



## ALPHA

15 DEC 2022

## Route Mobile Ltd. – CPaaS Player

Market Data	
CMP	Rs. 1294
Date	14-Dec-22
New Target Price	Rs. 1595
Old Target Price	Rs. 2062
Upside Potential	23.00%
52 Week High/Low	1936/1052
NSE Code	ROUTE
Market Cap	Small Cap
Sector	Software - Telecom
Rating	ACCUMULATE

Route Mobile Ltd (Route), incorporated in 2004, is a Mumbai headquartered leading Cloud-communication platform provider, catering to enterprises, over-the-top (OTT) players and Mobile network operators. Route is one of the most prominent and largest CPaaS (cloud communication platform as a service) players in the world, especially in Asia, Africa & the Middle East. Route has ~700+ employees and has served more than 30,000 clients, since inception. They have access to 900+ networks across the globe, 265+ direct connections to Telecom operators and 2500+ active monthly billable clients. Route Mobile is headquartered in Mumbai, India with a global presence in the Asia Pacific, Middle East, Africa, Europe, and the Americas. RML has a diverse enterprise client base across a broad range of industries including social media companies, banks and NBFCs, e-commerce entities, etc.



**Products & Services:** The Company offers various products and services.

**Messaging** - A2P messaging, RCS business messaging, CPaaS, Number lookup, Omni channel communications, etc.

**Operator** - PaaS, Route Shield, Instant Virtual Number, SMS Hub, etc.

**Voice** - Outbound dialer, Interactive voice response, call patching, call center, SMS 2 Call, click 2 Call, Missed call.

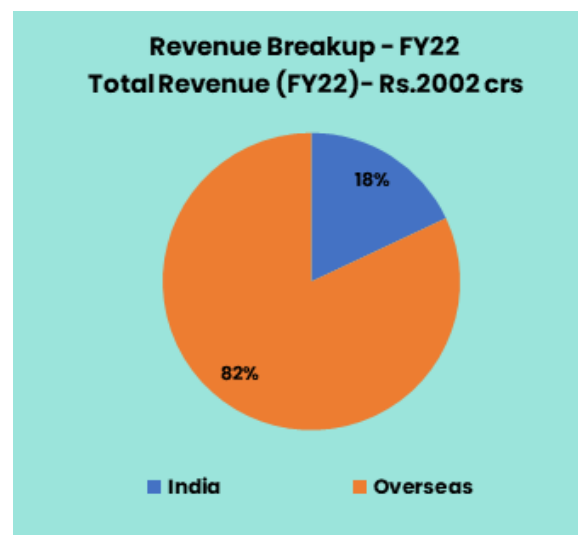
**Email** - Route mailer

**Identity solution** - Mobile identity as a service, Verified SMS, Brandi5

**Bespoke solutions** - Verbatim.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	58.56	59.82	-1.26
FPI	21.32	19.94	1.38
DII	7.17	7.03	0.14
Public & Others	12.94	13.21	-0.27
Pledged	0.00	0.00	0.00

**Subsidiaries:** The Company has 10 subsidiaries and 22 step down subsidiaries as on 31st March 2022.



Margins - FY22	
EBITDA	11%
EBIT	9%
PAT	8%



## Key Rationale

- **Diversified service offerings** – Company assists enterprises in their digital communication strategy by enabling multiple channels of communication to deliver messages to their stakeholders – including customers, suppliers, and employees. Enterprises can choose to communicate with the end user through select channels, for example SMS, or through multiple channels including SMS, OTT business messaging, voice and email amongst others. Company has developed a single unified Application Programming Interface (API), an 'omni-channel platform', which incorporates communication modes such as A2P (Application to Person), P2A (Phone to Account), 2Way Messaging, email, RCS (Rich Communication Services) messaging, voice and OTT business messaging, allowing enterprises to reach customers on both traditional and all leading OTT platforms. Further, Company's SMS hubbing solution allows inter-connectivity between smaller MNOs to connect to global operators, and expand their network and services to their subscribers when they roam across the globe.
- **Huge opportunities in CPaaS industry** – CPaaS, or Communications-Platform-as-a-Service, is defined as a service or solution that enables brands and advertisers to communicate to clients through multiple outbound online and mobile channels via a singular centralised platform. Companies are spending more than ever on digital channels to interact with their customers and give them a seamless experience online as well. According to Gartner, 95 percent of companies will use CPaaS platforms to improve operational efficiency and customer experience digitally by 2025. According to Juniper Research, CPaaS sales will surpass \$10 billion this year and will rise to \$34 billion by 2026.
- **Q2FY23** – Route Mobile (Route) has reported strong revenue growth of 16% QoQ and 94.1% YoY to Rs.846 crs led by strong organic revenue growth of 20.6% QoQ, 40% YoY and contribution from acquisitions – 1) Masivian acquisition revenue grew ~21% QoQ to Rs.56 crs and 2) MR Messaging contributed Rs.170 crs. Growth from new product sales (i.e. transactions in new channels such as WhatsApp, Viber etc.) was also strong at 11.5% QoQ, 116% YoY. Number of billable transactions processed in Q2FY23 stood at 26.9bn, grew 8.6% QoQ and 148.1% YoY.
- **Financial Performance** – The company has generated a Revenue and PAT CAGR of 34% and 22% for the past 5 years. It also has a strong balance sheet with Rs.1040 crs of cash and cash equivalents with virtually zero debt. Company is generating a healthy cash flow with CFO/EBITDA stands at 26% in FY19, 97% in FY20, 127% in FY21 and 61% in FY22. EBITDA as % of gross profit stands at 52% in FY22 (63% in FY21).

**Ratios - FY22**

ROE	14%
ROCE	17%
Div. Yield	0.38%
PE Ratio	49.00
Face Value	10.00
EPS	Rs. 26.36

**Industry Analysis**

The Telecom industry in India is the second largest in the world with a subscriber base of 1.17 bn as of August 2022 (wireless + wireline subscribers). India has an overall tele-density of 85.15 %, of which, the tele-density of the rural market, which is largely untapped, stands at 58.44% while the tele-density of the urban market is 134.71%. Communication Platform as a Service (CPaaS) is a cloud-based platform that enables organizations to integrate different systems, such as voice, messaging, video, etc. in their existing service offering to facilitate easier customer communication. The Indian Communications Platform-as-a-Service (CPaaS) market is expected to register a CAGR of 23.5% during the forecast period (2022 - 2027). The growing usage of communications platforms as a service for consumer engagement is primarily driving the market.

**Growth Drivers**

Under the BharatNet Project, 1,77,550 Gram Panchayats (GPs) have been made service ready (broadband) till June 2022. Scope of BharatNet Project has been extended to all inhabited villages in the country.

India is one of the highest consumers of data per day with approximately 5 hours of daily time spend on smartphones.

Over the next five years, rise in mobile-phone penetration and decline in data costs will add 500 million new internet users in India, creating opportunities for new businesses.



## Peer Analysis

**Competitors:** Tanla Platforms, Persistent systems, etc.

While compared with the direct listed peer Tanla, Route Mobile is very consistent in terms of PBT and Profit growth whereas Tanla is very profitable only in FY21 and FY22 as a result of low Material cost. That is where the 5-year Average return ratios work in terms of showing the consistent player.

Company	CMP	Mcap.	5yr Avg. RoE	5yr Avg. RoCE	P/E	EPS
Route Mobile	1294	8105	21.00%	28.00%	49	26.36
Tanla Platforms	752	10217	19.00%	18.00%	19	39.73
Persistent	4186	32000	17.00%	21.00%	46	90.34

## Outlook

Route continues to focus on key markets like India, GCC, LAT-AM and Africa. Management mentioned that the company has started reaping benefits from investments in LAT-AM market. India continues to be the largest market for Route in terms of revenue from termination and accounts to 47% of total revenue. Management mentioned that it continues to increase market share in India and is on track to surpass US\$175mn revenue guidance from India in FY23. Route secured a preferential partnership deal with Telenor group for five countries – Finland, Malaysia, Thailand, Pakistan and Myanmar in Q2FY23. In terms of inorganic strategy, Route is focusing on integrating all the recent acquisitions and derive synergy. It may also look at tuck-in acquisitions in the near term. Management mentioned ESOP costs are front loaded and are likely to decrease in H2FY23 aiding margins. Management expects ~150bps expansion in margins over Q4FY22 margins in FY23. Management has also upgraded its FY23 revenue guidance to 50-60% YoY growth (vs 50% earlier) and is optimistic to inch close to 60% YoY growth.



## Valuation

Route Mobile's experienced promoters and management team, long track record of operation, established market position in Application to Person (A2P) messaging segment and tie up with telecom players operating in India provides strong earning visibility going forward. Company's strong capital structure with robust debt coverage indicators and strong liquidity position brings positive view on the stock. Hence, we recommend an ACCUMULATE rating in the stock with the target price (TP) of Rs.1595, 45x FY24E EPS.

## Risks

- **Client Relationship risk** – Company depends in part on the success of strategic relationship with third parties, particularly direct relationships with mobile network operations ("MNOs"). Company's inability to enter into or maintain such relationships, particularly with MNOs may adversely affect Company's business, financial condition and results of operations.
- **Regulatory risk** – Regulatory requirements across regions could change, affecting business potential in individual markets. It is essential for A2P solution providers to be aware of key regulatory requirements to ensure business compliance in multiple jurisdictions.
- **Forex risk** – Foreign exchange risk as significant portion of business transactions are done in several foreign currencies.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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