

Subscribe for Long Term

Issue Details	
Price Band (Rs)	Rs. 345 - 350
Face Value (Rs)	10
Issue Size (Rs)	600Cr
Issue Type	Book Building
Minimum lot	40
Issue Opens	September 09, 2020
Issue Closes	September 11, 2020
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	September 16, 2020
Unblocking of Funds	September 17, 2020
Credit of shares to Demat Account	September 18, 2020
Listing on exchange	September 21, 2020

Other Detail	
Book Running Lead Managers	ICICI Securities Limited, Axis Capital Limited, Edelweiss Financial Services Limited, IDBI Capital Markets & Securities
Registrar	KFin Technologies Private Limited

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Route Mobile Limited

Company Background

Incorporated in the year 2004, Route Mobile Ltd ("Route Mobile") provide cloud communication platform over the top players and mobile network operators. The company operates in 3 business verticals: enterprise; mobile operator; and business process outsourcing. The company's clients include some of the world's largest organizations, including several Fortune Global 500 companies. Currently its global operations includes 9 direct and 12 step-down subsidiaries serving its clients through 18 locations across Africa, Asia Pacific, Europe, Middle East and North America.

Issue Details

The offer comprises fresh Issue of Equity shares aggregating upto Rs.240Cr and Offer for sale of up to 360Cr.

OFS Details:

Promoter	Shares offered for sale
Sandipkumar Gupta	Up to 5,142,857 Equity Shares
Rajdikumar Gupta	Up to 5,142,857 Equity Shares

Issue Objectives :

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

Source: Company RHP, ACMIL Research

IPO share allotment pattern

Category	Allocation	Number of Shares at Rs.345	Number of Shares at Rs.350	Issue Size (Rs.Cr)
QIB	50%	86,95,652	85,71,429	300
Non-Institutional	15%	25,08,696	25,71,429	90
Retail	35%	60,86,957	60,00,000	210
Total		1,73,91,304	1,71,42,857	600

*Issue Size at Upper price band
Source: Company RHP, ACMIL Research

Outlook and Valuations

Route Mobile is one of the leading company with cloud communication offerings and has no listed peers in India. 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. Being one of the leading mobile technology company with robust capabilities and experience, Route Mobile is well placed to capitalize on huge domestic and global cloud based opportunities. At the upper price band of Rs.350/-, the stock trades at 18.43x its FY21E EPS of Rs.18.99/-(based on annualize latest earning and fully diluted equity post issue). **We recommend to subscribe the issue from a long-term prospective.**

Business Overview

RML is providing a cloud-communication platform as a service ("CPaaS") to enterprises, over-the-top ("OTT") players and mobile network operators ("MNOs"). According to the ROCCO Report 2020, it ranked as a tier one application-to-peer ("A2P") service provider internationally. Further, it ranked second globally as a tier-one A2P service provider in 2017. RML also ranked first for 'value-added services' provided, its 'implementation process' and 'uptime performance' among tier-one vendors.

Company's 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, as of June 30, 2020, enabling it to leverage their SMS and voice channels for digital communication ("Super Network"). 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. RML's Omni-channel platform enables enterprises to leverage various modes of digital communication to engage with their stakeholders - including customers, employees and vendors.

Company's 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 across the globe. Its clients include some of the world's largest and well-known organizations, including a number of Fortune Global 500 companies.

As of June 30, 2020, the company 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. RML has established direct relationships with MNOs that provide clients with global connectivity. As of June 30, 2020, it had direct relationships with over 240 MNOs and four short messaging service centres hosted in various geographies across the globe. RML is able to access more than 800 networks across the world, with a headcount of 318 as of June 30, 2020.

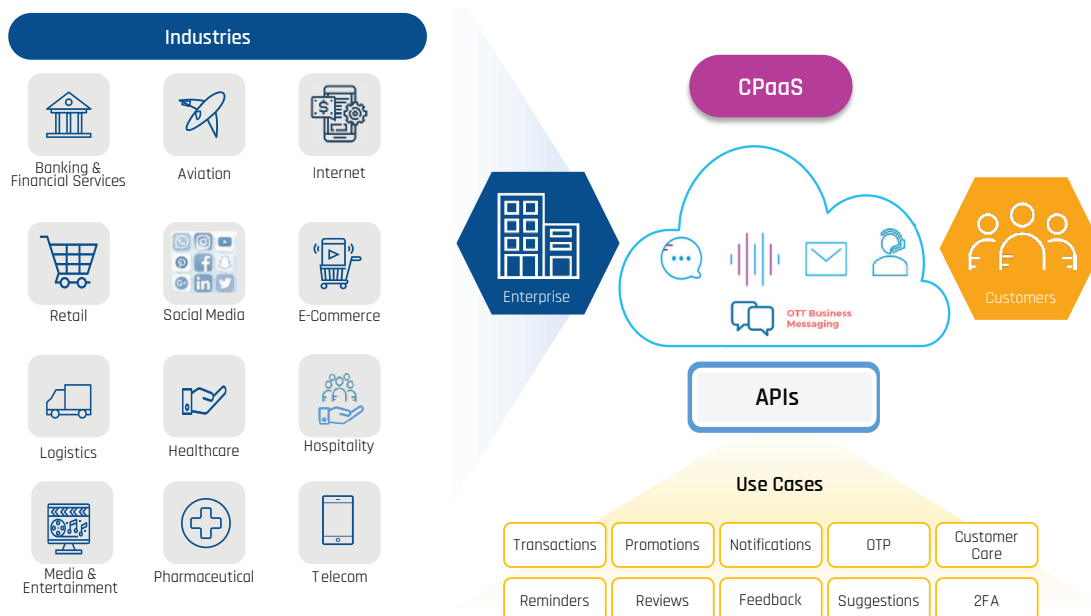
Investment Rationale

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. They were ranked 2nd globally as a tier 1 A2P service provider for 2017. Being an associate member of the GSMA and an accredited open hub connectivity solution provider allows them to manage both A2P and P2P traffic for enterprises and MNOs.

Route Mobile 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.

For example, in a typical online financial transaction, a customer receives OTP from his bank through multiple channels including, SMS, email and / or an automated voice call. Additionally, they have 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. The size of the global A2P messaging market was US\$ 3,790 crore in 2017 and is estimated to grow at a CAGR of 4.4%. In Fiscal 2018, 2019 and 2020, through its in-house developed cloud communications platform, they processed more than, 2,100 crore, 2,474 crore and 3,031 crore billable transactions, respectively, while in the 3 months ended June 30, 2020, they processed more than 695 crore billable transactions. Its 45 member technical team as of June 30, 2020 are engaged in developing new and customized solutions for clients across sectors and industries. Further, its competitive position is enhanced by its ability to leverage its existing relationships with the clients.

MNO focused suite of products

Globally, telecom providers lost over \$1,100 crore in revenues in 2018 due to delivery of messages through "grey routes" (Source: Juniper Reports). With the use of Route Mobile's 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 Route Mobile.

Route Mobile is able to diversify its service offerings in the mobile operator segment with its acquisition of 365 squared to include SMS analytics, firewall, filtering and monetization solutions. It proactively helps MNOs identify A2P revenue leakage and monetize the same. In addition, it assists MNOs in securing their networks and improves their understanding of how A2P messages terminate on their network. On an average, its SMS firewall contracts with MNOs have a tenure of 3 years, which provides Route Mobile with reasonable visibility and stickiness of revenue from such business.

Route Mobile also offers its CPaaS to MNOs by which they help them extend A2P messaging services to enterprises and other aggregators. Further, its SMS hubbing solution allows inter-connectivity between smaller MNOs to connect to global operators, and expand their network and services to their subscribers when they roam across the globe. Route Mobile has recently added the IVN solution for MNOs. This solution enables MNOs to offer additional mobile number to existing subscribers, on the same mobile device, without any additional KYC requirements or SIM cards. The virtual number is assigned instantly and is linked to the subscribers existing KYC profile.

Global connectivity through established relationships with MNOs

As of June 30, 2020, Route Mobile had direct relationships with over 240 MNOs and provided its enterprise clients with access to over 800 mobile networks.

Route Mobile also has 6 strategically located data centres. Its global presence enables them to offer its clients the flexibility of multiple routes, better speed of delivery and an ability to optimize cost of delivery per message. They are able to serve its clients better as a result of its direct relationship with MNOs. As of June 30, 2020, it had direct relationships with 161 MNOs in EMEA, 32 MNOs in the APAC region, 48 MNOs in North America and South America, 6 MNOs in India and 1 MNOs in Australia. As of June 30, 2020, they have served over 30,150 clients, cumulatively since inception, globally through its offices across Africa, Asia Pacific, Europe, Middle East and North America.

Diversified and global client base across industries serviced locally

Route Mobile has a diverse 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 4 continents as of June 30, 2020. In addition, its client base is spread across 4 continents and as of June 30, 2020, they had served over 30,150 clients, cumulatively since inception.

Scalable delivery platform supported by robust infrastructure

Company's cloud-based delivery platform enables them to build and manage applications without having to create and maintain the underlying infrastructure for each client. They are therefore able to provide enterprises with solutions to operate applications without purchasing, configuring or managing the underlying hardware and software. They currently operate at a throughput capacity of over 10,000 messages per second.

Robust business model and consistent financial track record

The company has a number of clients on a pre-paid business model where the client pays upfront allowing them to reduce the overall working capital cycle. Its total revenue increased at a CAGR of 37.61% from Rs.504.95 crore in FY2018 to Rs.956.25 crore in FY2020 and was Rs.309.61 crore in the 3 months ended June 30, 2020. In FY2018, 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, were prepaid. The standard terms of the agreements with its post-paid clients require payments to be made within 30 - 60 days. In addition to a security deposit or a credit line paid in advance by the company, they are typically required to pay MNOs within a specified period, usually ranging between 45 and 60 days. This business model provides them with a negative working capital cycle and supports flexibility in pricing its services.

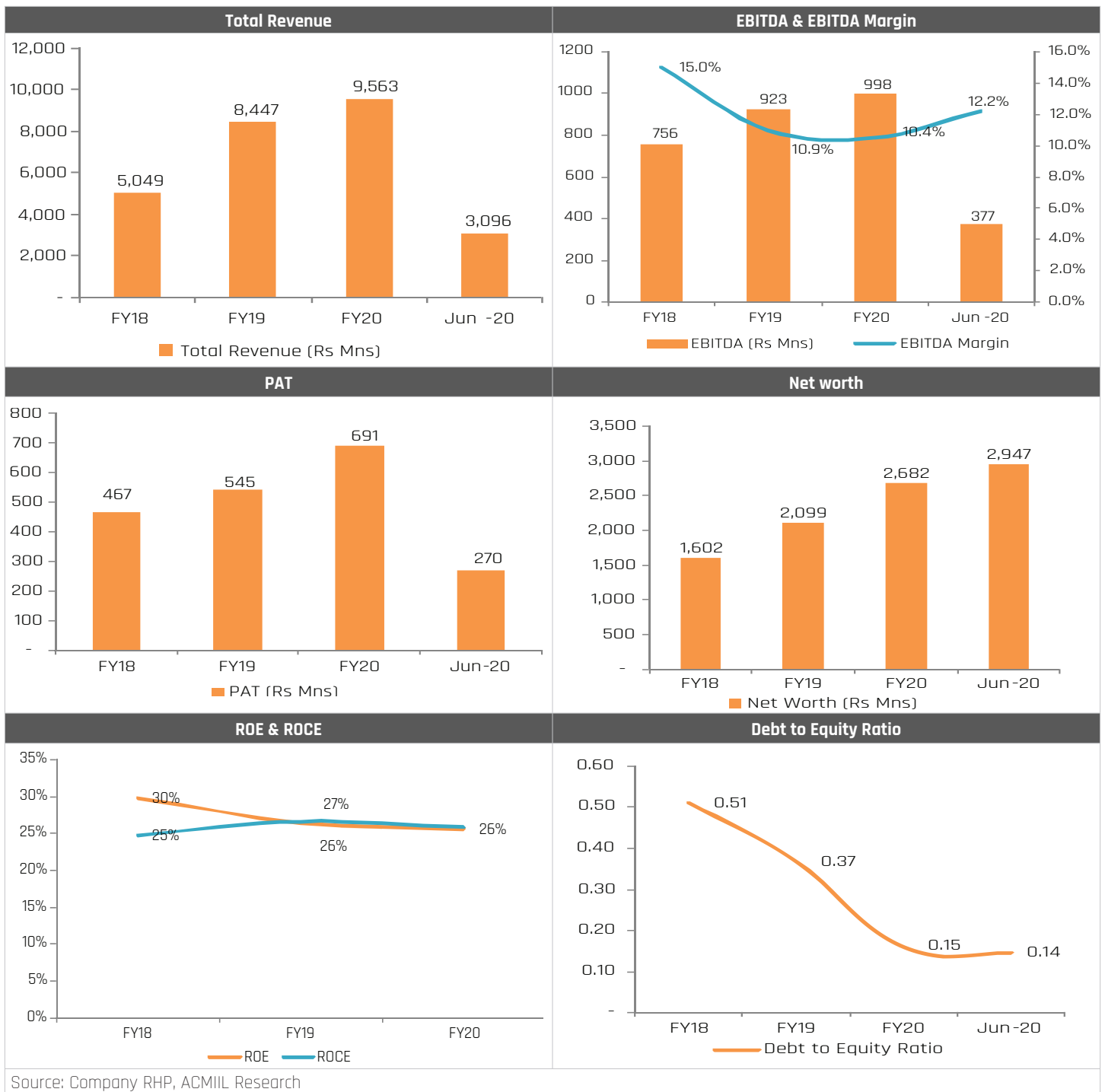
Route Mobile has experienced sustained growth in its business in recent years. They have not required any capital infusion in the company since Fiscal 2007. They have been consistently profitable since the last decade. Its sustained growth is attributable to its high operating margins and low-cost base.

Risk and Concern

1. Route Mobile depend in part on the success of their strategic relationship with third parties, particularly their direct relationships with mobile network operations. Their inability to enter into or maintain such relationships, particularly with MNOs may adversely affect business, financial condition and results of operations.
2. Failures, defects, delays and other problems involving the technology systems and infrastructure on which the company rely for providing their services and solutions to their clients may adversely affect business, financial condition and results of operations.

Business Update - COVID 19

- Since the onset of the COVID-19 pandemic in March 2020, the company has responded swiftly by implementing various processes to ensure its operations and services to its customers continue seamlessly. They maintain a robust VPN infrastructure, which has enabled and equipped its employees to work from home to ensure no service disruptions and provide support to their customers. This meant that almost its entire team was able to work from home from March 23, 2020 when a national lockdown came into force in India.
- Its platform is designed to handle any increases in traffic and its servers maintain excess capacity, which can be scaled in real time as well. Its servers and platform are maintained in Tier III data centres and all components are managed remotely by authorized personnel only and through secured connections.
- Further, its support teams continue to operate and are reachable through the same channels available to its customers, clients as before.
- They consider that its swift response and proactive steps taken have mitigated the impact of COVID-19 pandemic on its business and personnel thus far.



Source: Company RHP, ACMIIL Research

Financials

Income statement

Particulars (Rs Mns)	FY18	FY19	FY20	Jun-20
Revenue from Operations	5,049	8,447	9,563	3096
Less: Operating exp				
Operating expenses	3,407	6,670	7,642	2,494
Employee Benefit Expense	505	554	582	130
Other exp	381	300	341	95
Total Expenses	4,293	7,524	8,565	2,719
EBITDA	756	923	998	377
EBITDA %	15.0%	10.9%	10.4%	12.2%
Less : Dep & Amortization	158	219	227	60
EBIT	598	704	771	317
Add: other income	45	77	119	27
Less : Finance cost	78	131	49	10
PBT	565	650	841	334
Less : Tax	98	105	150	64
Net Profit	467	545	691	270
PAT %	9.3%	6.5%	7.2%	8.7%
Diluted EPS (Rs)	9.57	11.19	13.83	5.42

Source: Company RHP, ACMIIL Research

Balance sheet

Particulars (Rs Mns)	FY18	FY19	FY20	Jun-20
Share Capital	500	500	500	500
Other Equity	1,102	1,599	2,182	2,447
Total Shareholders Fund	1,602	2,099	2,682	2,947
Non Current Liabilities:				
Borrowing	36	40	37	37
Other non-current liabilities & provisions	187	134	84	76
Total Non Current Liabilities	223	174	121	113
Current Liabilities:				
Short Term borrowings	778	732	374	388
Trade Payables	561	597	1,813	1,717
Other Financial Liabilities	1,001	1,053	880	549
Other Current Liabilities & Provisions	309	403	395	634
Total Current Liabilities	2,649	2,785	3,462	3,288
Total Liabilities	4,474	5,058	6,265	6,348
Assets				
Non Current Assets				
Property, plant & Equipment	207	217	224	213
Right of Use Assets	210	153	97	83
Goodwill & Other intangible assets	1,596	1,496	1,445	1,408
Other non-current assets	264	374	458	487
Total Non Current Assets	2,277	2,240	2,224	2,191
Current Asset				
Trade Receivables	973	1,447	2,037	1,840
Cash and bank balances	1,026	957	1,026	1,587
Other current assets	198	414	978	730
Total Current Asset	2,197	2,818	4,041	4,157
Total Asset	4,474	5,058	6,265	6,348

Source: Company RHP, ACMIL Research

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Asit C. Mehta

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