

Route Mobile Ltd.

SSIS IPO GRADE 5/5 (Subscribe)

6th September, 2020

Rating Overview

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"). Company provides voice, email, and omni-channel communication, SMS analytics, firewall, filtering and monetization, SMS hubbing and Instant Virtual Number solutions. According to the ROCCO Report 2020, Company was ranked as a tier one application-to-peer ("A2P") service provider internationally.

The company has a diversified and global client base across industries and is led by experienced promoters and management team. The strong financials indicated by over 25% ROE and RoCE coupled with negative working capital cycle show strength. The scalable delivery platform supported by robust infrastructure makes it a strong investment.

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.

At upper price band of Rs 350, issue has been offered at P/E of 25.4x to its FY20 EPS of Rs 13.8, Company does not have any listed peers. Considering increasing internet penetration and more and more cloud communication services used by enterprise the size of global A2P market is expected to grow at a healthy rate in the coming years. Route Mobile being ranked 2nd globally in tier 1 A2P service provider is likely to benefit. Diversified and global client base across industries, scalable delivery platform supported by good Infrastructure, robust business model with consistent financial track record are the key positive factors which augur well for the company. Thus we recommend Investors to subscribe for issue.

Our overall fundamental rating of Route Mobile is Great Financials. The offer price is fair and the company has high growth prospects. We initiate a subscribe recommendation for short and long term gains.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

Incorporated in 2004, Route mobile provides cloud-communication platform as a service ('**CPaaS**') to **enterprises, over-the-top ('OTT') players and mobile network operators ('MNOs')**. As of June 30, 2020, have 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*.

Its global operations included **9 direct** and **12 step-down** subsidiaries serving clients through **18 locations** across *Africa, Asia Pacific, Europe, Middle East and North America*.

Acquired **365 squared Limited** to pursue inorganic growth to deepen relationship with MNOs and broaden product and service portfolio. They also acquired **Call2Connect**.

The 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, as of June 30, 2020, enabling to leverage their SMS and voice channels for digital communication ('**Super Network**'). It expects the number of subscribers and the volume of messages to continue to grow further.

Further, the backend is also integrated with OTT business messaging solution providers, and is capable of supporting Rich Communication Services ('**RCS**') business messaging, offering multiple channels of communication to enterprises.

Its enterprise communication services include application-to-peer ('**A2P**'), 2Way Messaging, RCS, OTT business messaging, voice, email, and omni-channel communication.

Moreover, offers SMS analytics, firewall, filtering and monetization, SMS hubbing and Instant Virtual Number ('**IVN**') **solutions** to MNOs across the globe. *The clients include some of the world's largest and well-known organisations, including a number of Fortune Global 500 companies.*

Business verticals

Enterprise: provides cloud based communication platform to enterprises to enable digital communication through multiple channels including RCS, A2P / P2A messaging, 2Way Messaging, OTT business messaging, enterprise email and URL shortening; and Mail2SMS

Mobile Operator: include SMS analytics, firewall, filtering, monetization and CPaaS and hubbing solutions.

2

Business Process Outsourcing (BPO): provide a range of BPO services including client support, technical support, booking and collection services. *Strategic objective is to integrate BPO capabilities with enterprise voice platform and deliver end-to-end offerings to enterprise customers*

Financial Performance

On the financial performance front, on a consolidated basis, RML has posted revenue/net profits of Rs. 509.49 cr. / Rs. 46.68 cr. (FY18), Rs. 852.38 cr. / Rs. 54.53 cr. (FY19) and Rs. 968.10 cr. / Rs. 69.10 cr. (FY20). For the Q1 of FY21, it has earned a net profit of Rs. 26.93 cr. on revenue of Rs. 312.30 cr. Management is confident of sustaining its growth story considering the relationship with its long term marquee global clients. It has marked CAGR of 38% in revenue and total billable transactions for the past three fiscals.

For the last three fiscals, on a consolidated basis, RML has posted an EPS of Rs. 12.24 and RoNW of 26.55%. The issue is priced at a P/BV of 5.89 based on its NAV of Rs. 59.40 as on June 30, 2020.

If we annualize latest earnings and attribute it on fully diluted equity post issue, then asking price is at a P/E of around 18.47. Since this company will be the first mover in the segment, there is no average industry P/E is available.

Summary of financial Information				
Particulars	For the year/period ended (Rs in Million)			
	30-June-20	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	6,348.31	6,265.48	5,057.81	4,473.66
Total Revenue	3,122.95	9,681.02	8,523.77	5,094.85
Profit After Tax	269.34	691.02	545.32	466.77

Issue Details

To part finance its plans of repayment/prepayment of certain borrowings (Rs. 36.5 cr.), acquisition and other strategic initiatives (Rs. 83 cr.), purchase of office premises in Mumbai (Rs. 65 cr.) and general corpus funds, RML is coming out with a maiden IPO with a combo offer of fresh equity issue (Rs. 240 cr.) and offer for sale (Rs. 360 cr.). It consists fresh equity issue of approx 6857142 shares of Rs. 10 each and offer for sale of approx 10285714 shares. The issue opens for subscription on September 09, 2020, and will close on September 11, 2020. The company has fixed the price band of Rs. 345 - Rs. 350 per share. Minimum application is to be made for 40 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. RML mulls mobilizing around Rs. 600 cr. (based on upper price band) through this IPO. Issue constitutes 30.15% of the post issue paid-up capital of the company.

Having issued entire equity at par, the company also issued bonus shares in the ratio of 39 for 1 (January 2011), 9 for 1 (December 2015) and 3 for 2 (September 2016). Thus entire current paid up equity is issued at par coupled with bonus shares. The average cost of acquisition of shares by the promoters is Rs. 0.01 per share. Post issue, RML's current paid-up equity capital of Rs. 50.00 cr. will stand enhanced to Rs. 56.86 cr. With this

issue, the company is looking for a market cap of Rs. 1990 cr.

The issue is jointly lead managed by ICICI Securities Ltd., Axis Capital Ltd., Edelweiss Financial Services Ltd. and IDBI Capital Markets & Securities Ltd. while KFin Technologies Pvt. Ltd. is the registrar to the issue.

Application Dates	Sep 9, 2020 – Sep 11, 2020
Issue Type	Book Built Issue FPO
Face Value	₹10 per equity share
IPO Price	₹345 to ₹350 per equity share
Market Lot	40 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹600.00 Cr)

Issue Timeline

Basis of Allotment Date	Sep 16, 2020
Initiation of Refunds	Sep 17, 2020
Credit of Shares to Demat Account	Sep 18, 2020
IPO Listing Date	Sep 21, 2020

Investment Strategy

Given the company's diversified clients scalable business model, strategic acquisitions (to deepen relationship with MNOs and broaden product and service portfolio) and rising investments in digital business & work from home is now in culture, we expect in the challenging environment company's business would not be impacted. In addition to this, there is not much of the listed peers. Company commands impressive RONW at 25.58% and has a positive operating cash flow over FY18-20. On an upper price band of Rs 350, with EPS at Rs 13.83 for FY 20, the stock is available at a P/E ratio of 25.3x which makes the IPO valuation fairly attractive. we recommend to subscribe the IPO for listing gains.