

03 March 2023

Route Mobile Ltd.

CMP : 1,322.0/-
Target Price : Rs. 1,606.0/-
Upside : 21%
Stop Loss : Rs. 1,142.0/- (Closing basis)

Investment Thesis

Route Mobile Ltd. (Route) is one of the Services Providers of CPaaS to enterprises, Over-the-top (OTT) players, and Mobile Network Operators (MNO). Route holds ~22% of the total market in India. Route is one of the fastest growing CPaaS player in the industry having a CAGR of ~27% between FY17-22. In which growth is majorly driven by the increasing utilization of online activities and digital transactions. At present Route has ~40% of the total market share of International Long Distance (ILD) among global Application to Person (A2P) segment and mostly works for big tech Players. As per the present market trend industry still has the potential to grow more in coming years with ~20% CAGR.

Over the years, India has witnessed a robust growth in domestic A2P business registering a CAGR of ~45%. This is mainly driven by the Transactional messages including UPI, Aadhar linked and Mobile banking. Where UPI alone holds ~32% of the contribution in total messages. As a result, Route has increased its expansion in its domestic operations. For this Route added marquee logos & expanded its market share in NLD segment. Moving forward Route is shifting towards new fast growing area like OTT, RCS, Network Firewalls, analytics & Emails.

Route is a global player but still its ~50-55% of the revenues is driven by India. While the rest is generated by countries like Asia (ex-India), Africa, Latin America, & the Middle East. The company has signed contract with Uganda Teleco. to provide AIML based A2P SMS firewall solutions and managed services. Route has also been selected by Telenor global services as a preferred partner for A2P messaging services. The estimated size of the Indian CPaaS market is ~Rs. 88 bn where route holds 22% market share. Route has 40% market share in India's ILD Space and 10% in NLD, driven by preferred CPaaS vendors for Indian BFSI and global tech/e-Comm players.

Over the time, Route has added number of clients under different buckets which help to increase revenue. With rising cases and volumes, Customers start with lesser contribution and progressively upgrades to higher. Over the period of FY19 to Q3FY23 in >USD 5mn sales number, company has seen a 65% CAGR growth in its Customer addition as it has moved from 3 in FY19 to 19 by the end of Q3FY23. For the same time duration top clients CAGR growth stands at 23% for top 1 clients, 55% for top 2 to top 5 clients and 39% for top10 clients.

Financials

Route Mobile Ltd. has reported its robust financial performance despite the geopolitical situations, Pandemic issues & Volatility across the various currencies. In the latest qtr. Q3, Revenue from Operations has increased 75.2%|16.5% over YoY|QoQ basis and Net Profits have increased 84.4%|17.5% on YoY|QoQ basis led by strong Organic growth of ~34%|17.5% on YoY|QoQ basis.

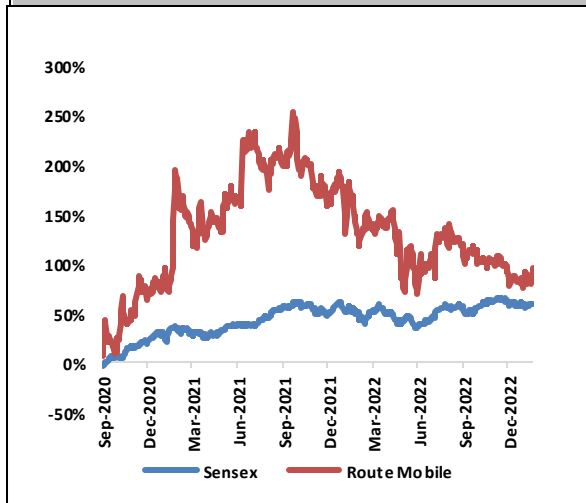
Consol (Rs. Cr.)	FY19	FY20	FY21	FY22	Q3FY23
Revenue	852.38	968.10	1422.15	2002.09	993.47
EBITDA	94.05	99.95	175.66	257.63	128.3
EBITDA Margin	11.03%	10.32%	12.35%	12.87%	12.91%
PAT	55.51	58.21	132.75	170.08	85.36
PAT Margin	6.51%	7.14%	9.33%	8.50%	8.59%
EPS - Diluted	11.00	11.65	24.23	27.82	13.22

Stock Data	
Market Cap (Rs. Mn)	Rs. 82,010 Mn
Market Cap (\$ Mn)	\$ 993.11 Mn
Shares O/S (in Mn)	62.87
Avg. Volume (1 month)	2,75,015
52-Week Range (Rs.)	Rs. 1728 / Rs. 1052

Shareholding Pattern	
Promoters	58.43%
FII's	21.11%
Institutions	7.21%
Others (incl. body corporate)	13.25%

Key Ratios	
Div Yield	0.67%
TTMPE	30.5 x
ROE	14.3%
TTMEPS (Rs.)	Rs. 43.3 /-

Stock Performance			
Performance (%)	1M	6M	1Yr
Absolute	12.32%	-7.58%	-12.93
BSE IT	-2.75%	4.20%	-12.14



Key Business Highlights

India CPaaS landscape: India's CPaaS Market is highly concentrated because of few vendors in the market conducting business in domestic and international markets. Over time Route has given 27% CAGR for FY17-22 where global CAGR stands at 34%. In India, CPaaS industry is broadly divided into 2 segments that is International Long Distance (ILD) & National Long Distance (NLD). In India, ILD contributes ~3% of the volume and 40% of the value while NLD has 97% of the volume and contributes 60% of the value to Route. NLD servers are the ones that originate and terminate locally while ILD servers are the ones that originated outside India and terminate in India. ILD includes companies like Amazon, Meta (Whatsapp) and Google. The total size of NLD market is ~Rs. 54bn and largely driven by a steep increase in transactional A2P volume (UPI and mobile banking). While ILD market has the market size of ~Rs. 35 bn and growth is driven by price hikes by the telcos.

Domestic A2P messages: Growth in the Indian CPaaS market is led by the increase in transactional messages, which generates a CAGR of ~46% over past 3 years. Where in India, UPI, Mobile banking Transactions, and Aadhaar Linked Authentication Messages have shown us a surge in transactional messages. Where UPI is the single largest contributor to A2P Messages and accounts for ~32% of total messages. It is estimated that, ~60% of the A2P messages are transactional and the rest 40% are promotional (mostly banks, corporates, e-commerce companies, etc.).

Acquisitions: Because of few vendors in the industry, vendors are adopting the strategies like expansion, product innovation, M&A to widen their functionality and stay competitive. Where Route majorly focus on Acquisition to expand network base across the regions and new geographies like LATAM-Masivian, Kuwait-InterTeleco and Malta M.R Messaging; to acquire new capabilities like DLT blockchain-Teledgers' and to expands product lines like Email-SendClean. For this in FY23, Route has made 4 acquisitions and total 8 acquisitions over 5 years. By the end of Q3 FY23 Route has tieups with ~280 global MNOs, 19 virtualized data centers, 18 hubs, and nine firewall deployment, and company derives ~75% of its revenue from digital native, fintech, ecommerce, global CPaaS partners, and travel and retail clients.

Billable transactions: As per Q3FY23 result company's total billable transaction stands somewhere around 27.7 bn which is ~70%|3%, YoY|QoQ growth. While on 9M basis there is ~132% growth from 34 bn billable transaction in 9MFY22 to 79bn billable transaction in 9MFY23. Where net realization rate per billable transaction for 9MFY23 average was 32 paise with net revenue retention rate of ~125%.

Profitability: Route always reward its shareholder by providing dividends and Buybacks. In FY22, company has paid the divided of 30.40 Cr and in H1FY23 Company has completed its buyback worth Rs.1.2 bn via open market offer and bought ~9Lk shares at an average price of Rs. 1394 which is ~15% premium price.

Valuation

Route has the robust product portfolio in which new services stands ~4.3% to the total revenue and growing exceptionally well with 50%-60% YoY. Within new services, Whatsapp is the most important and promising channel. With new services like mobile identity, email analytics, and network firewall deployments are also gaining traction across global enterprises and MNOs. Over next 5 years under CPaaS industry growth in OTT and RCS will be much higher, and estimated a contribution of ~20% of the total CPaaS market. As most of CPaaS Players in India and globally are heavily investing and acquiring companies to build OTT and RCS capabilities.

At a CMP of 1,339/- on 01st March 2023, Route Mobile is trading at a discount of ~22% from its 52 week high. At present Route is trading at a PE of 31x which is lower than the Industry's P/E. As of FY22 Company enjoy an expensive valuation with PE at 58.31x. With strong market positions, increasing market share, robust financial performance and positive outlook for the future growth. We are bullish on Route Mobile Ltd. and expecting that it will trade at similar level as before. Recommending a Buy for Route Mobile Ltd. for a target price of Rs. 1606.0.

Risk & Concern

Foreign exchange risk can adversely affect the operational results and the cash flows. Failures, delays and any other problem involving technology on which company is working can directly affect the company's result.

Route majorly depends on its strategic relationships with 3rd parties and set up a MNO. Any disability to enter and maintain such MNO relationship can affect the business performance.

Graphs & Charts

Figure 1: Net Sales & Net Sales Trend

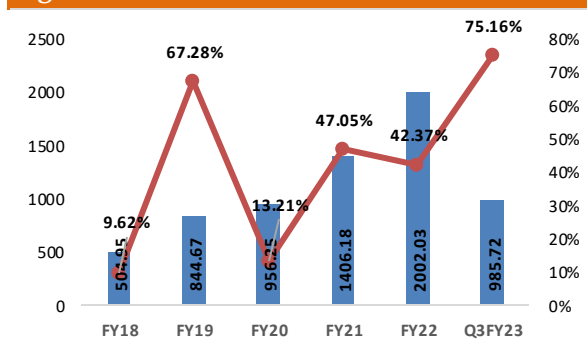


Figure 2: EBITDA & EBITDA Margin Trend

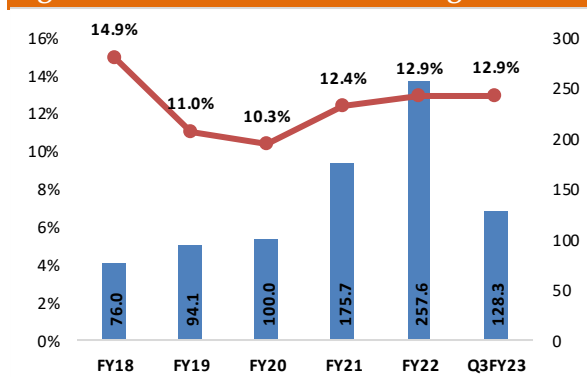


Figure 3: PAT & PAT Margin Trend

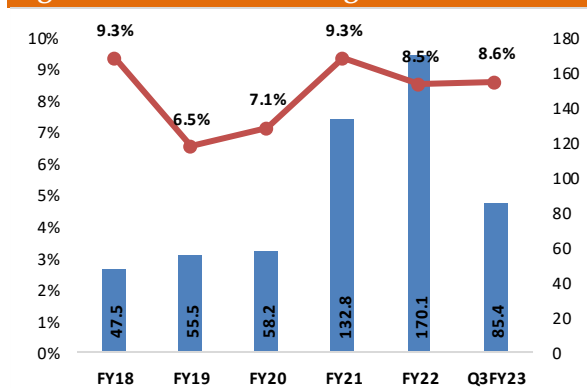
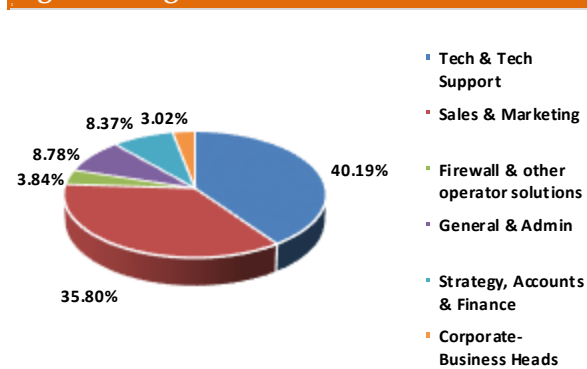


Figure 4: Segment-Wise Revenue (FY21)



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