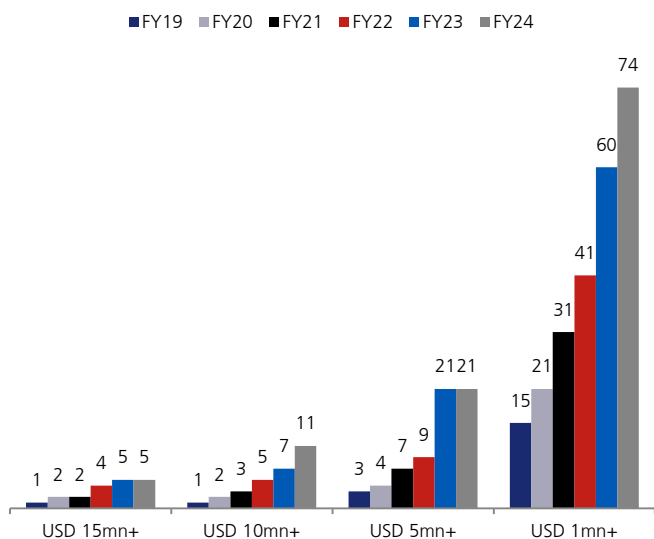
Source: Company, JM Financial

Exhibit 5. EBITDA as a % of gross profit trend



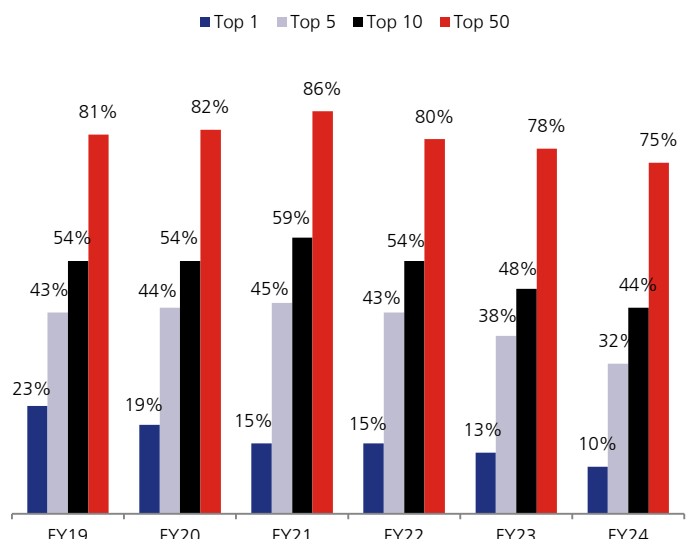
Source: Company, JM Financial

Exhibit 6. Clients by account size



Source: Company, JM Financial

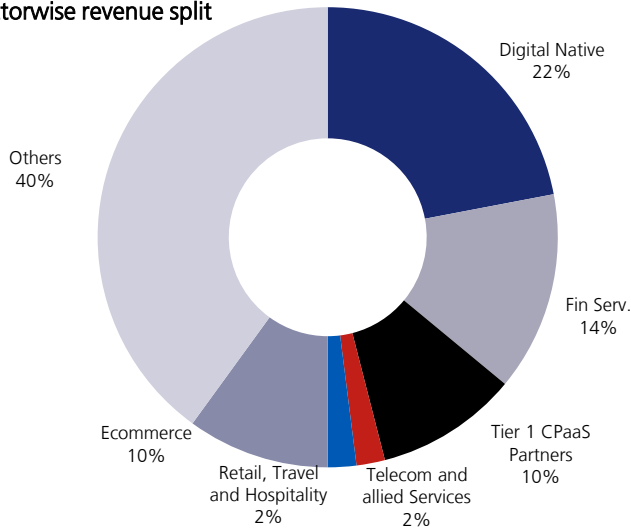
Exhibit 7. Client concentration



Source: Company, JM Financial

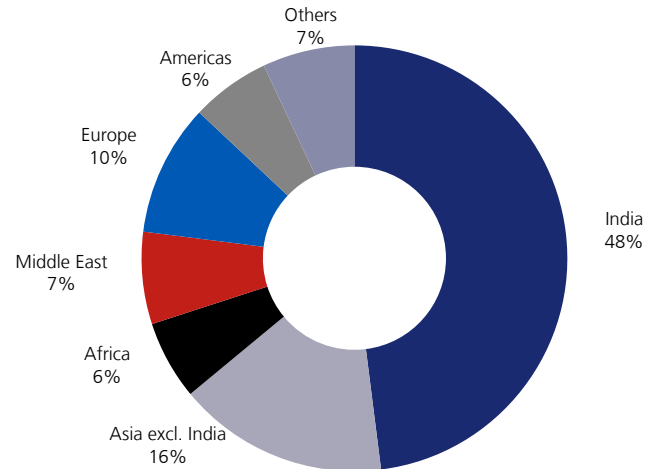
Exhibit 8. Revenue contribution from select industries for FY24

Sectorwise revenue split



Source: Company, JM Financial

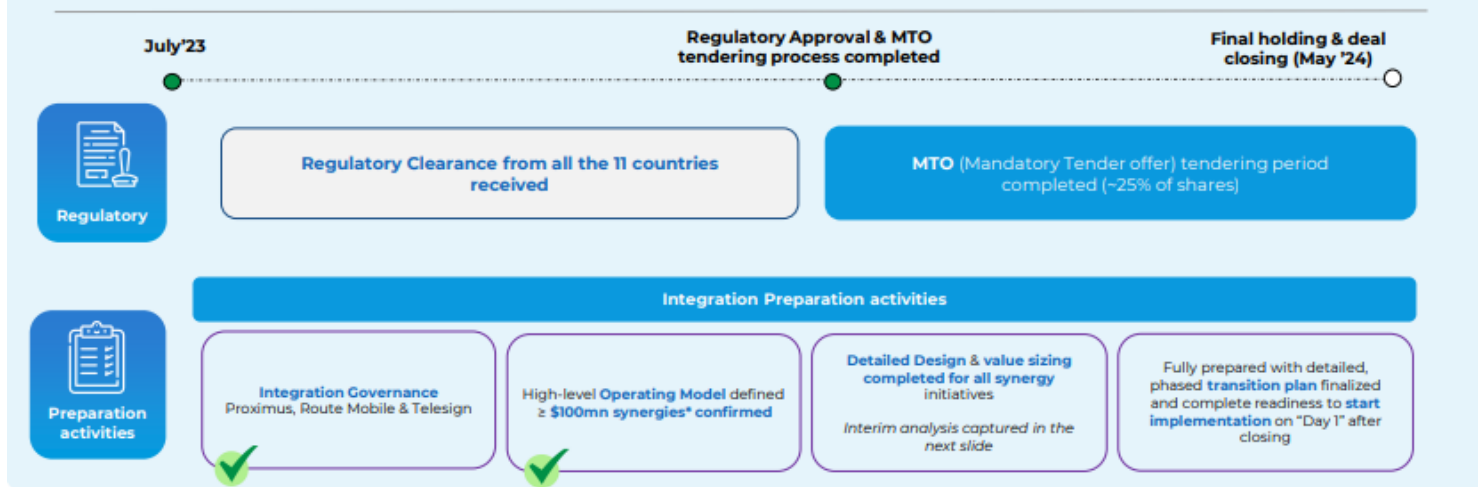
Exhibit 9. Revenue split across Top 50 countries for FY24 (based on termination of communication)



Source: Company, JM Financial

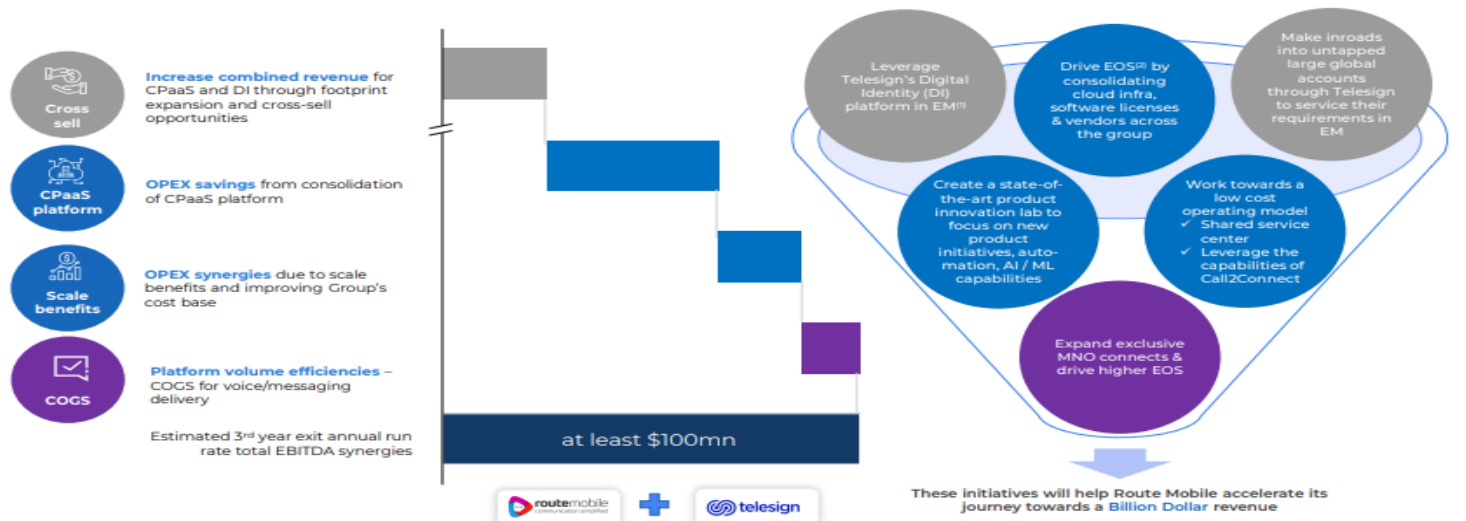
Exhibit 10. Proximus deal closure expected in 1QFY25

All the required statutory approvals received and MTO process completed. Final Holding and Deal closing expected in May'24



Source: Company

Exhibit 11. Route expects Proximus deal will help accelerate its journey towards USD 1bn revenue



Source: Company

Maintain BUY; target price reduced to INR 1,820

Exhibit 12. What has changed in our forecasts and assumptions?

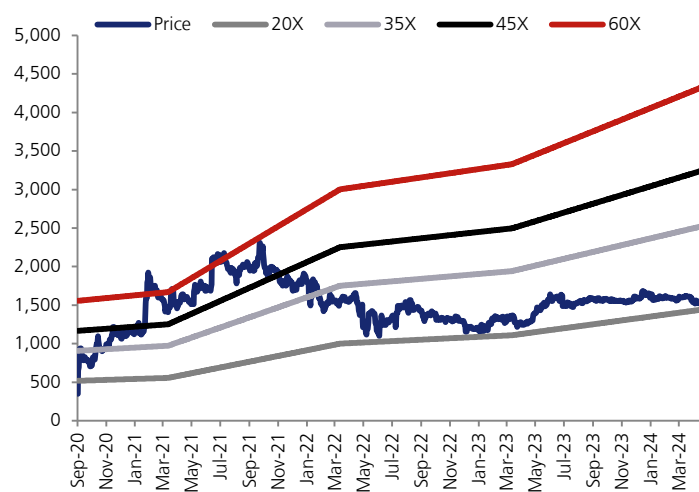
	Old			New			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Consolidated revenue (INR mn)	49,649	58,671	na	47,768	56,410	66,284	-3.8%	-3.9%	na
Revenue growth rate (YoY)	21.0%	18.2%	na	18.7%	18.1%	17.5%	-226bp	-8bp	na
Gross Margin	21.5%	21.7%	na	21.8%	21.7%	21.9%	23bp	3bp	na
EBITDA margin	13.3%	13.6%	na	13.3%	13.6%	13.9%	-2bp	3bp	na
EBIT margin	11.5%	11.9%	na	11.4%	11.9%	12.5%	-11bp	1bp	na
Adj. PAT (INR mn)	4,572	5,707	na	4,428	5,526	6,896	-3.1%	-3.2%	na
Adj. EPS (INR)	73.01	91.14	na	70.52	88.00	109.83	-3.4%	-3.4%	na

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 13. Route - NTM forward PER bands



Source: Bloomberg, JM Financial

Exhibit 14. 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	47,768	56,410	66,284	
Sales Growth	78.3%	12.7%	18.7%	18.1%	17.5%	
Other Operating Income	0	0	0	0	0	
Total Revenue	35,692	40,233	47,768	56,410	66,284	
Cost of Goods Sold/Op. Exp	27,826	31,628	37,369	44,144	51,753	
Personnel Cost	2,011	2,111	2,388	2,708	3,115	
Other Expenses	1,504	1,483	1,672	1,890	2,187	
EBITDA	4,351	5,011	6,339	7,669	9,229	
EBITDA Margin	12.2%	12.5%	13.3%	13.6%	13.9%	
EBITDA Growth	82.2%	15.2%	26.5%	21.0%	20.3%	
Depn. & Amort.	816	861	885	935	964	
EBIT	3,535	4,151	5,454	6,734	8,265	
Other Income	140	132	-55	61	191	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	3,675	4,283	5,399	6,795	8,456	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	3,675	4,283	5,399	6,795	8,456	
Taxes	484	662	891	1,189	1,480	
Extraordinary Inc./Loss(-)	-140	-268	0	0	0	
Assoc. Profit/Min. Int.(-)	-61	-138	-80	-80	-80	
Reported Net Profit	3,271	3,751	4,428	5,526	6,896	
Adjusted Net Profit	3,130	3,483	4,428	5,526	6,896	
Net Margin	8.8%	8.7%	9.3%	9.8%	10.4%	
Diluted Share Cap. (mn)	62.6	62.8	62.8	62.8	62.8	
Diluted EPS (INR)	50.0	55.5	70.5	88.0	109.8	
Diluted EPS Growth	79.9%	10.9%	27.1%	24.8%	24.8%	
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

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	3,815	4,551	5,399	6,795	8,456	
Depn. & Amort.	816	861	885	935	964	
Net Interest Exp. / Inc. (-)	-163	64	55	-61	-191	
Inc (-) / Dec in WCap.	-3,772	-5,494	-868	-1,269	-1,350	
Others	371	-150	0	0	0	
Taxes Paid	-334	-746	-891	-1,189	-1,480	
Operating Cash Flow	732	-914	4,581	5,211	6,399	
Capex	-381	-356	-708	-459	-1,200	
Free Cash Flow	352	-1,270	3,873	4,751	5,199	
Inc (-) / Dec in Investments	1,219	113	0	0	0	
Others	284	222	328	452	590	
Investing Cash Flow	1,122	-21	-380	-7	-611	
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	-292	-322	-320	
Financing Cash Flow	-1,092	1,584	-982	-1,076	-1,199	
Inc / Dec (-) in Cash	763	648	3,218	4,127	4,590	
Opening Cash Balance	4,073	4,836	5,484	8,703	12,830	
Closing Cash Balance	4,836	5,484	8,703	12,830	17,420	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	18,204	21,496	25,233	30,005	36,022	
Share Capital	624	628	628	628	628	
Reserves & Surplus	17,580	20,868	24,605	29,377	35,395	
Preference Share Capital	0	0	0	0	0	
Minority Interest	80	213	293	373	453	
Total Loans	1,062	3,496	3,496	3,496	3,496	
Def. Tax Liab. / Assets (-)	481	390	370	348	323	
Total - Equity & Liab.	19,827	25,594	29,392	34,222	40,294	
Net Fixed Assets	9,676	9,478	9,056	8,580	8,816	
Gross Fixed Assets	1,723	1,860	2,211	2,560	2,968	
Intangible Assets	8,997	8,596	7,951	7,274	7,274	
Less: Depn. & Amort.	1,055	977	1,106	1,254	1,426	
Capital WIP	11	0	0	0	0	
Investments	4,102	2,292	2,292	2,292	2,292	
Current Assets	14,991	23,091	27,109	35,248	43,038	
Inventories	0	0	0	0	0	
Sundry Debtors	7,015	10,716	10,747	13,362	14,967	
Cash & Bank Balances	4,836	5,423	8,641	12,768	17,358	
Loans & Advances	0	0	0	0	0	
Other Current Assets	3,140	6,953	7,720	9,117	10,713	
Current Liab. & Prov.	8,942	9,022	9,064	11,897	13,853	
Current Liabilities	4,939	6,928	5,787	8,032	9,318	
Provisions & Others	4,003	2,094	3,277	3,865	4,535	
Net Current Assets	6,049	14,069	18,044	23,350	29,185	
Total - Assets	19,827	25,840	29,392	34,222	40,294	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	8.8%	8.7%	9.3%	9.8%	10.4%	
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%	19.0%	20.0%	20.9%	

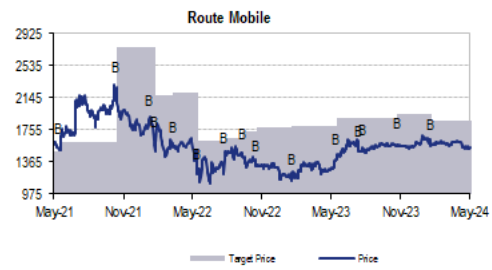
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	291.0	342.4	401.9	477.9	573.7	
ROIC	36.6%	25.2%	25.6%	30.1%	34.8%	
ROE	17.9%	17.5%	19.0%	20.0%	20.9%	
Net Debt/Equity (x)	-0.4	-0.2	-0.3	-0.4	-0.4	
P/E (x)	30.7	27.7	21.8	17.4	14.0	
P/B (x)	5.3	4.5	3.8	3.2	2.7	
EV/EBITDA (x)	20.1	18.2	13.9	11.0	8.6	
EV/Sales (x)	2.4	2.3	1.8	1.5	1.2	
Debtor days	72	97	82	86	82	
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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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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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