RateGain Travel Technologies Limited

Q1 FY '25 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to RateGain Travel Technologies Q1 FY 2025 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinion and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that they are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bhanu Chopra. Thank you and over to you.

Bhanu Chopra: Thank you. A very good afternoon to everyone and thank you very much for joining the earnings call for RateGain Travel Technologies Limited for the First Quarter and Fiscal Year 2025. It's great to connect again with all of you and I'm excited to share some key updates from the quarter.

Joining me on the call are Mr. Tanmaya Das, our CFO, and Mr. Divik Anand, our Head for Investor Relations. We announced our first quarter results for the fiscal year 2025 earlier today and I hope you've had a chance to go through our financial results, press release, and investor presentation. They're also available on the Stock Exchanges and on our company website.

Building on the record year that we've had, we've had a steady start to the new year with a balanced performance on both growth and profitability. We continue to see good traction with our large enterprise and mid-size customers with our offering of AI-driven solutions, solving for key challenges for our customers by delivering insights at scale and helping them to acquire guests profitably.

Given the strength of our product proposition and continued focus on product innovation, introducing new features and enhancements to meet evolving customer needs, we saw steady performance across our DaaS and MarTech segments. With a customer-first mindset, we're constantly seeking ways to deliver incremental value for our customers.

While the travel industry growth remains steady, we are mindful of the growing global uncertainties and are confident that our resilient business model and adaptive approach will help navigate these challenges. With that, I would like to capture some of the key operating and financial metrics from the past quarter and year gone.

Our Annual Recurring Revenue, ARR, now stands at new high of INR1,040 crores, growing at over 21%. We continue to see steady traction across all three segments and with a strong pipeline of over INR555 crores, we look to drive value for our customers.

Revenues for Q1 grew by 21% to INR260 crores compared to the same period last year. Steady revenue growth was complemented by our improved operational performance with our margins coming in at 19.1% for Q1. It underlines the strength of the SaaS-based business model in execution excellence across the organization. Our new contract wings came in at INR62 crores as we deepen our presence across some of our longstanding relationships, along with opening up of new use cases for our AI-driven solutions.

We continue to see improvement across some key operating and financial metrics. Our LTV to CAC stands at an industry-leading number of 15.4x, and the revenue per employee stood at INR1.3 crores, capturing healthy employee productivity and ability to scale up in a sustainable manner. In line with our vision of building an integrated tech stack focused on revenue maximization, we continue to drive product innovation by introducing new features and enhancements that meet the evolving needs of the clients and drive value for them.

Some of the key differentiators and recent enhancements that we continue to drive on our RevMax platform, which is really a central hotel commerce platform, are number one, this platform represents combined power of the integrated ecosystem, which allows customers to drive marketing to acquire customers, booking engine to enable direct conversation, channel management to optimize distribution across all demand partners, and BI to present insights on the business.

Number two, comprehensive omni-channel marketing to drive guest acquisition with built-in reporting to trial performance across platforms, whether it's Metasearch, Google, social, display, connected TV, and video streaming. Number three, entire ecosystem is powered by AI that leverages the strength of RateGain being one of the largest aggregators of travel data to automate call to action. So the system is self-learning and this constant optimization helps to drive conversions, thus maximize revenue.

Number four, system is 100% cloud native that helps drive scalability, security, and reliability. And number five, customizable design built with no-code technology and user-friendly interface for easy integration into hotel brand website. This is an opportunity we are very excited about and working towards scaling this up in the next few quarters.

On the state of the industry, global travel industry continues to hold steady in the face of evolving situations in some pockets. The Skift travel index continues to hold steady at 104 in June, the key geographies with Europe witnessing a strong summer season. Hotel industry continues to grow over 23 levels buoyed by improved occupancy while we see vacation rental growth moderating. Recent report from leading consultancy firms highlighted that business travel in North America is expected to exceed 2019 levels by end of this year.

We recently launched the state of distribution report in collaboration with New York University and leading hotel tech organization called HEDNA to help our hospitality customers better understand the challenges facing the travel industry. A few key issues highlighted in the report is the difficulty in tracking travel intent, the existing distribution landscape, the effective management of internal data, and the manual effort that goes into reporting. In today's rapidly evolving travel landscape, the ability to track intent and grasp industry advances is crucial. This initiative not only provides valuable insights for our customers but also gives RateGain opportunity to showcase innovative products and services that are designed to address these challenges and offer a deeper understanding of the industry.

With that, I will briefly touch upon the performance across each of our business units. The DaaS business contributed to 32% of the total revenue for Q1 fiscal year '25. This unit grew at a healthy pace with continued traction across key enterprise accounts in addition of new logos across airlines, OTAs, car rentals, and cruise.

As you may have seen from recent press releases, we've added some great logos in our Air segment including Malaysian Airlines, and our Air vertical continues to be a key growth driver within our DaaS vertical. We also continue to make inroads with key clients across both OTA and car segments deepening relationships with larger enterprise plans.

We're seeing some early signs of traction with our newly launched unified rate and site platform for hotels that is called the Navigator. We're starting to make inroads with customers in Europe and Asia and are optimistic on growing this vertical further. Given our ability to deliver large volumes of data, we continue to see incremental volume demand coming from our existing enterprise customers driven by strong travel demand and product innovation.

Distribution segment accounted for 20.4% of our total revenue. This segment has grown at a slower pace compared to other segments mainly due to volume pressure seen on certain demand channels that we provide connectivity to. With that said, we are seeing expansion on certain key relationships that we have, and with recent partnerships that we have established, we're confident of growth picking up here. We've witnessed good traction and continue to see opportunities for our RevMax platform with mid-size chains in the APAC and Middle East and continue to focus on scaling this up in the coming quarters. We continue to add further features to create best-in-class product as I mentioned earlier.

Our MarTech business contributed to 47.7% of our total revenues for Q1, backed by healthy growth in the paid digital media segment and continued traction in our social media management segment with some leading hospitality brands in the North American geography. Based on focus efforts from the team, we carry forward the sales momentum with pre-closures and healthy pipeline growth. With a continued focus from hotels on driving direct ROI, our PDM offering continues to see increased traction with hotel chains across Europe and APAC regions.

With recent changes to Digital Markets Act and Google changing settings on campaign management, there's an opportunity for our product and how we can help drive more traffic for our hotel partners. As we have moved towards an integrated PDM offering, the value we are driving for large travel brands basis the strength of the travel intent data is really allowing us to drive market share within the DMO segment, and we have closed some marquee deals with large enterprise DMO brands across retail, financial services, airlines, and hotels, making RateGain the partner of choice. With added measurement capabilities and partnerships that we have established, we continue to strengthen our product proposition.

As we complete another quarter with remarkable achievements, I'm thrilled to share our outstanding milestones on the people front. We continue to see improved attrition rates, which now stands at a new low of 10.9%, reflecting a strong commitment to retaining and nurturing top talent. Our focus remains on nurturing talent, promoting from within, and creating a diverse, inclusive, and equitable culture that propels us forward. In recognition of this, we were recognized as one of India's great mid-size workplaces 2024, an accolade that underscores our dedication to creating an exceptional workplace.

As we focus on building a future-ready workplace, we are excited to introduce AI in our HR practices, enhancing our ability to support our employees more effectively and streamline our processes. Our commitment to our employees' growth, well-being, and inclusivity remains at the heart of our success, and we look forward to building on these achievements in the coming quarters.

With that, I'd like to now ask our CFO, Mr. Tanmaya Das, to take you through the performance of Q1.

Tanmaya Das: Thank you, Bhanu, and a very warm welcome to everyone on this call. I'm delighted to report that the company has delivered a robust quarter with steady revenue growth, coupled with healthy margin expansion of 150 bps, demonstrating execution excellence and the value we are delivering to our customers.

With a focused approach from the team, we continue to see steady performance across key operating metrics, including customer retention and revenue per employee. Our land and expand strategy continues to give good results, with healthy revenue growth across our key customers. We saw 32% growth in revenue from our top 10 customers and healthy revenue expansion in European geography.

We remain focused on market, making the right investments in product, inorganic opportunities, and talent to strengthen our return ratios and create long-term value for all stakeholders, and in line with our vision for becoming the leading global travel tech provider.

Some of the key financial and operating highlights from the quarter gone by, the company reported a record revenue of INR260 crores with year-over-year growth of 21.2%. This was on the back of strong growth across our DaaS and Martech verticals, growing at 18% and 33%, respectively. Our distribution vertical witnessed slow growth with volume pressure across some demand partners. There is seasonality effect in Q1, and we are hopeful with the order book and pipeline we have of growth picking up in this segment throughout the year.

EBITDA grew ahead of revenue at 32% to INR49.8 crores for Q1 FY '25, with the margins expanding by 150 basis points from 17.6% to 19.1%. Q1 carries the impact of annual wage hikes, and the improvement in EBITDA margins is on the back of operating leverage kicking in as we scale up in a sustainable manner. The PAT grew by 82% to INR45.4 crores compared to INR24.9 crores in the previous year.

The company continues to have strong customer relationships with low churn, and a focus to expand existing relationships to build sustainable and reliable revenue streams. Our gross revenue retention improved to 91% and our net revenue retention stood at 105%. Our customer base currently stands at 3,299 customers. We closely track and strive to outperform on key operating SaaS metrics, and for Q1 FY '25, our revenue per employee stood at INR1.3 crores, growing at 10% over last year. With continued traction across key customer segments and key geographies, including APAC and Middle East, we have a healthy pipeline which currently stands at a new high of INR555 crores.

We continue to have strong balance sheet with our net worth currently at INR1,497 crores, up 112% compared to the same time last year. Our cash and cash equivalent balance as at quarter end stood at INR1,079 crores.

With that, I would like to close my remarks and we are happy to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Karan Uppal from PhillipCapital India. Please go ahead, sir.

Karan Uppal: Yes, thanks for the opportunity. The first question is on the guidance. What's the revenue growth and the margin guidance for the year? Tanmay, in your remarks, guidance comments were missing. Just wanted to check that.

Bhanu Chopra: So, I'll take that question. Yes, so the guidance continues to be the 20% that we had reiterated at the beginning of the year. This is on back of a couple of very, very large deals that we are closing on. And also, as you know, there are some challenges that we are seeing in the North American market. And we've also seen a couple of clients that have attrited out, one in distribution and one in Martech.

Distribution was largely because of non-payment of dues. And on Martech, we had like a big large chain that bought like a mid-sized chain, which was a customer for us on the Martech side. So, we've seen some bumps, but despite that, we are going all guns out. And with these potential deals that we are closing in on, we are confident of getting to the 20%.

Karan Uppal: Okay. Thanks a lot. So, Bhanu, you mentioned about some challenges in the North American market. Could you please elaborate that a bit?

Bhanu Chopra: Yes. So, as you saw our pipeline, it's at its all-time high. And the deal closures typically have in this part of the year are usually slower. So, although, we're seeing a lot of -- if we look at the hotel companies reports, etcetera, and all the commentary that we are seeing, there is talk about challenges. So although we have a very, very healthy and robust pipeline, I'm just trying to be a little bit cautious in our commentary, given the commentary that we've heard from the other hotel company CEOs. But usually it's the Q3 and Q4 that's very good for us in terms of closing out some of these pipeline orders, given that the decision-making period, which is sort of the end of the fiscal for most of our large enterprise customers. So, I'm hoping that we're able to convert a lot of these larger deals that are in the foray.

Karan Uppal: Okay. Great. Another question is on distribution. So RateGain has been a strategic partner to Expedia, Booking as well as Agoda now. And for Expedia and Booking, RateGain has been a strategic partner for a long time, but somehow it has not translated into the accelerated growth in distribution. So any comments around that?

Bhanu Chopra: So we are actually seeing good amount of growth with our key partners, as you mentioned. However, we've had a couple of challenges in our distribution business where one of the Expedia partner sites is getting consolidated and it was a big volume generator for us. And so we are seeing -- as a result of that strategic direction, we are seeing those volumes get reduced on one of these OTA sites.

And we've had one customer actually renegotiate given the larger volumes that they were driving. We had to renegotiate on the pricing. So, if you look at our volume growth it has been quite significant, but because of the larger volumes we had to discount. I'm just trying to get the number on volume growth. Divik can you share the volume growth because it has been quite significant in our distribution business.

And with like I said with some of the key opportunities that we are pursuing I'm confident of this distribution business to revive also and given the RevMax platform commentary I gave in my earlier commentary, you're seeing some very good traction there as well as some things that we're doing, new endeavors that we have to increase sort of our take rate on the distribution side of the business.

So, we'll share more in subsequent quarters of some of these initiatives, but overall volumes, I have that now we're almost up 50% from last year. So it was really because of some large customers where we had to win business, discount some of the per transaction fee the overall growth is looking muted.

Karan Uppal: Okay. Last question is on M&A. Any update there? Last time we mentioned that we are looking at a couple of opportunities. So, any update would be appreciated?

Bhanu Chopra: Yes. So we did get close to a couple of them, but unfortunately as we go through due diligence, etc and we find things that we are uncomfortable with then we have to walk away. But I'm happy to report that we have a couple of opportunities that we are evaluating and in advanced discussions with and we'll keep you posted as and when something realizes from those conversations.

Karan Uppal: Okay great. Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Aastha from Pkeday Advisors. Please go ahead.

Aastha: Hello. Thanks for the opportunity, sir. I have a couple of questions. So my first question is what differentiates us from our competitors? I mean in India we have seen Staah which has quite a good market share. So how are we competing against them?

Bhanu Chopra: Yes. So Staah is not really, I mean, we do come across them, but they focus largely on the long tail of hotels which are much smaller, a smaller number of rooms like 30 to 40 rooms, as well as much smaller ADR rate which is usually INR2,000, INR3,000. And as you know the overall TAM that we go after is about 300,000 hotels which are more sort of the mid segment and upper segment in the hospitality industry.

So the overall TAM is about a million hotels, but the ones that we target are about 300,000 which are organized as part of a bigger group. And in terms of our differentiation the one differentiation between Staah and us is that we are more after the mid market and the upper segment and the other differentiator is we are an integrated suite where not only do we do distribution, but we help customers acquire guests through our digital marketing platform as well as we have an amount of data that we have amazed we are able to help them on both guest acquisition, guest retention, engagement and wallet share expansion and Staah is a significantly smaller company than us.

Aastha: Correct. So just to follow up on that apart from India what's the market strategy in the U.S. market? What's giving us an edge over there?

Bhanu Chopra: Yes as I talked about in our opening comments also the fact that we are an integrated tech suite. We have thousands of data points around pricing on travel intent. This enables us to offer one integrated tech stack that is all around our customers' guests whether it's guest acquisition, guest retention or guest wallet share expansion.

Aastha: Sir my second question is related more related to the business. I wanted to understand like our revenue model, what drives our revenue? Is it the number of hotels, number of bookings? How do we earn our revenue? Subscription model and transaction model I know, but can you please clarify more on that?

Bhanu Chopra: Yes, it's a - I would require a few minutes to actually explain this. So I would suggest maybe you can get in touch with our investor relations person which is Divik and we can do a separate call with you. But just at a high level depending on the type of business it is, the revenue model is different.

So in our DAS it's basically largely meant based on number of data points. In our distribution business it's largely driven by the number of transactions. And in MarTech also we have an hybrid structure, but what is fundamentally uniform across all three segments is that we have like a floor value. So irrespective of whatever the driver could be there is a minimum engagement size that we have for contract. So happy to get into more detailed conversation around this separately in the interest of time.

Aastha: Okay. Thank you, sir. I will get back in the queue for more questions.

Moderator: The next question is from the line of Sanidhya from Unicorn Assets. Please go ahead.

Sanidhya: Firstly on the distribution side. So you also mentioned in your last commentary that growth would be somewhere between like, more than a single digit, maybe a double digit, but if I compare with the last whole year or even first two quarters of last year there is significant like no growth at all in the distribution segment in terms of revenue. Of course, you were guiding on volume growth and price. So is it a continuous trend that we see for the whole year or is it like this for quarter one or maybe for quarter two?

Bhanu Chopra: As I mentioned the last couple of quarters have seemed a little muted, but given some large deals that we are pursuing and also we monetize a couple of large deals in this quarter. So I don't have the exact numbers, but I am quite confident that everything that we are doing with our central RevMax platform which includes distribution and some of the key initiatives around what we are calling smart distribution, this number should look significantly higher as we go into the future quarters.

Sanidhya: And secondly on the promoter holding, so there is significant reduction, any particular commentary you want to give on that?

Bhanu Chopra: Sorry, I didn't follow your question. Can you repeat it again, please?

Sanidhya: On the promoter holding side so there is quite a significant reduction and it has been the trend like that. So any commentary on that?

Bhanu Chopra: Yes. So the reduction was on account of a couple of things. One, we raised the QIP money back in November and then in the March quarter my family had offloaded some stake, but as I mentioned in the press release as well, there is no more plans of any other either fundraising at the company level or any stake sales by the promoter family. We're quite confident in the future of the company and we will continue to retain the stake that we have.

Sanidhya: And then lastly, on the M&A side, even on the concall and even in the interview I saw that you mentioned that we were not getting the valuations correct as per our metrics. So can you highlight what kind of valuations we are looking at as compared to revenue versus the acquisition cost versus what we were getting and why we are not closing?

Bhanu Chopra: This is regarding valuations of target companies you're saying, from an M&A perspective?

Sanidhya: Yes.

Bhanu Chopra: So, look, there is no standard multiple on revenue or EBITDA that we look at. Something that I've talked about, our valuation methodology is based on what are the cost and revenue synergies that we can drive in the business in our hand. And our goal usually is we're generating an IRR of north of 20% and that whatever we pay for the company, the payback period is anywhere between five to seven years, depending on the strategic importance of the company.

Sanidhya: No, I think you are highlighting that. Okay. Any specific number you want to give? What you were getting or what we were hearing? And any significant upcoming thing that we have in hand?

Bhanu Chopra: Yes. So, like I said, we don't necessarily because each asset is different. So, we don't ascribe a particular multiple to EBITDA or revenue on a standalone basis of the target company. We usually look at what will it be in our hands, depending on the synergy that we have with our business, what kind of cost synergies can we drive, and then our ability to cross sell and upsell if it's an adjacent product to our large portfolio of customers. And depending on that is how we ascribe value.

So, there is no fixed formula on a multiple of revenue or EBITDA that we are willing to pay. We look at the financial model, which we prepare for, let's say, the next 10 years, etc. And then we look at what kind of IRR would we drive on the purchase price. And our goal is to drive north of 20% with a payback of five to seven years.

Sanidhya: Sir, I just wanted any number you can give, so what kind of valuations we were getting as an offer versus what we were offering? Any gap? What was the kind of gap that we were getting? Just wanted that number maybe.

Bhanu Chopra: Okay. So, you're referring to the companies that we recently evaluated, is it? Yes.

Sanidhya: Yes. Exactly.

Bhanu Chopra: Yes. So, we've looked at offers which are in the range of -- I mean, the ones that we made offers to were in the range of two to three times revenue. And no deal has happened for those companies. So, those companies are still available.

Sanidhya: Okay. And so, I just mentioned that we are trading somewhere around eight times the value multiple. So, anything that is less than four times is a accretive acquisition, I think. That's from my perspective. Definitely, you are bringing from the IRR and other cautionary pieces there. So, I just wanted to highlight, are we looking at any new potential acquisitions in this quarter, maybe six? Is anything uncommon?

Bhanu Chopra: Yes. Look, we've been quite disciplined buyers and I don't intend to change that. We are very confident that the model that we have prepared has enabled us to do four acquisitions and it has been very, very fruitful. It has been very, very value creative. And look, I'm building the company for long term and every decision that I take is not going to optimize for the short term. So, we're always going to optimize for the long term. And this is that we feel fairly comfortable and confident about how we ascribe value to target companies.

Sanidhya: No, definitely. I just wanted to say that. So, we did a large round of QIP and therefore...

Moderator: Mr. Sanidhya, please give the other participants a chance to ask a question. You can get back in the question queue.

Sanidhya: Yes, thank you.

Moderator: The next question is from the line of from Prolin Nandu from Edelweiss Public ALTS. Please go ahead, sir.

Prolin Nandu: Between 4% to 5%. And if I look at the growth for the last three quarter…

Moderator: Mr. Prolin? Yes. Sorry to interrupt. Could you please begin again?

Prolin Nandu: Yes, sure. Sure. I'll do that. So, my question was on the distribution part. If I look at the growth in this quarter and then compare it with the growth for last few quarters, there has been a sequential, not exactly sequential, but the growth rate has tapered off from Q1 of last where we are at around 26%. And you mentioned that you have given some kind of a pricing discount, so to say, which was more volume led.

So, you know, given the fact that you also highlighted on the call that we have an integrated kind of an offering, and if I am not wrong, the kind of services that we provide for in overall scheme of things for our customers in terms of their top line, it's not even 1%. So, you know, and it's just that, you know, why is it the need to give a volume led discount in the first place? And does that mean that some other part of our businesses will also see some pressure like this in the future?

So, can you just, you know, help me connect as to, you know, our full integrated offering and the need to give a discount, you know, for our distribution? That's something which is, you know, contrary on the site. So, if you can just explain, that would be great, Bhanu.

Bhanu Chopra: Yes, sure. So, on the, you know, volume discounts, we usually do not entertain those. And I've talked about how almost 70% of our contracts have now CPI or inflation related increases annually. You know, this was a one-off case where it was a very, very large customer and the footprint that we have with them is quite significant. And in order to continue to maintain a strong relationship with them, and quite frankly, our pricing with them was a historical pricing that hadn't, that, you know, was signed many years ago. And it was, you know, it was related to a company that we bought that it did require revision.

So, I would say it was kind of an anomaly in the system where we had this one contract where we were charging significantly and given the importance of this large customer, we had to entertain lowering the price. So, I don't see this as a systematic trend. I just see this as a one-off.

I think what has impacted our distribution business in terms of our growth, like I said, is, you know, there is an OTA where it was, you know, a significant part of the transactions that we were generating. And, you know, that's a systematic trend that over, you know, really the last 18 months where the transactions from that OTA continue to, you know, wind down. So, while we are seeing, you know, growth in other parts of our distribution business, it's this one big OTA appearing that we had on our distribution business that sort of offset it.

But on the, you know, on the larger prospects of our distribution business, like I said, the integrated tech suite that we have, I mean, if I look at the pipeline, it's, you know, the biggest pipeline that we've ever had. And, you know, we're counting on some very, very large deals that should fructify. So, I do not know the timing, but I do feel it's not a question of if, it's really a question of when, but I do see, you know, given everything that we are doing on our distribution business, you know, both on having an integrated tech suite and also, you know, we are launching something called Smart Distribution.

It's early days, which helps us increase where we participate in the value chain that will allow us to increase our transaction fee or take rate quite significantly. So, I'm quite confident that, you know, distribution business is going to be a significant growth vector for us in the coming years. It's, you know, it's just a matter of, you know, some of these things playing out and us executing well on them.

Prolin Nandu: Sure, Bhanu. Thanks a lot for that clarity. Secondly, Bhanu, on your comment on some of the North American hotel customers being slightly, conservative in their outlook for the rest of the year, it's just that, I mean, we have a substantial market share to gain, right, in terms of penetrating some of these customers. And is it right to assume that, even if the overall market sees some kind of a slowdown, in terms of our ability to grow, ahead of the market will still remain fairly strong, especially in North America?

Bhanu Chopra: Yes. So, thanks for asking that question. And you're absolutely right. In fact, when things are going really well, usually some parts of our business, especially on the Martech side, the tendency for the hotels is to say, look, my hotel is full, why do I need you? Right? So, as there is some amount of softening of demand for these hotel companies, our demand booster offering, which is part of our Martech, will enhance significantly.

And the second thing that we also, and you've seen this with IT services companies also, is that, the trend for big companies to outsource also becomes higher when there is overall, market pressures, especially around recession, etc. So, I feel on both accounts, both on the demand booster part of our Martech, as well as, the larger companies needing to outsource more, we should be beneficiary of that. And in that regard, I had, made that comment.

Prolin Nandu: Sure. Thank you so much, Bhanu. Our last question would be on margins, right? Now, there is certain seasonality when I look at your margin on a quarter-on-quarter basis, and Q1 being the weakest, and then it keeps on increasing, right, as the quarters progress. And there is an element of wage hike, which comes into Q1, if I'm not wrong.

But the broader thing that I wanted to check from you is that, you mentioned about the IT services peers of yours, right, in terms of how outsourcing increases. But ours is broadly a product company rather than a service company, right? So, in terms of our aspiration of that 25% margin, right, is there any margin room that you are keeping for ourselves in terms of investing back into the business, right?

Because even some of your peers in the segment in terms of SaaS or product company are earning north of 30% margins, right? So, if you can just help us understand as to when do we up our aspiration, right, to move beyond 25% margin, that would be helpful. That's it from my side. All the best, Bhanu.

Bhanu Chopra: Yes. So, your observations are correct. Your first question about, Q1 is slightly lower margin, and you're absolutely right. We had, the pay hike that happened in Q1. And the other big reason was there was a big move of our distribution infrastructure from data centers into the cloud, into AWS.

And we had much larger costs for that transition. And I'm happy to report that transition has gone down very, very successfully. And so, we should see normalization of our infrastructure costs on distribution. And so, Q2 onwards, we should see higher margins on our distribution business. And like you said, the pay hikes also have an impact, and it normalizes as the revenue increases and operating leverage kicks in.

Your question about, being north of 25% on margin. So, I've stated this many times on the earnings calls also. All our mature products are actually north of 30%. It's the reinvestment that we are doing into newer markets and newer products that we have launched, which brings down the overall blended margin to about 20% or so.

And at scale, we've talked about getting to 25% in the next 3 years or so. So, I do think that the opportunity is very, very large. And we want to continue to invest in capitalizing on this larger opportunity. So, I do believe that, we can be a $1 billion company in revenue. And with that kind of aspiration, and where we sit today, there is a long way to go.

So, we will, need to play a balancing act. And I would like to continue to reinvest, the margins, the good margins that we have on our established products into, newer opportunities, newer markets, and doubling down on them.

Prolin Nandu: Sure. Thank you so much, Bhanu, and all the very best.

Moderator: The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Hello. Good afternoon, sir. Thank you so much for taking my question. So, a lot of my questions have already been answered. So, just wanted to know, like, in terms of the margin trajectory for current year. So, in Q1, we did, like, around 19%. So, for the full year, what kind of margin growth could we see? Could we see, like, a 22% margin for the full year? Hello? Was that audible?

Tanmaya Das: No, I can take that. This is Tanmaya. So, what we had guided to is 150 to 200 basis point improvement over last year. So, the first quarter, we saw an improvement of around 150 basis points. So, we expect that we'll continue to show that kind of improvement throughout the year, year-over-year for each quarter. So, I think we should expect, like, 150 to 200 basis point improvement from last year for the full year. And each quarter will be comparable to the last quarter of the same year.

Darshil Jhaveri: Fair enough, sir. And so, do we stand by, like, being a INR2000 crores target in 3 years?

Tanmaya Das: Yes.

Darshil Jhaveri: Okay. Fair enough. So, this is just, like, one question. I know a lot of people have asked this about distribution, but just wanted to understand, like, what kind of discount did we actually give? Because a 50% volume increase would only lead to 4% value increase. So, I just wanted to understand that, sir.

Tanmaya Das: I'll not be able to disclose the numbers, etc., but it was a significant discount. But, like, I said, it's not on distribution, this was more of an anomaly than a systematic trend. And, it was more of a one-off.

Darshil Jhaveri: Okay. Fair enough, sir. And just, like, one last question in terms of acquisitions. Is it that right now, like, the expectations of all the funding winters lowered and deals are happening, so it's becoming more difficult to find, a company at, the target price or valuation that we want? So, is that the reason or, how do you see the market in terms of, acquisitions?

Bhanu Chopra: So, I mean, look, there are, in terms of, like, the pipeline is quite robust. And we have been very, very active. Yes, it's a fair statement to say that people are holding out, to get the values that they desire. But at the same time, I want to make a comment that, if we are not buying those companies, it's not like they're getting sold at higher valuations. Those companies are not getting sold. So, there are, I think all of you are familiar with Adara also.

It's a game of patience. I know we raised the money 6 months ago and some market participants are getting itchy for us to do a deal. But we have done well by being disciplined buyers. And I just want to ask for market participants to be patient because I'm confident, the kind of deals that we have done in the past will happen also in the future.

Darshil Jhaveri: Fair enough, sir. Yes, that's it from my side. All the best. Thank you.

Moderator: The next question is from the line of Madhuchanda Dey from MCPro. Please go ahead, sir.

Madhuchanda Dey: Hi, I have a couple of questions. As you alluded to the discount that you had to offer to one of your key clients in the distribution business, I just wanted to generally understand, you have explained it in detail. I mean, do you see because of slight softness in demand from the hospitality sector there is more competition on the travel tech side? I mean, are you experiencing both and the resultant is a kind of yielding to the demand of the client? Is that a possibility?

Bhanu Chopra: No, we're not seeing competitive pressure so to speak. Like I said, this was more of an anomaly given the strong footprint that this customer has across all our product portfolio. In fact, like I said the pipeline is looking the best ever.

The conversations that we are having looking significantly better than before. I think it's all about us executing and closing some of these deals. And look, when you're competing in the marketplace with a certain product you have to constantly in tech, innovate and find differentiators.

So what I'm saying is we have found those differentiators. People are getting excited about them. We are very close to closing in on some of those conversations and that should result in sort of hopefully traction and momentum that would translate into significantly higher growth numbers for our distribution business.

Madhuchanda Dey: Yes, thanks. And then the other question is a housekeeping question to Tanmay. This other income is purely because of the QIP money, which is sitting as large cash in the books, right? There's nothing exceptional in it, right?

Tanmaya Das: No, nothing exceptional. Yes, you're right. All the funds have been invested in whatever regulatory allowed fixed deposits.

Madhuchanda Dey: Okay, thank you. Thanks and all the best. And hope you do an exciting acquisition soon.

Tanmaya Das: Thank you.

Moderator: Thank you. The next question is from the line of Hasmukh Vishariya from Tata Mutual Fund. Please go ahead.

Hasmukh Vishariya: Yes, hi. Thanks for the opportunity. I have two questions. One on distribution itself again. So you mentioned, Bhanu you mentioned that this was definitely one-off, etc. But it was, let's say, volume-linked discount and that the client has been using a lot of, let's say, your products. But as we, let's say scale our businesses with the clients or mine those clients and gain market share and let's say, sell more products to a particular customer can this be a medium-term sort of risk for our products from pricing perspective?

Bhanu Chopra: No, I don't see it as a risk. As I mentioned Hasmukh, this was an old contract that we had acquired as part of our Dhisco acquisition. And the customer actually had been paying significantly higher unit price than all other customers to begin with.

So while a lot of the other customers' unit cost got rationalized over the years this particular customer didn't see that happen. So I don't see this as a continuing trend. In fact, we make more money through price escalations every year, given 70% of our cost, 70% of our contracts now have the price escalation clause.

So I am not worried about this playing out as a risk. I think just because there's a lot of question about distribution. And so I just want to clear out, I don't see any reasons or concerns for our distribution business.

Like I said, with some of the things that we're doing, I'm actually quite hopeful and quite confident that this will be a big growth vector for us. I think in terms of being transparent and on the challenges, I think I talked about some couple of unplanned attrition that we had in our business, where one customer because of non-payment attrited. And then we had one MarTech customer also it right because of a big hotel brand in the US acquiring them. That created some unplanned attrition that we didn't have in our projections. So that concerns me more than all the questions that are being raised on the earnings call today.

Hasmukh Vishariya: Got it. A second question I had on deal wins. So this quarter, the deal wins growth has been just 10%. And if I remember well, last one, two quarters have been slightly weaker on the deal wins front. So how should we, let's tie up these two numbers 10% growth in deal wins vis-a-vis the 20% sort of guidance in revenue growth. How should we tie up?

Bhanu Chopra: Yes, it's like, so how I was saying to you the pipeline is at an all time high and we've seen some delays in execution of some of these decisions but overall conversation and deal activity is pretty, pretty high. So I'm hoping as the summer season concludes in the western part of the world, which is the current quarter, we should see some of these closures to happen and it should help us get back on track.

Hasmukh Vishariya: Sure. But just to follow up on that in an event of weakening, let's say macro environment, if this deal gets pushed on, how should we look at let's say your growth for FY '25 in that case?

Bhanu Chopra: Yes, so as I was mentioning parts of the business get positively impacted as a result of the macro level situation. So I would say our DAAS and distribution business will mirror the macro level conditions but part of our Martech business, which helps produce more room nights for customers will get benefited. And also the enterprise customers where they're trying to do some things in house see additional benefit in giving parts of that technology and using our products.

When I said outsourced to us, I didn't mean outsourced to us in terms of services but outsourced their capability in terms of using our products that suffice that capability that trend begins to accelerate as well. So if the macro level conditions, like I said start to play out and as you know, almost half of our business is Martech related parts of that should get benefited. I'm hoping that it evenly balances out. So we're still gunning for that 20% and doesn't include any of the inorganics that we are very much actively pursuing as well.

Hasmukh Vishariya: Great, Bhanu, great. Thanks a lot and all the best.

Bhanu Chopra: Thank you.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead, sir.

Rishi Jhunjhunwala: Yes, thanks for the opportunity. Just a couple of quick questions. Just one on this volume discount. When does it come in the base in the sense from which quarter has it gotten implemented? And Bhanu, you told about the volume growth. Can you remind again, how much is the volume growth in distribution?

Bhanu Chopra: The volume growth was 49% in terms of the discounting and before that when it came into effect.

Tanmaya Das: Yes, it came into effect. But I think there are multiple factors why the growth is 50% in terms of volume, but the growth for this quarter is only 5%. It's obviously, Bhanu talked about couple of attrition then there is a volume discount. And then we talked about a major OTA not performing or declining in terms of their volumes. And there are also some one-time billing that had happened last year in Q1.

So there are multiple factors. So we should not say that 50% growth in volume, but only 5% growth in revenue is attributed to the volume discount that we have given to this one particular customer. So I'm saying there's multiple factors why it has resulted like this.

Rishi Jhunjhunwala: Yes, no. The only thing I was trying to understand is from which quarter onwards it comes in the base and as a result, volume and revenue growth from that particular client will actually converge.

Tanmaya Das: Yes, this is the Q1 I'm talking about.

Rishi Jhunjhunwala: Q1 only. Okay, fair enough. And just very quickly, this new contract wins, is there some sort of restatement? Because last year, I think the number that you had provided was 593 million. And now it's 621 million. So it comes out to be 5%. But the presentation said 10%. So just trying to understand.

Tanmaya Das: Yes so when we... Okay, these are all salesforce records. So when we close in one contract, in certain contracts there's a full value that is recognized. In certain contracts, it's a volume based. So you have to record that as an order book on an estimate basis. And as we move along, the monetization starts then in some cases, the value of the contract needs restatement. So we do restate in the system as well. So yes, because these are some of the contracts, some of the ACVs are needed to be booked on an estimate basis, which needs to be resized as the years progress.

Rishi Jhunjhunwala: So last year's number has been restated?

Tanmaya Das: Yes.

Rishi Jhunjhunwala: Okay. All right. Thank you so much.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Bhanu Chopra for closing comments.

Bhanu Chopra: Thank you, everyone, for your time today. And thank you for your support.

Moderator: On behalf of RateGain Travel Technologies that concludes this conference. Thank you for joining us. And you may now disconnect your lines.