

# RateGain Travel Tech (RATEGAIN IN)

Broad based growth; Healthy margins; Guidance cut due to client specific challenges

## INDIA | IT SERVICES | Quarterly Update

RateGain reported strong results. Revenue came in at \$33.1mn, up 16.6% yoy (6.3% qoq), higher than our estimates (2.2% qoq, PCe). Growth was broad based with all segments growing sequentially: Distribution (7.7% qoq), Daas (4.7% qoq) and Martech (6.6% qoq). EBITDA margin improved +260bps qoq (+190bps yoy) on account of operating leverage, coming in at 21.7% (record high), above our estimate (20.5%, PCe). Segment-wise, Daas continued to grow within enterprise accounts. Martech performed well, driven by PDM, Adara, and brand management. Distribution segment returned to sequential growth with rising volumes despite drag from large customer. Deal TCW was muted in Q2 at Rs 655 million, flat yoy. Mgmt reduced its full year revenue growth guidance to +15% (vs. +20% earlier) due to a large hotel customer (c.4% of rev) churning out, slower deal closures in H1, pushout of some deals due to delayed decision making and pricing pressure in Daas segment. Revised guidance implies slower growth rate in H2 (+1.0% CQGR). However, mgmt is hopeful of better deal closures in H2 based on pipeline. Mgmt is seeing traction in APAC, LATAM and EU markets. Mgmt saw slower booking and decision making in US in Q2, however with US elections behind us, mgmt believes there will be uptick in decision making in US. Adara continued to grow with record client additions in Q2. PDM business continues to do well with strong growth in EU and APAC. Distribution is returning to growth with traction in Revmax platform and rising volumes. Daas is seeing traction in enterprise accounts with rise in data volumes and in Airlines. Mgmt affirmed that margin expansion outlook remains intact (target of 150-200bps margin improvement in FY25). This goal appears achievable, supported by growth, positive operating leverage from its SaaS offerings and H1 margins already at 20.5% (+170bps yoy). Our thesis of company delivering strong growth in the medium term, driven by positive travel demand, relevant and wide set of offerings to wide and marquee clientele (OTAs, hotels, car rentals, airlines, DMOs, etc), and margin expansion from positive operating leverage, is playing out well (IC [read here](#)). Maintain BUY

### Key takeaways from Q2FY25:

- **USD revenue at \$33.1mn (calculated), growth of +6.3% qoq, +16.6% yoy** - higher than our est of 2.1% qoq. INR Revenue at Rs 2,773mn, +6.6% qoq, +18.1% yoy
- **Segmental (in USD qoq)** Daas (+4.7%), Distribution (+7.7%), Martech (+6.6%)
- **EBITDA margins at 21.7% (+260bps qoq, +190bps yoy)** - above our estimates of 20.5%
- **EBIT margins at 18.6% (+310bps qoq, +320bps yoy)**, significantly higher than our est of 16.8%, on higher EBITDA and lower D&A
- **PAT at Rs 522mn (+15.1% qoq, +73.8% yoy)**, higher than our est of Rs 508mn
- **Attrition at 10.3% (vs 10.9% in Q1)**, headcount at 830 (Net addition of +29)
- **New contract wins at Rs 655mn (flat yoy)**. Pipeline at Rs 4691mn (-15.5% qoq).

### Management comments/concall takeaways: [\(Detailed takeaways on Page 2\)](#)

- **FY25 Outlook:** Mgmt cut growth guidance to 15% organic growth (vs 20% growth earlier) as a large client churned out (4% of revenue) and slowdown in new contract wins.
- **Margin Outlook:** Mgmt continues to aim for margin expansion by 150-200bps in FY25. Operational leverage with steady growth continues to be primary margin lever.

**Outlook and valuation:** We reduce our FY25-27 EPS estimates by 2-3% factoring in guidance cut/. We are now forecasting USD revenue growth of 14.4%/17.5%/18.0% with EBITDA margins of 21.2%/22.0%/22.1% for FY25/26/27. We continue to value RateGain on 40x FY26-27 average PE (1.6x PEG, avg 1 yr fwd PE 45x) to arrive our TP of Rs 960 (Rs 990 earlier). Maintain Buy.

Rs mn	2QFY25	2QFY24	Yoy %	1QFY25	Qoq growth %	vs. expectations %	Comments
US\$ revenues (mn)	33.1	28.4	16.6%	31.2	6.3%	4.0%	Revenue above our estimates
Net sales	2,773	2,347	18.1%	2,600	6.6%	3.9%	
EBIT	515	360	43.1%	403	27.9%	15.1%	
EBIT Margins (%)	18.6%	15.3%	320bps	15.5%	310bps	180bps	Margins above our estimates
Profit after tax	522	300	74%	454	15.1%	2.7%	PAT above our estimates
EPS (Rs)	4.4	2.8	60%	3.9	15.1%	2.7%	

11 November 2024

## BUY (Maintain)

CMP RS 835

TARGET RS 960 (+15%)

SEBI CATEGORY: SMALL CAP

### COMPANY DATA

O/S SHARES (MN) :	118
MARKET CAP (RSBN) :	97
MARKET CAP (USDBN) :	1.2
52 - WK HI/LO (RS) :	922 / 621
LIQUIDITY 3M (USDMN) :	3
PAR VALUE (RS) :	1

### SHARE HOLDING PATTERN, %

	Sep 24	Jun 24	Mar 24
PROMOTERS :	48.3	48.3	51.3
DII :	21.7	21.7	17.3
FII :	10.6	10.6	13.5
OTHERS :	19.5	19.5	18.0

### KEY FINANCIALS

Rs mn	FY25E	FY26E	FY27E
Net Sales	11,075	13,044	15,389
EBITDA	2,345	2,868	3,403
Net Profit	2,065	2,366	2,848
EPS, Rs	19	22	26
PER, x	36.8	32.1	26.7
EV/EBITDA, x	33.8	27.5	22.9
PBV, x	4.6	4.0	3.5
ROE, %	13.3	13.3	13.9

### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY25E	FY26E	FY25E	FY26E
Revenue (\$ mn)	132.2	155.3	-2.3%	-3.8%
EBIT	1,962	2,417	-1.4%	-4.7%
PAT	2,065	2,366	-2.5%	-2.4%
EPS (Rs)	19.0	21.8	-2.5%	-2.4%

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## Key Takeaways from Earnings Call:

### Growth Commentary:

- **Travel outlook:** Mgmt mentioned travel industry seems to be normalizing after a phase of high growth. Luxury travel continue to grow and leisure travel is resilient while business travel is gradually climbing to pre-pandemic levels.
- **FY25 Outlook:** Mgmt cut growth guidance to 15% organic growth (vs 20% growth earlier) as a large client churned out impacting c.400bps and slowdown in contract wins.
- **M&A:** On M&A, management is actively seeking deals in the Daas and Distribution spaces but remains prudent regarding valuation multiples and synergies.
- **Booking and pipeline:** Q2 witnessed moderate new contract wins of Rs 655 mn flat yoy. Pipeline stood at Rs 4691 mn, up 17% yoy. Booking may see pickup post-election in US.
- **Client loss** – Mgmt. informed that the large client (Germany based hotel chain) got acquired by a US chain which had the capability in house.
- **North America:** Mgmt mentioned North American market is challenging as decision making has been pushed out on account of elections and moderation in travel. Mgmt. hopes to be able to close deals now with elections and related uncertainty behind us.
- **APAC:** Mgmt is optimistic about APAC region and have added sales team to drive growth.
- **RevMax a growth driver:** Mgmt is optimistic about RevMax platform as it offers integrated ecosystem of booking, channel manager, omnichannel marketing and Business Intelligence.
- **ADARA** continued to perform well, with revenue run rate reaching about 48-49mn with margins around 18% levels.

### Segment Commentary

- **Daas:** Strong traction witnessed across OTAs, Airlines, Car Rentals, Rev AI & Cruise.
  - Volume demand continues to be strong across enterprise accounts.
  - AirGain continues to be a growth driver with a key deal win of **Thai Airlines**.
  - Mgmt is seeing pricing pressure in Daas.
  - Newly launched Navigator platform for Hotels to get rate insights, track demand and fix parity issues driving efficiencies for Commercial teams
- **Distribution:** Growth has picked up and mgmt. sees continued traction. Steady growth in booking volumes on the back of healthy travel demand.
  - TCA integrates with RateGain's advanced solution, to bring enhanced efficiency and revenue optimization to hotels in LATAM
  - Continued traction in GDS vertical with volumes now surpassing 2019 levels
  - Booking levels into key travel markets are reporting healthy growth as International travel continues to remain strong.
- **Martech:** Healthy new closures for Adara across leading Financial Services, DMOs, Hotels, Airlines and Travel Retail brands. Steady traction in social media engagement area.
  - Continued traction with key closures across Hotels in N. America, Europe and Middle East regions
  - Paid Digital Media offering – Strong growth in ARPU and improved traction in Europe, APAC regions

### Margin commentary:

- **Margin Outlook:** Mgmt continues to aim for margin expansion by 150-200bps in FY25. Operational leverage with sustained growth continues to be primary margin lever
- **Margin Lever:** Operational leverage with sustained growth continues to be primary margin lever.

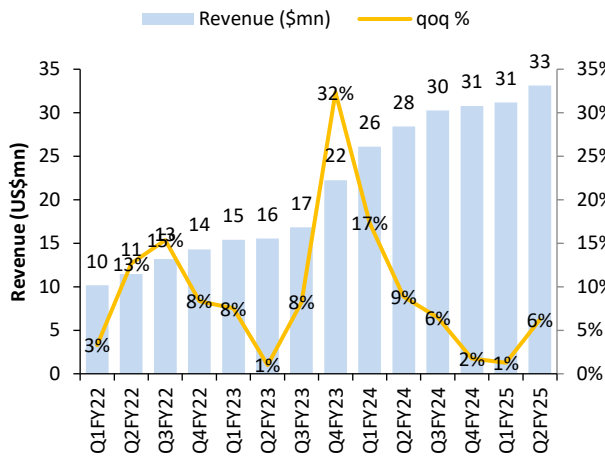
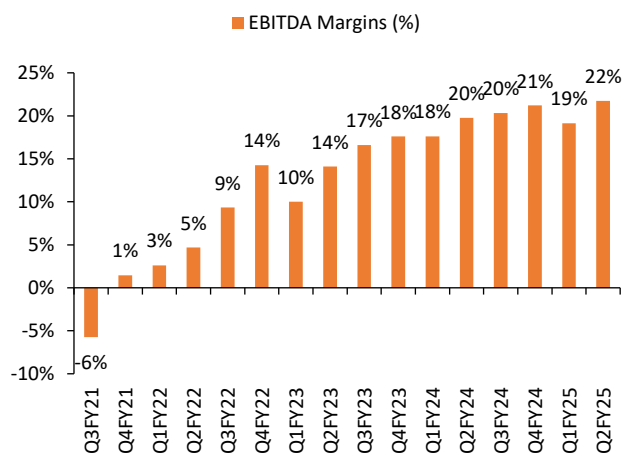
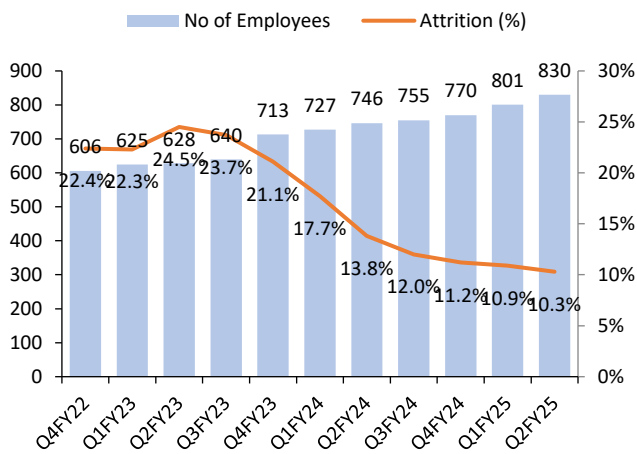
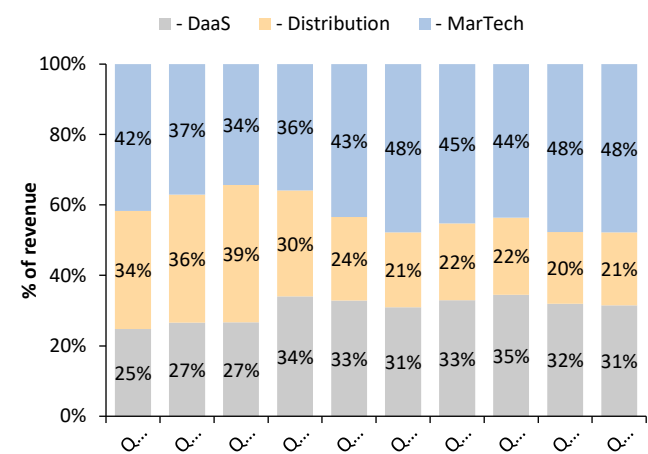
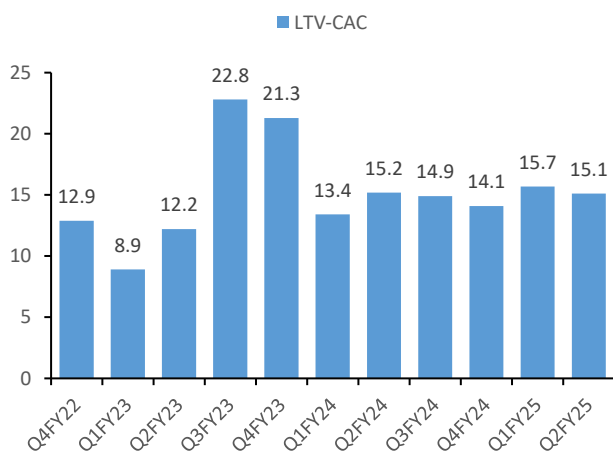
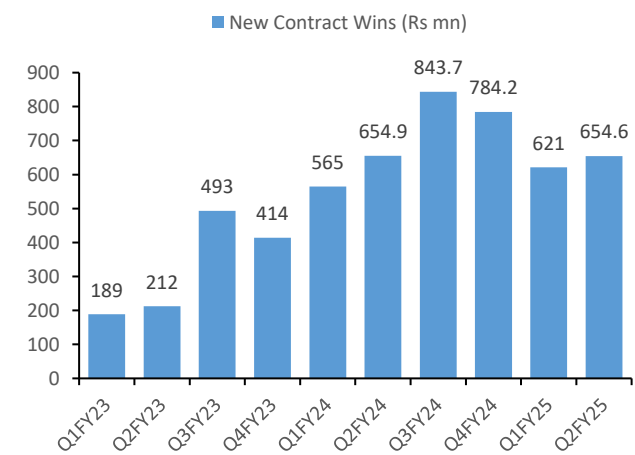
**Quarterly performance**

Rs mn	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>US\$ revenues</b>	<b>28.4</b>	<b>30.3</b>	<b>30.8</b>	<b>31.2</b>	<b>33.1</b>
QoQ growth %	8.9%	6.5%	1.7%	1.3%	6.3%
<b>INR revenues</b>	<b>2,347</b>	<b>2,520</b>	<b>2,558</b>	<b>2,600</b>	<b>2,773</b>
QoQ growth %	9.4%	7.4%	1.5%	1.6%	6.6%
YoY growth %	88%	82%	40%	21%	18%
Employee benefits expense	943	1,011	965	1,028	1,045
Other expenses	940	996	1,051	1,075	1,125
<b>EBITDA</b>	<b>464</b>	<b>513</b>	<b>543</b>	<b>498</b>	<b>602</b>
QoQ growth %	22.8%	10.4%	5.8%	-8.3%	21.0%
YoY growth %	164%	124%	68%	32%	30%
<b>Margins %</b>	<b>19.8%</b>	<b>20.3%</b>	<b>21.2%</b>	<b>19.1%</b>	<b>21.7%</b>
Depreciation	104	98	95	95	87
<b>EBIT</b>	<b>360</b>	<b>415</b>	<b>447</b>	<b>403</b>	<b>515</b>
Margins %	15.3%	16.5%	17.5%	15.5%	18.6%
Interest	4	4	3	3	3
Other Income	37	109	210	183	173
Exceptional items					
<b>Pre-tax profit</b>	<b>393</b>	<b>520</b>	<b>655</b>	<b>582</b>	<b>685</b>
Tax provided	92	116	154	129	163
Minority Interest					
<b>Profit after tax</b>	<b>300</b>	<b>404</b>	<b>500</b>	<b>454</b>	<b>522</b>
QoQ growth %	20.6%	34.6%	23.7%	-9.3%	15.1%
YoY growth %	132%	205%	48%	82%	74%
Margins %	12.8%	16.0%	19.6%	17.5%	18.8%
<b>EPS, Rs</b>	<b>2.8</b>	<b>3.6</b>	<b>4.3</b>	<b>3.9</b>	<b>4.4</b>

**Quarterly operating metrics**

QoQ growth %	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>Revenue from Segments (% qoq, in USD)</b>					
- DaaS	2.3%	13.4%	6.7%	-6.4%	4.7%
- Distribution	-1.8%	8.7%	2.2%	-5.5%	7.7%
- MarTech	19.6%	1.0%	-2.1%	10.8%	6.6%
<b>Total</b>	<b>8.9%</b>	<b>6.5%</b>	<b>1.7%</b>	<b>1.3%</b>	<b>6.3%</b>

Source: PhillipCapital India Research, Company Data

**US\$ revenue vs. growth**

**Margin Performance**

**Headcount and Attrition (%)**

**Revenue Mix**

**LTV to CAC**

**New Contract wins**


Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY24	FY25E	FY26E	FY27E
<b>Net sales</b>	<b>9,570</b>	<b>11,075</b>	<b>13,044</b>	<b>15,389</b>
Growth, %	69.3	15.7	17.8	18.0
Other operating income	-	-	-	-
Raw material expenses	-	-	-	-
Employee expenses	3,799	4,300	5,048	5,773
Other Operating expenses	-	-	-	-
<b>EBITDA (Core)</b>	<b>1,897</b>	<b>2,345</b>	<b>2,868</b>	<b>3,403</b>
Growth, %	124.1	23.6	22.3	18.7
Margin, %	19.8	21.2	22.0	22.1
Depreciation	410	383	451	475
<b>EBIT</b>	<b>1,487</b>	<b>1,962</b>	<b>2,417</b>	<b>2,928</b>
Growth, %	204.5	32.0	23.2	21.2
Margin, %	15.5	17.7	18.5	19.0
Interest paid	14	13	13	13
Other Income	416	747	700	822
Non-recurring Items	-	-	-	-
<b>Pre tax profit</b>	<b>1,889</b>	<b>2,697</b>	<b>3,104</b>	<b>3,738</b>
Tax provided	435	632	738	889
<b>Profit after tax</b>	<b>1,454</b>	<b>2,065</b>	<b>2,366</b>	<b>2,848</b>
Minorities	-	-	-	-
<b>Net Profit</b>	<b>1,454</b>	<b>2,065</b>	<b>2,366</b>	<b>2,848</b>
Growth, %	112.6	42.0	14.6	20.4
<b>Net Profit (adjusted)</b>	<b>1,454</b>	<b>2,065</b>	<b>2,366</b>	<b>2,848</b>
Unadj. shares (m)	-	-	-	-
Wtd avg shares (m)	109	109	109	109

### Balance Sheet

Y/E Mar, Rs mn	FY24	FY25E	FY26E	FY27E
Cash & bank	3,912	3,995	4,456	5,584
Marketable securities at cost	1,563	996	1,036	1,076
Debtors	2,050	2,311	2,925	3,425
Inventory	-	-	-	-
Loans & advances	12	-	-	-
Other current assets	5,595	7,114	8,801	10,305
<b>Total current assets</b>	<b>13,133</b>	<b>14,416</b>	<b>17,218</b>	<b>20,390</b>
Investments	248	1,587	1,687	1,787
Gross fixed assets	67	87	97	107
<b>Less: Depreciation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Add: Capital WIP	-	-	-	-
Net fixed assets	67	87	97	107
Non - current assets	3,862	3,805	3,880	3,954
<b>Total assets</b>	<b>17,310</b>	<b>19,894</b>	<b>22,881</b>	<b>26,236</b>
Current liabilities	-	-	-	-
Provisions	2,104	2,495	3,045	3,494
<b>Total current liabilities</b>	<b>2,535</b>	<b>2,754</b>	<b>3,321</b>	<b>3,783</b>
Non - current liabilities	-	-	-	-
<b>Total liabilities</b>	<b>2,805</b>	<b>3,231</b>	<b>3,853</b>	<b>4,359</b>
Paid - up capital	118	118	118	118
Reserves & surplus	14,387	16,545	18,911	21,759
Minorities	-	-	-	-
Shareholders' equity	14,505	16,663	19,029	21,877
<b>Total equity &amp; liabilities</b>	<b>17,310</b>	<b>19,894</b>	<b>22,881</b>	<b>26,236</b>

	FY24	FY25E	FY26E	FY27E
<b>Revenue (\$ mn)</b>	<b>116</b>	<b>132</b>	<b>155</b>	<b>183</b>
Growth, %	64.8	14.4	17.5	18.0
Organic growth %	19.2	14.4	17.5	18.0
Re / US\$ (rate)	82.8	83.8	84.0	84.0

Source: Company, PhillipCapital India Research

### Cash Flow

Y/E Mar, Rs mn	FY24	FY25E	FY26E	FY27E
Pre-tax profit	1,889	2,697	3,104	3,738
Depreciation	410	383	451	475
Chg in working capital	(5,388)	(1,082)	(1,755)	(1,570)
Total tax paid	(158)	(842)	(738)	(889)
<b>Cash flow from operating activities</b>	<b>(3,247)</b>	<b>1,155</b>	<b>1,062</b>	<b>1,753</b>
Capital expenditure	(414)	(403)	(461)	(485)
Chg in investments	11	(1,339)	(100)	(100)
Chg in marketable securities	-	-	-	-
<b>Cash flow from investing activities</b>	<b>(404)</b>	<b>(1,741)</b>	<b>(561)</b>	<b>(585)</b>
Free cash flow	(3,640)	(576)	511	1,179
Equity raised/(repaid)	9	0	-	-
Debt raised/(repaid)	(2)	8	-	-
Dividend (incl. tax)	-	-	-	-
<b>Cash flow from financing activities</b>	<b>5,951</b>	<b>101</b>	<b>-</b>	<b>-</b>
Net chg in cash	1,897	83	461	1,128

### Valuation Ratios

	FY24	FY25E	FY26E	FY27E
<b>Per Share data</b>				
EPS (INR)	13.4	19.0	21.8	26.3
Growth, %	112.6	42.0	14.6	20.4
Book NAV/share (INR)	133.7	153.6	175.4	201.6
FDEPS (INR)	13.4	19.0	21.8	26.3
CEPS (INR)	17.2	22.6	26.0	30.6
CFPS (INR)	-	-	-	-
DPS (INR)	-	-	-	-

### Return ratios

Return on assets (%)	10.9	11.1	11.1	11.6
Return on equity (%)	13.5	13.3	13.3	13.9
Return on capital employed (%)	52.2	64.2	61.7	65.6

### Turnover ratios

<b>Asset turnover (x)</b>	-	-	-	-
Sales/Total assets (x)	0.6	0.6	0.6	0.6
Sales/Net FA (x)	143.1	127.9	135.0	144.4
Working capital/Sales (x)	0.7	0.7	0.7	0.7
Receivable days	78.2	76.2	81.9	81.2
Inventory days	-	-	-	-
Payable days	38.2	46.0	48.3	47.1
Working capital days	255.0	252.7	264.2	261.4

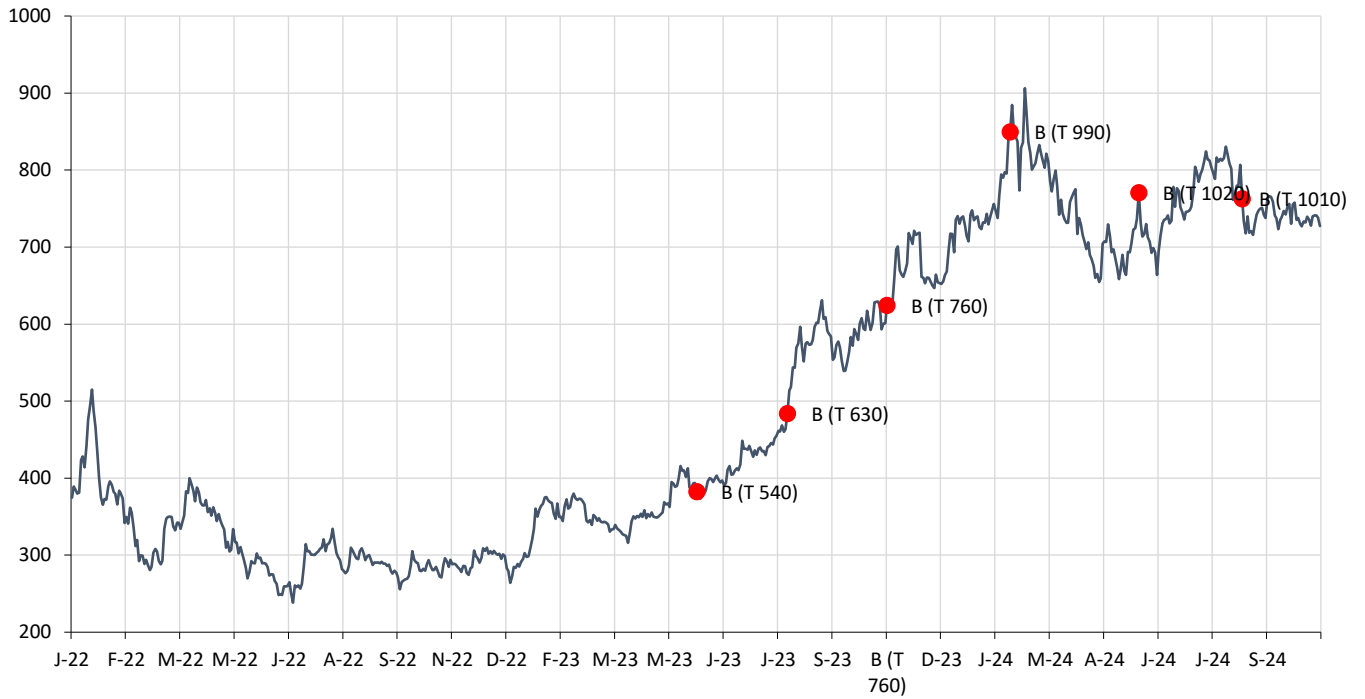
### Liquidity ratios

Current ratio (x)	5.2	5.2	5.2	5.4
Quick ratio (x)	5.2	5.2	5.2	5.4
Interest cover (x)	108.6	150.3	182.5	221.2
Total debt/Equity (%)	-	-	-	-
Net debt/Equity (%)	(28.7)	(33.5)	(32.3)	(33.7)

### Valuation

PER (x)	52.2	36.8	32.1	26.7
PEG (x) yoy growth	0.5	0.9	2.2	1.3
Price/Book (x)	5.2	4.6	4.0	3.5
EV/Net sales (x)	8.3	7.2	6.1	5.1
EV/EBITDA (x)	41.9	33.8	27.5	22.9
EV/EBIT (x)	53.4	40.4	32.7	26.6

### Stock Price, Price Target and Rating History



Source: PhillipCapital India Research

## Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

### Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

### Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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