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Q4FY21 result review

Technology

Target price: Rs1,775

Shareholding pattern

| | Sep '20 | Dec '20 | Mar '21 |
|-------------------------|---------|---------|---------|
| Promoters | 66.3 | 65.8 | 65.4 |
| Institutional investors | 23.8 | 23.9 | 21.7 |
| MFs and other | 8.4 | 4.5 | 2.0 |
| FIs and Banks | 0.0 | 0.0 | 0.0 |
| Insurance Cos. | 0.0 | 0.0 | 0.0 |
| FII | 15.3 | 19.4 | 19.7 |
| Others | 9.9 | 10.3 | 12.9 |

Price chart



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INDIA

Route Mobile

ADD

Maintained

Rs1,554

Focus on Quality vs Quantity

With the objective of pivoting towards higher-end offerings and profitability, Route Mobile has indicated several measures such as pruning of low margin accounts, gradual shift towards OTT/RCS based communication and cross-selling more experience-based offerings to its end clients. Further, to expand in DMs such as America and Europe with a platform/solutioning focus (rather than purely SMS-based A2P), RML has appointed Mr John Owen (previously CEO at Mastek) as CEO, of Europe and Americas. We believe these measures are necessary to achieve revenue longevity as A2P SMS business will likely face pressure in medium to long term. We estimate RML to deliver healthy growth of 25% in FY22 (vs guidance of 20%). This should be driven by 1) healthy net-revenue retention (120%) as the company focusses on mining and cross selling (e.g. RCS, CCaaS) and 2) geographic expansion into US and Europe. Maintain ADD.

- **Revenues weaker than expected.** Revenues declined 6% sequentially in Q4FY21. This was due to (1) lower billing days / seasonality, (2) low margin business rationalisation and (3) certain LATAM / African geographies getting impacted by the pandemic. However, gross margin (22%) was strong primarily due to (1) company passing through DLT-based charges to end client, (2) price increase within OTT channels and (3) exiting lower margin business.
- **Recent leadership addition augurs well for growth in developed geographies.** RML recently appointed Mr John Owen as CEO of America and Europe. John provides a rich mix of experience and has previously worked as CEO at Mastek. SAAS-based positioning / scaling up of revenues will be key as this geography offers higher margins.
- **Near-term outlook robust, pivoting from A2P SMS business key for long-term stable growth.** We believe as the enterprise increasingly adopts UCaaS based, SMS based volumes (co indicated a growth of 10-15%), on an organic basis, it will continue to face pressure. By taking measures such as 1) upselling OTT/RCS based volumes, 2) pruning of lower margin accounts and 3) strengthening investments in SAAS-based offerings by acquiring companies such as TeleDNA and Phonon, management's focus is on incrementally getting a stable revenue profile with higher margins. Execution of the same remains the key. We maintain **ADD** with a target price of Rs1,775. Key risks to our rating include: 1) Stagnation in top-10 client spend, 2) lower than expected margin improvement and 3) slower than expected uptake from next-gen business.

| | |
|-------------------------|------------------|
| Market Cap | Rs90bn/US\$1.2bn |
| Reuters/Bloomberg | ROUT.BO/ROUTE IN |
| Shares Outstanding (mn) | 57.7 |
| 52-week Range (Rs) | 1922/350 |
| Free Float (%) | 34.6 |
| FII (%) | 19.7 |
| Daily Volume (US\$'000) | 11,630 |
| Absolute Return 3m (%) | (15.2) |
| Absolute Return 12m (%) | NA |
| Sensex Return 3m (%) | (2.1) |
| Sensex Return 12m (%) | 69.0 |

| Year to Mar | FY21 | FY22E | FY23E | FY24E |
|-------------------------|--------|--------|--------|--------|
| Revenue (Rs mn) | 14,062 | 17,574 | 21,463 | 25,811 |
| Rec. Net Income (Rs mn) | 1,333 | 1,849 | 2,307 | 2,750 |
| EPS (Rs) | 24.6 | 31.4 | 39.2 | 46.7 |
| % Chg YoY | 77.9 | 27.7 | 24.7 | 19.2 |
| P/E (x) | 63.3 | 49.6 | 39.7 | 33.3 |
| P/B (x) | 12.9 | 11.0 | 8.6 | 6.8 |
| EV/E (x) | 49.9 | 36.9 | 29.2 | 24.4 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| RoCE (%) | 56.1 | 67.7 | 69.8 | 79.5 |
| RoE (%) | 28.9 | 24.9 | 24.3 | 22.9 |

Please refer to important disclosures at the end of this report

Financial summary

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

| | FY21 | FY22E | FY23E | FY24E |
|------------------------------|--------|--------|--------|--------|
| Revenue from operations | 14,062 | 17,574 | 21,463 | 25,811 |
| Operating Expenses | 12,321 | 15,219 | 18,489 | 22,255 |
| EBITDA | 1,741 | 2,355 | 2,973 | 3,556 |
| % margins | 12.4% | 13.4% | 13.9% | 13.8% |
| Depreciation & Amortisation | 258 | 334 | 408 | 490 |
| EBIT | 1,483 | 2,021 | 2,565 | 3,065 |
| % margins | 10.5% | 11.5% | 12.0% | 11.9% |
| Other Income (net) | 132 | 242 | 263 | 310 |
| Recurring PBT | 1,615 | 2,263 | 2,828 | 3,375 |
| Less: Taxes | 288 | 430 | 537 | 641 |
| Recurring Net Income | 1,328 | 1,833 | 2,291 | 2,734 |
| Less: Minority Interest | (6) | (16) | (16) | (16) |
| Add: Extraordinary Inc/(Exp) | - | - | - | - |
| Reported Net Income | 1,333 | 1,849 | 2,307 | 2,750 |

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

| | FY21 | FY22E | FY23E | FY24E |
|---------------------------------|---------------|---------------|---------------|---------------|
| LIABILITIES | | | | |
| Shareholders' funds | 6,521 | 8,355 | 10,645 | 13,380 |
| Minority Interest | (27) | (43) | (59) | (75) |
| Non-current liabilities | 34 | 34 | 34 | 34 |
| Current Liabilities | 142 | 173 | 181 | 189 |
| Amounts pending investigation | 3,550 | 4,149 | 4,966 | 5,880 |
| Total Liabilities | 10,221 | 12,668 | 15,768 | 19,408 |
| ASSETS | | | | |
| Fixed Assets | - | 1,781 | 1,588 | 1,355 |
| Other non-current assets | 2,523 | 584 | 584 | 584 |
| Total non-current assets | 2,523 | 2,365 | 2,172 | 1,940 |
| Current Assets | 7,697 | 10,303 | 13,596 | 17,469 |
| Total Assets | 10,221 | 12,668 | 15,768 | 19,408 |

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

| | Jun-20 | Sep-20 | Dec-20 | Mar-21 |
|----------------------|--------|--------|--------|--------|
| Net sales | 3,096 | 3,493 | 3,848 | 3,624 |
| % growth (QoQ) | 16 | 13 | 10 | (6) |
| Recurring EBITDA | 376 | (418) | (447) | (499) |
| Margin (%) | 12 | (12) | (12) | (14) |
| Recurring Net Income | 271 | 329 | 380 | 354 |
| Net sales | 3,096 | 3,493 | 3,848 | 3,624 |

Table 3: Cashflow statement

(Rs mn, year ending March 31)

| | FY21 | FY22E | FY23E | FY24E |
|--|------------|--------------|--------------|--------------|
| OCF before W Cap changes | 873 | 1,667 | 1,925 | 2,436 |
| Working Capital Inflow / (Outflow) | 61 | 627 | (265) | (778) |
| Capex | (73) | (77) | (176) | (215) |
| Free Cash flow | 862 | 2,218 | 1,484 | 1,443 |
| Cash Flow from other Invest Act (Ex Capex) | 75 | (2,184) | 264 | 289 |
| Proceeds from Issue of Share Capital and buyback | | 2,400 | - | - |
| Inc/(Dec) in Borrowings and lease liabilities | (29) | (24) | (22) | (26) |
| Others | (595) | (266) | (16) | (16) |
| Increase/(Decrease) in Cash | 313 | 2,143 | 1,710 | 1,690 |

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

| | FY21 | FY22E | FY23E | FY24E |
|---|------|-------|-------|-------|
| Per Share Data (Rs) | | | | |
| Earnings per share (Adjusted Diluted Recurring) | 24.6 | 31.4 | 39.2 | 46.7 |
| Earnings per share (Basic Reported) | 24.8 | 32.3 | 40.2 | 48.0 |
| Cash earnings per share | 29.3 | 37.1 | 46.1 | 55.0 |
| Book Value per share | 120 | 142 | 181 | 227 |
| Growth Ratios (%) | | | | |
| Operating Income (Sales) | 47.0 | 25.0 | 22.1 | 20.3 |
| EBITDA | 74.2 | 35.3 | 26.2 | 19.6 |
| Recurring Net Income | 92.3 | 38.7 | 24.7 | 19.2 |
| Diluted Recurring EPS | 77.9 | 27.7 | 24.7 | 19.2 |
| Diluted Recurring CEPS | 59.9 | 26.3 | 24.3 | 19.4 |
| Valuation Ratios (x) | | | | |
| P/E | 63.3 | 49.6 | 39.7 | 33.3 |
| P/CEPS | 53.0 | 42.0 | 33.8 | 28.3 |
| P/BV | 12.9 | 11.0 | 8.6 | 6.8 |
| EV / EBITDA | 49.9 | 36.9 | 29.2 | 24.4 |
| EV / Sales | 6.2 | 4.9 | 4.0 | 3.4 |
| EV / FCF | 39.2 | 58.5 | 60.2 | 34.9 |
| Operating Ratio | | | | |
| Gross margin/Sales (%) | 87.6 | 86.6 | 86.1 | 86.2 |
| SG&A/Sales (%) | 9.9 | 11.6 | 10.2 | 10.1 |
| Other Income / PBT (%) | 17.8 | 19.0 | 19.0 | 19.0 |
| Effective Tax Rate (%) | 7.6 | 9.4 | 12.7 | 17.5 |
| Fixed Asset Turnover (x) on average | 56.4 | 60.0 | 73.0 | 73.0 |
| Receivables (days) on average | 61.9 | 61.9 | 61.9 | 61.9 |
| D/E Ratio (x) | 0.0 | 0.0 | 0.0 | 0.0 |
| Return/Profitability Ratio (%) | | | | |
| Recurring Net Income Margins | 9.5 | 10.5 | 10.7 | 10.7 |
| RoCEex Cash | 56.1 | 83.1 | 89.0 | 95.3 |
| RoNW | 28.9 | 24.9 | 24.3 | 22.9 |
| EBITDA Margin | 12.4 | 13.4 | 13.9 | 13.8 |

Source: Company data, I-Sec research

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