

Route Mobile Ltd.

SECTOR Technology

Issue Highlights

Issue Open	Sep 09, 2020
Issue Close	Sep 11, 2020
Issue Price	Rs. 345 - Rs. 350 per share
Total Issue Size	Rs. 600 Cr
<i>Of which</i>	
Fresh Issue	Rs. 240 cr
Offer for sale	Rs. 360 cr
Face Value	Rs. 10/ share
Market Lot	40 Equity Shares
Issue Type	Book Built Issue

Offer Structure

QIB Category	50%
Non-Institutional	15%
Retail category	35%

Lead Book Running Managers

- ICICI Securities Limited
- Axis Capital Limited
- Edelweiss Financial Services
- IDBI Capital Markets & Securities Limited

Registrar To The Offer

- KFin Technologies Pvt Ltd.

About the Company

Headquartered in Mumbai and incorporated in 2004, Route Mobile is one of the leading provider of cloud-communication platform as a service (CPaaS) to enterprises, over-the-top (OTT) players and mobile network operators (MNOs). It is ranked as a tier one application-to-peer (A2P) service provider internationally. Its enterprise solution comprises two 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. Its clients include some of the world’s largest and well-known organizations, including a number of Fortune Global 500 companies. It 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. It garners nearly 80.1% of its revenue from exports and 19.9% from India.

Objects of the Issue

- Repayment, in full or part, of certain borrowings of the company
- Acquisitions and other strategic initiatives
- Purchase of office premises in Mumbai
- General corporate purposes

Valuation

The CPaaS platform providers have witnessed traction over the recent years as mobile channels have become increasingly important for brands and enterprises to connect with customers. The trend is expected to continue on the back of rising mobile subscribers globally and growing preference of digitalization of businesses as well as communication. Route Mobile is likely to be key beneficiary as it is one of the leading CPaaS service providers to enterprises, OTT players and MNOs. It has an omni-channel cloud communication platform and offers diversified offering to its global client base. Further, it has focused suite of products for mobile network operators and enjoys a direct relationship with 240 MNOs worldwide.

The financial track record has been encouraging for the company with revenue and PAT CAGR of 37.6% and 21.7% respectively. Going forward, we believe the growth prospects looks promising for the company led by positive industry trends coupled with company’s constant focus on innovation, enhancing offerings and widening geographical reach. Further, it would continue to focus on in-organic opportunities which would aid growth momentum and widen its service offerings. On the valuation front, the company is valued at a P/E of 18.5x (post-issue) FY21 annualized EPS. One can invest in the company for long term.

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Strengths

Omni-channel cloud communication platform service provider with diversified service offerings for enterprises: Route Mobile is among the leading CPaaS providers to enterprises, OTT players and MNOs. It 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. Additionally, it has developed a single unified API, an ‘omni-channel platform’, which incorporates communication modes such as A2P / P2A / 2Way Messaging, email, RCS messaging, voice and OTT business messaging, allowing enterprises to reach customers on both traditional and all leading OTT platforms. 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. Its 45 member technical team, as of June 30, 2020, are engaged in developing new and customized solutions for clients across sectors and industries.

MNO focused suite of products: Globally, telecom providers lost over \$11 billion in revenues in 2018 due to delivery of messages through “grey routes” (Source: Juniper Reports). With the use of Route Mobile analytics based SMS firewall; it assists MNOs in identifying and plugging such revenue leakages due to grey routes, driving additional revenues for them, and for the company. It has been able to diversify its service offerings in the mobile operator segment with the acquisition of 365squared to include SMS analytics, firewall, filtering and monetization solutions. It proactively helps MNOs identify A2P revenue leakage and monetize the same. In addition, Route Mobile assists MNOs in securing their networks and improves their understanding of how A2P messages terminate on their network. It also offers CPaaS to MNOs to help them extend A2P messaging services to enterprises and other aggregators. It has added IVN solution for MNOs which helps them to offer additional mobile number to existing subscribers, on the same mobile device, without any additional KYC requirements or SIM cards.

Global connectivity through established relationships with MNOs: Route Mobile has direct relationships with over 240 MNOs (Super Network) and provided its enterprise clients with access to over 800 mobile networks. It has six strategically located data centres. The company’s global presence enables them to offer clients the flexibility of multiple routes, better speed of delivery and an ability to optimize cost of delivery per message. It has served over 30,150 clients, cumulatively since inception, globally through its offices across Africa, Asia Pacific, Europe, Middle East and North America. Based on its Super Network, Route Mobile is an attractive partner for enterprises allowing them to communicate cost-effectively across multiple geographies. Its existing direct and indirect reach to mobile subscribers globally provides the ability to attract varied categories of enterprises that need to communicate with their clients.

Diversified and global client base across industries serviced locally: It has a diversified enterprise client base across a broad range of industries including social media companies, banks, financial institutions, e-commerce entities, travel aggregators and other client facing companies. Additionally, its MNO clients include over 25 operators across four continents. In FY18, FY19, FY20 and June-20 its ten largest clients accounted for 36.1%, 46.0%, 52.5% and 63.7% of its revenue from operations and its single largest client accounted for 6.5%, 19.9%, 14.6% and 15.5% of its revenue from operations. Its diverse global client base limits the dependency on a specific client, industry or geography and reduces financial risk. It has a healthy track record of delivering quality and innovative solutions across various segments enables the company to develop and strengthen its relationships with clients and increase business from existing clients.

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

Strategies

Continue to develop omni-channel digital communication offerings and innovative solutions: It has continuously focused on retaining and deepening relationships with existing customer base with the help of a dedicated key accounts management team. It has grown revenues with respect to particular customers and intends to focus on revenue expansion through cross-selling and up-selling a wider range of services and solutions to its existing customers. Its R&D team has augmented its CPaaS platform with several new channels of digital communication, which will drive growth in the near term. It intends to leverage newer solutions with existing customers and position themselves as the partner of choice for these customers. It believes that offering a one-stop solution addressing enterprises' communication requirements across all digital channels will increase stickiness of its relationship with existing customers and augment its ability to serve start-ups and young enterprises. These differentiated offerings will help the company to initiate business engagement with potential customers who do not currently use their services. It continues to track new technologies, industry segments and market trends in the mobile technology sector. It intends to leverage its existing platform, diverse enterprise client base and Super Network to capitalize on the growth opportunity in cloud-communications space and endeavour to be a one stop communications solution provider to such enterprise clients and MNOs.

Continue to focus on developer community program: Route Mobile API Developer or RAPID network is an initiative to formally launch its developer community program. The objective of this program is to enable developers to leverage the capabilities of its CPaaS platform and seamlessly deploy communication features within their applications / software. Through the developer community program, it is in the process of adopting a bi-modal go-to-market strategy. The developer community program primarily will focus on agility, enabling developers and their enterprises to experiment with APIs and leverage its platform to improve their digital communication solutions. Its business partners, system integrators and third party developers will have access to an online portal with APIs allowing them to integrate with its platform and develop digital communication solutions for end-users.

Enhance service offerings through inorganic opportunities: Route Mobile would continue to focus on building its presence in new markets and addressing the need for cloud-communications services in new industries. It intends to continue its strategic expansion plans through inorganic growth opportunities in new markets and geographies allowing the company to complement its existing operations. Through strategic acquisitions, it intends to increase the scale of operations, access new clients and enter high-growth geographies in a cost-effective manner. Its experience, track-record and approach of identifying and implementing inorganic growth strategy will enable the company to acquire and successfully integrate new businesses.

Grow presence in additional markets to serve clients locally: With its leading position in the cloud-communication space coupled with the anticipated growth in this sector, it intends to continue to grow in the markets where it currently operates and further expand its offerings in additional markets. It intends to meet the requirements of a broader range of global developers and enterprises. In order to attract and secure new clients, it will continue to develop network of offices to increase awareness amongst enterprises. It also plans 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. It has operations in Kenya, Ghana, Uganda, Zambia and Nigeria, through its subsidiaries. It also has operations in the Americas, where it anticipates significant potential to serve OTT and enterprise clients. In addition to the aforementioned, it continues to target expansion into newer geographies directly through strategic acquisitions.

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

Key Risks

- Adverse currency movements (80% of revenue from exports) can impact company's financial performance
- Highly evolving market and any inability to adapt to such changing conditions could adversely affect its business
- Nearly 64% of its revenue comes from top 10 clients, therefore any loss of a large client can impact business meaningfully

Financial Performance

Profit & Loss Account

Particulars (Rs Crs)	FY18	FY19	FY20	Q1FY21
Revenue from operations (net)	504.9	844.7	956.3	309.6
Expenses				
Purchases of messaging services	340.7	667.0	764.2	249.4
Employee benefits expense	50.5	55.4	58.2	13.0
Other expense	38.1	30.0	34.1	9.5
Total	429.4	752.4	856.4	272.0
EBITDA	75.6	92.3	99.8	37.6
Other income	4.5	7.7	11.9	2.7
Depreciation and amortisation	15.8	21.9	22.7	6.0
Finance costs	7.8	13.1	4.9	1.0
PBT	56.5	65.0	84.1	33.3
Tax expense	9.8	10.5	15.0	6.4
Adjusted PAT	46.7	54.5	69.1	26.9

Source: Company Data, RHP

Financial Performance

Balance Sheet

Particulars (Rs Crs)	FY18	FY19	FY20	Q1FY21
ASSETS				
Non-current assets	227.7	234.7	234.4	231.5
Property, Plant & Equipment	20.7	21.7	22.4	21.3
Right of Use Assets	21.0	15.3	9.7	8.3
Intangible assets under development	-	2.1	-	-
Intangible assets	159.6	147.5	144.5	140.8
Investments	-	10.7	11.9	12.4
Other Non-current assets	19.6	29.9	42.0	46.0
Deferred Tax Asset	6.8	7.5	3.8	2.7
Current assets	219.6	271.0	392.2	403.4
Trade receivables	97.3	144.7	203.7	184.0
Cash & Bank Balances	102.6	95.7	102.6	158.7
Other current assets and Investments	19.7	30.7	85.9	60.6
Total Assets	447.4	505.8	626.5	634.8
EQUITY and LIABILITIES				
Shareholders' Funds	160.9	211.8	270.4	297.0
Share Capital	50.0	50.0	50.0	50.0
Reserves & Surplus	110.9	161.8	220.4	247.0
Minority Interest	(0.7)	(1.9)	(2.2)	(2.3)
Non-current liabilities	22.3	17.3	12.1	11.3
Long-Term Borrowings	20.8	15.7	9.3	8.4
Deferred Tax Liabilities (Net)	0.0	0.0	0.5	0.5
Long Term Provisions	1.4	1.6	2.2	2.4
Current liabilities	264.9	278.6	346.3	328.8
Short Term Borrowings	82.6	78.5	43.2	44.1
Trade Payables	56.1	59.7	181.3	171.7
Other current liabilities	125.4	139.7	120.9	112.1
Short Term Provisions	0.8	0.6	0.8	0.8
Total	447.4	505.8	626.5	634.8

Source: Company Data, RHP

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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