

RATEGAIN TRAVEL TECHNOLOGIES LIMITED

RateGain Travel Technologies Limited (RateGain) is among the leading distribution technology companies globally and is the largest Software as a Service (SaaS) company in the travel & hospitality (T&H) industry in India. RateGain offers suite of inter-connected products which enable its clients to drive efficiencies in guest acquisition, retention and maximize their margins by leveraging on RateGain's A.I powered products and its large data lake. It offers its solutions through its SaaS platform and its products are classified into Data as a Service (DaaS, 37% of FY21 revenue), Distribution (49% of revenue) and, Marketing Technology (MarTech). Its business. RateGain's customer base has grown over the years and stood at 1,462 customers which include eight Global Fortune 500 companies, 25 out of the top 30 online travel agents (OTAs), 23 of the top 30 hotel chains among others (Sep'21).

Positives: (a) One of the largest aggregators of data points in the world for the T&H industry with diverse and comprehensive portfolio of revenue maximization and business critical solutions. (b) Marquee global customers with long-term relationships. (c) Strong balance sheet and cash generation. (d) Successful track record of growth through strategic acquisitions and strong management.

Investment concerns: (a) High concentration of revenue from contracts in relation to distribution products and high dependence on single industry (~50% of overall revenues for distribution products and almost entire revenue is derived from Travel & Hospitality Industry). (b) High client concentration can pose as a risk as Gross Retention Rate is averaging ~93%. (c) There are contingent liabilities of ₹68 Cr. (d) Continuing impact of the COVID-19 on the Travel & Hospitality industry.

Outlook & Valuation: RateGain being a vertical specific platform company stands to benefit from rapidly growing addressable market with key positives being tough to replicate inter-operable products that leverages data. Its revenues are recurring in nature with subscription/hybrid model forming a large part of its revenues. Its growing customer base (from 1,274 in FY19 to 1,337/1,462 in FY21/5MFY22) and stable gross revenue retention during the pandemic not only highlight the importance of digital transformation in T&H industry but also speaks volumes about the "business critical" nature of RateGain's products. At ₹425 per share, RateGain is commanding FY21/TTM Price/Sales multiple of 18.1x/16.3x respectively. We recommend **NEUTRAL** as the listing gains might be minimal in the current environment, but long-term prospects are bright for RateGain.

Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021	FY2021	Q1FY22
Net Sales	262	399	251	98	125
% chg	--	52.4	(37.1)	--	28.0
Reported Net Profit	11	(20)	(29)	(8)	(4)
% chg	--	(282.2)	(42.1)	--	54.1
EBITDA (%)	8.3	7.2	2.5	9.4	3.6
EPS (₹)	1.0	(1.9)	(2.7)	(0.7)	(0.8)
P/E (x)	411.2	(225.7)	(158.8)	--	--
P/BV (x)	31.7	32.9	18.5	--	--
ROE (%)	15.4	(14.3)	(14.9)	--	--
ROCE (%)	8.3	12.2	(3.3)	--	--
EV/Sales	411.2	(225.7)	(158.8)	--	--

Source: Company, Angel Research; Note: Ratios calc. at upper price band & on post money basis

NEUTRAL

Issue Open: Dec 07, 2021

Issue Close: Dec 09, 2021

Issue Details

Face Value: ₹1

Present Eq. Paid up Capital: ₹9.79 cr

Offer for Sale: ₹961 cr

Fresh issue: ₹375

Post Eq. Paid up Capital: ₹10.67 cr

Issue size (amount): ₹1,336 cr

Price Band: ₹405-425

Lot Size: 35 shares and in multiple thereafter

Post-issue mkt. cap: * ₹4,341 cr - ** ₹4,537 cr

Promoters holding Pre-Issue: 67.29%

Promoters holding Post-Issue: 56.58%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	56.6%
Others	43.4%

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Company background

RateGain Travel Technologies Limited (RateGain) is among the leading distribution technology companies globally and is the largest Software as a Service (SaaS) company in the travel & hospitality (T&H) industry in India. It offers solutions to hotels, airlines, online travel agents (OTAs), meta-search companies, vacation rentals, package providers, car rentals, rail, travel management companies, cruises, and ferries. RateGain's solutions help T&H companies find the right guest, decide the right price, distribute it to the preferred channel of the guest and once converted, helps them have an exceptional experience by leveraging on RateGain's A.I powered products and its large data lake. It offers its solutions through its SaaS platform and its products are classified into Data as a Service (DaaS, 37% of FY21 revenue), Distribution (49% of revenue) and, Marketing Technology (MarTech). Its business. RateGain's customer base has grown over the years and stood at 1,462 customers which include eight Global Fortune 500 companies, 25 out of the top 30 OTAs, 23 of the top 30 hotel chains among others as on Sep'21. The Gross retention revenue as on Aug'21 was 95-99% across the three above mentioned business units and revenues from top 10 customers were ~40%. Seven of the top 10 customers have been with the company for over 10 years.

Issue details

The IPO is made up of offer for sale of 2.26Cr Equity Shares and fresh issue of ₹375 Cr aggregating to ₹1,336 Cr at the upper end of the price band.

Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	6,58,92,480	67.29	6,04,01,440	56.58
Public	3,20,29,880	32.71	4,63,44,449	43.42
Total	9,79,22,360	100.00	10,67,45,889	100.00

Source: Company, Angel Research & RHP.

Objectives of the Offer

1) ~₹85 Cr towards repayment/prepayment of indebtedness availed by one of its subsidiaries, RateGain UK. 2) ~₹25 Cr towards payment of deferred consideration for acquisition of DHISCO. 3) ₹80 Cr for strategic investments, acquisitions, and inorganic growth. 4) ₹50 Cr for investment in technology innovation, A.I. and other organic growth initiatives. 5) ~₹41Cr for purchase of certain capital equipment for their Data Center.

Key Management Personnel

Bhanu Chopra is the Chairman and Managing Director and one of the Promoters and co-founders. He is an entrepreneur with experience of over 15 years and holds a bachelor's degree of science in business from Indiana University

Harmeet Singh is the group CEO and he holds bachelor's degree in science from California State University, Northridge. Prior to joining RateGain he served as the President - J2 Cloud Services.

Tanmaya Das is the CFO and has been associated with RateGain since August 20, 2015. He holds a bachelor's degree in commerce from Utkal University, Bhubaneswar and is a member of the Institute of Chartered Accountants of India.

Exhibit 1: Profit & Loss Statement

Y/E March (₹ cr)	FY2019	FY2020	FY2021	5MFY21	5MFY22
Total operating income	262	399	251	98	125
% chg	--	52.4	(37.1)	--	28.0
Total Expenditure	240	370	245	89	121
Employee benefits expense	121	206	151	49	76
Other expenses	119	164	93	39	45
EBITDA	22	29	6	9	5
% chg	--	31.9	(78.5)	--	(50.6)
(% of Net Sales)	8.3	7.2	2.5	9.4	3.6
Depreciation & Amortization	20	43	36	19	13
EBIT	2	(14)	(30)	(10)	(8)
% chg	--	(1,011.0)	(112.4)	--	13.7
(% of Net Sales)	0.6	(3.5)	(11.9)	(10.0)	(6.7)
Finance costs	3	9	8	4	2
Other income	11	59	13	8	6
(% of Sales)	4.3	14.8	5.3	8.2	4.8
Recurring PBT	(2)	(23)	(38)	(14)	(11)
% chg	--	(1,298.4)	(65.5)	--	25.4
Exceptional item	-	54	-	-	-
Tax	(2)	2	4	2	(1)
PAT (reported)	11	(20)	(29)	(8)	(4)
% chg	--	(282.2)	(42.1)	--	54.1
(% of Net Sales)	4.2	(5.0)	(11.4)	(8.0)	(2.9)
Basic & Fully Diluted EPS (₹)	1.0	(1.9)	(2.7)	(0.7)	(0.8)

Source: Company, Angel Research

Exhibit 2: Balance Sheet

Y/E March (₹ Cr)	FY2019	FY2020	FY2021	5MFY21	5MFY22
SOURCES OF FUNDS					
Equity Share Capital	1	1	1	1	8
Other equity	143	137	244	189	236
Shareholders' Funds	143	138	245	190	244
Total Loans	54	144	117	120	112
Other liabilities	(0)	20	0	(0)	(1)
Total Liabilities	197	301	362	309	355
APPLICATION OF FUNDS					
Property, Plant and Equipment	17	13	8	10	6
Right-of-use assets	22	20	5	6	2
Intangible assets	67	183	155	169	145
Non-Current Investments	-	-	-	-	-
Other Non-Current Asset	8	7	2	3	2
Current Assets	168	171	267	198	269
Investments	41	45	129	21	131
Trade receivables	63	78	67	69	64
Cash and Cash equivalents	45	24	57	92	59
Loans & Other Financial Assets	1	0	0	0	0
Other current assets	18	24	14	16	14
Current Liability	84	92	74	76	69
Net Current Assets	84	79	193	122	200
Total Assets	197	301	362	309	355

Source: Company, Angel Research

Exhibit 3: Cash flows

Y/E March (₹cr)	FY2019	FY2020	FY2021	5MFY21	5MFY22
Operating profit	9	(18)	(25)	(6)	(9)
Net changes in working capital	10	(26)	(6)	(4)	(7)
Cash generated from operations	19	66	54	23	24
Direct taxes paid (net of refunds)	(2)	(4)	(2)	(0)	(1)
Net cash flow from operating activities	36	19	21	13	7
Purchase of Assets	(77)	(113)	(1)	(0)	(0)
Interest received	0	0	0	0	0
Others	74	0	(81)	25	0
Cash Flow from Investing	(3)	(112)	(82)	25	(0)
Repayment/Proceeds (borrowings)	-	86	(2)	(1)	(2)
Issue of Preference share Capital	-	-	111	35	-
Share issue expenses	-	-	(7)	-	-
Interest paid	(2)	(6)	(7)	(5)	(2)
Interest/Principal Payment on Lease liab.	(4)	(7)	(2)	(0)	(1)
Cash Flow from Financing	(6)	73	93	29	(5)
Inc./ (Dec.) in Cash	27	(20)	32	67	2
Acquisition	-	-	-	-	-
Opening Cash balances	13	40	21	21	54
Closing Cash balances	40	21	54	88	55

Source: Company, Angel Research

Key Ratios

Y/E March	FY2019	FY2020	FY2021
Valuation Ratio (x)			
P/Sales	17.3	11.4	18.1
P/E (on FDEPS)	411.2	(225.7)	(158.8)
P/CEPS	145.1	59.4	621.0
P/BV	31.7	32.9	18.5
EV/Sales	17.2	11.6	17.8
Per Share Data (Rs)			
EPS (Basic)	1.0	(1.9)	(2.7)
EPS (fully diluted)	1.0	(1.9)	(2.7)
Cash EPS	2.9	7.2	0.7
Book Value	13.4	12.9	22.9
Returns (%)			
ROE	15.4	(14.3)	(14.9)
ROCE	8.3	12.2	(3.3)
Turnover ratios (x)			
Receivables (days)	88	71	97
Payables (days)	29	38	36
Working capital cycle (days)	59	33	61

Source: Company, Angel Research

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