

RateGain Travel Technologies

Technologies | India

IPO | 03 December 2021



Riding the Technology and Travel Wave; Valuations at Discount

About the Company

RateGain Travel Technologies (RateGain) is one of the few global distribution technology companies and the largest Software as a Service (SaaS) company in the hospitality and travel industry in India. It offers travel and hospitality solutions across a wide spectrum of verticals, including hotels, airlines, online travel agents, meta-search companies, cruises and ferries etc. Currently, RateGain has 1,462 clients, including 8 global Fortune 500 companies, 23 of the top 30 hotel chains, 25 of the leading 30 online travel agents, and leading car and large cruise lines. The company offers a platform to bridge the data gap across the hospitality and travel industry. It provides inter-operable products that leverage data across internal and external sources, unlock value through integration and enable better, faster and automated decision-making. RateGain acquired DHISCO (hotel distribution technology company) in 2018 and BCV (marketing technology company) in 2019, which are providing the roadmap for future growth. RateGain's offerings present huge opportunities in the hospitality industry and has a tremendous growth potential in the global hospitality industry.

The company derives revenue from three major segments – 1) **Distribution**: This is the largest revenue contributor (49% in FY21) to RateGain. It provides mission-critical distribution, including availability, rates, inventory and content connectivity between leading accommodation providers and their demand partners. Distribution also enables delivery of reservations back to the hotel systems. 2) **Data as a Service (Daas)**: It contributes 37% of the revenue and delivers insights, including competitive intelligence. It offers data under a) **Market Intelligence** - Provides access to pricing and availability data along with analytics to present trends, opportunities and market developments; and b) **Dynamic Pricing Recommendations**. 3) **Marketing Technology (MarTech)** –MarTech's offering enhances brand experience to drive guest satisfaction, increase bookings and ensure guest loyalty. It manages social media for luxury travel suppliers on a 24x7 basis and effectively manages their social media handles and promotional campaigns.

Financials in Brief

RateGain's profitability has not been encouraging over the years, due to the acquisition of loss-making entities and higher depreciation (impairment of goodwill). The company continues to record lower EBITDA margin and net loss. However, adjusted EBITDA is in double-digit. RateGain is looking at >20% EBITDA margin in the coming years led by product penetrations, cross-sell and innovative launches of new products. It has a diversified revenue stream from offerings, geographies and customers. The company has maintained a high recurring revenue of ~95%, with subscription business forming a large part of customer engagement. Due to the pandemic, its revenue declined to Rs2.5bn in FY21, from a high of Rs4bn in FY20, while adj. EBITDA margin improved to 9.4% in FY21, from 8% in FY20. It incurred a net loss of Rs201mn and Rs286mn in FY20 and FY21 respectively, mainly due to the higher depreciation on impairment of goodwill, as against a PAT of Rs110mn in FY19. The company reported positive OCF of Rs191mn and Rs206mn in FY20 and FY21, respectively, despite the slowdown.

Our View: SUBSCRIBE

The IPO is valued at 18.1x FY21 price-to-sales and 15.1x FY22 annualized price-to-sales, which is at a discount of 27.3x to PayTM and 31.7x to Zomato (at CMP). While there is no listed peer available for a direct comparison to RateGain in the domestic market, its valuations at ~50% discount to unicorns like Zomato and Paytm give comfort on valuation front. In the new era of internet and AI-based software services, we believe the premium valuation of company is likely to sustain. Covid-19 has accelerated the digitization process of customer interactions with hospitality and travel companies. These changes are likely to lead to a shift in business practices by hospitality and travel companies from an in-house solution model to third party software and services model. RateGain serves a large and rapidly-growing total addressable market. Third party travel and hospitality technology are likely to clock a CAGR of 18% over the next five years and indicates a healthy growth in the long run. **In view of the high growth potential, unique business propositions with minimal competition and valuation comfort, we recommend SUBSCRIBE with a long-term perspective.**

IPO Details

Price Band (Rs)	405-425
Face Value (Rs)	10
Issue Open/Closing Date	7th/9th Dec'21
Fresh Issues (mn)	8.8
OFS (mn)	22.6
Total Issue (mn)	31.4
Minimum Bid Qty. (Nos)	35
Issue Size (Rs bn)	13.4
QIB / HNI / Retail	75%/15%/10%
Implied Market Cap (Rs bn)	45.4

Object of the Issue

- ▶ Repayment of debt availed by RateGain UK (subsidiary) from Silicon Valley Bank
- ▶ Payment of deferred consideration for acquisition of DHISCO
- ▶ Strategic investments, acquisitions and inorganic growth

Key Risk

- ▶ Any negative impact on global hospitality and travel industry
- ▶ COVID-19 pandemic has had a significant adverse effect on business and operations

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	65	55
Public	35	45

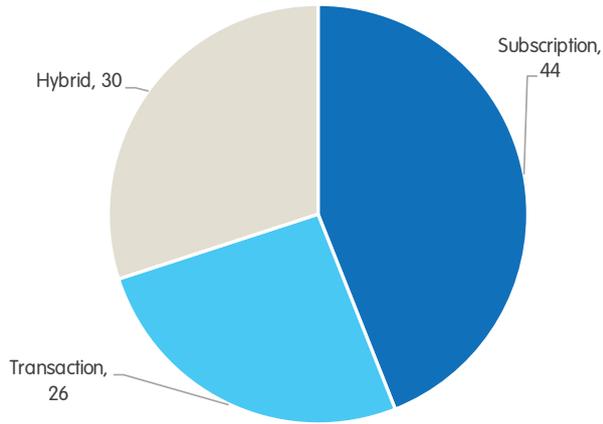
Key Financials

(Rs mn)	FY19	FY20	FY21
Revenue	2,616	3,987	2,508
EBITDA	218	(250)	62
EBITDA Margin (%)	8.3	(6.3)	2.5
PAT	110	(201)	(286)
PAT Margin (%)	4.2	(5.0)	(11.4)
EPS (Rs)	1.0	(1.9)	(2.7)
P/E (x)	411	(226)	(159)
EV/EBITDA (x)	213	(185)	753
EV/Sales (x)	17.7	11.6	18.5
Net Worth	1,432	1,377	2,449
RoE (%)	7.7	(14.6)	(11.7)
OCF	362	191	206
Gross Debt	244	1,158	1,118
Net Block	171	131	79
Net Asset Turnover (x)	15.3	30.4	31.7

Source: RHP

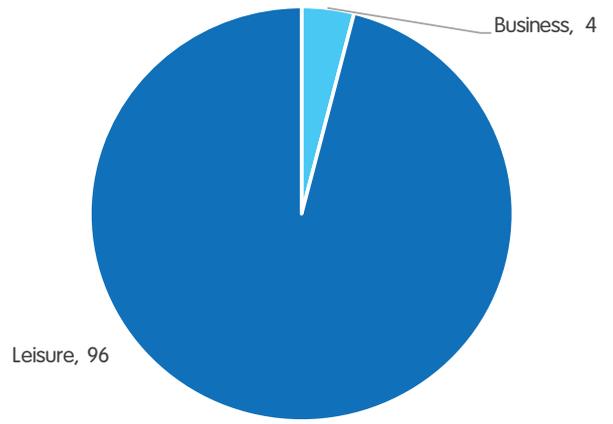
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Exhibit 1: Revenue by Engagement (%)



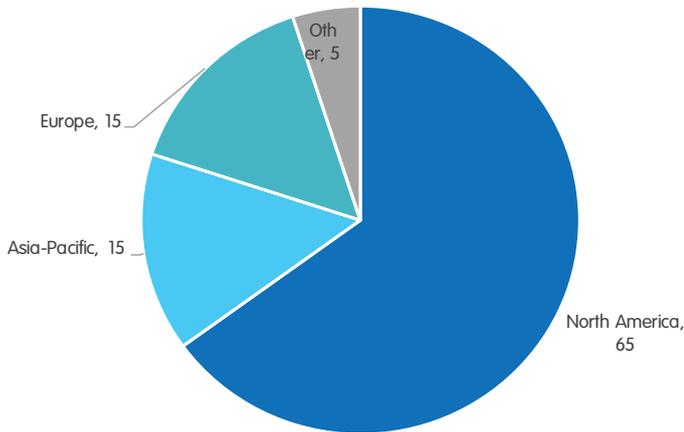
Source: RHP

Exhibit 2: Revenue by Travel Type (%)



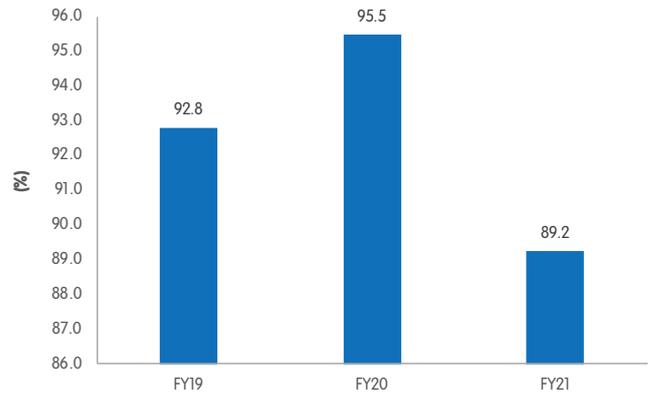
Source: RHP

Exhibit 3: Revenue by Geography (%)



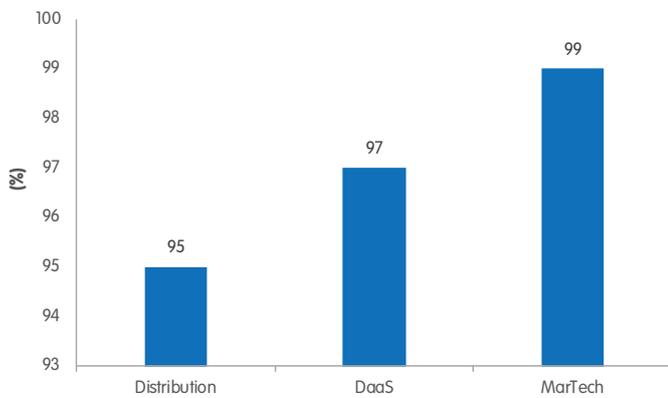
Source: RHP

Exhibit 4: Gross Revenue Retention (GRR)



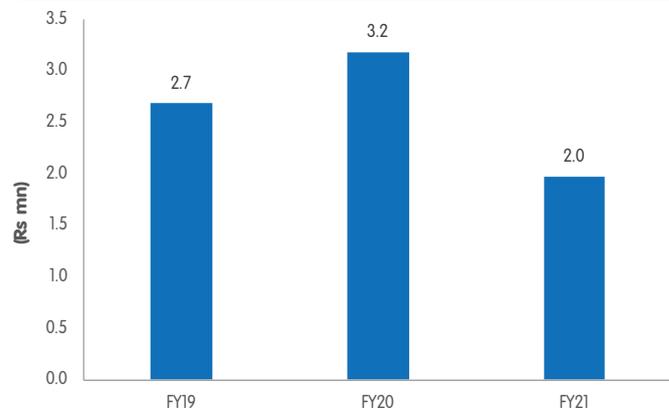
Source: RHP

Exhibit 5: Recurring Revenues



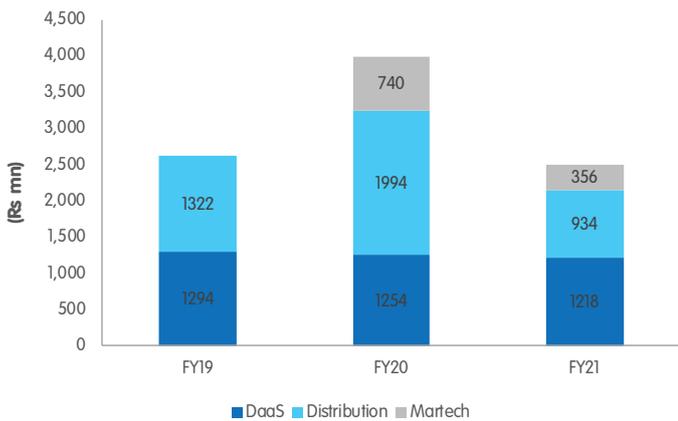
Source: RHP

Exhibit 6: Average Revenue/Customer (Rs mn)



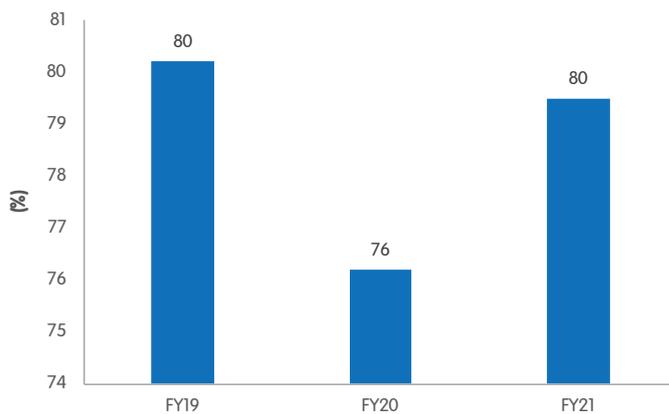
Source: RHP

Exhibit 7: Revenue from contracts with customers (Rs mn)



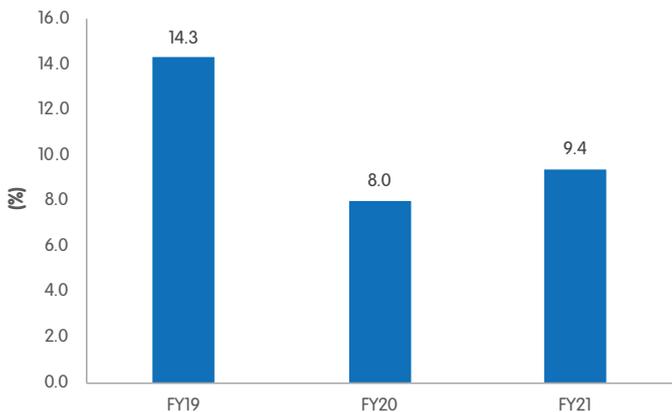
Source: RHP

Exhibit 8: Gross Margins



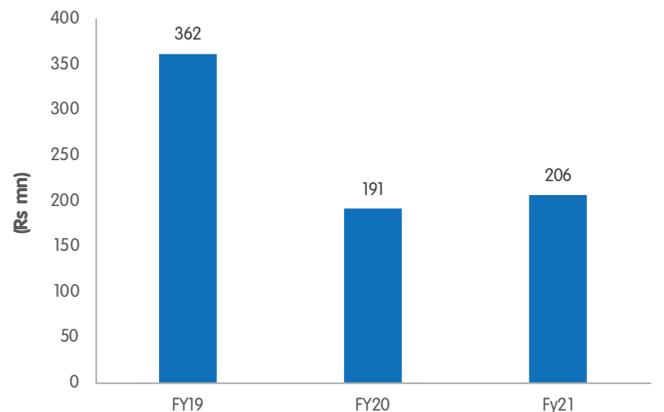
Source: RHP

Exhibit 9: Adjusted EBITDA (Rs mn)



Source: RHP

Exhibit 10: OCF (Rs mn)



Source: RHP

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