

**Rating: Subscribe for Listing Gain**

**Issue Offer**

**Fresh Issue of equity shares worth INR 3,750 Mn and an Offer for Sale of 22,605,530 equity shares.**

**Issue Summary**

Price Band (INR)	405-425
Face Value (INR)	1
Implied Market Cap (INR Mn)	13,357
Market Lot	35
Issue Opens on	Dec 7th, 2021
Issue Close on	Dec 9th, 2021
No. of share pre-issue	97,922,360
No. of share post issue	106,745,889
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	75
NIB Portion	15
Retail Portion	10

**Book Running Lead Managers**

Kotak Mahindra Capital Company Ltd.

IIFL Securities Ltd.

Nomura Financial Advisory and Securities (India) Pvt. Ltd.

**Registrar**

KFin Technologies Pvt. Ltd.

**Shareholding Pattern**

	Pre-Issue
Promoters & Promoter Group	67.3%
Non Promoter-Non Public	32.7%

**Objects of the issue**

- To allow the Selling Shareholders to sell up to 22,605,530 Equity Shares.
  - Repayment/prepayment of indebtedness availed by RateGain UK.
  - Payment of deferred consideration for acquisition of DHISCO.
  - Strategic investments, acquisitions and inorganic growth.

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**Company Profile:**

RateGain Travel Technologies Ltd. (Rate) is among the leading distribution technology companies globally and the largest Software as a Service (“SaaS”) company in the hospitality and travel industry in India. Beginning operations in 2004 with the introduction of a competitive intelligence price comparison product for hotels, Rate has since expanded its product portfolio to include AI and machine learning capabilities that leverage an in-house data lake to offer products in rate intelligence, cognitive revenue management, smart distribution and brand engagement. The products are offered across a wide range of verticals including hotels, airlines, online travel agents (“OTAs”), meta-search companies, vacation rentals, package providers, car rentals, rail, travel management companies, cruises and ferries.

**Investment Rationale:**

**Diverse and expanding customer base with long standing relationships:** As of HYFY22, the company’s customer base comprised of 1,462 customers including 8 Global Fortune 500 companies. Customers include 25 out of the top 30 OTAs, several of the world’s fastest-growing airlines, 23 of the top 30 hotel chains, all leading car rental companies, all large cruise lines, and the largest travel management companies. From FY19 to 21, it added 272 active customers from 110 countries. As of H2FY22, 7 of the top 10 customers (by revenue) were associated with Rate for 10+ years.

**Innovative and relevant solutions:** The solutions offered by Rate are industry specific with growth and monetization capabilities. Given the fragmented nature of the hospitality and travel industry, Rate has developed products that are interoperable across platforms, allowing customers to maximize their revenues while also resulting in cost savings. Rates ability to track large volumes of data across various categories of travel enables its AI models to predict and forecast demand accurately.

**Comprehensive product portfolio and widespread distribution:** Rate offers a wide range of solutions (revenue management support, competitive intelligence, distribution marketing, etc.) across a spectrum of verticals (hotels, airlines, etc.). Its diverse products are developed in-house by software developers, product managers and data scientists. As of H2FY22, Rate covered 194,000+ hotel properties, and processed 6.93 million bookings through RezGain (its distribution service offering).

**Successful strategic acquisitions:** The company has a track record of successful inorganic growth. It acquired DHISCO in 2018 and made it profitable. As a result of the acquisition, it expanded operations to hotels and OTAs in Asia (DHISCO was primarily focused on the North American and European Markets prior). Rate also acquired BCV, a marketing technology company in 2019 and has extended its offerings to customers globally which greatly improved its gross margins. Recently, the company has acquired myhotelshop, a company which offers reporting, bid management, campaign intelligence platforms and other travel to hotel suppliers, OTAs, and agency clients to reach customers at higher returns.

**Valuation and Outlook:** At the upper price band of INR 425, the company is valued at a P/BV multiple of 16x based off it’s FY21 NAV per share of INR 26. RateGain has been making losses from FY19 to 21. However, aggressive investors can subscribe for listing gain as its industry growth trajectory looks promising. The company is also a market leader in social media solutions with a loyal customer base, and has a diversified management team with domain expertise.

## About the Business

- It serves a large and rapidly growing total addressable market. Third party travel and hospitality technology is estimated to be a USD 5.91 billion market in 2021 growing to an estimated USD 11.47 billion in 2025 at a CAGR of 18%.
- Its products are classified into 3 categories:
  - *Data as a Service (“DaaS”)* which Delivers insights including competitive intelligence under 2 data categories-Market Intelligence and Dynamic Pricing Recommendations.
  - *Distribution* which provides technology infrastructure that helps both hotel chains and demand partners such as online travel agents, GDS providers and corporate travel agents communicate availability, rates, inventory as well as process bookings.
  - *Marketing Technology (“MarTech”)* which offering enhances brand experiences by managing social media, and social media handles for travel suppliers allowing them to be responsive to social media engagements.

## Key Strategies

- The company is substantially investing to build products with capabilities that will be used by travel companies post COVID.
- It will continue to focus on the success of customers through bundling their products.
- It will continue to expand the enterprise sales infrastructure in specific segments to increase penetration in areas such as MarTech and some categories within DaaS and Distribution.
- The company will continue to build a network that will be used for integrating products with regional niche players to leverage their capabilities to strengthen offerings to the customer.

## Key Risks

- The company relies on third-party data centers and cloud computing providers too. Any interruption or delay in service from these facilities could impair the delivery of the platform and adversely impact the business.
- The company's inability to modify pricing models to retain existing customers and attract prospective customers may have an adverse impact on the business.
- It has a history of net losses and anticipates increased expenses in the future. Losses in future periods could adversely affect operations

## Peer Comparison: The Company has no listed peers.

## Management

Key Person	Description
<b>Bhanu Chopra</b>	Bhanu Chopra is the Chairman and Managing Director. He is also one of the Promoters and has been a member of the Board since incorporation. He is an entrepreneur with experience of over 15 years and has been actively involved in the day-to-day running of the Company.
<b>Megha Chopra</b>	Megha Chopra is an Executive Director. She is also one of the Promoters and has been a member of the Board since incorporation. She is an entrepreneur with more than eight years of experience and has been actively involved in the day-to-day running.
<b>Nishant Kanuru Rao</b>	Nishant Kanuru Rao is a Non-Executive Nominee Director and a nominee of Avataar. He holds a bachelor's degree in computer science from University of Texas, Austin, United States and a master's degree in business administration from Massachusetts Institute of Technology, Cambridge, USA and is a venture capitalist by profession. Previously, he has been associated with LinkedIn Corporation USA, Freshdesk Technologies Private Limited and Sirion Labs Private Limited. Currently, he is a partner at Avataar Venture Partners, which was founded by him in 2019.
<b>Girish Paman Vanvari</b>	Girish Paman Vanvari is an Independent Director. He was appointed on the Board on June 29, 2021. He holds a bachelor's degree in commerce from Shri Narsee Monjee College of Commerce and Economics, University of Bombay and is an associate member of the Institute of Chartered Accountants of India. Previously, he has been associated with KPMG, India as the national head of tax. Currently, he is a partner at Transaction Square, which was founded by him in 2018.

Source: RHP, Arihant Capital Research

## Financial Performance:

Consolidated Income Statement (INR Mn)	2019	2020	2021
Revenue From Operations	2616	3987	2508
Other Income	111	589	133
<b>Total Revenue</b>	<b>2727</b>	<b>4576</b>	<b>2641</b>
Expenses:			
Employee Benefit	1208	2058	1513
Finance Costs	32	89	82
Depreciation and Amortisation	202	427	359
Impairment of Goodwill	0	537.42	0
Other Expenses	1190	1642	934
<b>Total Expenses</b>	<b>2632</b>	<b>4754</b>	<b>2887</b>
<b>Profit Before Exceptional Items and Tax</b>	<b>95</b>	<b>-178</b>	<b>-246</b>
<b>Total Tax Expense</b>	<b>-15</b>	<b>23</b>	<b>39</b>
<b>Profit After Tax</b>	<b>110</b>	<b>-201</b>	<b>-286</b>
<b>Other Comprehensive Income/(Loss)</b>	<b>6</b>	<b>73</b>	<b>7</b>
<b>Total Comprehensive Income for the period</b>	<b>116</b>	<b>-128</b>	<b>-279</b>
<b>Basic EPS</b>	<b>1.24</b>	<b>-2.27</b>	<b>-3.09</b>
<b>Diluted EPS</b>	<b>1.24</b>	<b>-2.27</b>	<b>-3.09</b>

Consolidated Cash Flow Statement (INR Mn)	2019	2020	2021
Cash Flow From Operations	362	191	206
Cash Flow Investing Activities	-34	-1123	-817
Cash Flow From Financing Activities	-63	728	929
<b>Net Cash Generated during the period</b>	<b>265</b>	<b>-204</b>	<b>318</b>
<b>Net FOREX differences</b>	<b>5</b>	<b>18</b>	<b>10</b>
<b>Cash and Cash Equivalents at the beginning of the period</b>	<b>126</b>	<b>396</b>	<b>210</b>
<b>Cash and Cash Equivalents at the end of the period</b>	<b>396</b>	<b>210</b>	<b>538</b>

Consolidated Balance Sheet (INR Mn)	2019	2020	2021
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	171	131	79
Right-of-use Asset	216	197	46
Goodwill	93	368	369
Other Intangible assets	580	1463	1186
Financial Assets	66	55	8
Income Tax Assets	8	10	8
Deferred Tax Assets	38	38	30
Other Non Current Assets	2	1	1
<b>Total Non- Current Assets</b>	<b>1174</b>	<b>2264</b>	<b>1725</b>
<b>Current Assets</b>			
Financial Assets excluding cash and cash equivalents	1135	1301	2023
Cash and Cash Equivalents	396	210	538
Other Current Assets	144	197	112
<b>Total Current Assets</b>	<b>1675</b>	<b>1708</b>	<b>2673</b>
<b>TOTAL ASSETS</b>	<b>2849</b>	<b>3971</b>	<b>4398</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Equity Share Capital	7	7	7
Instrument entirely equity in nature	1	1	1
Other Equity	1425	1370	2441
<b>Total Equity</b>	<b>1432</b>	<b>1377</b>	<b>2449</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Financial Liabilities	459	1391	1007
Provisions	31	30	33
<b>Total Non- Current Liabilities</b>	<b>491</b>	<b>1421</b>	<b>1040</b>
<b>Current Liabilities</b>			
Financial liabilities	599	727	513
Other Current Liabilities	300	427	370
Provisions	2	2	2
Income Tax Liabilities	26	18	24
<b>Total Current Liabilities</b>	<b>926</b>	<b>1173</b>	<b>909</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2849</b>	<b>3971</b>	<b>4398</b>

Source: RHP, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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