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India I Equities

Internet Software & Services

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

12 August 2024

RateGain Travel Technologies

In-line Q1, though contract growth decelerated; maintaining a Buy

Rating: **Buy**
Target Price (12-mth): 935
Share Price:763

RateGain Travel's Q1 revenue grew 21.2% y/y to ~Rs2.6bn (in line with the Street's and our estimates). EBITDA grew 31.7% y/y to Rs498m, and the margin expanded 152bps y/y to 19.1% (vs. our 20% estimate). Management expects ~20% y/y organic revenue growth in FY25, with ~150-200bps y/y EBITDA margin improvement in coming quarters as well as for the full year (~19.8% margin in FY24). Factoring in the lower EBITDA margin, we cut our FY25e/FY26e earnings 3.2%/3.4% and maintain a Buy rating, with a 12-mth TP of Rs935 (previously Rs970), 45x FY26e earnings.

Result largely in line with estimates. Segment-wise, DaaS grew 17.7% y/y, Distribution ~4.6%. MarTech 33%. The company added ~20 customers in Q1, totalling 3,299. New contract wins showed weaker, ~10.2% y/y, growth to Rs621m, on seasonally softer Q1 due to challenges in North America and fewer customers added. Geographically, revenue from North America grew ~11.9% y/y, Europe ~48.8% and Asia Pacific ~21.2%, whereas revenue from other regions declined ~59.6% y/y. Net cash and equivalents were ~Rs10.8bn.

Outlook. Management expects ~20% y/y organic revenue growth with ~150-200bps y/y EBITDA margin improvement in FY25. It continues to explore inorganic opportunities, which would add to the growth and aid in achieving ~Rs20bn revenue in ~3 years. It plans to launch a Smart Distribution product, which would increase the take rate in the Distribution category. We anticipate a 21.2% revenue CAGR over FY24-26 and 21.3%/22.7% EBITDA margins in FY25e/FY26e, leading to a 27.3% EPS CAGR over FY24-26.

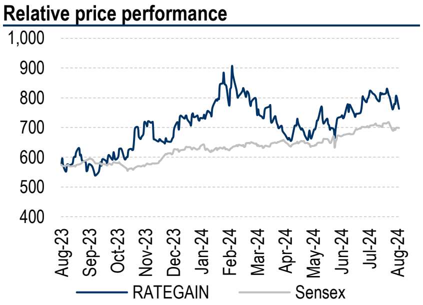
Risks: Slowdown in demand for travel, keener competition, hoteliers/OTAs creating and offering their own solutions.

Key data	RATEGAIN IN
52-week high / low	Rs.922 / 528
Sensex / Nifty	79,649 / 24,347
3-m average volume	$4.3m
Market cap	Rs.90bn / $1,071.2m
Shares outstanding	118m

Shareholding pattern (%)	Jun'24	Mar'24	Dec"23
Promoters	48.2	51.3	51.3
- of which, Pledged	-	-	-
Free float	51.8	48.7	48.7
- Foreign institutions	9.5	10.5	8.7
- Domestic institutions	21.6	17.3	18.8
- Public	20.7	20.9	21.2

Estimates revision (%)	FY25	FY26
Revenue	-	-
EBITDA	(3.2)	(3.4)
PAT	(3.2)	(3.4)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	3,666	5,651	9,570	11,594	14,058
Net profit (Rs m)	84	684	1,454	1,895	2,452
EPS (Rs)	0.8	6.3	12.8	16.1	20.8
P/E (x)	1,067.5	131.4	61.8	47.4	36.7
EV / EBITDA (x)	264.1	95.3	42.5	32.7	25.3
P / BV (x)	14.5	12.7	6.2	5.5	4.8
RoE (%)	1.9	10.3	13.5	12.3	13.9
RoCE (%)	0.1	7.1	10.2	9.6	11.1
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	-0.4	-0.3	-0.7	-0.7	-0.8

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	3,666	5,651	9,570	11,594	14,058
Growth (%)	*46.2*	*54.2*	*69.3*	*21.2*	*21.3*
Direct costs	1,914	2,528	3,799	4,638	5,623
Gross profit	1,752	3,124	5,771	6,957	8,435
Gross margins (%)	*47.8*	*55.3*	*60.3*	*60.0*	*60.0*
SG&A	1,447	2,277	3,874	4,487	5,244
EBITDA	**306**	**847**	**1,897**	**2,470**	**3,191**
EBITDA margins (%)	*8.3*	*15.0*	19.8	21.3	22.7
Depreciation	-301	-358	-410	-497	-603
Other income	156	199	416	503	610
Interest expenses	-52	-15	-14	-14	-14
PBT	108	673	1,889	2,462	3,185
Effective tax rate (%)	*22.3*	*-1.7*	23.0	23.0	23.0
+Associates / (Minorities)	-	-	-	-	-
Net income	84	684	1,454	1,895	2,452
WANS	100.9	108.3	117.8	117.8	117.8
FDEPS (Rs)	0.8	6.3	12.8	16.1	20.8

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	107	108	118	118	118
Net worth	6,192	7,097	14,505	16,400	18,852
Debt (incl. Pref. shares)	-	-	-	-	-
Minority interest	-	-	-	-	-
Deferred tax liability	87	94	92	92	92
Lease & long-term liabilities	237	329	236	236	236
Capital employed	**6,515**	**7,520**	**14,833**	**16,728**	**19,180**
Net tangible assets	66	63	67	54	39
Net intangible assets	1,293	2,005	1,686	1,248	716
Goodwill	688	1,737	1,762	1,762	1,762
Right-of-use assets	179	167	147	147	147
CWIP (tang. & intang.)	-	-	-	-	-
Investments (strategic)	-	-	-	-	-
Investments (financial)	304	434	514	514	514
Current assets (excl. cash)	2,831	3,032	3,955	4,389	4,917
Cash	2,451	2,015	9,178	11,260	13,939
Current liabilities	1,296	1,933	2,477	2,646	2,853
Working capital	1,535	1,099	1,479	1,743	2,064
Capital deployed	**6,515**	**7,520**	**14,833**	**16,728**	**19,180**

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	108	673	1,889	2,462	3,185
+ Non-cash items	435	297	160	7	6
Oper. prof. before WC	544	969	2,049	2,470	3,191
- Incr. / (decr.) in WC	342	332	374	264	321
Others including taxes	-33	-118	-156	-567	-733
Operating cash-flow	168	519	1,518	1,639	2,137
- Capex (tangible + intangible)	36	44	37	45	55
Free cash-flow	132	475	1,481	1,594	2,082
Acquisitions	-521	-1,367	-173	-	-
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	3,778	22	5,850	-	-
+ Debt raised	-1,126	-	-	-	-
- Fin Investments	2,394	-1,353	-	2	-
- Misc. items (CFI + CFF)	-2,008	920	-5	-490	-597
Net cash-flow	1,878	-436	7,163	2,082	2,679

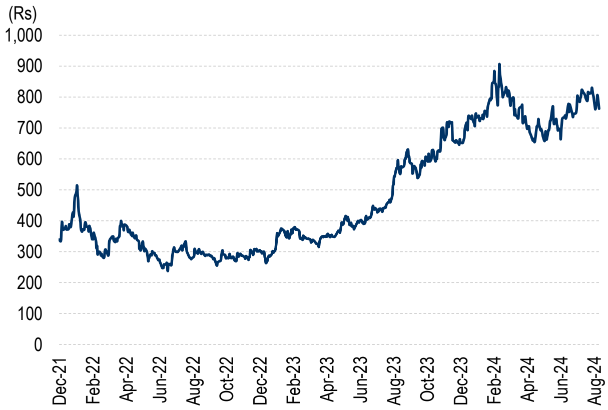
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	1,067.5	131.4	61.8	47.4	36.7
EV / EBITDA (x)	264.1	95.3	42.5	32.7	25.3
EV / Sales (x)	22.0	14.3	8.4	7.0	5.7
P/B (x)	14.5	12.7	6.2	5.5	4.8
RoE (%)	1.9	10.3	13.5	12.3	13.9
RoCE (%) - after tax	0.1	7.1	10.2	9.6	11.1
RoIC (%) - after tax	0.1	10.4	20.5	27.3	37.2
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	-0.4	-0.3	-0.7	-0.7	-0.8
Receivables (days)	100	104	78	78	78
Inventory (days)	-	-	-	-	-
Payables (days)	42	53	31	31	31
CFO : PAT (%)	*200*	*76*	*104*	*86*	*87*

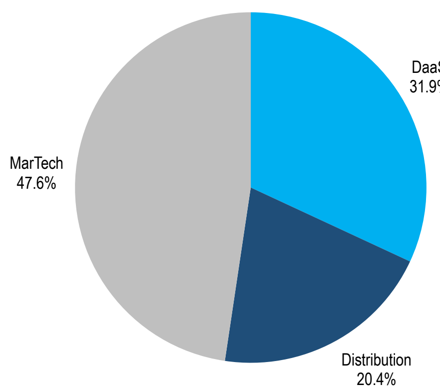
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Revenue break-up, Q1 FY25



Source: Company

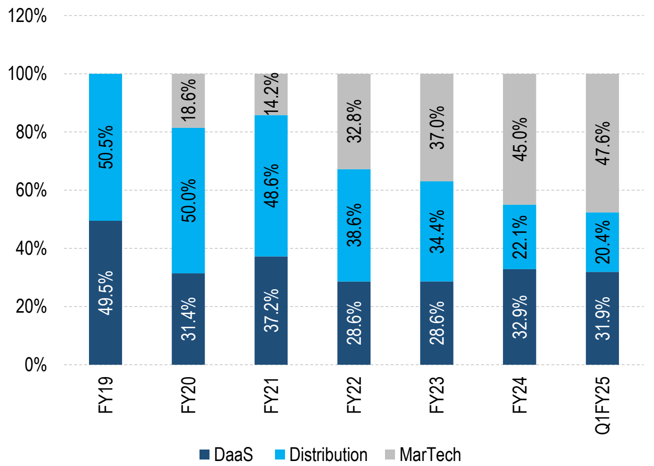
Result Highlights

Fig 7 – Consolidated quarterly results

(Rs m)	Q1 FY25	Q1 FY24	% Change	Q4 FY24	% Change
Revenues	2,600	2,145	21.2	2,558	1.6
EBITDA	498	378	31.7	543	(8.3)
EBITDA margins, %	*19.1*	*17.6*	*152 bps*	*21.2*	*-207 bps*
EBIT	403	265	52.2	447	(9.9)
EBIT margins, %	*15.5*	*12.3*	*315 bps*	*17.5*	*-199 bps*
PBT	582	321	81.3	655	(11.0)
Net profit	454	249	82.2	500	(9.3)

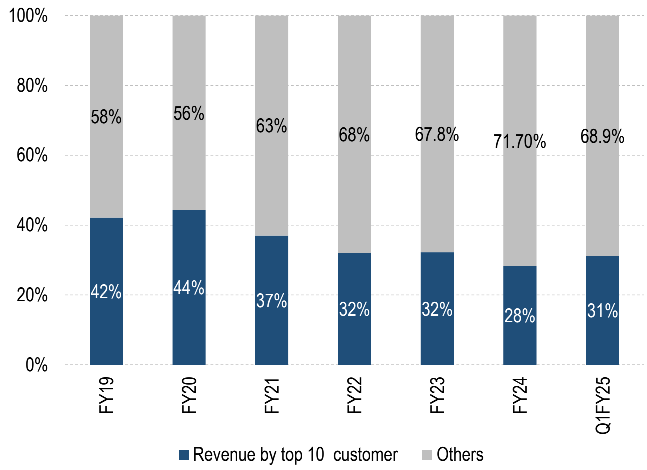
Source: Company, Anand Rathi Research

Fig 8 – Revenue segments (%)



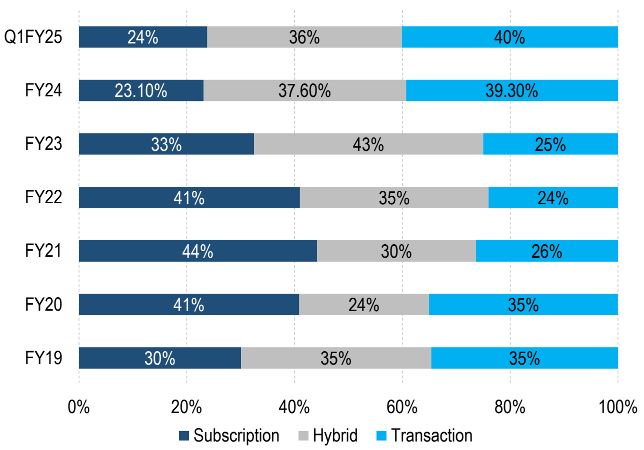
Source: Company, Anand Rathi Research

Fig 9 – Revenue from top-10 customers



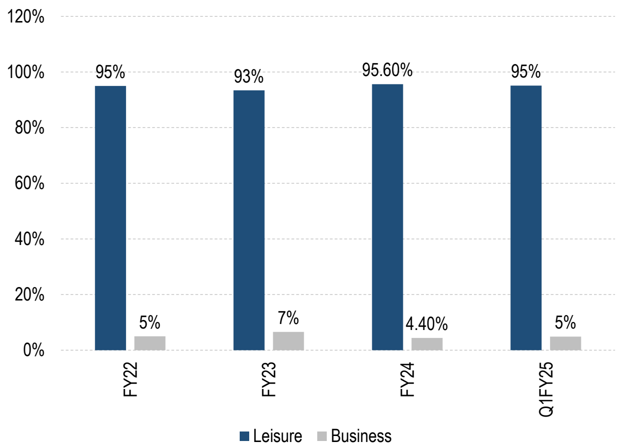
Source: Company, Anand Rathi Research

Fig 10 – Revenue by engagement



Source: Company, Anand Rathi Research

Fig 11 – Revenue by travel type



Source: Company, Anand Rathi Research

Q1FY25 Concall Highlights

Outlook

- FY25 ~20% y/y revenue growth guidance maintained (excl. inorganic opportunities). Q1 FY25: ~21.2% y/y growth
- Expects ~150-200bps y/y EBITDA margin improvement in FY25 (FY24: ~19.8%).
- No forthcoming plans of fundraising or stake-selling by promoter group (Q1 FY25 holding ~48.2%).
- Planning to launch Smart Distribution; still in the nascent stage but management optimistic on this product driving take-rates (transaction fees).
- Management expects DaaS and Distribution divisions to mirror macro growth trends; MarTech to benefit from outsourcing trend.
- Typically, ~70% of contracts see inflation-influenced increment y/y.

Impact on Distribution in Q1 FY25

- 50% volume growth y/y.
- Distribution growth hit by a) One of the OTAs connected with Expedia undergoing consolidation, thus, impacting the OTA's volumes on the platform and b) re-negotiating pricing with one customer due to increase in volumes (Q1 FY25: ~4.6% revenue growth y/y).
- Pricing renegotiation with one distribution customer was a one-off
- Transition of distribution infrastructure from data centers to cloud; segment margin to improve starting Q2 FY25.

M&A opportunity

- Has active acquisition pipeline; looking at inorganic opportunities.
- Intends to acquire companies which cross the threshold (ie, IRR of 20%+) with payback in ~5-6 years.

Valuation

We believe that customers, regardless of size, understand that RateGain's products heighten productivity, generate revenue streams and drive overall value. They prefer it for cost reduction, rather than investing in crafting solutions.

Management expects ~20% y/y organic revenue growth in FY25, with ~150-200bps y/y EBITDA margin improvement in coming quarters as well as for the year (~19.8% margin in FY24). Factoring in the lower EBITDA margin, we cut our FY25e/FY26e earnings 3.2%/3.4% and maintain our Buy recommendation, with a 12-mth TP of Rs935 (previously Rs970), 45x FY26e earnings.

Fig 12 – Change in estimates

	FY25			FY26		
(Rs m)	New	Old	% change	New	Old	% change
Revenues	11,594	11,594	-	14,058	14,058	-
EBITDA	2,470	2,551	*(3.2)*	3,191	3,304	*(3.4)*
EBITDA margins %	*21.3*	*22.0*	*-70bps*	*22.7*	*23.5*	*-80bps*
Net profit	1,895	1,958	*(3.2)*	2,452	2,538	*(3.4)*

Source: Anand Rathi Research

Key risks

- Recessionary pressures and a slowdown in travel could curb the pace of digitisation, ultimately leading to a drop in tech spends and budgetary cuts in hoteliers' marketing.
- Keener competition could lead to customer losses as the sector is highly fragmented and competitors come up with niche solutions catering to specific needs, thereby requiring the company to continuously innovate.
- Large-chain hoteliers, OTAs creating indigenous solutions could win the company's enterprise customers, who bring ~80% to revenue.

Appendix

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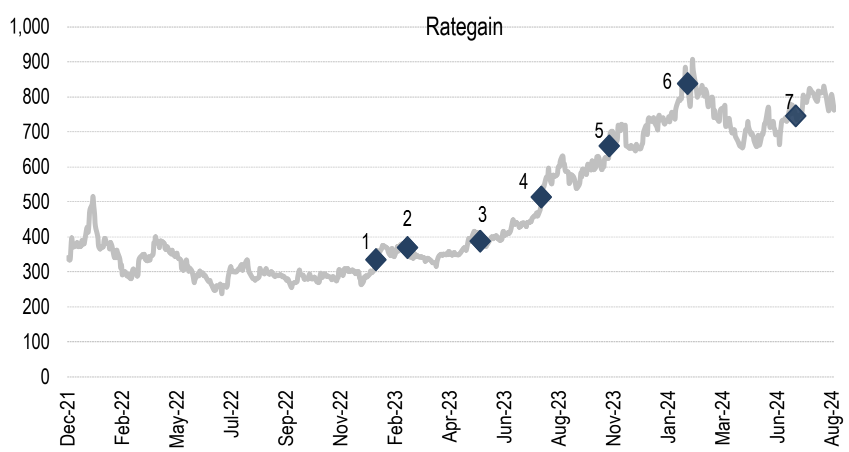

	Date	Rating	TP (Rs)	Share Price (Rs)
1	10-Jan-23	**Buy**	415	307
2	13-Feb-23	**Buy**	450	380
3	19-May-23	**Buy**	500	412
4	08-Aug-23	**Buy**	700	516
5	02-Nov-23	**Buy**	900	659
6	04-Feb-24	**Buy**	1,050	841
7	21-May-24	**Buy**	970	770

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