

## One-offs impact margin; Synergy benefits to watch

Information Technology ▶ Result Update ▶ July 23, 2024

TARGET PRICE (Rs): 1,800

Route Mobile posted a weak operating performance in Q1, although adjusted for one-offs, performance was broadly inline. Revenue grew 8.5% QoQ, in line with our estimate, aided by the Vi deal and incremental throughput from Telesign. Billable transactions jumped up 9.1% QoQ on the back of volume growth in the domestic market, whereas average realization was broadly stable QoQ at ~30paise. Reported EBITDAM fell by 110bps QoQ to 11.2%, missing expectations, although adj. EBITDAM was broadly in-line with expectations. Given the Q1 performance, ramp-up of the Vi firewall and expected synergy benefits (based on current run-rate on RPT transactions), the management expects revenue to grow 18-22% YoY in FY25, along with 13% non-GAAP EBITDAM and 50-75% cash generation (OCF/EBITDA). The management continues to aspire for US\$1bn revenue in the next 2-3 years. We cut FY25E EPS by ~4%, factoring in the Q1 performance and FY25 guidance, and largely retain FY26E/27E EPS. We retain ADD with a TP of Rs1,800 at 22x Jun-26E EPS.

## Route Mobile: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	35,692	40,233	48,472	55,248	62,443
EBITDA	4,442	5,019	5,880	7,016	8,055
Adj. PAT	3,271	3,582	3,794	4,817	5,796
Adj. EPS (Rs)	52.4	59.7	60.4	76.7	92.3
EBITDA margin (%)	12.4	12.5	12.1	12.7	12.9
EBITDA growth (%)	103.1	13.0	17.1	19.3	14.8
Adj. EPS growth (%)	100.4	14.1	1.2	26.9	20.3
RoE (%)	18.7	18.0	16.5	18.1	18.8
RoIC (%)	34.9	24.4	22.0	25.2	27.7
P/E (x)	33.5	30.8	29.1	22.9	19.0
EV/EBITDA (x)	23.0	21.2	17.7	14.4	12.1
P/B (x)	6.0	5.1	4.5	3.9	3.3
FCFF yield (%)	0.3	(1.2)	2.6	3.7	4.6

Source: Company, Emkay Research

## Results summary

Revenue grew 8.5% QoQ to Rs11.03bn, in line with our estimate of Rs11.06bn. the number of billable transactions grew to 37.1bn in Q1 from 34bn in Q4, and realizations were broadly stable QoQ at ~30paise. New product revenue grew 15.9% QoQ to Rs745mn in Q1FY25. Gross margin declined by 10bps to 21.7%. EBITDAM declined by 110bps QoQ to 11.2%, missing our estimate mainly due to one-offs like forex loss (Rs119mn) and one-time cost incurred for seeking expert opinions on transfer pricing for related-party transactions with Proximus and for the mandatory tender offer (Rs8.6mn). Adj. EBITDAM was broadly in line with expectations. Reported profit was Rs785mn, missing our expectations due to higher ETR and margin miss. Net revenue retention stood at 105% for Q1, with recurring revenue at 91%. The company added 2 new clients in the +USD15mn bucket, taking the total clients in the category to 7. **What we liked:** New products performance, growth in billable transactions. **What we did not like:** Margin miss, weak cash conversion on reported basis.

## Earnings call KTAs

i) The management expects synergy benefits from the Proximus deal to start playing out gradually. FY25 guidance builds in the current RPT run-rate, and any improvement may drive an upside. Cost of sales benefit will have an immediate impact, while cross-charging on shared services would be seen from Q3. Cross-selling of new products is likely to take some time. ii) The recently-announced 5-year deal with Microsoft is an example of synergy benefits, and the management indicated it is pursuing a few more such deals. iii) The management highlighted YoY growth in ILD volumes supported by the Vi deal, although certain brands have lowered their volumes due to high pricing and are exploring alternate channels. The management seems convinced about achieving some growth in ILD volumes on the back of firewall installation at BSNL and Vi. iv) Employee cost sharply increased 27% QoQ on account of increments, one-off incentives given to retain talent, and reward for exhaustive integration work. This quarter on, it started expensed-out investments in digital identity project *Trusense*, amounting to Rs14.5mn (earlier, it used to capitalize this). It expects monthly employee costs of Rs200-210mn to be sustainable. v) Gross profit was impacted by non-cash impact of Rs38.8mn related to amortization of refundable security deposit provided to MNO. vi) The management plans to augment its product portfolio with acquisitions in a few cutting-edge futuristic technologies. The company plans maintaining the dividend payout ratio at up to 20% of PAT.

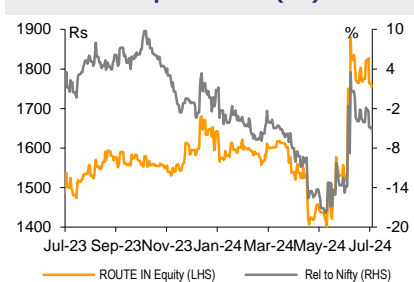
Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	2.4
CMP (22-Jul-24) (Rs)	1,757.0

Stock Data	Ticker
52-week High (Rs)	1,942
52-week Low (Rs)	1,386
Shares outstanding (mn)	62.8
Market-cap (Rs bn)	110
Market-cap (USD mn)	1,319
Net-debt, FY25E (Rs mn)	-6,508
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	604.3
ADTV-3M (USD mn)	7.2
Free float (%)	42.0
Nifty-50	24,509
INR/USD	83.7
<b>Shareholding, Jun-24</b>	
Promoters (%)	83.1
FPIs/MFs (%)	5.8/1.0

## Price Performance

(%)	1M	3M	12M
Absolute	14.9	15.1	17.9
Rel. to Nifty	10.1	4.9	(5.0)

## 1-Year share price trend (Rs)



## Dipesh Mehta

dipeshkumar.mehta@emkayglobal.com  
+91 22 6612 1253

## Ayush Bansal

ayush.bansal@emkayglobal.com  
+91 22 6612 1344

## Pulkit Chawla

pulkit.chawla@emkayglobal.com  
+91 22 6642 4258

## Exhibit 1: Quarterly snapshot

(Rs mn)	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
Net sales	11,034	10,170	8.5	9,673	14.1
Operating expenses	9,797	8,916		8,442	
EBITDA	1,238	1,254	-1.3	1,232	0.5
Margin (%)	11.2	12.3	-110.0	12.7	(150.0)
Depreciation	223	219		211	
EBIT	1,015	1,036	-2.1	1,020	-0.6
Margin (%)	9.2	10.2	-100	10.5	(140.0)
Other income	14	40		82	
Pre-tax profit	1,029	1,076	-4.4	1,102	
Tax provided	217	142		185	
Profit after tax	812	952		917	
Emkay Net profit	785	881	-10.9	924	-15.1
EPS (Rs)	12.5	14.0	-10.9	14.8	-15.5

Source: Company, Emkay Research

## Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales (Rs mn)	11,034	11,060	11,087	-0.2%	-0.5%	Revenues came broadly in line with our expectations
EBIT	1,015	1,150	1,131	-11.7%	-10.3%	Margins missed expectations due to forex loss and certain one-offs
EBIT margin	9.2%	10.4%	10.2%	-120 bps	-100 bps	
PAT	785	888	897	-11.6%	-12.5%	Reported profit was lower than expectations, due to operating performance miss

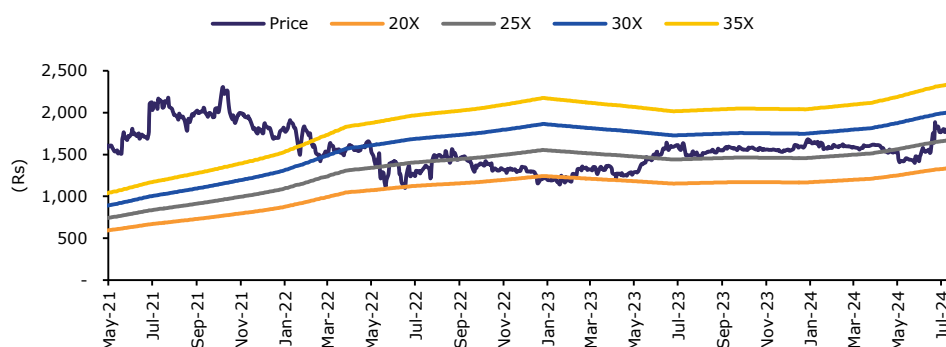
Source: Company, Emkay Research

## Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	48,480	48,472	0.0%	55,275	55,248	0.0%	62,414	62,443	0.0%
YoY growth (%)	20.5	20.5		14.0	14.0		12.9	13.0	
EBIT	5,106	4,974	-2.6%	6,092	6,089	-0.1%	7,115	7,119	0.1%
EBIT margins (%)	10.5	10.3		11.0	11.0		11.4	11.4	
Net profit	3,969	3,794	-4.4%	4,815	4,817	0.0%	5,789	5,796	0.1%
EPS (Rs)	63.2	60.4	-4.4%	76.7	76.7	0.0%	92.2	92.3	0.1%

Source: Company, Emkay Research

## Exhibit 4: Route Mobile – One-year forward PER



Source: Company, Emkay Research

## Route Mobile: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>35,692</b>	<b>40,233</b>	<b>48,472</b>	<b>55,248</b>	<b>62,443</b>
Revenue growth (%)	78.3	12.7	20.5	14.0	13.0
<b>EBITDA</b>	<b>4,442</b>	<b>5,019</b>	<b>5,880</b>	<b>7,016</b>	<b>8,055</b>
EBITDA growth (%)	103.1	13.0	17.1	19.3	14.8
Depreciation & Amortization	816	861	906	928	936
<b>EBIT</b>	<b>3,626</b>	<b>4,159</b>	<b>4,974</b>	<b>6,089</b>	<b>7,119</b>
EBIT growth (%)	101.1	14.7	19.6	22.4	16.9
Other operating income	0	0	0	0	0
Other income	394	496	303	479	629
Financial expense	205	273	422	387	326
<b>PBT</b>	<b>3,815</b>	<b>4,382</b>	<b>4,855</b>	<b>6,181</b>	<b>7,421</b>
Extraordinary items	0	168	0	0	0
Taxes	484	662	944	1,236	1,484
Minority interest	(61)	(138)	(116)	(128)	(141)
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>3,271</b>	<b>3,751</b>	<b>3,794</b>	<b>4,817</b>	<b>5,796</b>
PAT growth (%)	96.8	14.7	1.2	26.9	20.3
<b>Adjusted PAT</b>	<b>3,271</b>	<b>3,582</b>	<b>3,794</b>	<b>4,817</b>	<b>5,796</b>
<b>Diluted EPS (Rs)</b>	<b>52.4</b>	<b>59.7</b>	<b>60.4</b>	<b>76.7</b>	<b>92.3</b>
Diluted EPS growth (%)	100.4	14.1	1.2	26.9	20.3
<b>DPS (Rs)</b>	<b>5.0</b>	<b>11.0</b>	<b>11.0</b>	<b>14.0</b>	<b>17.0</b>
<b>Dividend payout (%)</b>	<b>9.5</b>	<b>18.4</b>	<b>18.2</b>	<b>18.3</b>	<b>18.4</b>
EBITDA margin (%)	12.4	12.5	12.1	12.7	12.9
EBIT margin (%)	10.2	10.3	10.3	11.0	11.4
Effective tax rate (%)	12.7	15.1	19.4	20.0	20.0
<b>NOPLAT (pre-IndAS)</b>	<b>3,166</b>	<b>3,530</b>	<b>4,007</b>	<b>4,871</b>	<b>5,695</b>
Shares outstanding (mn)	62.4	62.8	62.8	62.8	62.8

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	3,815	4,382	4,855	6,181	7,421
Others (non-cash items)	1,019	713	906	928	936
Taxes paid	(334)	(746)	(944)	(1,236)	(1,484)
Change in NWC	(3,768)	(5,494)	(1,682)	(1,518)	(1,609)
<b>Operating cash flow</b>	<b>732</b>	<b>(976)</b>	<b>3,135</b>	<b>4,354</b>	<b>5,265</b>
Capital expenditure	(380)	(356)	(240)	(240)	(240)
Acquisition of business	(810)	(1,591)	374	(700)	0
Interest & dividend income	284	222	0	0	0
<b>Investing cash flow</b>	<b>1,122</b>	<b>(21)</b>	<b>(3,722)</b>	<b>(2,940)</b>	<b>(3,240)</b>
Equity raised/(repaid)	(1,492)	0	0	0	0
Debt raised/(repaid)	1,258	2,527	(46)	(600)	(500)
Payment of lease liabilities	(102)	(109)	0	0	0
Interest paid	(56)	(142)	0	0	0
Dividend paid (incl tax)	(686)	(696)	(691)	(879)	(1,067)
Others	(13)	3	0	0	0
<b>Financing cash flow</b>	<b>(1,092)</b>	<b>1,584</b>	<b>(737)</b>	<b>(1,479)</b>	<b>(1,567)</b>
Net chg in Cash	763	586	(1,324)	(65)	457
OCF	732	(976)	3,135	4,354	5,265
Adj. OCF (w/o NWC chg.)	4,500	4,518	4,816	5,872	6,873
FCFF	352	(1,332)	2,895	4,114	5,025
FCFE	431	(1,382)	2,472	3,728	4,698
OCF/EBITDA (%)	16.5	(19.4)	53.3	62.1	65.4
FCFE/PAT (%)	13.2	(36.8)	65.2	77.4	81.1
<b>FCFF/NOPLAT (%)</b>	<b>11.1</b>	<b>(37.7)</b>	<b>72.2</b>	<b>84.5</b>	<b>88.2</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	624	628	628	628	628
Reserves & Surplus	17,580	20,868	23,972	27,909	32,638
<b>Net worth</b>	<b>18,204</b>	<b>21,496</b>	<b>24,600</b>	<b>28,537</b>	<b>33,266</b>
Minority interests	80	213	329	457	598
Deferred tax liability (net)	481	390	390	390	390
<b>Total debt</b>	<b>1,401</b>	<b>3,785</b>	<b>3,739</b>	<b>3,139</b>	<b>2,639</b>
<b>Total liabilities &amp; equity</b>	<b>20,166</b>	<b>25,883</b>	<b>29,057</b>	<b>32,522</b>	<b>36,892</b>
Net tangible fixed assets	344	361	419	457	475
Net intangible assets	3,655	3,220	2,549	1,886	1,246
Net ROU assets	324	260	208	145	71
Capital WIP	151	267	267	267	267
Goodwill	5,202	5,125	5,125	5,125	5,125
Investments [JV/Associates]	0	0	0	0	0
<b>Cash &amp; equivalents</b>	<b>9,001</b>	<b>7,715</b>	<b>10,247</b>	<b>12,182</b>	<b>15,640</b>
Current assets (ex-cash)	10,092	17,669	19,658	22,349	25,208
Current Liab. & Prov.	8,603	8,733	9,415	9,889	11,139
<b>NWC (ex-cash)</b>	<b>1,489</b>	<b>8,935</b>	<b>10,242</b>	<b>12,460</b>	<b>14,069</b>
<b>Total assets</b>	<b>20,166</b>	<b>25,883</b>	<b>29,057</b>	<b>32,522</b>	<b>36,892</b>
Net debt	(7,600)	(3,930)	(6,508)	(9,044)	(13,001)
Capital employed	20,166	25,883	29,057	32,522	36,892
<b>Invested capital</b>	<b>11,014</b>	<b>17,901</b>	<b>18,543</b>	<b>20,073</b>	<b>20,985</b>
BVPS (Rs)	291.5	342.4	391.8	454.5	529.8
Net Debt/Equity (x)	(0.4)	(0.2)	(0.3)	(0.3)	(0.4)
Net Debt/EBITDA (x)	(1.7)	(0.8)	(1.1)	(1.3)	(1.6)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.0
<b>RoCE (%)</b>	<b>21.3</b>	<b>20.2</b>	<b>19.2</b>	<b>21.3</b>	<b>22.3</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	33.5	30.8	29.1	22.9	19.0
P/CE(x)	26.8	24.8	23.5	19.2	16.4
P/B (x)	6.0	5.1	4.5	3.9	3.3
EV/Sales (x)	2.9	2.6	2.1	1.8	1.6
EV/EBITDA (x)	23.0	21.2	17.7	14.4	12.1
EV/EBIT(x)	28.2	25.6	20.9	16.6	13.7
EV/IC (x)	9.3	5.9	5.6	5.0	4.6
FCFF yield (%)	0.3	(1.2)	2.6	3.7	4.6
FCFE yield (%)	0.4	(1.3)	2.2	3.4	4.3
Dividend yield (%)	0.3	0.6	0.6	0.8	1.0
<b>DuPont-RoE split</b>					
Net profit margin (%)	9.2	8.9	7.8	8.7	9.3
Total asset turnover (x)	1.9	1.7	1.8	1.8	1.8
Assets/Equity (x)	1.1	1.2	1.2	1.2	1.1
<b>RoE (%)</b>	<b>18.7</b>	<b>18.0</b>	<b>16.5</b>	<b>18.1</b>	<b>18.8</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	8.9	8.8	8.3	8.8	9.1
IC turnover (x)	3.9	2.8	2.7	2.9	3.0
<b>RoIC (%)</b>	<b>34.9</b>	<b>24.4</b>	<b>22.0</b>	<b>25.2</b>	<b>27.7</b>
<b>Operating metrics</b>					
Core NWC days	15.2	81.1	77.1	82.3	82.2
<b>Total NWC days</b>	<b>15.2</b>	<b>81.1</b>	<b>77.1</b>	<b>82.3</b>	<b>82.2</b>
Fixed asset turnover	3.2	3.4	4.0	4.5	5.0
Opex-to-revenue (%)	87.6	87.5	87.9	87.3	87.1

Source: Company, Emkay Research

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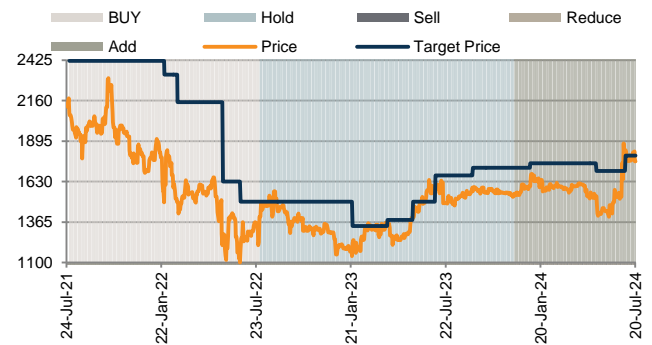
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## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-24	1,836	1,800	Add	Dipeshkumar Mehta
09-Jun-24	1,495	1,700	Add	Dipeshkumar Mehta
03-Jun-24	1,461	1,700	Add	Dipeshkumar Mehta
27-May-24	1,430	1,700	Add	Dipeshkumar Mehta
06-May-24	1,535	1,700	Add	Dipeshkumar Mehta
31-Mar-24	1,602	1,750	Add	Dipeshkumar Mehta
01-Mar-24	1,594	1,750	Add	Dipeshkumar Mehta
24-Jan-24	1,565	1,750	Add	Dipeshkumar Mehta
31-Dec-23	1,599	1,750	Add	Dipeshkumar Mehta
30-Nov-23	1,550	1,720	Add	Dipeshkumar Mehta
28-Oct-23	1,579	1,720	Hold	Dipeshkumar Mehta
02-Oct-23	1,591	1,720	Hold	Dipeshkumar Mehta
12-Sep-23	1,569	1,720	Hold	Dipeshkumar Mehta
28-Jul-23	1,501	1,670	Hold	Dipeshkumar Mehta
17-Jul-23	1,488	1,670	Hold	Dipeshkumar Mehta
02-Jul-23	1,593	1,670	Hold	Dipeshkumar Mehta
20-May-23	1,398	1,500	Hold	Dipeshkumar Mehta
01-Apr-23	1,366	1,380	Hold	Dipeshkumar Mehta
24-Jan-23	1,230	1,340	Hold	Dipeshkumar Mehta
02-Jan-23	1,216	1,500	Hold	Dipeshkumar Mehta
22-Oct-22	1,308	1,500	Hold	Dipeshkumar Mehta
04-Oct-22	1,392	1,500	Hold	Dipeshkumar Mehta
30-Jul-22	1,401	1,500	Hold	Dipeshkumar Mehta
23-Jun-22	1,194	1,500	Buy	Dipeshkumar Mehta
20-May-22	1,286	1,630	Buy	Dipeshkumar Mehta
01-Apr-22	1,566	2,150	Buy	Dipeshkumar Mehta
22-Feb-22	1,500	2,150	Buy	Dipeshkumar Mehta
28-Jan-22	1,609	2,330	Buy	Dipeshkumar Mehta
27-Aug-21	1,889	2,420	Buy	Dipeshkumar Mehta
29-Jul-21	2,075	2,420	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India  
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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