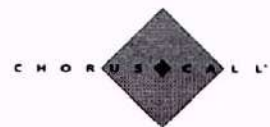


**"Route Mobile Limited
Q2 FY 23 Earnings Conference Call"
October 21, 2022**



MANAGEMENT: **MR. RAJDIPKUMAR GUPTA – MANAGING DIRECTOR AND GROUP CEO – ROUTE MOBILE LIMITED**
MR. GAUTAM BADALIA - GROUP CHIEF STRATEGY OFFICER & CHIEF INVESTOR RELATIONS OFFICER
– ROUTE MOBILE LIMITED
MR. SURESH JANKAR – CHIEF FINANCIAL OFFICER – ROUTE MOBILE LIMITED

MODERATOR: **MR. ANIKET PANDE – ICICI SECURITIES**



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Moderator: Ladies and gentlemen, good day, and welcome to the conference call of Route Mobile Limited arranged by ICICI Securities and Concept Investor Relations, to discuss its Q2 FY '23 results. At this moment, all participants are in the listen only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question please press star and one on your telephone keypad. Please note that this conference is being recorded. Before we begin, I would like to remind you that some of the statements made in today's earnings call may be forward-looking in nature and may involve certain risks and uncertainties. Kindly refer to Slide number 2 of the presentation for the disclaimer.

I now hand the conference over to Mr. Aniket Pande, Lead Technology Analyst at ICICI Securities. Thank you and over to you, sir.

Aniket Pande: Thank you. Hello, everyone. Wishing everyone Happy Diwali and a happy weekend ahead. Thank you to the management of Route Mobile for giving us the opportunity to host you for your Q2 FY '23 earnings call. We have with us today, Mr. Rajdipkumar Gupta, Managing Director and Group CEO; Mr. Gautam Badalia Chief Strategy Officer and Chief Investor Relations Officer; and Mr. Suresh Jankar Chief Financial Officer. I now hand over the call to Mr. Rajdip Gupta. Thank you, and over to you, sir.

Rajdipkumar Gupta: Thanks, Aniket. Good evening, everyone. On behalf of entire RML team, I would like to wish you all a very happy Diwali in advance. I'm happy to announce that with another solid quarterly performance in Q2 FY '23, we marked six consecutive quarters of sequential revenue and adjusted PAT growth. This is despite the geopolitical tensions massive volatility across various currencies and various other uncertainties that we all are grappling with. The underlying strength in the business continues to be robust, and we are optimistic of inching close to 60% Y-o-Y revenue growth in FY '23. Fueled by our resilient platform, deep domain expertise and highly capable Route Mobile team spread across 20 global locations, we are winning quality deals worldwide.

The quarter gone by was in fact, our best quarterly revenue and operating profit to date. Some of our key business highlights of Q2 FY '23 are as follows: RML secured a preferential partnership deal with Telenor Group for five countries, which is Finland, Malaysia, Thailand, Pakistan and Myanmar. We were again





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recognized as a representative vendor in the latest Gartner report. As part of our capital allocation strategy, we completed INR 120 crores buyback through the open market route in Q2 FY '23.

Further based on our superlative performance in H1 FY '23. I'm pleased to inform you that our Board of Directors has approved an interim dividend of 30%, that is INR 3 per share. Regarding our organic strategy, we continue to focus on key markets like India, GCC, LATAM and Africa. We have already started getting the benefit of our investment in LATAM, and early trend looks very promising. In terms of our inorganic strategy, -- the team is focused on integrating all the acquisitions we have done and derived synergies. We may look at a few tuck-in investments in coming days, and we'll try to complete all these acquisitions, which we have done recently. With this, Gautam will walk you through our financial highlights in detail. Over to you, Gautam.

Gautam Badalia:

Thank you, Rajdip. Good evening, everyone. Wishing all of you a very happy and prosperous Dipawali. We have already uploaded our quarterly earnings presentation on our website as well as at the Stock Exchange website. Hope you had a chance to go through the presentation. I'll quickly summarize our financial and operating performance during the Q2 FY '23 and H1 FY '23 before opening the floor for Q&A. As Rajdip highlighted, the quarter gone by has been an outstanding quarter, considering the seasonality of our business.

Further, our business has yet again demonstrated strong resilience despite global headwinds, inflationary pressure, geopolitical turmoil, energy crises and rising interest rates. The strong foundation, coupled with multiple engines of growth has been our secret sauce for demonstrating six consecutive quarters of sequential revenue and adjusted profit growth, as highlighted in Slide 19 of the presentation.

In volume terms, we have processed around 27 billion transactions in Q2 FY '23, which is again the highest quarterly billable volumes processed by year till date. In terms of geography, India continues to be one of our largest markets by termination, accounting for 47% of our revenue by termination. You may refer to Slide 6 for the same. We continue to increase our market share in India and are on track to surpass our guidance of \$ 175 million revenue coming from India in FY '23.



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In terms of our investments in Masivian over the last few quarters, the early trends as Rajdip highlighted, looks very promising. Masivian clocked 21% sequential revenue growth in Q2 FY '23, coupled with margin expansion. We continue to witness very strong momentum on the next-generation products, Y-o-Y growth of 116%, One may refer to Slide 21 of the presentation. In terms of cash conversion, the cash conversion for this period was slightly muted, largely because of three factors:

A large PSU bank mandated the collection of our overdue receivables through the Government e-Marketplace portal, which is called the GeM portal. The integration process with GeM portal led to overdues receivable remaining outstanding as on September 30, 2022. Further, some of our large global CPaaS customers have been taking slightly longer than this stipulated payment cycle, owing to the headwinds mentioned above. In terms of payables, there was a slight reduction in terms of the days payables because we settled an outstanding invoice with a large MNO in view of some additional discount.

With this backdrop, let me walk you through our financial performance. In terms of Q2 FY '23 performance, revenue from operations grew by 94% from INR 4,357 million in Q2 FY '22 to INR 8,458 million in Q2 FY '23. There was a sequential growth of 16%, billable transactions increased from the 10.8 billion in Q2 FY '22 to around 24.8 billion in Q1 FY '23 to 26.9 billion in Q2 FY '23. Average realization per billable transaction increased from 0.294 paisa in Q1 FY '23 to 0.314 in Q2 FY '23. Gross profit margin expanded from 21.2% in Q2 FY '22 to 22.3% in Q2 FY '23. EBITDA grew by 77% from INR 617 million in Q2 FY '22 to INR 1,094 million in Q2 FY '23. There was a sequential growth of 27% in EBITDA as well.

Effective tax rate for the quarter was 11.7% going to some deferred tax credit that we had. EBITDA margin expanded from 11.8% in Q1 FY '23 to 12.9% in Q2 FY '23. Adjusted profit for tax grew by 103% from INR 454 million in Q2 FY '22 to INR 921 million in Q2 FY '23. as compared to INR 872 million in Q1 FY '23. Adjusted PAT margin was 10.9% in Q2 FY '23.

For H1 FY '23, revenue from operations grew by 94% from INR 8,132 million in H1 FY '22 to INR 15,749 million in H1 FY '23. In terms of certain KPI, billable transactions increased from 18 billion in H1 FY '22 to 52 billion in H1 FY '23. We had staggering net revenue retention of 128%. You may refer to Slide 17 of the



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earnings presentation. We added over 350 new customers in the six months across all products.

Gross profit margin expanded from 20.8% in H1 FY '22 to 22.4% in H1 FY '23. EBITDA grew by 76% from INR 1,108 million in H1 FY '22 to INR 1,954 million in H1 FY '23. In terms of operating leverage, EBITDA as a percentage of gross profit stood at 56% for the 6-month period. EBITDA margin contracted from 13.6% in H1 FY '22 to 12.4% in H1 FY '23.

Adjusted profit for tax grew by 116% from INR 831 million in H1 FY'22 to INR 1,793 million in H1 FY '23. Adjusted PAT margin improved from 10.2% to 11.4% for the same period. Net cash as on September 30, 2022, was INR 8,062 million. Average receivable days increased from 57 days in FY '22 to 65 days in H1 FY '23, and average payable days decreased from 86 days in FY '22 to 68 days in H1 FY '23, going to reasons mentioned or highlighted above.

Cash flow from operations was INR 240 million in H1 FY '22. Cash outflow relating to investing activities was INR 410 million towards the payment of purchase consideration of INR 118 million. And the split of that amount was especially deferred payout for the email platform and advance to Teledger, and there was a CapEx of INR 333 million.

Cash outflow from financing activities was INR 1,604 million, primarily due to buyback of INR 1,492 million, which includes tax. We on boarded 142 new employees during the six months period and 146 employees resigned during the same period. With this, we open the floor for Q&A.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may enter star and one on the touchtone telephone. If you wish to remove yourself from the question queue you may press star and two. Participants are requested to use handset while asking a question. Anyone who has a question may enter star and one. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Our first question is from the line of Aniket Pande from ICICI Securities.

Aniket Pande:

Thank you. Congrats to the Route management team on a great performance on all metrics. I just had a couple of questions. First, I wanted to understand what led



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to such a strong revenue growth in this quarter? And how your guidance of 60% looks quite modest? Any specific macro reason for that?

Rajdipkumar Gupta: Aniket hi Rajdip here. I think I've already mentioned in the past also, Route Mobile is a global company operating from 20 different global destination, and we have termination all across the globe. We have signed a few large OTT players in last few quarters. In fact, we are working very closely with them to increase their termination in various other countries.

Initially, when we on boarded those customers, they were using one or two countries now these customers are using more than 13 to 14 countries. And that is the kind of potential we carry with every single customer, which we onboard on our portfolio that we can at least offer them more than 200 countries if they want to terminate messages through us.

And I think one of the reasons our revenue and I think volume is increasing because based on our close working with the OTT players as well as some of the large banking customers started sending traffic with us in last quarter. And the same trend is going to continue for the coming quarters as well.

Aniket Pande: And my second question on your EBITDA margin has expanded quite massively in this quarter. If you could walk us through the headwinds and tailwinds on the margins and also your margin aspiration in coming years?

Rajdipkumar Gupta: Aniket, we have always talked about our aspiration to increase our margin in coming quarters because we believe that the omni channel adoption is going to increase in more and more in coming quarters or years to come. We are at very early stage of adoption all across the globe, not only in India.

As we speak, if you see our new revenue coming from new technologies is increasing per quarter around 15% to 16% and we, at the current run rate, almost about INR 36 crores. If we just do on an annual basis, we are already there with INR 150 crores run rate. So I think as and when this new line of communication, the new channels will get adopted more by our customers, our revenue sorry, the margin guidance will definitely increase more and more and we believe that I think all this channel of communication has a much higher gross margin as compared to messaging, and that is exactly where we as a company focus and, there is one slide we have also presented in our presentation. I think the kind of



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customers we are onboarding not just from India various part of the work on our new channel of communication. Gautam, if you just want to add anything to this?

Gautam Badalia: Yes. So Aniket, I mean just to address, both the points, right? So I think besides what Rajdip just highlighted, there was an ILD price increase that has happened, which was always, I mean, that is very positive. I mean, whenever there is a price increase by Telco because ours is pass through. The other thing is, besides the new product contribution, that's definitely continuing to show good momentum.

I think some of our acquired entities like Masivian, they have started to now do really well. I mean we had invested over the last few quarters to expand their teams. And they have some seasonality aspects. And now know, I think they are getting into the phase of the year, which are the best for them, and we have seen tremendous improvement in their margins as well. So going forward, I think we have already called out, we are talking about 100 to 150 basis points improvement in our EBITDA margin for the year.

Moderator: Our next question is from the line of Pranav Kshatriya from Nuvama. Please go ahead.

Pranav Kshatriya: Thanks for the opportunity and congratulations on a good set of numbers. My first question is, again, a bit on the margin. You talked about around 11.5% EBITDA margin, which is 150 basis points higher than what was the Q4 margin. But if I look at your H1 performance, it is closer to 12%. So what is making you conservative in terms of the margin guidance? Or you're just keeping it conservative, and if there is a possibility that you might overachieve|?

Rajdipkumar Gupta: Pranav It's better to be conservative and overachieve. That's what I believe.

Pranav Kshatriya: Got you. But I mean, technically, we should not be seeing any headwinds on the cost side for the next? I mean, are there anything which you want to call out that in the next quarters, maybe because what I was expecting is -- it's not that the gross margin led expansion is there. This margin expansion is because of the operating leverage coming through? And in the coming quarters, because those are H2 seasonally stronger, we should see even more operating at or are you to expect some more investment?



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Rajdipkumar Gupta: Pranav, I think, I as a CEO of a company would love to have more visibility of company in various global market where we are operating now. And I think if you see from last one or two quarters, we have been very aggressive on attending a lot of conferences. I think that we need to spend some kind of marketing stuff as well because I think marketing is also one area for spend, where we have capped our marketing budget, but definitely, there will be a cost in the coming quarters, especially on marketing side.

Pranav Kshatriya: Sure, and in terms of the revenue, you talked about scaling up of the certain OTT. But can you give a little more granular color? If I look at the spurt in the revenue compared to Q1, what is contributing? Is the stand-alone Route mobile growth is what is contributing. Bulk of Mr. Messaging is contributing, Masivian is contributing? What exactly is driving growth?

Rajdipkumar Gupta: So I think we have the numbers. I request Gautam to just share the number if you can, if you have the numbers.

Gautam Badalia: Sure. Hi Pranav, actually the growth has been there across all the entities. In terms of organic growth, I think we have demonstrated over 20% growth on a sequential basis and as I said, Masivian also had to get demonstrated that kind of growth. So we've seen it across the board. And I think we are now entering into supposedly one of our best quarters at historically Q3.

So hopefully, I think that operating leverage will definitely play out. Plus, there is some degree of optionality. I'm just trying to call that out as well, which may kind of lead to further surprises in terms of margin expansion. Essentially, a lot of the cost, we've been very conservative in terms of front loading it.

So some of that, I think, in due course, worked out favorably for us. So we will just wait and watch some of those aspects, but there is some degree of optionality also there into the margin expansion.

Pranav Kshatriya: Sure. Sir, just one last question from my side. There seems to be a fair bit of investment on the working capital side. Should we expect this to reverse? Or how should we see this or this investment will continue since you're going so fast in the second half of the year?



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- Gautam Badalia:** Yes. So I think we're growing at breakneck speed. So it will definitely warrant some amount of working capital. But having said that, there were a few cases. So I just had called it out that I think this GeM portal thing it was something which caught us on the wrong foot and hence, some amount of working capital got blocked there. Now those things are all streamlined. So hopefully, going forward will not have issues with any working capital issues with respect to the GeM portal staff. And for some additional price discount, we also settled one of the large M&O outstanding. So some of these things, are more tactical, more statistical moves that we've taken. And that will ogle well for us, in terms of the overall margin expansion.
- Pranav Kshatriya:** Sure. Thank you, Gautam, Rajdip and the entire Route Mobile team. Wish you very, very happy Dipawali.
- Moderator:** Before I take the next question, we'd like to request participants to please limit the questions to two per participant. Time permitting; you may come back in the queue for a follow-up question. Our next question is from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.
- Pritesh Chedda:** Sir, I have one question. In your cash flow, there is INR 83 crores being deployed in other financial assets and other assets, that's before operating cash flow. So what is this INR 83 crores?
- Gautam Badalia:** No. So a large part of that, so about INR 64 crores out of that is the unbilled revenue. Essentially, the service is being rendered but we were not able to invoice it. So that is a part of the receivables. So that should be construed as part of the accounts receivables.
- Pritesh Chedda:** And in your balance sheet, so there are two areas, right? So there is an area which is more longer-term financial assets, other financial assets where there is an increase and there is a part in the current asset. So I can understand the unbillable part in in the current asset? Or is there a unbelievable part even in the longer-term financial assets?
- Gautam Badalia:** No, unbilled revenue.
- Pritesh Chedda:** Will be a part of your current assets. Unbilled revenue is part of the financial assets.



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- Gautam Badalia:** Yes. There are two financial items. Okay. There are two financials. One is long term in nature. One is short-term in nature in your balance sheet? One is a part of your current asset. Within current assets, we have other financial assets. And then there are longer assets were also you have a financial asset. Do you have your balance sheet in front of you?
- Gautam Badalia:** So the other non-current financial assets, last part of that essentially is the fixed deposits having a maturity of more than 12 months.
- Pritesh Chedda:** That is the other financial assets.
- Gautam Badalia:** Other non current financial assets.
- Pritesh Chedda:** Other noncurrent financial assets. Perfect. So which means that this INR 50 crores is cash generation in case whereas around INR 40 crores have gone because of unbilled revenue
- Gautam Badalia:** That's right.
- Moderator:** Thank you. Next question is from the line of Abhishek Bhandari from Nomura. Please go ahead.
- Abhishek Bhandari:** Rajdip and Gautam, I just have one simple question. Longer term in a business like yours, what should be the CFO to EBITDA ratio. I was under the impression that the kind of business what we have, typically a working capital cycle should be very small. So is the business. -- is the industry undergoing through a change? And what is the sustainable number here from a medium-term perspective?
- Gautam Badalia:** So I think on a sustainable basis, I think we should be able to achieve a 50% to 75% conversion. And as part of our guidance, we have called that out as well. There were certain certain one-offs in this, hopefully, I think that should get course corrected once you report the full year number.
- Abhishek Bhandari:** So you mean to say there's no change in the billing record or the payment terms from the clients?
- Gautam Badalia:** No, change in the billing record, per se.

Moderator: Thank you. Our next question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: I just wanted to understand, given the increasing share of our global business and some of these acquired businesses are have higher margin profile, why are we not seeing an impact in in terms of gross margin expansion? And secondly, just to crawl you a little bit further on the cash generation. If you could help us understand as to government movement and yes.

Rajdipkumar Gupta: So Manik, let me get in and then the Gautam you can add. So Manik, can you also understand the various geographic presence we have, like if you go to Africa, there would be a very different gross margin game. And then if you go to Asia, or will go to Latin America, is truly different market. So I think the overall, when we console our balance sheet, I think what -- that's exactly what we're presenting. Gautam, you can just answer this

Gautam Badalia: So Manik, honestly, I think there was some issue with the voice quality. If you can just repeat your queries, I just missed some leg part.

Manik Taneja: So the first question was with regards to the gross margin performance. While we are continuing to derive a higher share of revenues from international and from acquired business and some of the acquired businesses have higher gross margin profile as for the difference we have provided?

Gautam Badalia: So yes, so I'll address this first. I think Rajdip highlighted the key aspect. I'll just add to what he said. So some of the large OTT players, right? Because of the size and scale and the rate at which they grow, there are some volume based discounts, which essentially leads to a drag on the overall portfolio gross margin, but that is then adequately compensated by the new products and some of the acquisitions that we have done, which are at higher gross margins. So that's the way to look at it.

And from our perspective, if you were to look at it, some of these large OTT, if you are able to service them in multiple geographies. The serviceability of some of these accounts doesn't warrant significant operating cost. So there is tremendous operating leverage that kicks in, and hence, it leads to higher ROCE



- Manik Taneja:** Sure. And the second question was with regards to the cash generation. If you could help us understand what's changed with regards to the government procurement?
- Gautam Badalia:** Yes. So I think for this one of these large PSU bank that we were providing the services. at the very last moment, I mean, we were told that the entire billing has to be routed through the Government e-Marketplace portal, which is the GeM portal. So we had to get ourself integrated. That process is again a process which warrants a little bit of time because we were doing it for the first time. So some part of that bank's quarterly revenue, a large part of that was stuck as it had to be settled through the GeM portal. But now those things have been streamlined. We are already integrated. We have already received the payments for this particular bank in the subsequently.
- Manik Taneja:** So should we expect an improvement in cash flow in 3Q itself?
- Gautam Badalia:** Yes.
- Manik Taneja:** And one last one from my end. Basically, the industry as a whole has seen significant increase in ILD pricing over the course of last 24 months, how are we seeing both the pricing, both on NLD and ILD volumes, if I have to think about the next 12 months?
- Rajdipkumar Gupta:** Manik hi, Rajidip here. So for us, it is pass-through prices, right? So definitely, we did see some kind of a volume dip. But based on the price increase, I think it is just a pass-through for us. And I don't see there is any impact going to -- in fact, we're going to gain more out of that rather than any impact.
- Manik Taneja:** Sure, but, do you think we could probably see that situation where ILD price will increases?
- Rajdipkumar Gupta:** It all depends on operator Manik because I deal with some thousands of operators and there are different operators have different aspiration, like and they I think definitely, most of the operators believe that SMS one of the like big thing for them. And I think most of them are trying to increase prices all across the globe. You never know, but I can't comment on there. We have what probably they may be.



Moderator: Thank you. Our next question is from the line of Dipesh from Emkay Global. Please go ahead.

Dipesh: A couple of questions on. First about the data-related questions, Yes, can you help me with the acquired entity performance this quarter, if you can give revenue run rate of Masivian, MRM. Second question is about EBITDA margin expansion optionality.

I think Gautam earlier alluded to I was a bit not sure what he is referring to. If you can provide some more detail what he tried to convey. And last question is about ILD price hike and rupee depreciation. Both of these sectors are positive for our revenue growth this quarter. So can you provide some quantification of those benefit versus normal business growth?

Gautam Badalia: Sure. So Dipesh, Masivian revenue for Q2 FY '23 is about INR 562 million.

Dipesh: Sorry, I missed the number, Gautam.

Gautam Badalia: 562 million in INR terms. For Mr. Messaging, it's INR 1,720 million. Is that sufficient or you want further entities

Dipesh: No, that's fine

Gautam Badalia: Okay. Fair enough. So yes, so your second query was on the optionality that we were talking about, right? So what is happening is, I think in terms of the ESOP cost, right, the first year, the impact of the ESOP cost is the maximum. I think we are now past the 12 months. So going forward, from the next quarter onwards, there would be a drastic reduction in the ESOP cost because it will reduce 48% to almost 28% for the full year. So that is the extent of the reduction that we'll kind of pay out. Sorry, what was the third query? I hope that addresses your query Dipesh, what was the third point?

Dipesh: Third question was about ILD tariff and rupee depreciation some benefit, if you can quantify those benefit versus usual business growth?

Gautam Badalia: No. So ILD because of the price increase, definitely, there was benefit in terms of realization.

- Rajdipkumar Gupta:** I think, Dipesh we also buy in dollars and my customer also pays in dollar. So I hope you're aware of this for ILD.
- Dipesh:** That's fine. But when you
- Gautam Badalia:** Sorry to intervene. So Dipesh, so about 35% of our revenue is in dollars, 35% of the revenue is in euro. So in a way, those things have settled off -- in terms of the capital commitment that we have in terms of euros for Mr. Messaging will tend to benefit because of further depreciation of euro, but some amount of it will be offset by what we have to pay to Masivian in dollars.
- So net-net, if you look in terms of the capital commitment between Mr Messaging and Masivian. we have a net euro exposure. So in a way, we'll benefit in terms of the capital commitment.
- Moderator:** Thank you. Our next question is from the line of Moez Chandani from Centrum Broking. Please go ahead.
- Moez Chandani:** My first question is on your revenue guidance of 60% revenue growth year-on-year we're looking at H1, we've already grown at 94%. So in that sense, are we being a little conservative with our revenue guidance of 60%? Or are you expecting to see some slowdown over the next couple of quarters? Because even if our Q-o-Q growth is flat, we should be able to comfortably exceed that guidance. So I just want to
- Gautam Badalia:** 60% is definitely a very good guidance, like so I think we want to stick with 60%, and we are definitely have that -- like we as a team are looking forward to achieve over 60% also. But as far as the guidance is concerned, I think we want to stick with 60%.
- Moez Chandani:** Okay. Understood. My second question was on the two acquisitions, the two small tuck-in acquisitions that we are being planned. So could you give us a time line on when we expect those acquisitions to be completed?
- Rajdipkumar Gupta:** I think both the acquisition, we're still going through the due diligence process. And right now, it's under the process only. So as soon as we have the outcome of the diligence, I think then we can definitely share some data. But as of now, it may take some time. That's what we can tell you.

Moderator: Thank you. Our next question is from the line of Vivek Sethia from HDFC Securities. Please go ahead. Mr. Vivek Sethia, please unmute the line and go ahead with the question.

Vivek Sethia: Sure. So my question -- and I had a question I just wanted to understand the breakup of the acquisition Masivian Intertelco and MRM. And just a follow-up on that, since your target is to achieve that 50% revenue growth. So could you break that up in terms of how much would be organic and how much would be from the acquisitions

Rajdipkumar Gupta: Yes, so I think from an organic growth standpoint, I think we should be able to achieve a 25% to 30% growth rate and balance, we're looking at contribution from the acquired entities.

Moderator: Our next question is from the line of Ajaypal Singh from Asian Paints Limited. Please go ahead.

Ajaypal Singh: Congratulations for the good set of numbers. My question is with respect to the revenue growth. We have been achieved 94% of the revenue for the Y-o-Y quarter Q2 growth. As I have seen, there's a number of MRM Masiv have been added, which is of INR 236 crores. What is the other aspect which has led to the increase in revenue? And any major customer which we have added in the quarter and generated the revenue will it be one-off or it will be continuous continuation?

Rajdipkumar Gupta: It will be continuous. We have added a few banks. We on boarded a few banks and those traffic started coming from last quarter. As I said earlier also, there's a large OTT player we have signed, and we have now started servicing these customers for 13 countries. We are also very working very closely with some of the large CPaaS players that volume is also increasing.

So there are multiple reasons like where because of which our volumes are increasing. And it's a properly strategy, we defined that we want to work with everyone, especially with the CPaaS players also and we want to support them than competing with them in various markets. So apart from that, I think, banking customer and OTT player has contributed a lot, along with our Masivian and Mr. Messaging. For the incoming quarters as well.

- Ajaypal Singh:** I'm hoping with the best results. One more thing, if I explain the 94% of the growth rate, how much has been coming from the acquired entities growth rate and how much is the normal business growth rate?
- Gautam Badalia:** Yes. So organic growth rate on a sequential basis was 20.6%. Balance is attributable to some of the acquisitions that we've done.
- Ajaypal Singh:** Okay. So 95% has been to pass 20.6% is our organic and the remaining 70%, which is on Y-o-Y, which are not in by
- Gautam Badalia:** We are talking about quarter-on-quarter sequential growth.
- Ajaypal Singh:** No, Y-o-Y I'm talking about.
- Gautam Badalia:** Y-o-Y, just give me a second. Yes, 40% is the Y-o-Y organic growth rate.
- Moderator:** Thank you. Our next question is from the line of Saurav Kataruka. Please go ahead.
- Saurav Kataruka:** Yes right. First of all, very happy Diwali to the entire Route Mobile team. Sir, I have two main questions. You talked about increase margin improvement, in future new age technologies whatapp, Viber, RCS gets more adoption, and that is something which we have been hearing for many quarters now. Based on your client interactions, what do you think is the reason for the slow adoption in these? And then second is, this is a request rather, can you present this breakup of new edge technologies versus SMS growth or revenue split in the investor presentation from next time maybe just like some of the software services firms report that digital growth.
- Rajdipkumar Gupta:** Sorry, we, already have the one in the presentation.
- Gautam Badalia:** Yes, it's on Slide 21, if you may refer to it.
- Saurav Kataruka:** Okay. I might have missed it. And just another one. The second question is about Call 2 Connect. in Q2 FY '22, you had told about 1,000 seater facility addition. And I see the employee count in your investor presentation is 724. Does that include the Call 2 Connect employee count? And even statistics, what is the current utilization of the 1,000 seat capacity -- and the last small one, it is about the Click2Pay service, which you had launched sometime around Q3 last year. Any traction in that?

- Rajdipkumar Gupta:** Yes.
- Saurav Kataruka:** Thanks, those are the ones
- Rajdipkumar Gupta:** 700-plus employees completely for Route Mobile and I think on Call 2 Connect, we have a separate set of employees. -- that number is Gautam has, you can share
- Gautam Badalia:** Yes, around 200, 200 orders
- Rajdipkumar Gupta:** No, no, Call 2 Connect.
- Gautam Badalia:** Rest around contracts. On payroll, it's about 200-odd employees for Call to Connect.
- Rajdipkumar Gupta:** And overall, it would be more than INR 1,500 if I'm not wrong.
- Gautam Badalia:** That's right. And in terms of the utilization at this point in time, it's running at 50% utilization. So, we were running at 300 seats, and we've just got additional order of 200 seats right now. And there are some active pipelines that we have. Some of this, I think, should fructify in this quarter.
- Saurav Kataruka:** And on Click2Pay there any traction in anything you would like to add?
- Gautam Badalia:** Yes. So Click2Pay, I think definitely, there is some amount of traction. In fact, I think we've just deployed a conversational commerce platform with Coca-Cola in UAE where they tried, tested our Click2Pay, but they had their own propriety payment solution, which they integrated it. So we are taking it to clients at this point in time, nothing which warrants highlighting it at this point in time. But we're seeing good traction on that as well, from a 360-degree conversational commerce experience.
- Moderator:** Our next question is from the line of Rohan Bopani Retail Investor.
- Rohan Bopani:** First of all, thank you for the opportunity and congratulations for the great set of number. I have a couple of questions. First is, has seen lately that people are using Google Authenticator and other apps to basically authenticate the program. And compared to the traditional SMS-based authentication, so what's your view on the impact of this on our business?



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Rajdipkumar Gupta: So not at all, Rohan. It is all about different use cases are arising based on the current requirement, okay? SMS is still there, WhatsApp is still there -- most of the WhatsApp used cases are customer support as of now, it cannot be taken over by SMS. So I think because of the digital adoption ratio increasing day by day, the various number of use cases are also rising. So Click2Pay or Google thing is it all new channel of communication, which has a different use cases. And we don't see that as a competition to message, SMS, but that will have a different use case and different customer set for that.

Rohan Bopani: So will we adapt to that style of authentication?

Rajdipkumar Gupta: It's a customer choice, based on their customers, use case and choice, right? Same customer is using for channel of communication, including voice, SMS, e-mail and they may use Google Authenticator also, that is available since very long time.

Rohan Bopani: Okay. Second question is regarding the buyback. Sorry if I'm wrong, I'm seeing that in the investor presentation, it has been clear that promoters have not participated in the buyback, right? But on the screener, I have seen that your stake has been increased a bit. So can you just clarify on this?

Gautam Badalia: Can you please repeat your query?

Rohan Bopani: I'm saying that in the buybacks, promoters have not participated right?

Gautam Badalia: Yes, they are into the open market. That's right.

Rohan Bopani: Yes. But and I see the, shareholding pattern I can see that promoters have increased their shareholding in this quarter. So that's what I wanted to understand.

Gautam Badalia: No, pursuant to the buyback, the shareholding of the promoters had increased. But thereafter, there was a small block that was offered to a marquee investor. So that resulted in the resultant shareholding of the promoters marginally falling below their March shareholding.

Rohan Bopani: Okay. And I just have a last question on what's your view on macro environment? And how do you see that the recession and other issues will impact our business



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Gautam Badalia: Sure. So I think till now, I think we are largely present in emerging markets. We haven't seen too much of headwinds in terms of what is today happening in the developed markets, plus what is happening, especially in markets like India because of digitization, because of the initiatives by the government to digitize the economy.

We've seen the micro transactions increase multifold times. And as CPaaS partners to enterprises, we tend to benefit out of the increased number of transactions. So per se, we haven't faced the hit that the developed markets are facing at this point in time. And yes, so I think that is where we are right now. and for a lot of large OTT players from the US and even companies like Alibaba, TikTok, you name it, most of these companies so largely from the US OTT players, they are looking at their growth coming from emerging markets, and hence, we tend to be a big beneficiary.

Moderator: Thank you. Our next question is from the line of Mohan Kumar , an individual investor. Please go ahead.

Mohan Kumar: That's another great set of numbers. Just a quick question regarding the cost of message I see that message cost was [up by around 20% this quarter, which is much higher than the rest of the expenses that you guys are seeing. So any particular reason why that number is a little higher?

Gautam Badalia: Sorry, which number, can you just repeat?

Mohan Kumar: Purchase of messaging services, it's up to about 657 versus 565 last quarters. So that's grown littler higher.

Gautam Badalia: It's function of the increase in revenue as well, right? Revenue increased from INR 730 odd crores to INR 850 crores.

Mohan Kumar: A little more than the revenues. So I just want to know

Gautam Badalia: No, so, gross profit margin, if you were to plot it for both the quarters, it's around 22.4 and 22.3 -- so pretty much, I mean, it has been at same levels.

Mohan Kumar: Got it. And just a second question regarding the -- and I know that you've mentioned that you're probably conservative, but if you just look at the basic run rate from current levels, you're looking at like second half a much stronger for



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you guys than it just looking at the current run rate, keeping this here, we are looking at around 70% growth. So would I be wrong if I'm morphing in close to 75% or 80% Y-o-Y growth?

Gautam Badalia: So a small kind of a caveat there. I think definitely, Diwali also actually has happened and there are some obvious festivities have actually happened in Q2 this time. So there is some amount of that has already played out in Q2. Notwithstanding that, we definitely believe Q3 and Q4 will be good. But I think we have already given a guidance of 60%. We would want to stick to it and ensure that we kind of outperformed that number.

Mohan Kumar: Just a follow-up on that, you mentioned the Diwali aspect has already kicked in. So what do you mean by that since there's still like almost a couple of weeks away like Diwali is next week just trying to understand how has that laid out in the last quarter?

Rajdipkumar Gupta: There are lots of sale has been already, I think it was there in last month, if you see, like whether it's Amazon or sale for Flipkart and other like so that's what Gautam was trying to mention.

Mohan Kumar: Got it. Sounds good. Thank you very much. I hope you guys have even more successful next couple of quarters. Happy Diwali and all the best

Moderator: Thank you. Our next question is from the line of Aditya Yadav from Transient Capital. Please go ahead.

Aditya Yadav: Apologies if the question is a bit repetitive because I joined the call a bit late. Sir, as you've been guiding previously that we are trying for like 100, 200 basis point margin expansion every year, and that is the vision for the company. And although the revenue growth has been super and blockbuster to say, but on the margin front, even if you look at year-on-year, the margins have been flat to a bit negative at the operating level?

Gautam Badalia: Yes. I think we discussed this point earlier. So essentially, what is happening is there are some large clients, right, where the revenues grow in multiples, and we service them across multiple geographies. And they happen to be million-dollar clients.

So over a period of time, as we deepen our relationship with them, there are volume-based discounts, which essentially tends to have a drag on the overall portfolio margin. But the newer products, some of the acquisitions that we have done, which are doing tremendously higher gross margin, they tend to offset it. And hence, while the gross profit margin has remained at 21%, 22%. But in terms of the operating leverage that flows in, in terms of the EBITDA margin expansion that actually should -- and from our perspective, we look at it from a return on capital employed perspective.

So for servicing some of these large multimillion dollar clients we don't tend to incur too much of operating overheads. So whatever we are able to generate in terms of gross profit flows directly to the EBITDA and hence leads to higher ROCE.

Aditya Yadav: No, if it closed down to the EBITDA, then obviously, the margin should expand now? And as you are saying, okay, sometimes you have with certain clients with larger clients, there's a bit of..

Gautam Badalia: So some amount of cost impact on the EBITDA margin has been because of the front loading of the ESOP cost

Aditya Yadav: What I'm saying over a year on year, these things would normalize a bit and you should see some kind of expansion in the margin

Rajdipkumar Gupta: So Aditya, exactly what we are trying to say from last one hour that new product is something what we all are focusing right now. As on when the adoption of new channel will happen and more customers will be on boarded for the new channel, our margin will expand for sure. And the kind of guidance we have given in the market that we have the aspiration to grow our GP in the range of 25%, 30%, and we are working towards that

Aditya Yadav: And the short-term goals also which you discussed the 120 basis point expansion every year.

Gautam Badalia: Yes, we've already called out, I think, as part of our guidance, 100 to 150 basis points improvement in our EBITDA margin.

Gautam Badalia: Yes, that should play out.



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- Moderator:** Thank you. Our next question is from the line of Anil Nahata, an individual investor. Please go ahead.
- Anil Nahata:** My question is that these lead channels like WhatsApp and all, have they been able to make significant volumes to reach a couple of percentage of the overall revenue so far?
- Rajdipkumar Gupta:** Yes, indeed, I agree, because we are already onboarding lots of customer on WhatsApp as we speak, not only on WhatsApp, but on Viber as well as on other channels.
- Anil Nahata:** Hello, I lost you
- Rajdipkumar Gupta:** I think I answered you, but if you..
- Anil Nahata:** I'm sorry, maybe I'm having an issue at my end. I will go through the transcript.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back to the management for closing comments.
- Rajdipkumar Gupta:** Thank you, everyone, and wish you all a very happy Diwali and prospers New year as well. Thank you once again.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines