

IPO Note: Route Mobile Ltd.

Industry: Cloud Communication

Reco: Subscribe

Date: September 08, 2020

Issue Snapshot		Issue Break up	
Company Name	Route Mobile Ltd.	Issue Size	Allocation Equity Shares*
Issue Opens	September 09, 2020 to September 11, 2020	QIB	20% 3,428,571
Price Band	Rs. 345 to Rs. 350	Anchor Investor	30% 5,142,857
Bid Lot	40 Equity Shares and in multiples thereof.	HNI	15% 2,571,429
The Offer	Public issue of 17,142,857 Equity shares of Face value Rs. 10 each, (Comprising of fresh issue of 6,857,143 Equity Shares* (Rs. 240 cr.) and Offer for Sale of 10,285,714 Equity Shares* (Rs. 360 cr.) by Selling Shareholder).	RII	35% 6,000,000
		Total Public	100% 17,142,857
Issue Size	Rs. 600 Crore	Equity Share Pre-Issue (Nos. Cr.)	5.0
IPO Process	100% Book Building	Fresh Share (Nos. Cr.)	0.7
Face Value	Rs. 10.00	OFS Share (Nos. Cr.)	1.0
Exchanges	NSE & BSE	Equity Share Post Issue (Nos. Cr.)	5.7
BRLM	ICICI Securities Limited, Axis Capital Limited, Edelweiss Financial Services Limited and IDBI Capital Markets and Securities Limited	Market Cap (Rs. Cr.)	1,990.0
		Dilution	30.2%
Registrar	KFin Technologies Private Limited	Fresh	12.1%
		OFS	18.1%

* Based on Higher Price Band @ Rs. 350

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to Rs. 180 crore by Sandip Kumar Gupta and up to Rs. 180 crore by Rajdip Kumar Gupta)

Fresh Issue

- Repayment or pre-payment, in full or part, of certain borrowings of the Company (Rs. 36.5 cr.);
- Acquisitions and other strategic initiatives (Rs. 83 cr.);
- Purchase of office premises in Mumbai (Rs. 65 cr.); and
- General corporate purposes.

Company Highlights

- Route Mobile Ltd. (Route Mobile) provides cloud-communication platform as a service (CPaaS) to enterprises, over-the-top (OTT) players and mobile network operators (MNOs).
- Route Mobile 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. (Source: ROCCO Report 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 – 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 Q1FY21 enabling them to leverage SMS and voice channels for digital communication (Super Network).
- 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 omni-channel platform enables enterprises to leverage various modes of digital communication to engage with their stakeholders – including customers, employees and vendors.
- Its range of enterprise communication services includes application-to-peer (A2P) / peer-to-application (P2A) / 2Way Messaging, RCS, OTT business messaging, voice, email, and omni-channel communication. Further, it also offers SMS analytics, firewall, filtering and monetization, SMS hubbing and Instant Virtual Number (IVN) solutions to MNOs.

- Its clients include some of the world's largest and well-known organisations, including a number of Fortune Global 500 companies.
- 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.
- Currently its global operations included 9 direct and 12 step-down subsidiaries serving its clients through 18 locations across Africa, Asia Pacific, Europe, Middle East and North America.
- Consistent with its strategy of pursuing inorganic growth to deepen its relationship with MNOs and broaden its product and service portfolio, Route Mobile acquired 365Squared Limited with effect from October 1, 2017, which operates in SMS analytics, firewall, filtering and monetization. Further, they also acquired Call2Connect, effective April 1, 2017, a company which offers voice, non-voice and consulting BPO services to some of the largest enterprises in India.
- As of June 30, 2020, Route Mobile had made 23 applications for registration of various trademarks, including, 'Route Mobile', 'RouteSMS' and 'Route' of which they have received registration for 12 trademarks.

View

- Being in to category of services known as software as a service (SaaS), is a win-win combination both for companies like Route Mobile as well it's clients since they don't have to invest in maintenance of servers and connections apart from uploading different kinds of content or doing all of the administrative work involved in keeping a communications platform functional.
- Through international acquisitions, the company has been able to grow and build strong relationships with its clients (who also happen to be mobile network operators apart from OTTs & enterprises), thus being ranked as a tier one application-to-peer (A2P) service provider internationally.
- Globally, telecom providers lost over \$11 billion in revenues in 2018 due to delivery of messages through "grey routes". With the use of its analytics based SMS firewall, it assist MNOs in identifying and plugging such revenue leakages due to grey routes, driving additional revenues for them, and for the company.
- Top 10 largest clients' accounts for 52.5% of revenues of the company (as of FY20) and yet Route Mobile is not the exclusive service provider to large clients, hence there is competition. Major global competitors are Syniverse (USA), Mblox (USA), SAP Mobile (Germany), Nexmo (USA), Plivo (USA). To keep up with that, it needs to constantly invest & upgrade its technology platforms, which it has been able to implement successfully till date.
- Purchase of messaging services is the largest expense and although the contracts with enterprises has a pass on element, EBITDA margins cannot expand from present levels due to lack of any moat in business and higher competition expected in future. Nevertheless, there will be increased demand for the services provided by the company, for sure.
- Route Mobile earns more than 80% of revenues from international clients and although it involves hedging costs and associated risks, so far Route Mobile has managed well.
- Purchase of messaging services (the largest expense of the company) as a percentage of total revenue were 66.9%, 78.2%, 78.9% and 79.9% in FY18, FY19, FY20 and in Q1FY21, respectively. So, in order to derive the price of the services, the company use the cost plus markup model.
- Continuous development of omni-channel digital communication offerings and innovative solutions, focus on developer community program, enhance service offerings through inorganic opportunities and growing presence in additional markets to serve clients locally argue well with the company going ahead.
- On the financial performance front, revenue grew at a CAGR of 37.6% in last 3 years while EBITDA grew at 14.9% and net profit grew at 21.7% in last 3 years. EBITDA margins have remained consistent since the last three years and they have been 10.4% in FY20 and 12.1% in Q1FY21 respectively. Net Profit margin is strong at 7.2% in FY20 and 8.7% for Q1FY21. RoNW is 13.6% in FY20 (post dilution).
- In terms of the valuations, on the higher price band, if we annualize Q1FY21 EPS and attribute it on fully diluted equity post IPO, then asking price is at a P/E of around 18.5x.
- The company has no listed peers in India. So, the company will have the first mover advantage in the segment.
- Overall, the company has a history of stable financials, strong return ratios and positive operating cashflows. Besides, being the only player to be listed in this space, it will garner interest. Hence, investors can [Subscribe](#) this IPO.

Segment-wise revenue contribution

(In Rs. Cr)	FY18	FY19	FY20	Q1FY21
Messaging services	489.6	822.3	927.5	304.7
Call center services	15.3	22.4	28.8	4.9
Total Revenue	504.9	844.7	956.3	309.6

Revenues generated in domestic and international currencies

(In Rs. Cr)	FY18		FY19		FY20		Q1FY21	
	Revenue	% of Total Billing	Revenue	% of Total Billing	Revenue	% of Total Billing	Revenue	% of Total Billing
Domestic	100.6	19.9%	143.9	17.0%	183.5	19.2%	43.1	13.9%
Export	404.4	80.1%	700.8	83.0%	772.7	80.8%	266.5	86.1%
Total Billing	504.9	100.0%	844.7	100.0%	956.3	100.0%	309.6	100.0%

Revenues Split

	FY18		FY19		FY20		Q1FY21	
	Revenue (Rs. Cr.)	No of Customers	Revenue (Rs. Cr.)	No of Customers	Revenue (Rs. Cr.)	No of Customers	Revenue (Rs. Cr.)	No of Customers
Rs. 5 crore - Rs. 10 crore	110.0	16	98.8	14	77.9	12	11.4	2
Rs. 10 crore - Rs. 25 crore	99.2	6	253.7	15	215.0	14	62.6	4
Higher than Rs. 25 crore	63.6	2	231.5	3	403.3	7	118.1	3

Percentage of Total Revenue (%)

(In Rs. Cr)	FY18	FY19	FY20	Q1FY21
Top 5 clients	24.9%	33.8%	40.6%	50.6%
Top 10 clients	36.1%	46.0%	52.5%	63.7%
Top 20 clients	49.9%	60.7%	65.5%	76.2%
Top 50 clients	69.7%	77.6%	80.8%	92.5%

Acquisitions and Investments

Acquisition/Investment	Effective Date	Shareholding Acquired	Transaction Consideration	Revenue in FY20 (Rs. Cr.)	Revenue in Q1FY21 (Rs. Cr.)
365squared Limited	1-Oct-17	100%	Euro 10 million upfront plus earn-out payments	1,157.8	213.9
Call2Connect	1-Apr-17	100%	Rs. 5.67 crore	302.5	49.1
Cellent Technologies	9-Sep-16	100%	Rs. 11.27 crore	43.3	2.2
Start Corp	9-Sep-16	100%	Rs. 2 crore	16.2	2.3

Employees

	FY20		Q1FY21	
	Within India	Outside India	Within India	Outside India
Company	253	-	272	-
Subsidiaries*	19	27	19	27
Total Employees	272	27	291	27

Source: RHP

Financial Statement

(In Rs. Cr)	FY18	FY19	FY20	Q1FY21
Share Capital	50.0	50.0	50.0	50.0
Net Worth	160.2	209.9	268.2	294.7
Long Term Borrowings	3.6	4.0	3.7	3.7
Other Long Term Liabilities	18.7	13.4	8.4	7.6
Short-term borrowings	77.8	73.2	37.4	38.8
Other Current Liabilities	187.1	205.4	308.9	290.0
Fixed Assets	201.3	186.6	176.6	170.4
Non Current Assets	26.4	37.4	45.8	48.7
Current Assets	219.6	281.7	404.1	415.8
Total Assets	447.4	505.8	626.5	634.8
Revenue from Operations	504.9	844.7	956.3	309.6
Revenue Growth (%)		67.3	13.2	
EBITDA	75.6	92.3	99.8	37.6
EBITDA Margin (%)	15.0	10.9	10.4	12.1
Net Profit	46.7	54.5	69.1	26.9
Net Profit Margin (%)	9.2	6.5	7.2	8.7
Earnings Per Share (Rs.)	9.6	11.2	13.8	5.4
Return on Networth (%)	29.7	26.4	25.6	9.1
Net Asset Value per Share (Rs.)	32.2	42.4	54.1	59.4

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY18	FY19	FY20	Q1FY21
Cash flow from Operations Activities	32.2	28.5	93.4	81.1
Cash flow from Investing Activities	(130.2)	(5.0)	0.2	(27.7)
Cash flow from Financing Activities	42.4	(22.6)	(62.3)	(1.1)
Net increase/(decrease) in cash and cash equivalents	(57.7)	5.9	32.1	52.5
Cash and cash equivalents at the beginning of the year	80.8	23.5	29.4	61.5
Cash and cash equivalents at the end of the year	23.5	29.4	61.5	114.0

Source: RHP

Comparison with listed industry peers

There are no listed entities in India whose business portfolio is comparable with that of the company's business.

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