

Cross-selling with Proximus Global to drive new revenue.

CMP: INR 1,200

Rating: Buy

Target Price: INR 1,457

Stock Info

BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Sector	Communication
Face Value (INR)	10
Equity Capital (INR mn)	629
Mkt Cap (INR mn)	73,959
52W H/L (INR)	1,942 / 1,386
Avg Yearly Vol (in 000')	53.4

Shareholding Pattern %

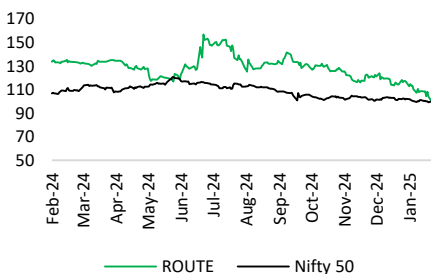
(As on Dec, 2024)

Promoters	74.9
Public & Others	25.1

Stock Performance (%)

	1m	3m	12m
Route	-13.8	-21.5	-25.0
Nifty 50	-3.1	-5.2	8.0

Route Mobile Vs Nifty Price Chart



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Route Mobile's reported Revenue above estimate; Margin & Pat below estimates led by higher employee & other expenses Reported revenue of INR 11,838 Mn up 6.3% QoQ/ 15.6% YoY in above with our estimate of INR 11,450 Mn.Consolidated Gross profit stood at INR 2,498 Mn in Q2FY25 up by 6.3%QoQ/ 15.2% YoY. A gross Profit margin of 21.1% in Q3FY25 against 21.10% in Q2FY25. Consolidated EBITDA stood at INR 1,298 Mn, down by 4% QoQ/ +3.7%YoY down with our estimate of INR 1,402 Mn led by increased in employee cost 13.9% QoQ/40.2% YoY and other expense 31.4% QoQ/19.2% YoY EBITDA margin stood at 11.0% against our estimate of 12.1%. Consolidated PAT stood at INR 854.7 Mn, down by 20.1%QoQ/down 24.8% YoY below our estimate of INR 1165 Mn. PAT margin stood at 7% in Q3FY25 against 9.1% in Q2FY25 and 10.3% in Q3FY24. PAT in Q3FY24 was boosted by forex gain of INR 147 Mn and exceptional Items amounting to INR. 150.4 Mn which is fair value gain on contingent consideration pertaining to acquisition of a subsidiary in previous years, as compared to a forex loss of INR 43 Mn in Q3FY25.The Board has recommended an interim dividend of INR 3 per equity share.

Sees Opportunity in Shift from SMS to WhatsApp Messaging: The company is witnessing a shift from SMS to WhatsApp, especially for conversational use cases, and is capitalizing on this by leveraging its platform to support WhatsApp messaging needs. The company sees WhatsApp's higher pricing and revenue potential as an opportunity rather than a threat to SMS. They are creating unique use cases, like Metro ticketing solutions, and expanding WhatsApp offerings to a broader enterprise customer base. This shift is seen as part of a larger omnichannel strategy.

Route Mobile Leverages Telesign's Digital Identity Solutions: Telesign, now part of Proximus Global with Route Mobile, contributes its strong digital identity solutions to complement Route Mobile's offerings. For the 9MFY25, Route Mobile generated INR ~2980 Mn in business with Telesign. While the markup on transactions is lower than Route Mobile's operating margins, there is significant potential in Telesign's solutions to curb digital fraud. Cross-selling synergies are still in early stages, with revenue traction expected to grow over time.

Leverages AI/ML and LLMs for Enhanced Communication and Optimization: The company is using large language models (LLMs) and machine learning tools to enhance personalized communication and internal optimization, including ticketing and data insights. They see AI/ML as a key opportunity to improve enterprise marketing, curb digital fraud, and leverage actionable insights from first-party data.

Valuation and Outlook

The company has posted decent set of numbers in Q3FY25 as a seasonally strong quarter. Targeting growth of a 15% CAGR over the next three years, aiming to outperform competitors with flat or single-digit growth. For FY25, they expect EBITDA margins of 12.5-13%, with digital identity solutions offering potential long-term growth despite regulatory hurdles. Cross-selling synergies with Proximus Global are expected to generate new revenue opportunities, and the company remains optimistic about leveraging LLM technologies for enhanced communication effectiveness. They view the shift from SMS to platforms like WhatsApp as an opportunity to create new use cases, not a threat.We expect RML revenue, EBITDA, and PAT to grow at a CAGR of ~15%, 17%, and 17.4%, respectively, over FY25-27E. **We value the stock at a PE multiple of 17x to its FY27E EPS of INR 85.7, which yield a revised target price of INR 1,457 per share (earlier target price; INR 1,915 per share). We maintain our Buy rating on the stock.**

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%	20.3
FY25E	46,268	5,783	12.50%	3,914	62.2	15.71%	19.3
FY26E	53,208	6,864	12.90%	4,594	73.0	16.01%	16.4
FY27E	61,189	7,955	13.00%	5,396	85.7	16.30%	14.0

Source: Company, Arihant Research

Exhibit 2: Q3FY25 performance

INR Mn (Route Mobiles Ltd.)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Net Revenue	11,838	11,134	10,243	6.3%	15.6%
Purchase of messaging service	9,340	8,785	8,075	6.3%	15.7%
Gross Profit	2,498	2,349	2,169	6.3%	15.2%
Gross Profit (%)	21.11%	21.10%	21.17%	0.0%	-0.3%
Employee cost	717	629	511	13.9%	40.2%
Other Expenses	484	368	406	31.4%	19.2%
EBITDA	1,298	1,352	1,252	-4.0%	3.7%
EBITDA margin %	11.0%	12.1%	12.2%	-118bps	-126bps
Other Income	86	326	195	-73.5%	-55.7%
Depreciation	222	223	216	-0.3%	2.8%
EBIT	1,162	1,455	1,231	-20.1%	-5.6%
EBIT margin %	9.8%	13.1%	12.0%	-325bps	-220bps
Finance cost	93	144	65	-35.8%	43.1%
Exceptional Item	-	-	150	-	-
Profit Before Exceptional item	1,069.5	1,310.6	1,316	-18.4%	-18.7%
Exceptional Item		63			
Tax Expense	215	303	180	-29.1%	19.4%
Effective tax rate %	20.1%	23.1%	13.7%	-304bps	642bps
PAT	854.7	1,070.3	1,136.4	-20.1%	-24.8%
Non-controlling interest	29.9	57.6	79	-	-
adjusted PAT	824.8	1,012.7	1,057	-18.6%	-22.0%
PAT margin %	7.0%	9.1%	10.3%	-213bps	-336bps
EPS (INR)	13.1	16.1	16.9	-18.7%	-22.4%
Segment Revenue INR Mn.	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
India (Companies registered in India)	2,360	2,315	1,963	1.9%	20.2%
Overseas (Companies registered outside India)	11,198	10,438	9,354	7.3%	19.7%
Inter segment revenue	(1,720)	(1,618)	(1,074)	6.3%	60.2%

Source: Company, Arianth Research

Q3FY25-Key Conference call Highlights

Targeting 15% CAGR to reach \$1B, despite challenges like inflated traffic, macro issues, and WhatsApp pricing changes, focusing on AI/ML and first-party data for personalization and cross-selling. Expect to achieve EBITDA margins 12.5-13% on an adjusted basis.

Billable transactions recorded at 38.9 bn, showing YoY increase but a QoQ decrease, with a marginal increase in average realization per transaction driven by traffic mix changes

The CPaaS sector is undergoing a shift, and there are overall macro headwinds, as well as changes in alternative channels.

The company processed 116.6B transactions, with a 105% net revenue retention, India contributing 51%, new product revenue up 150%.

The company noticed a strong growth momentum in next-generation products, which expanded by 21% YoY.

Domestic volumes slightly impacted by a competitor's platform stabilization.

WhatsApp pricing changes have affected new product revenues.

Route Mobile is a trusted partner for 450+ enterprises, providing mobile connectivity with the widest reach and the largest telco. The company has a firewall in the network and anti-spam features, ensuring the best quality services for large global enterprises, with diversified cross-selling and upselling opportunities. They are connecting engineering expertise with Protech and moving up the value chain by using LLM. Development demonstrated industry-leading advancements, and the company saw 15% YoY growth.

Higher attrition rate compared to industry peers, linked to integration challenges with Proximus Global

The company aims to enhance personalized communication using AI/ML and first-party data, focusing on cross-selling and upselling to become a more integrated service provider.

Revisiting an exclusive firewall contract in Southeast Asia due to rising sanctions and market changes, creating a contingent liability.

Telesign achieved INR 1500 Mn in FY24 and INR 2980 odd Mn in 9MFY25.

Vodafone, as a supplier, has driven growth across enterprises, but growth has been muted in the aggregator business due to issues with AIT and artificially inflated traffic, while the enterprise side remains solid.

Competitors are growing slowly but remain optimistic about future growth.

There have been social media bans and structural shifts, prompting the invocation of contractual rights.

Any changes in conditions allow for renegotiation, aiming for amicable solutions. Discussions with auditors are ongoing, and their input will be prudent moving forward.

Transition from SMS to WhatsApp presents opportunities for the group. Telesign products will build direct access, supporting the largest wholesale voice platform and offering one solution for customer engagement.

The company is not looking for a major run rate above INR 1000 Mn but aims to leverage cross-selling and digital entity solutions for revenue growth. Large deals are in discussion, with good momentum for long-term partnerships.

Exhibit 2: Below with our estimate led by higher other expenses

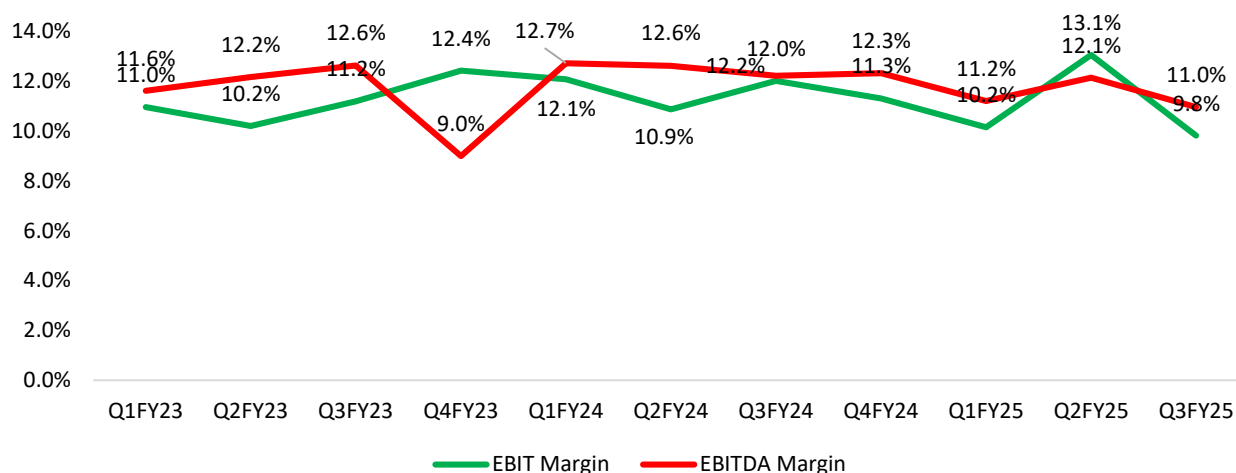


Exhibit 3: Growing number of Multi-million dollar accounts with Improving Client Diversification

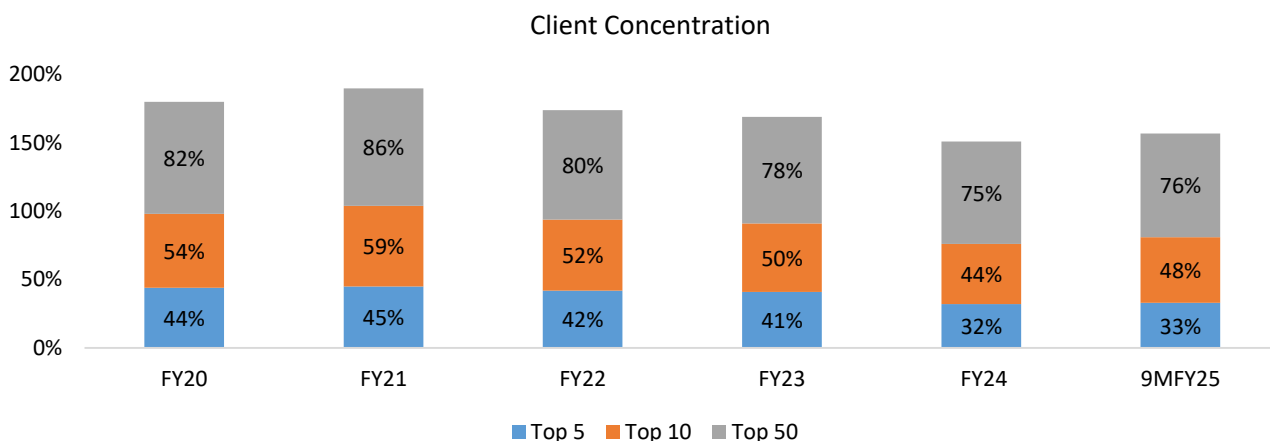
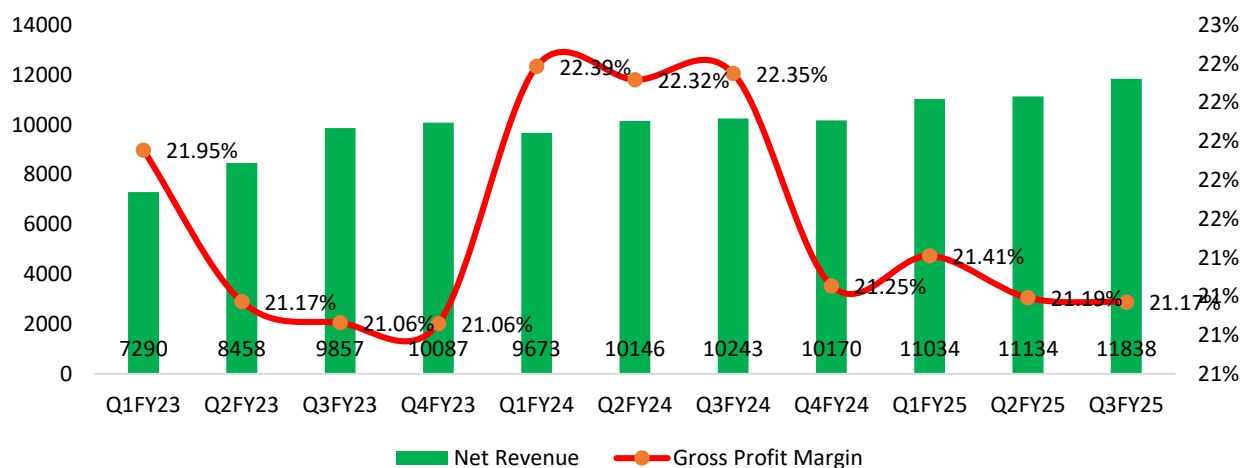


Exhibit 4: Gross Profit Margin



Source: Company, Arianth Research

Income Statement				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
Revenues	40,233	46,268	53,208	61,189
Change (%)	12.7%	15.0%	15.0%	15.0%
Cost of Goods Sold	31,628	36,181	41,768	47,972
Employee costs	1,982	2,591	2,767	3,182
Other expenses	1,513	1,712	1,809	2,080
Total operating Expense	35,122	40,484	46,344	53,235
EBITDA	5,111	5,783	6,864	7,955
EBITDA Margin (%)	12.7%	12.5%	12.9%	13.0%
Other Income	405	413	421	430
Depreciation	861	1,019	1,257	1,353
Interest	273	285	286	287
PBT	4,382	4,892	5,742	6,744
PBT after ext-ord.	4,382	4,892	5,742	6,744
Tax	662	978	1,148	1,349
Rate (%)	15.1%	20.0%	20.0%	20.0%
PAT	3,720	3,914	4,594	5,396
Change (%)	11.7%	5.2%	17.4%	17.5%

Cash Flow Statement				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
PBT	4,551	4,892	5,742	6,744
Depreciation	861	1,019	1,257	1,353
Interst Exp	-2	285	286	287
Other Non Cash Item	-35	-21	-21	-21
Cash flow before WC changes	5,374	6,175	7,264	8,363
(Inc)/dec in working capital	-5,494	3,312	-322	-440
Operating CF after WC changes	-230	7,750	5,205	6,188
Less: Taxes	-662	-978	-1,148	-1,349
Operating cash flow	-892	6,771	4,057	4,839
(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	6,639	3,938	4,716
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	-704	-827	-971
Interest exp	-273	-285	-286	-287
Cash flow from financing activities	2745.2	-1435.6	-395.6	-765.3
Currency fluctuation arising on consolidation	-	-	-	-
Net inc /(dec) in cash	1,831	5,246	3,584	3,992
Opening balance of cash	4,372	6,201	11,446	15,029
Closing balance of cash	6,201	11,446	15,029	19,020

Balance Sheet				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	628	630	630	630
Reserves & Surplus	20,868	24,077	27,844	32,268
Minority Interest	213	213	213	213
Net Worth	21,708	24,919	28,686	33,110
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	41,344	46,989	53,448
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	12,974	14,920
Cash & bank balance	5,423	11,446	15,029	19,020
other Financial & Current Asset	2,873	2,602	2,993	3,441
Total current assets	19,160	25,479	31,144	37,530
Total Assets	34,719	41,344	46,989	53,448

Key Ratios				
Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	59.1	62.2	73.0	85.7
CEPS	75.6	78.4	92.9	107.2
BVPS	345.7	395.8	455.6	525.9
Valuation (x)				
P/E	20.3	19.3	16.4	14.0
P/BV	3.5	3.0	2.6	2.3
EV/EBITDA	27.4	23.3	19.1	16.0
Return Ratios (%)				
Gross Margin	21.4%	21.8%	21.5%	21.6%
EBIDTA Margin	12.7%	12.5%	12.9%	13.0%
PAT Margin	9.7%	8.5%	8.6%	8.8%
ROE	17.9%	15.7%	16.0%	16.3%
ROCE	16.9%	16.7%	17.3%	17.9%
Leverage Ratio (%)				
Turnover Ratios				
Asset Turnover (x)	1.2	1.1	1.1	1.1
Receivable Days	97	89	89	89
Payable days	61	86	86	86

Source: Company, Arianth 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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