

Route Mobile Limited

IPO Note

(SUBSCRIBE)

Analyst:

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IPO details

Key Data	
Issue Opens	09-Sep-20
Issue Closes	11-Sep-20
Equity Shares Offered (in mn.)	17.14
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs)	10
Price Band (Rs)	345-350
Max. Issue Size (Rs mn)	6,000
Lot Size (Eq. Shares)	40 and multiple thereof

Valuation	@ 345 per share	@ 350 per share
Market Cap (mn)	19,616	19,900
Net Debt (Rs mn)	0	0
Enterprise Value (Rs mn)	19,616	19,900
EV/ Sales	2.1	2.1
EV/ EBIDTA	19.7	19.9
P/E	24.9	25.3

* Calculated on EPS of FY17

Source: Red Herring Prospectus, Dealmoney Research

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	48.0	96.0%	37.7	66.3%
Public	2.0	4.0%	2.0	3.5%
Others		0.0%		0.0%
Offer for sale		0.0%	10.3	18.1%
Fresh Issue		0.0%	6.9	12.1%
Total	50.0	100.0%	56.9	100.0%

Object of the issue

- Repayment or pre-payment, in full or part, of certain borrowings of the company (36.50 Cr)
- Acquisitions and other strategic initiatives (83 Cr)
- Purchase of office premises in Mumbai (65 Cr)
- General Corporate Purposes

Recommendation

The company has diverse service offerings for the enterprise client base and has strong distribution network. Also the company established presence in all major geographies provides it an opportunity to leverage the growth in the cloud-communications space.

the company has been working towards expanding major mobile communication channels, including messaging, email, OTT and voice. The future prospects of the company looks stronger . Hence, we give a **SUBSCRIBE** rating to Route Mobile limited for long term horizon.

About the company..

- ❑ Incorporated on May 14, 2004, Route Mobile Limited (“Route Mobile”) provides Cloud-communication Platform as a Service (“CPaaS”) to enterprises, over-the-top (“OTT”) players and Mobile Network Operators (“MNOs”).
- ❑ They were ranked as a tier 1 application-to-peer (“A2P”) service provider internationally. Route Mobile ranked 2nd globally as a tier 1 A2P service provider and also ranked 1st for ‘value added services’ provided, its ‘implementation process’ and its ‘uptime performance’ among tier 1 vendors in 2017.
- ❑ Company’s operations are internally aligned into the following business verticals:
 - **Enterprise:** Provides cloud based communication platform to enterprises to enable digital communication through multiple channels;
 - **Mobile Operator:** offerings in this segment include SMS analytics, firewall, filtering, monetization and CPaaS and hubbing solutions; and
 - **Business Process Outsourcing:** provides a range of BPO services including client support, technical support, booking and collection services
- ❑ Its Enterprise solution comprises 2 primary components – the front-end that provides an interface for enterprises to integrate with, and a back-end which is directly integrated with over 240 MNOs, and provides access to over 800 MNOs across the globe, as of June 30, 2020.
- ❑ In Fiscal 2020 and in the 3 months ended June 30, 2020, it serviced 2,787 customers and 1,380 customers, respectively.

- ❑ As of June 30, 2020, Route Mobile has serviced over 30,150 clients, cumulatively since inception, across sectors including social media, banking and financial services, aviation, retail, internet/e-commerce, logistics, healthcare, hospitality, media and entertainment, pharmaceuticals and telecom.
- ❑ The company has a number of clients on a pre-paid business model where the client pays upfront. In Fiscal 2018, 2019 and 2020, and in the 3 months ended June 30, 2020, 41.77%, 24.99%, 17.01% and 15.47% of its revenue from operations, respectively, was prepaid.

❑ **Omni-channel cloud communication platform service provider with diversified service offerings for enterprises**

Being an associate member of the GSMA and an accredited open hub connectivity solution provider allows company to manage both A2P and P2P traffic for enterprises and MNOs. In addition, Route Mobile (UK) Limited is also an associate member of GSMA. With growing internet penetration, business models are evolving and cloud communication services are being used by enterprises for streamlining back-end operations as well as for engaging with customers, employees and other stakeholders. The size of the global A2P messaging market (including only directly connected A2P revenue) was US\$ 37.9 billion in 2017 and is estimated to grow at a CAGR of 4.4%.

❑ **MNO focused suite of products**

Globally, telecom providers lost over \$11 billion in revenues in 2018 due to delivery of messages through “grey routes”. With the use of company’s analytics based SMS firewall, company assist MNOs in identifying and plugging such revenue leakages due to grey routes, driving additional revenues for them, and for company.

Company have been able to diversify its service offerings in the mobile operator segment with acquisition of 365squared to include SMS analytics, firewall, filtering and monetization solutions. Company proactively help MNOs identify A2P revenue leakage and monetize the same. On an average, company’s SMS firewall contracts with MNOs have a tenure of three years, with certain contracts providing for automatic renewal for further two years, which provides with reasonable visibility and stickiness of revenue from such business.

❑ **Robust business model and consistent financial track record**

Company have a number of clients on a pre-paid business model where the client pays upfront, allowing company to reduce the overall working capital cycle. Company's revenue from operations increased at a CAGR of 37.61% from ₹ 5,049.48 million in Fiscal 2018 to ₹ 9,562.52 million in Fiscal 2020 and was ₹ 3,096.14 million in the three months ended June 30,

2020. In Fiscal 2018, 2019 and 2020, and in the three months ended June 30, 2020, 41.77%, 24.99%, 17.01% and 15.47% of company's revenue from operations, respectively, was prepaid.

This business model provides company with a negative working capital cycle and supports flexibility in pricing its services. Further, company's revenue is directly linked to usage based on each transaction or communication sent by clients and is based on a pricing model where company have an ability to change the prices offered based on prevailing market rates or owing to increase in rates by MNOs as a result of regulatory action or legislation. Company's pricing control mechanism also ensures that relationship managers and system administrators are unable to price services below a certain base, which also ensures margin protection. Company have experienced sustained growth in its business in recent years, including currently during the ongoing outbreak of COVID-19. Company have not required any capital infusion since Fiscal 2007 and have grown operations primarily through internal accruals.

❑ **Scalable delivery platform supported by robust infrastructure**

Company's cloud-based delivery platform enables to build and manage applications without having to create and maintain the underlying infrastructure for each client. Company is therefore able to provide enterprises with solutions to operate applications without purchasing, configuring or managing the underlying hardware and software. Company currently operate at a throughput capacity of over 10,000 messages per second. Company's six strategically located data centres provide operations with the resilience required to meet the requirements of clients. Company's scalable platform requires limited capital expenditure as and when it add new clients or new services or when traffic volumes increase. Company's platform allows its clients to scale elastically without having to redevelop their applications or change their communications infrastructure.

❑ **Continue to develop omni-channel digital communication offerings and innovative solutions**

Company have continuously focused on retaining and deepening relationships with its existing customer base with the help of a dedicated key accounts management team. Company have grown its revenues with respect to particular customers and intend to focus on revenue expansion through cross-selling and up-selling a wider range of services and solutions to its existing customers. Company's R&D team has augmented its CPaaS platform with several new channels of digital communication, which will drive growth in the near term. Company intend to leverage newer solutions with its existing customers and position itself as the partner of choice for these customers. Offering a one-stop solution addressing enterprises' communication requirements across all digital channels will increase stickiness of company's relationship with its existing customers and augment company's ability to serve start-ups and young enterprises. These differentiated offerings will also help company initiate business engagement with potential customers who do not currently use its services.

❑ **Enhance service offerings through inorganic opportunities**

Since Fiscal 2017, company have expanded its operations through a number of acquisitions and successfully integrated these businesses into company's operations. Company continue to focus on building its presence in new markets and addressing the need for cloud-communications services in new industries. Company intend to continue its strategic expansion plans through inorganic growth opportunities in new markets and geographies allowing company to complement its existing operations. Through strategic acquisitions, company intend to increase the scale of its operations, access new clients and enter high-growth geographies in a cost-effective manner. Company has entered into a business transfer agreement dated June 15, 2020 to acquire certain technologies and related contracts from a Bengaluru-based company specializing in development of telecom related solutions which includes, inter alia, multimedia messaging service center and short message service center platforms on a going concern basis. The acquisition is subject to customary closing conditions

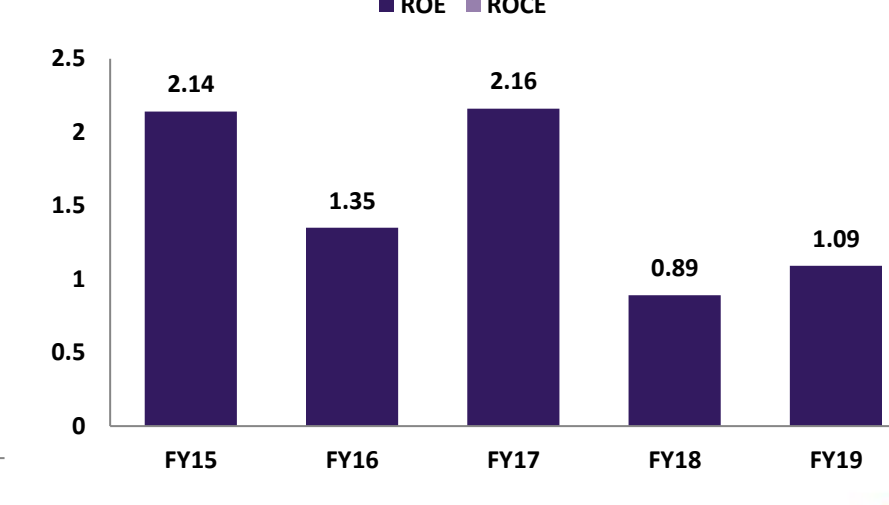
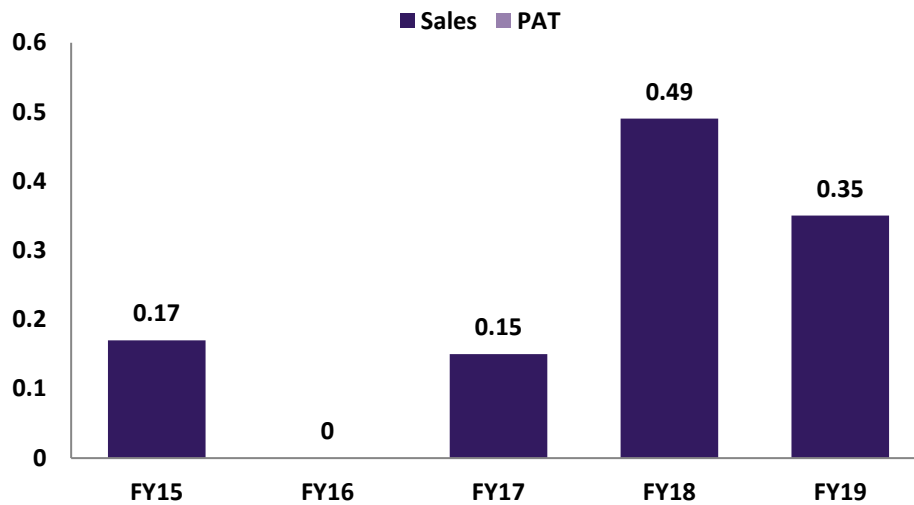
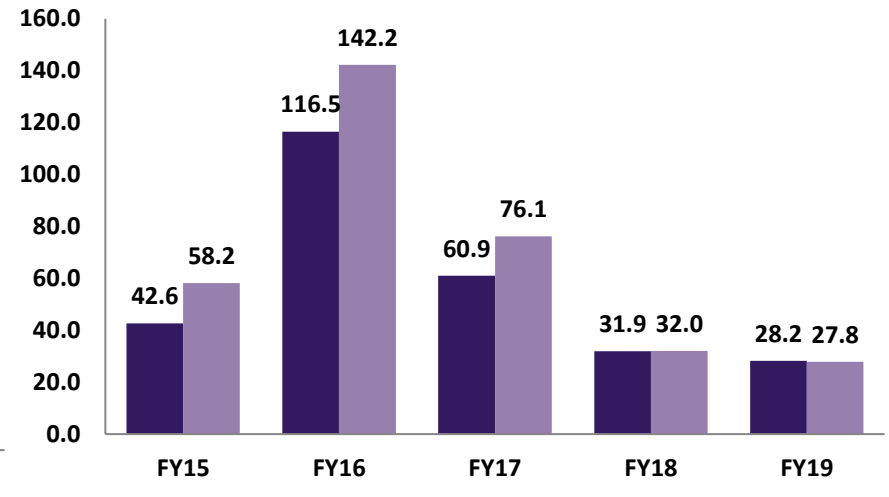
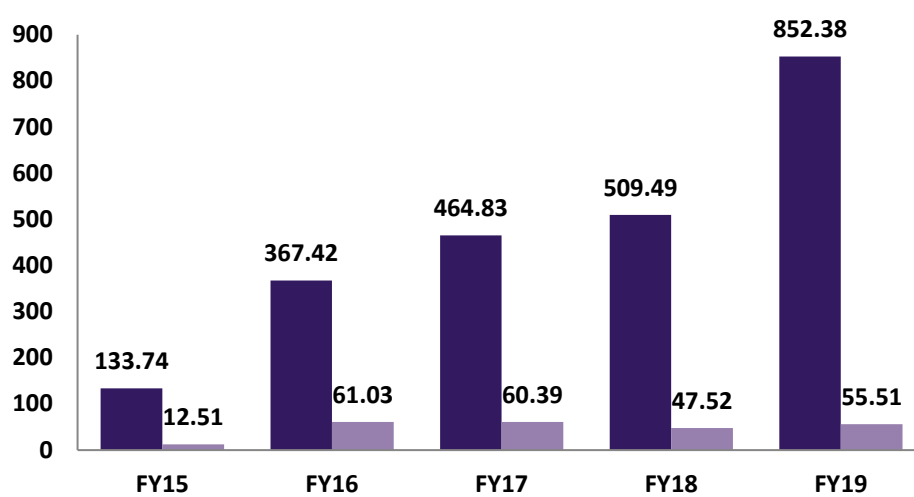
❑ **Grow presence in additional markets to serve clients locally**

Company intend to continue to grow in the markets where it currently operate and further expand its offerings in additional markets. Company plan to focus on further strengthening its position in certain important enterprise markets, such as Africa and Latin America, which have significant potential for cloud-communication services. Company have operations in Kenya, Ghana, Uganda, Zambia and Nigeria, through its subsidiaries, Route Connect (Kenya) Limited, Route Mobile Limited, Route Mobile (U) Limited, Route SMS Solutions Zambia Limited and ROUTESMS Solutions Nigeria Limited, respectively. Company also have operations in the Americas, where it anticipate significant potential to serve OTT and enterprise clients. In addition to the aforementioned, company continue to target expansion into newer geographies directly through strategic acquisitions. This allows company to meet regulatory requirements that require service providers to have a direct presence in the region, ensures regional expertise and enables company to maintain lower operating costs

❑ **Leverage CPaaS platform and BPO expertise to deliver virtual contact centre solutions**

Company added BPO capabilities through the acquisition of Call2Connect, with effect from April 1, 2017. Company's strategic objective is to integrate its BPO capabilities with its enterprise voice platform and deliver end-to-end offerings to enterprise customers. Company's CPaaS offerings enable enterprises address their digital communication requirements while its BPO services intend to address customer / vendor / partner requirements to interact with a human interface. Further, company intend to leverage Call2Connect's expertise in call centre and other BPO services, combined with company's expertise in technology driven digital communication enablement to create a new revenue stream through virtual contact centre solutions

Financial Performance



■ Sales ■ PAT

■ ROE ■ ROCE

■ Current Ratio

Standalone Summary Financials

Income Statement

DESCRIPTION	FY15	FY16	FY17	FY18	FY19
Net Sales	131.8	364.0	457.6	504.9	844.7
Total Expenditure	111.7	286.1	376.8	433.0	757.7
Operating Profit (Excl OI)	20.1	77.9	80.8	71.9	87.0
Other Income	1.9	3.4	7.3	4.5	7.7
Operating Profit	22.0	81.3	88.0	76.5	94.7
Interest	0.6	0.8	1.1	6.5	12.3
PBDT	21.4	80.5	86.9	69.9	82.5
Depreciation	2.5	2.5	5.4	12.5	17.2
Profit Before Taxation & Exceptional Items	18.9	78.0	81.5	57.5	65.2
Profit Before Tax	18.9	78.0	81.5	57.5	65.2
Provision for Tax	6.4	17.0	21.1	9.9	9.7
Profit After Tax	12.5	61.0	60.4	47.5	55.5

Source: Red Herring Prospectus, Dealmoney research

Standalone Summary Financials

Balance Sheet

DESCRIPTION	FY15	FY16	FY17	FY18	FY19
EQUITY AND LIABILITIES					
Share Capital	2.0	20.0	50.0	50.0	50.0
Share Warrants & Outstandings	-	-	-	-	-
Total Reserves	31.5	51.4	76.9	120.9	172.8
Shareholder's Funds	33.5	71.4	126.9	170.9	222.8
Minority Interest			0.5	(0.7)	(1.9)
Long-Term Borrowings					
Secured Loans	0.2		2.6	5.2	4.6
Unsecured Loans					
Deferred Tax Assets / Liabilities	0.4	(0.2)	(1.0)	(2.0)	(3.5)
Other Long Term Liabilities			0.2	0.4	0.7
Long Term Trade Payables					
Long Term Provisions		1.0	1.0	1.4	1.6
Total Non-Current Liabilities	0.7	0.7	2.8	5.0	3.3
Current Liabilities					
Trade Payables	10.3	50.9	36.0	56.1	59.7
Other Current Liabilities	1.1	107.2	16.4	107.5	114.3
Short Term Borrowings	5.4		15.0	77.8	73.2
Short Term Provisions	5.8	1.2	2.0	4.6	12.2
Total Current Liabilities	22.7	159.4	69.4	245.9	259.4
Total Liabilities	56.8	231.4	199.6	421.2	483.7

DESCRIPTION	FY15	FY16	FY17	FY18	FY19
ASSETS					
Non-Current Assets					
Gross Block	14.5	18.7	46.7	208.8	214.0
Less: Accumulated Depreciation	7.5	9.0	14.0	26.8	44.0
Less: Impairment of Assets					
Net Block	7.1	9.7	32.7	182.1	169.9
Capital Work in Progress		1.2			
Intangible assets under development					2.1
Non Current Investments			0.0		
Long Term Loans & Advances	1.0	2.6	14.0	19.0	29.6
Other Non Current Assets	0.0	3.5	3.2	0.6	0.4
Total Non-Current Assets	8.1	17.0	50.0	201.6	202.0
Currents Investments					
			0.0		10.7
Inventories	3.2				
Sundry Debtors	22.6	24.2	32.6	97.3	144.7
Cash and Bank	19.1	187.1	110.9	102.6	95.7
Other Current Assets	1.2	0.9	1.9	10.5	22.0
Short Term Loans and Advances	2.6	2.2	4.1	9.2	8.7
Amt Due from firm (directors interested)					
Total Current Assets	48.7	214.4	149.6	219.6	281.7
Net Current Assets (Including Current Investments)					
	26.0	55.1	80.3	(26.3)	22.3
Total Current Assets Excluding Current Investments	48.7	214.4	149.6	219.6	271.0
Miscellaneous Expenses not written off					
Total Assets	56.8	231.4	199.6	421.2	483.7

Source: Red Herring Prospectus, Dealmoney research

Key Risks

- ❑ It depends in part on the success of strategic relationship with third parties, particularly the direct relationships with mobile network operations (“MNOs”). Its inability to enter into or maintain such relationships, particularly with MNOs may adversely affect the business, financial condition and results of operations.
- ❑ Failures, defects, delays and other problems involving the technology systems and infrastructure on which its rely for providing the services and solutions to the clients may adversely affect the business, financial condition and results of operations
- ❑ The company faces a risk from potential claims resulting from client’s misuse of platform to send unauthorized text messages in violation of TRAI regulations
- ❑ It operates in a highly evolving market and any inability to respond to such changing conditions could adversely affect the business and results of operations

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