

Route Mobile Ltd (RML) provides cloud-communication platform as a service (CPaaS) to enterprises, over-the-top (OTT) players and mobile network operators (MNOs). The company's enterprise solution comprises two primary components – front-end that provides an interface for enterprises to integrate with and a back-end that is directly integrated with over 240 MNOs and provides access to over 800 MNOs globally, enabling it to leverage their SMS and voice channels for digital communication (Super Network). The company's total income & EBITDA has grown at a CAGR of 37.6% and 14.9%, respectively, between FY18 and FY20.

Omni-channel cloud communication platform service provider with diversified service offerings for enterprises

RML is among the leading CPaaS providers to enterprises, OTT players and MNOs. According to the ROCCO Report 2020, the company was ranked as a tier I A2P service provider internationally. Being an associate member of the GSMA and an accredited open hub connectivity solution provider allows the company to manage both A2P and P2P traffic for enterprises and MNOs. The company has developed a single unified API, an 'omni-channel platform', which incorporates communication modes such as A2P/P2A/ two-way messaging, e-mail, RCS messaging, voice and OTT business.

Scalable delivery platform supported by robust infrastructure

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

Key risk & concerns

- The company is dependent on a limited number of clients for a substantial portion of revenues. A reduction in the services performed for such a limited number of clients or the loss of a major client could result in a significant reduction in its revenue. Its 10 largest clients accounted for ~36.08%, 46.00%, 52.50% and 63.65% of RML's revenue from operations in FY18, FY19 and FY20 and in the three months ended June 30, 2020, respectively
- RML may, in the future, continue to make strategic acquisitions to grow its business and further diversify service offerings. An inability to identify, complete and successfully integrate such acquisitions could adversely affect its business prospects, results of operations, financial conditions
- Failures, defects, delays and other problems involving technology systems and infrastructure on which it relies for providing services and solutions to its clients may adversely affect business, financial condition and results of operations

Priced at P/E of 28.8x FY20 on upper end of band

At the higher end of the price band of ₹ 350, the stock is available at a P/E of ~28.8x on FY20 diluted EPS.



Issue Details	
Issue Opens	September 9, 2020
Issue Closes	September 11, 2020
Issue Size (₹ Crore)	600.0
Fresh Issue (₹ crore)	240.0
Price Band (₹)	345-350
No. of shares on offer (crore)*	1.7
Minimum lot size	40

* at higher end of the price band

	Shareholding	
	Pre-Issue	Post-Issue
Promoter & promoter group	96.0%	66.3%
Public	4.0%	33.7%

Objects of issue	
Objects of the Issue	
Repayment or pre-payment, in full or part, of certain borrowings	₹ 36.5 crore
Acquisitions and other strategic initiatives	₹ 83 crore
Purchase of office premises in Mumbai	₹ 65 crore
General corporate purposes	

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Company background

Incorporated in 2004 and headquartered in Mumbai, Route Mobile provide 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, the company is ranked as a tier I application-to-peer (A2P) service provider internationally. The 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.

The range of enterprise communication services include application-to-peer (A2P)/peer-to-application (P2A)/ two-way messaging, RCS, OTT business messaging, voice, e-mail, and omni-channel communication. Further, it also offers SMS analytics, firewall, filtering and monetisation, 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.

The company's business is divided into the following three business verticals:

Enterprise: The enterprise vertical primarily provides cloud based communication platform to enterprises to enable digital communication through multiple channels including RCS, A2P/P2A messaging, two-way messaging, OTT business messaging, enterprise email and URL shortening; and Mail2SMS. Its platform also provides enterprise voice application services including interactive voice response, Click2Call, missed call facility and outbound dialer, which enable enterprises, to connect incoming and outgoing voice calls to their applications and systems. The CPaaS platform gives the current and potential customers the ability to leverage its Super Network and APIs to build out their digital communication service needs. The company provides a suite of APIs for various communication channels, across multiple geographies that are scalable and flexible to fit the customers' requirements. It also launched Route Mobile API Developer Network – a programme that enables developers to leverage capabilities of its platform and seamlessly deploy digital communication features within their applications/software.

Mobile operator: The main service offerings in this segment include SMS analytics, firewall, filtering, monetisation and CPaaS and hubbing solutions. The analytics based SMS firewall solution helps MNOs identify grey route traffic terminating on their networks, block grey route traffic, identify the source of such grey route traffic, and monetise such traffic. The company has developed multiple engagement models, to offer flexibility to MNOs while using RML's solution. The company typically engages with MNOs on a revenue share model when deploying this solution. Certain MNOs also engage with the company for hubbing solution and CPaaS offerings, to leverage global connectivity and A2P platform.

Business process outsourcing (BPO): The company provides a range of BPO services including client support, technical support, booking and collection services. The strategic objective is to integrate the BPO capabilities with its enterprise voice platform and deliver end-to-end offerings to enterprise customers.

Exhibit 1: Range of products and solutions



Source: RHP, ICICI Direct Research

Exhibit 2: Acquisitions by the company

Acquisition/ Investment	Effective Date	Shareholding Acquired	Transaction Consideration	Revenue from Operations of Acquired Entity/ Investee in FY20	Revenue from Operations of Acquired Entity/ Investee in Q1FY21
365squared Limited	October 1, 2017	100.0%	Euro 10 million upfront plus earn-out payments in accordance with the relevant share purchase agreement	₹115.8 crore	₹21.4 crore
Call2Connect	April 1, 2017	100.0%	₹5.7 crore	₹30.3 crore	₹4.9 crore
Cellent Technologies	September 9, 2016	100.0%	₹11.3 crore	₹4.3 crore	₹0.2 crore
Start Corp	September 9, 2016	100.0%	₹2.0 crore	₹1.6 crore	₹0.2 crore

Source: RHP, ICICI Direct Research

Industry Overview

Current state of communications-as-a-service (CPaaS)

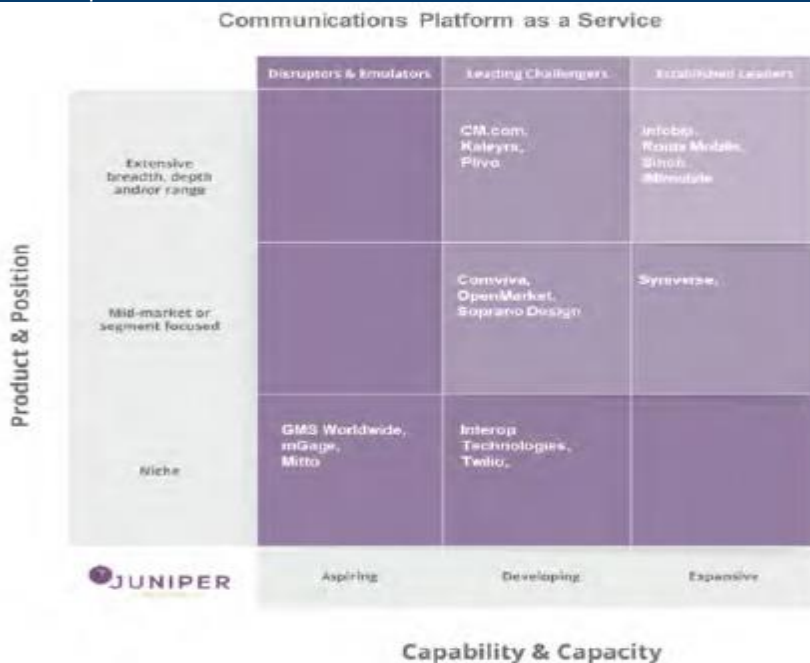
Mobile channels are becoming increasingly important for brands and enterprises to connect with customers, with service providers emerging that look to offer a comprehensive platform that enables the management of this communication. These are CPaaS platforms. CPaaS platform is defined as a service or solution that enables brands and advertisers to communicate to clients through multiple outbound online and mobile channels via a singular centralised platform. There are a number of services that can be considered part of CPaaS platform, including messaging technologies such as SMS, rich communication services (RCS) and OTT messaging applications. Also offered are push notifications, voice services and email. In future, the introduction of chatbots, financial services, payment services and expansion into other sectors is expected to be key for CPaaS providers to maximise their revenue.

Exhibit 3: Overview of CPaaS Services



Source: RHP, ICICI Direct Research

Exhibit 4: Juniper Research Leaderboard



Source: RHP, ICICI Direct Research

Exhibit 5: Heatmap: CPaaS service providers



Source: RHP, Juniper Research, ICICI Direct Research

Market Outlook: A2P SMS Messaging

SMS technology appeals highly as a communication channel due to its ubiquity on smartphones. It is expected to be the case over the next five years. It is anticipated that 88% of A2P traffic will be attributable to SMS, falling from 98.8% in 2018.

There has been a significant evolution in the range of use cases for A2P messaging in recent years.

- Historically, A2P was used for alerts and, as PSMS (premium SMS), a billing mechanism and carrier for simple content and services, both for one-off downloads or actions (e.g. voting) and for recurring payments
- The latter use case has declined markedly in the past five years. This is due to a combination of the transition to an app-based economy, largely driven by card billing, and by regulatory action (in markets such as the US and the UK) against fraudsters

Emerging messaging technologies, such as RCS, will begin to accumulate traffic share as operator and handset support increases. However, smartphone update cycles will limit adoption of the technology, thus limiting future RCS traffic.

Nevertheless, the technology’s potential cannot be understated, considering the revenue that operators can achieve through implementation of the technology compared to the minimal investment needed to support it.

It is believed that CPaaS vendors and messaging-as-a-platform (MaaP) solution providers will have a significant role to play in the future roll-outs of these services. Companies, such as Infobip, Sinch, CM.com and OpenMarket will continue to act as the key link between operator networks and the brands & enterprises that wish to use them.

The A2P SMS market is believed to be established in regions such as North America and Europe. Further future growth in these regions is forecast to emanate from SMEs, which have not yet adopted A2P as a communication tool, rather than any increase in messaging traffic per mobile subscriber or increase in the mobile subscriber base itself.

Investment Rationale

Omni-channel cloud communication platform service provider with diversified service offerings for enterprises

RML is among the leading CPaaS providers to enterprises, OTT players and MNOs. According to the ROCCO Report 2020, the company was ranked as a tier I A2P service provider internationally. Further, it was ranked second globally as a tier I A2P service provider for 2017 (Source: ROCCO Report 2017). Being an associate member of the GSMA and an accredited open hub connectivity solution provider allows the company to manage both A2P and P2P traffic for enterprises and MNOs. In addition, Route Mobile (UK) Ltd is also an associate member of GSMA.

The company 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, the company has developed a single unified API, an ‘omni-channel platform’ that incorporates communication modes like A2P/P2A/ two-way messaging, email, RCS messaging, voice and OTT business.

Exhibit 6: Omnipresent channel platform



Source: RHP, ICICI Direct Research

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 (including only directly connected A2P revenue) was US\$37.9 billion in 2017 and is estimated to grow at a CAGR of 4.4% (Source: Juniper Reports). In FY18, FY19 and FY20, through RML’s in-house developed cloud communications platform, the company processed more than 21 billion, 24.74 billion and 30.31 billion billable transactions, respectively, while in the three months ended June 30, 2020, it processed more than 6.95 billion billable transactions. RML’s 45 member technical team, as of June 30, 2020, are engaged in developing new and customised solutions for clients across sectors and industries.

MNO focussed 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 analytics based SMS firewall, they assist MNOs in identifying and plugging such revenue leakages due to grey routes, driving additional revenues for them, and for us.

The company has been able to diversify service offerings in the mobile operator segment with the acquisition of 365squared to include SMS analytics, firewall, filtering and monetisation solutions. RML proactively help MNOs identify A2P revenue leakage and monetise the same. In addition, the company assists MNOs in securing their networks and improving their understanding of how A2P messages terminate on their network. On an average, SMS firewall contracts with MNOs have a tenure of three years, with certain contracts providing for automatic renewal for a further two years. They believe this provides them with reasonable visibility and stickiness of revenue from such business.

Global connectivity via established relationships with MNOs

As of June 30, 2020, the company had direct relationships with over 240 MNOs (Super Network) and provided enterprise clients with access to over 800 mobile networks. RML partners with some of the key players across the globe.

The company also has six strategically located data centres. It believes that its global presence enables it to offer clients the flexibility of multiple routes, better speed of delivery and an ability to optimise cost of delivery per message. The company is able to serve clients better as a result of its direct relationship with MNOs. As of June 30, 2020, RML had direct relationships with 161 MNOs in EMEA, 32 MNOs in the APAC region, 48 MNOs in North America and South America, six MNOs in India and one MNO in Australia. As of June 30, 2020, the company has served over 30,150 clients, cumulatively since inception, globally through RML’s offices across Africa, Asia Pacific, Europe, Middle East and North America.

Diversified, global client base across industries serviced locally

The company 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, MNO clients include over 25 operators across four continents, as of June 30, 2020. In addition, the client base is spread across four continents. As of June 30, 2020, the company had served over 30,150 clients, cumulatively since inception. In FY18, FY19 and FY20 and in the three months ended June 30, 2020, the 10 largest clients accounted for 36.08%, 46.00%, 52.50% and 63.65% of revenue from operations, respectively, while the single largest client accounted for 6.49%, 19.86%, 14.58% and 15.45% of revenue from operations in such periods. The diverse global client base helps limit its dependency on a specific client, industry or geography and reduces financial risk. The company believes its leadership position as a cloud-communication service provider is supported by its global operations with 18 locations, as of June 30, 2020, allowing to serve its clients locally in the jurisdiction they operate.

Scalable delivery platform supported by robust infrastructure

RML’s cloud-based delivery platform enables it to build and manage applications without having to create and maintain the underlying infrastructure for each client. The company is, therefore, able to provide enterprises with solutions to operate applications without purchasing, configuring or managing the underlying hardware and software. The company currently operates at a throughput capacity of over 10,000 messages per second. Its six strategically located data centres provide

RML's operations with the resilience required to meet the requirements of the clients. The company has adopted secure protocols and offers 128-bit encryption to clients. Additionally, RML's scalable platform requires limited capital expenditure as and when it adds new clients or new services or when traffic volumes increase. The platform allows its clients to scale elastically without having to redevelop their applications or change their communications infrastructure.

Robust business model, consistent financial track record

The company has a number of clients on a pre-paid business model where the client pays upfront allowing it to reduce the overall working capital cycle. RML's revenue from operations increased at a CAGR of 37.61% from ₹ 504.95 crore in FY18 to ₹ 956.25 crore in FY20 and was ₹ 309.61 crore in the three months ended June 30, 2020. In FY18, FY19 and FY20, and in the three months ended June 30, 2020, 41.77%, 24.99%, 17.01% and 15.47% of company's revenue from operations, respectively, was prepaid. The standard terms of the agreements with RML's 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. The company believes this business model provides them with a negative working capital cycle and supports flexibility in pricing RML's services. Further, RML's revenue is directly linked to usage based on each transaction or communication sent by clients and is based on a pricing model where the company has the ability to change prices offered based on prevailing market rates or owing to increase in rates by MNOs as a result of regulatory action or legislation. RML's pricing control mechanism also ensures that relationship managers and system administrators are unable to price services below a certain base, which also ensures margin protection.

Key risks and concerns

- The company depends on strategic relationship with third parties, particularly its direct relationships with mobile network operations (MNOs). The inability to enter into or maintain such relationships, particularly with MNOs may adversely affect RML's business, financial condition and results of operations
- Failures, defects, delays and other problems involving the technology systems and infrastructure on which it relies for providing services and solutions to its clients may adversely affect business, financial condition and results of operations
- The acquisitions are subject to various risks, including risks relating to the integration of these acquired businesses with RML's existing operations. The company may, in future, continue to make strategic acquisitions to grow its business and further diversify service offerings. An inability to identify, complete and successfully integrate such acquisitions could adversely affect its business prospects, results of operations and financial conditions
- The company is dependent on a limited number of clients for a substantial portion of revenues. A reduction in the services performed for such limited number of clients or the loss of a major client could result in a significant reduction in its revenue. Its 10 largest clients accounted for ~36.08%, 46.00%, 52.50% and 63.65% of RML's revenue from operations in FY18, FY19 and FY20 and in the three months ended June 30, 2020, respectively

Financial summary

Exhibit 9: Income Statement

₹ crore	FY18	FY19	FY20	Q1FY21
Total operating Income	504.9	844.7	956.3	309.6
COGS (messaging expenses)	340.7	667.0	764.2	249.4
Other expenses	38.1	30.0	34.1	9.5
Employee benefits expense	50.5	55.4	58.2	13.0
Total Operating Expenditure	429.4	752.4	856.4	272.0
EBITDA	75.6	92.3	99.8	37.6
Depreciation	15.8	21.9	22.7	6.0
Other Income	4.5	7.7	11.9	2.7
Finance cost	7.8	13.1	4.9	1.0
PBT	56.5	65.0	84.1	33.3
Total Tax	9.8	10.5	15.0	6.4
PAT	46.7	54.5	69.1	26.9
Minority interest	1.2	1.4	0.1	0.2
PAT after Minority interest	47.8	55.9	69.2	27.1
EPS (₹)*	9.6	11.2	13.8	5.4

Source: RHP, ICICI Direct Research

Exhibit 10: Cash Flow Statement

₹ crore	FY18	FY19	FY20	Q1FY21
Profit after Tax	56.5	65.0	84.1	33.3
Add: Depreciation	15.8	21.9	22.7	6.0
Others	6.6	7.8	(1.5)	2.8
(Inc)/dec in Current Assets	(65.9)	(67.7)	(106.3)	42.8
Inc/(dec) in CL and Provisions	27.5	8.0	112.4	(3.5)
Taxes paid	(8.4)	(6.6)	(18.0)	(0.3)
CF from operating activities	32.2	28.5	93.4	81.1
(Inc)/dec in Investments	(46.1)	2.8	25.1	(3.5)
(Inc)/dec in Fixed Assets	(5.9)	(10.5)	(7.3)	(0.3)
Others	(78.1)	2.7	(17.6)	(23.9)
CF from investing activities	(130.2)	(5.0)	0.2	(27.7)
Interst expenses	(0.8)	(1.8)	(2.8)	(0.7)
Proceeds/Repayment of borrowings	55.8	(4.9)	(35.9)	1.4
Others	(12.7)	(15.8)	(23.7)	(1.7)
CF from financing activities	42.4	(22.6)	(62.3)	(1.1)
Net Cash flow	(55.6)	0.9	31.3	52.4
Exchange difference	(2.1)	5.0	0.8	0.1
Opening Cash	81.2	23.5	29.4	61.5
Closing Cash	23.5	29.4	61.5	114.0

Source: RHP, ICICI Direct Research

Financial summary

Exhibit 11: Balance Sheet

₹ crore	FY18	FY19	FY20	Q1FY21
Equity Capital	50.0	50.0	50.0	50.0
Reserve and Surplus	110.9	161.8	220.4	247.0
Total Shareholders funds	160.9	211.8	270.4	297.0
Non-controlling interests	(0.7)	(1.9)	(2.2)	(2.3)
Total Equity	160.2	209.9	268.2	294.7
Total Debt	81.3	77.1	41.1	42.5
Lease liabilities	17.3	11.8	5.6	4.7
Provisions	1.4	1.6	2.2	2.4
Deferred tax liabilities (net)	0.0	0.0	0.5	0.5
Total non current Liabilities	18.7	13.4	8.4	7.6
Total Liabilities	260	300	318	345
Assets				
Property, plant and equipment	20.7	21.7	22.4	21.3
Goodwill	84.1	83.1	85.5	85.1
Intangibles	75.5	64.4	59.1	55.7
Intangible assets under development	-	2.1	-	-
Right-of-use assets	21.0	15.3	9.7	8.3
Other assets	26.4	37.4	45.8	48.7
Cash	23.5	29.4	61.5	114.0
Bank	79.1	66.3	41.1	44.7
Trade receivables	97.3	144.7	203.7	184.0
Investments	-	10.7	11.9	12.4
Other financial assets	4.2	9.6	10.6	11.6
Other current assets	15.6	21.1	75.2	49.1
Total Current Assets	219.6	281.7	404.1	415.8
Trade payables	56	60	181	172
Lease liabilities	5	5	6	5
OCL & provisions	126	140	122	113
Total Current Liabilities	187	205	309	290
Net Current Assets	33	76	95	126
Application of Funds	260	300	318	345

Source: RHP, ICICI Direct Research

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