

CMP: INR 1,533

Rating: Buy

Target Price: INR 1,915

Stock Info

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (INR)	10
Equity Capital (INR mn)	629
Mkt Cap (INR mn)	96,902
52W H/L (INR)	1,942 / 1,389
Avg Yearly Vol (in 000')	214

Shareholding Pattern %

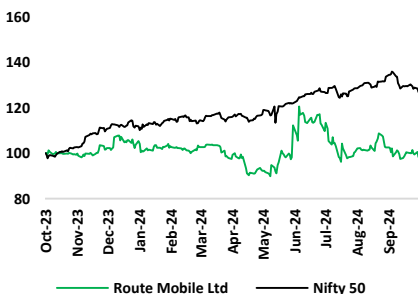
(As on Sept, 2024)

Promoters	74.9
Public & Others	25.1

Stock Performance (%)

	1m	3m	12m
Route	13.0	13.3	16.0
Nifty 50	-4.72	0.83	28.18

Route Mobile Vs Nifty Price Chart



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Route Mobile reported Revenue in line; Margin & Pat above estimate; Exceptional gain of INR 62.8Mn in PAT. Reported revenue of INR 11,134 Mn up 0.9% QoQ/ +9.7% YoY in line with our estimate of INR 11,170 Mn. Consolidated Gross profit stood at INR 2,349 Mn in Q2FY25 down by 2%QoQ/ 9.3% YoY against estimate of INR 2,380 Mn. A gross Profit margin of 21.1% in Q2FY25 against 21.7% in Q1FY25 and 21.2% in Q1FY25. Consolidated EBITDA stood at INR 1,352 Mn, up by 9.3% QoQ/ 5.5%YoY largely in line with our estimate of INR 1,317 Mn. EBITDA margin stood at 12.1% (adjusted Margin stood at 11.9%) above our estimate of 11.8%. Consolidated PAT stood at INR 1,070 Mn, down by 31.9%QoQ/+21.1% YoY above our estimate of INR 884 Mn. The exceptional item gain of INR 62.8 mn which is net of the fair value gain on contingent consideration pertaining to acquisition of a subsidiary in previous years and recognition of impairment loss of goodwill pertaining to a step down subsidiary. PAT margin stood at 9.6% in Q2FY25 against 7.4% in Q2FY24 and 8.7% in Q1FY24. The Board has recommended a interim dividend of INR 6 per equity share.

Strategic Synergies & festive season to Drive Route Mobile's Growth: The company anticipates revenue growth of 18-22% for FY25. Historical seasonality trends suggest the company is on track to meet its guidance, with 45%-47% of revenue typically coming in H1 and the balance in H2. During the festive season, significant growth has been observed due to increased usage of the platform by large e-commerce companies and other brands. This trend, combined with strong domestic traffic and contributions from existing customers, indicates a positive trajectory. Additionally, traffic from a few large customers is already benefiting the platform. The company is also focusing on synergies with TeleSign, which are expected to enhance performance in H2 as both companies collaborate to drive more traffic

Growth Potential with Global E-Commerce RFP: Integration with a large e-commerce company has commenced, and ramp-up efforts are already underway, revealing significant potential from this customer. The current large RFP is globally customer-based, with Route Mobile providing interconnectivity in Asia, Africa, and the Middle East. Both TeleSign and Route Mobile's connectivity in emerging markets is expected to serve as a clear advantage, creating excitement around this RFP opportunity. Participation in a significant global RFP as part of Proximus Group synergy has the potential to drive substantial growth in the coming years. In H1FY25 include a strong cash conversion from EBITDA, which reached 78%.

Valuation and Outlook

The company has posted decent set of numbers in Q2FY25 despite it being a seasonally weak quarter. The company has signed a significant deal in September with a global e-commerce company to cover multiple regions. Traffic has already started and will ramp up over time. New product revenue shows 32% YoY/4%QoQ growth, with FY25 revenue growth expected at 18%-22% and a 13% EBITDA margin. Historical seasonality trends suggest the company is on track to meet its guidance, with 45%-47% of revenue typically coming in H1 and the balance in H2. A five-year strategic partnership between Proximus and Microsoft on digital communication services, including CPaaS, has led to combined deals and ongoing efforts on similar large deals. With Vodafone's imminent go-live, the company expresses enthusiasm for the promising trajectory and growth. Positioned for improved growth, it aims to expand its clientele globally, leveraging new products and ramping up efforts across multiple countries. We expect RML revenue, EBITDA, and PAT to grow at a CAGR of ~17%, 17.3%, and 17.1%, respectively, over FY25-27E. We value the stock at a PE multiple of 21x to its FY27E EPS of INR 91.2, which yield a revised target price of INR 1,915 per share (earlier target price; INR 1,995 per share). We upgrade our rating to Buy from Accumulate earlier.

Exhibit 1: Financial Overview

YE March (INR Mn)	Revenues	EBITDA	EBITDA Margin (%)	PAT	EPS (INR)	RoE (%)	P/E (x)
FY24	40,233	5,111	12.70%	3,720	59.1	17.91%	26.0
FY25E	46,268	6,015	13.00%	4,180	66.4	16.63%	23.1
FY26E	53,671	7,031	13.10%	4,854	77.1	16.67%	19.9
FY27E	62,795	8,289	13.20%	5,740	91.2	16.97%	16.8

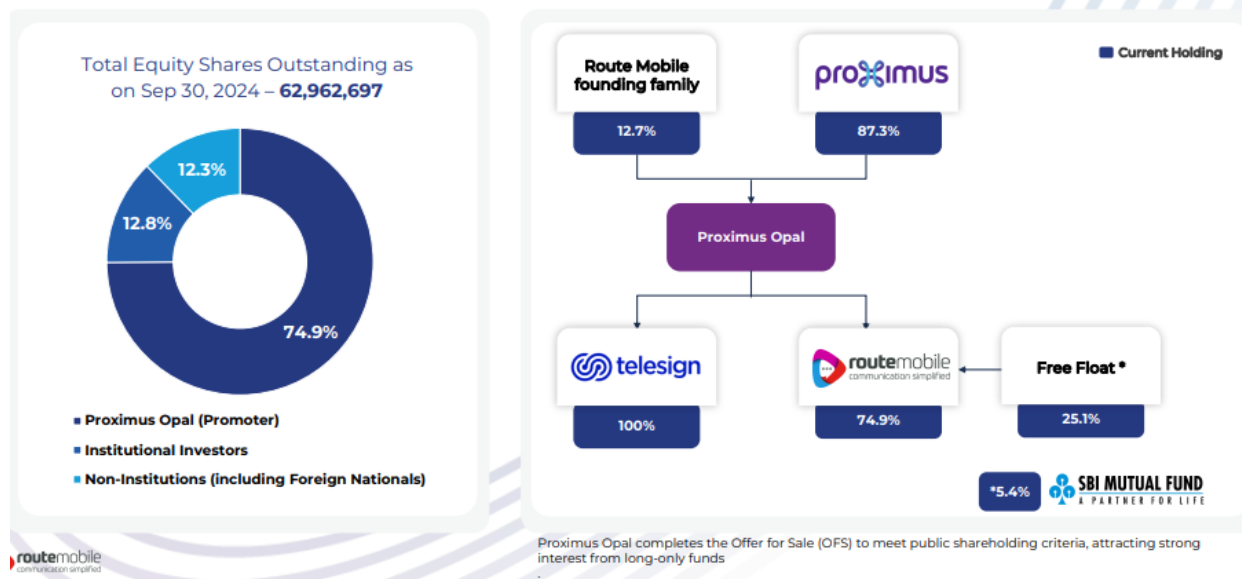
Source: Company, Arihant Research

Exhibit 2: Q2FY25 performance

INR Mn (Route Mobiles Ltd.)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Net Revenue	11,134	11,034	10,146	0.9%	9.7%
Purchase of messaging service	8,785	8,637	7,996	1.7%	9.9%
Gross Profit	2,349	2,397	2,150	-2.0%	9.3%
Gross Profit (%)	21.10%	21.72%	21.19%	-2.9%	-0.4%
Employee cost	629	650	422	-3.3%	49.0%
Other Expenses	368	509	447	-27.7%	-17.6%
EBITDA	1,352	1,238	1,281	9.3%	5.5%
EBITDA margin %	12.1%	11.2%	12.6%	93bps	-48bps
Other Income	326	106	37	208.2%	784.5%
Depreciation	223	223	214	0.0%	4.0%
EBIT	1,455	1,120	1,104	29.9%	31.8%
EBIT margin %	13.1%	10.2%	10.9%	291bps	219bps
Finance cost	144	91	66	57.9%	120.2%
Exceptional Item	-	-	-	-	-
Profit Before Exceptional item	1,310.6	1,028.8	1,038	27.4%	26.2%
Exceptional Item	63				
Tax Expense	303	217	155	39.5%	95.8%
Effective tax rate %	23.1%	21.1%	14.9%	201bps	822bps
PAT	1,070.3	811.6	883.5	31.9%	21.1%
Non-controlling interest	57.6	24.4	-4.5	-	-
adjusted PAT	1,012.7	787	888	28.6%	14.0%
PAT margin %	9.1%	7.1%	8.8%	196bps	34bps
EPS (INR)	16.1	12.5	14.2	28.9%	13.4%
Segment Revenue INR Mn.	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
India (Companies registered in India)	2,315	2,376	1,792	-2.6%	29.1%
Overseas (Companies registered outside India)	10,438	10,918	9,618	-4.4%	8.5%
Inter segment revenue	(1,618)	(2,260)	(1,265)	-28.4%	28.0%

Source: Company, Arihant Research

Shareholding Pattern



Q2FY25-Key Conference call Highlights

The company anticipates revenue growth of 18-22% for FY25, driven by festive demand, synergy benefits, and new customer acquisitions. However, challenges persist in international long-distance messaging volumes and pricing, as well as a minor dip in A2P messaging revenue in India. The company aims to leverage synergies within the Proximus Group and focus on transactional and conversational messaging, with a future tax rate target of 20-23%.

Revenue: Revenue growth in Q2FY25 was impacted marginally due to two reasons, continued weakness in meter messaging owing to geopolitical issues in continental Europe, and ILD revenue in India was impacted for a few days in August, mainly due to firewall software upgrade, as well as there was an infrastructure issue with the virtual machines and the cloud host. Expect things normalized in H2FY25 as H1FY25 is impacted due to Nigerian currency devaluation. Historical seasonality trends suggest the company is on track to meet its guidance, with 45%-47% of revenue typically coming in H1 and the balance in H2.

Margin: In the past, the company has achieved significant EBITDA margin expansion in the H2FY25, and while gross margin expansion is anticipated, it was impacted this quarter by a related party transaction that had a lower gross margin than the portfolio margin.

Dividend: The company has a guidance of distributing up to 20% of the PAT as dividend.

New product revenues have risen by 32% YoY

Ticketing: Continue to lead in the metro ticketing sector, with new developments for the Maharashtra-Mumbai Metro and a WhatsApp-based communication service for IRCTC.

Cross-selling initiatives are progressing, with anticipated revenue growth. Shared service initiative launched recently is expected to show rapid advancements.

Traffic: Seeing increased traffic from TeleSign, particularly in routes where Route Mobile offers competitive pricing.

Proximus and Infosys formed a long-term partnership integrating Route Mobile's CPaaS, TeleSign's BI services, and Infosys' digital offerings. This partnership, along with the Microsoft deal, reinforces strategic synergies, with ongoing work on additional partnerships expected to add significant value.

E-commerce: Signed a significant deal in September with a global e-commerce company to cover multiple regions. Traffic has already started and will ramp up over the time. Proximus and Infosys formed a long-term strategic partnership which combines Route Mobile's CPaaS solution, TeleSign's and BIS offerings with Infosys' digital services.

RFPs: The company participated in a very large global RFP as part of the Proximus Group synergy. So if that RFP were to fructify, that should add a significant layer of growth for the coming years. H1FY25 has been the strong cash conversion from EBITDA, which spanned out to be 78%.

Average Realisation : The average realization per billable transaction fell from 29.7% in Q1FY25 to 27.5% in Q2FY25, influenced by increased domestic volumes in India and ILD revenue impacts, with India remaining largest market, contributing 51% of revenue by termination.

Finance cost: The increase in finance cost was primarily due to the full quarter impact of a loan availed during the month of June 2025.

VI deal: 7 days of impact in terms of ILD revenue (\$3Mn) due to infrastructure issues and upgradation in firewall software upgrade, but domestic volume ramped up due to a better mix. The company is on track regarding the Voda Idea deal, benefiting from pricing and quality due to the commitment with VI and the exclusivity in the network provided by the firewall.

Strong festive: During the festive season, many brands are using platform more actively, especially with Idea and domestic traffic, which suggests good growth from existing customers. Also, the company has started seeing traffic from some big customers.

WhatsApp has experienced over a 20% volume increase QoQ/+100% YoY, driven by competitive pricing. The company does not focus on promotional type of traffic and prefers SMS as the right channel for promotions.

Acquisitions: The company is exploring potential tuck-in acquisitions to enhance growth and expand its capabilities. that align with their product and vision.

A2P: Minor dip in A2P messaging revenue in India.

Customers: The company is reaching out to customers who use Telesign products to offer email, WhatsApp, and RCS services through its platform.

Exhibit 2: Above with our estimate led by cost optimization

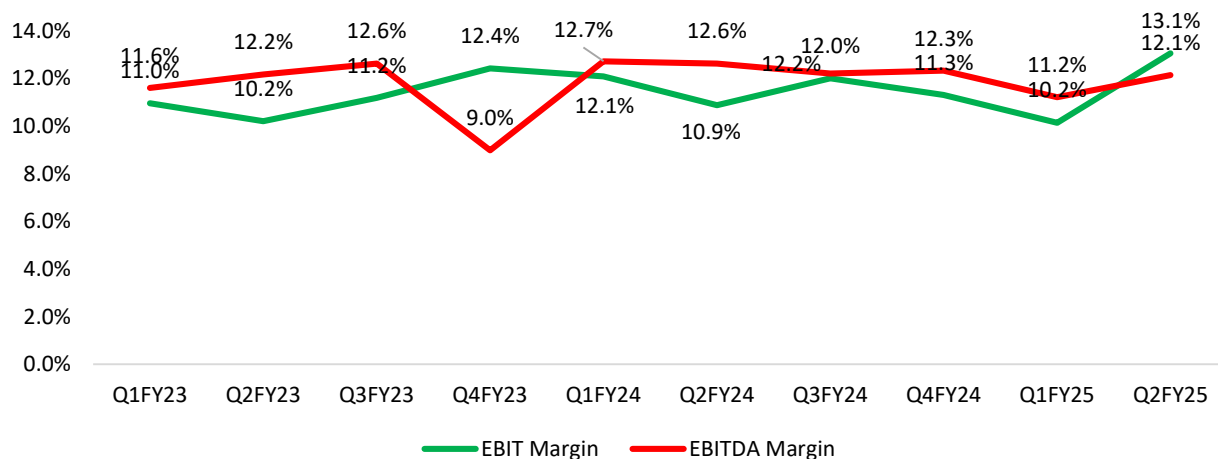


Exhibit 3: Growing number of Multi-million dollar accounts with Improving Client Diversification

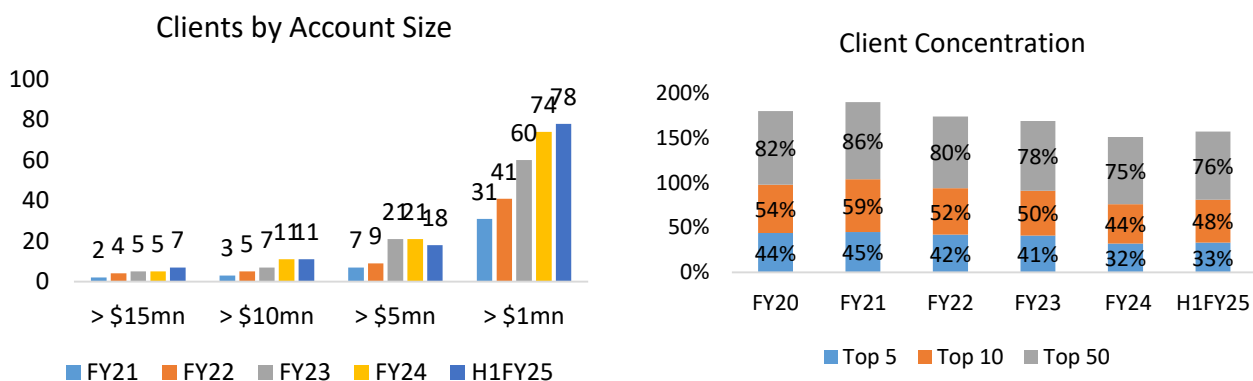
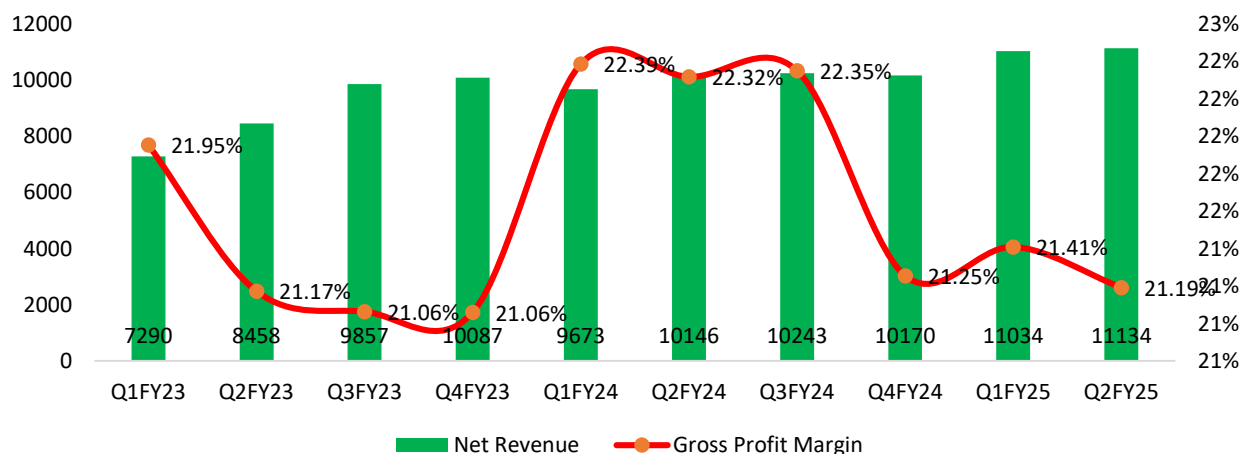


Exhibit 4: Gross Profit Margin



Source: Company, Arianth Research

Income Statement				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
Revenues	40,233	46,268	53,671	62,795
<i>Change (%)</i>	12.7%	15.0%	16.0%	17.0%
Cost of Goods Sold	31,628	36,181	42,131	49,231
Employee costs	1,982	2,360	2,684	3,140
Other expenses	1,513	1,712	1,825	2,135
Total operating Expense	35,122	40,253	46,640	54,506
EBITDA	5,111	6,015	7,031	8,289
EBITDA Margin (%)	12.7%	13.0%	13.1%	13.2%
Other Income	405	413	421	430
Depreciation	861	917	943	977
Interest	273	285	286	287
PBT	4,382	5,225	6,223	7,454
Extra-ordinary	-	-	-	-
PBT after ext-ord.	4,382	5,225	6,223	7,454
Tax	662	1,045	1,369	1,715
<i>Rate (%)</i>	15.1%	20.0%	22.0%	23.0%
PAT	3,720	4,180	4,854	5,740
<i>Change (%)</i>	11.7%	12.4%	16.1%	18.2%

Balance Sheet				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	628	630	630	630
Reserves & Surplus	20,868	24,296	28,276	32,983
Minority Interest	213	213	213	213
Net Worth	21,708	25,138	29,118	33,825
Long term debt	1,350	1,354	1,357	1,360
Short term debt	2,146	2,232	2,321	2,414
Total Debt	3,496	3,586	3,678	3,774
Capital Employed	34,719	41,563	47,535	54,559
Application of Funds				
Net Block	378	510	629	752
other intangible Asset	8,599	9,030	8,890	8,840
Deffered Tax & Non Current Asset & Financial Asset	3,492	3,492	3,492	3,492
Other Non-Current Assets	691	691	691	691
Capital WIP	-	-	-	-
Non Current Asset	13,160	13,722	13,701	13,774
Investments	149	149	149	149
Debtors	10,716	11,282	13,087	15,312
Cash & bank balance	5,423	11,664	15,437	19,650
other Financial & Current Asset	2,873	2,602	3,019	3,532
Total current assets	19,160	25,697	31,691	38,642
Total Assets	34,719	41,563	47,535	54,559

Source: Company, Arianth Research

Cash Flow Statement				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
PBT	4,551	5,225	6,223	7,454
Depreciation	861	917	943	977
Interst Exp	-2	285	286	287
Other Non Cash Item	-35	-21	-21	-21
Cash flow before WC changes	5,374	6,406	7,431	8,697
(Inc)/dec in working capital	-5,494	3,312	-346	-500
Operating CF after WC changes	-230	7,981	5,348	6,461
Less: Taxes	-662	-1,045	-1,369	-1,715
Operating cash flow	-892	6,936	3,979	4,747
(Inc)/dec in F.A	-118	-132	-119	-123
Other	42	42	42	42
Cash flow from investing	-22	-90	-77	-81
Free cash flow (FCF)	-1,010	6,804	3,860	4,624
Proceeds/(Repayment) of current borrowings	1,521.40	85.84	89.28	92.85
Proceeds/(Repayment) of non-current borrowings	2,414.70	-	-	-
Interest & Lease Liability	(250.80)	-	-	-
Dividend	-668	-752	-874	-1033
Interest exp	-273	-285	-286	-287
Cash flow from financing activities	2745.2	-1381.6	-128.2	-451.2
Currency fluctuation arising on consolidation	-	-	-	-
Net inc /(dec) in cash	1,831	5,464	3,774	4,214
Opening balance of cash	4,372	6,201	11,664	15,437
Closing balance of cash	6,201	11,664	15,437	19,650

Key Ratios				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	59.1	66.4	77.1	91.2
CEPS	75.6	81.0	92.1	106.7
BVPS	345.7	399.3	462.5	537.2
Valuation (x)				
P/E	26.0	23.1	19.9	16.8
P/BV	4.4	3.8	3.3	2.9
EV/EBITDA	27.4	22.3	18.6	15.3
Return Ratios (%)				
Gross Margin	21.4%	21.8%	21.5%	21.6%
EBIDTA Margin	12.7%	13.0%	13.1%	13.2%
PAT Margin	9.7%	9.0%	9.0%	9.1%
ROE	17.9%	16.6%	16.7%	17.0%
ROCE	16.9%	17.7%	18.6%	19.4%
Leverage Ratio (%)				
Turnover Ratios				
Asset Turnover (x)	1.2	1.1	1.1	1.2
Receivable Days	97	89	89	89
Payable days	61	86	86	86

Source: Company, Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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