“RateGain Travel Technologies Limited

Q2 FY '24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, welcome to RateGain Travel Technologies Limited Q2 FY24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all the 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, Chairman and Managing Director. Thank you and over to you.

Bhanu Chopra: Thank you and a very good afternoon to everyone and thank you very much for joining the earnings call for RateGain Travel Technologies Limited for the second quarter and first half of the fiscal year 2024. It's great to connect with you all again 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 second quarter and first half results for the fiscal year 2024 earlier today and I hope you had a chance to go through our financial results, press release and investor presentation that are available on the stock exchanges and on our company website. I'm happy to report that the company has delivered another impressive quarter marked by robust growth, stellar margins, and a compelling financial performance that underscores our positive momentum.

The travel industry continues on its path of strong recovery across key markets and with a shift in people's attitudes towards travel, we are poised to capitalize on macro-level surge in demand and look to get deeper ingrained with our key customers across the economy.

Our unwavering commitment to delivering excellence and value for our customers and key stakeholders is evident through the strong operating and financial metrics of Q2 and first half. Some of the key highlights I would like to share with you here: our ARR has grown to a new high of INR938.9 crores, growing at an impressive pace of 92% year-on-year. We continue to scale up at a healthy pace based on steady organic growth and successful implementation of our M&A playbook as shown in the quick turnaround and continued traction in the dollar.

Revenues for the Q2 grew by 88% to INR234.7 crores compared to the same period last year. Robust revenue growth was backed by strong margins, affirming the strength of the SaaS-backed business model to convert revenue growth to sustainable profitability. Our Q2 margins have grown significantly year-on-year and now are at 19.8%.

The sales momentum continues on a strong footing with new contract wins of INR125 crores in the first half compared to INR40 crores last year, highlighting the strength of our comprehensive digital marketing offering and strong volume demand as industry leaders focus to adopt AI to drive efficiencies and optimize their revenues. This continues to be backed by a strong pipeline of over INR401 crores.

We continue to witness good traction in our Adara business as the focus remains to reconnect and reactivate the lost revenue from pre-COVID. Sales teams have seen healthy conversion of the built-up pipeline and we continue to make investments to accelerate growth by hiring back a lot of the extra Adara employees and maintaining that growth focus.

We've increased our focus on the Adara Martech offering, which has higher up the value chain as we manage the performance marketing campaigns for our customer partner brands. Adara's brand recognition has improved significantly as it continues to capture market share across leading travel brands, DMOs, airlines, and hospitality chains. Basis our product proposition. Our renewal conversations are turning into upgrades and more clients are choosing to activate performance marketing with us. This is our AI modeling capability leading to improved performance.

We continue to see improvement across some key operating and financial metrics. Our revenue per employee has improved to INR1.3 crores, improving 62% year-on-year, capturing improved productivity and ability to scale up in a sustainable manner.

Generative AI and its adoption by companies continues to be at the forefront for many companies to improve customer experience, drive cost efficiencies, and optimize revenue. Our expertise in providing accurate intelligence at scale and driving ROI for large brands is helping drive incremental revenue from existing relationships and acquire new clients. The investments related to developing the right solutions are underway. And while on one hand, we are beneficiaries of the same, we're also adopting and exploring further AI-based use cases that have commercial viability in our industry.

On the state of the industry, global travel continues to hold steady, despite recent macro uncertainty. Global travel growth continues to remain strong, with the global travel health index by Skift coming in at 106 for September, a new record high. All key regions continue to hold on or are above the 2019 levels, with North America continuing to outperform. International travel performance is at par with domestic travel for most regions, and actually clocking a higher score than the North America region, ending strong pickup in cross-border travel. India is another region reporting strong recovery in international travel, with outbound travel surpassing pre-pandemic levels.

The momentum in the industry is driving change, adoption, upgradation of existing tech stacks and attracting new investors into the industry, which is further unlocking new opportunities for players like RateGain to consolidate their position through product innovation and acquisition to have a larger share of a thriving market as the industry looks at adopting more technology to engage with travel.

With that, I will briefly touch upon the performance across each of our business units. The DaaS business contributed to 31.9% of the total revenue for H1. This unit grew at a strong pace on the back of healthy traction with some key enterprise accounts across OTAs, airlines, car rentals, and cruise. We continue to see incremental volume demand coming from our existing enterprise customers, driven by strong travel demand, product innovation, with a focus on building AI models. Given the importance of AI, a lot of our customers are seeking to deploy AI capabilities for their decision support systems, helping in revenue management, personalized recommendations, and risk marketing. We expect to see this trend continue to drive growth for our DaaS segment in the near term.

Rev-AI, our threat for transforming the car rental industry, is showing strong growth as we take a land and expand strategy across franchises and have seemed to have achieved a product market fit. New sales have registered a healthy growth. The need for Rev-AI increases as higher resource costs and increased competitiveness in the market pushes car rentals to look at AI-based solutions that can tell them how to increase revenue.

The distribution segment accounted for 22.4% of our total revenue. Volume growth has been steady in the past quarter, with continued demand across our enterprise chain segment on both OTA and GDS channels. I'm also proud to report that the volumes on GDS channels have surpassed 2019 levels for the first time as we continue to gain traction with marquee customers, enabling connectivity for them across demand partners. We continue to be the partner of choice for large hotel chains as they undertake digital transformation projects to modernize their distribution ecosystem and optimize their presence across channels. We started to monetize our order book from some key events at the end of last year and expect to see the full effect of that in the second half of this fiscal.

Our MarTech business contributed to 45.7% of our total revenues for H1, backed by improved growth in the digital marketing segment, as we continue to see healthy growth managing performance marketing campaigns for leading hotel chains, regional and global DMOs, airlines and attraction parks trying to achieve higher returns of their digital marketing investments.

The value we are driving for large travel brands bases the strength of the travel intent data we are generating is really allowing us to recapture market share within that segment. With the continued investments, we are confident of scaling up this business in the near term. Our PDM offering for hotels to optimize direct customer acquisition continues to gain traction in the Europe and APAC region.

We continue to strengthen the leadership team as we strive to further scale up the business and I'm happy to share that we recently appointed a new GM for Adara, Jay Wardle, who in the past role was leading a renowned adtech firm Distillery. Jay has extensive experience having worked with leading brands like American Express and AOL and has a proven record in the data and technology space. His role will be invaluable as we continue to drive growth and innovation at Adara. His expertise in leading operations, sales, and marketing will be critical for us to drive more well-rounded, sustainable growth as we aim for our next big goal.

As we navigate through another successful quarter, it brings me immense pride to share some remarkable achievements on the people front. Our attrition rate continues to trend lower to 13.8% annually, reflecting our commitment to retaining and nurturing talent, while our record-breaking ENPS of 1.7% highlights immense employee satisfaction. Additionally, our team has invested over 2,300 hours in training, emphasizing our commitment to upskilling and growth. These achievements are a testament to our collective efforts and dedication to making RateGain the undisputed employer of choice.

I'd like to now ask our CFO, Mr. Tanmay Das, to take you through the performance of Q2 and H1. Thank you.

Tanmaya Das: Thank you, Bhanu, and a very warm welcome to everyone on this call. I'm delighted to report that the company has posted another robust set of results in the quarter gone by, summing up a strong performance in the first half, building on its performance from a record year. Strong, sustainable revenue growth across verticals, backed by healthy margin expansion, which continues ahead of guidance and stands at a 15-quarter high on the back of operating leverage playing out.

Our steadfast focus on operational efficiency and value creation has resulted in stellar margins for H1, affirming our capability to convert revenue into sustainable profitability. The solid foundation positions us well to drive innovation and capitalize on future opportunities. Despite recent macro uncertainty, we see growth holding steady across the travel space, but we maintain a cautiously optimistic approach, keeping an eye on development across key regions.

Our inorganic growth front will continue to mine a healthy pipeline and engage with various companies, exploring the right value and synergies in accordance with our strategy to build an integrated tech stack focused on revenue maximization. This continues to be a very key focus area, and we remain steadfast in our approach to finding the right fit in line with our vision.

For the second quarter of 2024, the company reported a revenue of INR234.7 crores with a year-over-year growth of 88.4%. As Bhanu mentioned earlier, we continue to see significant traction in the paid digital media segment of our market offerings. This has resulted in this vertical growing at a faster pace of 142.3% in Q2, with DaaS growing at 119.6% and distribution at 10.5%. With the monetization of our large order win from last year underway, we expect a healthy pick-up in our distribution segment in the second half.

EBITDA grew by 163.9% to INR46.4 crores in the quarter as compared to INR17.6 crores in the same period last year. EBITDA expansion continues at a healthy pace to a 19.8% margin in this past quarter compared to 14.1% last year. As the company continues on its path of fiscal prudence and operating leverage, we scale up. The total operating expenses grew at a pace of 76% in Q2 compared to 88% growth in revenue.

Our PAT grew at 132% to INR30 crores up from INR13 crores last year. For the first half of the year, the company reported a revenue of INR449.2 crores with a year-over-year growth of 84.2%. This was on the back of strong growth from all three verticals with DaaS growing 129%, Distribution at 18% and MarTech at 114% for the first half. EBITDA grew by 185% to INR84.2 crores for H1 with the margins coming at 18.7% as against 12.1% in the same time last year.

The H1 EBITDA comes in higher than the guidance given at the end of last year, with our high margin business DaaS vertical witnessing strong growth with increased demand and data volumes from our key customers coupled with continued traction in Adara on both growth and improved margin performance.

Our PAT grew 157% in H1 compared to the same time last year, coming in at INR54.9 crores up from INR21.4 crores. The company continues to have strong customer relationships with low churn and focus to expand existing relationships to build sustainable revenue streams. Our gross revenue retention and net revenue retention stood at 90% and 110% respectively with an expanding customer base. It currently stands at 3,104.

We closely track and strive to outperform on key operating SaaS metrics and for H1, our revenue per employee stood at 1.264, growing at 62% over last year. We continue to make investments in expanding our sales teams in US, Latam, Middle East and other key geographies and have also stepped up our marketing efforts to propel growth and with that our current pipeline stands at 401 crores.

Our cash flow generation has improved significantly compared to last year. The cash flow from operations stood at INR76.9 crores in the first half of the week. The cash flow conversion to EBITDA coming in at 91% compared to 61% for the full year last year. This is on the back of improved profitability and improved DSOs. We continue to have a strong debt-free balance sheet where our net worth saw an increase of 18% as compared to last year, stood at INR769.9 crores. Our cash and cash equivalent balance continues to grow and now stands at INR423 crores.

In terms of guidance for full year FY24, at the end of Q4 last year, we had guided for a growth of 55% to 58% for the full year over FY23. Given the performance in the first half, we revised the guidance upwards to around 65% growth over FY23. Consequently, given the strong margin performance in the first half of this year, we revised the guidance upwards from 17% to around 19% for the full year FY24. It will be a 400 basis point improvement over last year.

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

Moderator: Thank you very much. The first question is from the line of Aditya Jhaver from AK Capital. Please go ahead.

Aditya Jhaver: Thanks for the opportunity. Excellent set of numbers, Bhanu and the team. I have roughly two questions here.

So Bhanu, last call you mentioned that we are just scratching the surface and there is a lot of growth that should happen in the coming years, you said. Particularly related to in-house, I am talking about like you said, now currently whatever the growth we are seeing is from the acquisitions led. But I wanted to understand that the tools that we have built related to AI modelling or Rev AI or this. So how much that we can scale up and when actually we can see because these are the high margin product, I am assuming that. So when this margin will be upticking will be happening to like 25% to 30%. That is the first question.

Second question is regarding the employees. Currently, if you see the strength of RateGain is I would assume that it is employees. But how much of the ESOP or the skin in the game the higher management has because that gives a motivation for them also? And the third question is regarding the guidance you have mentioned that. So currently, if I see you have said that 60% or above. If I see that 100, we are now only clocking roughly INR900 crores to INR1000 crores of revenue.

Then why I see that is like decline of guidance or margin. Also, it is mentioned that it is 19%. And when you scale up the revenue, I think the margin should go up gradually more since we are a totally SaaS based product. So can you throw light on these three things? Thanks.

Bhanu Chopra: So I was just writing down the questions so that I address each one of them. Your first question on what is the organic growth opportunity look like? So I want to start by saying something that I said in the last quarterly earnings call as well and sort of reinforce that we are absolutely committed to doubling the revenue from here in the next three years, which is sort of a pattern of 26%.

My overall sense is that our organic growth will continue to be sort of north of 20% between 20% to 25%. And the balance would be, you know, we run a programmatic M&A program and we continue to look at M&A opportunities. And we have a very, very robust pipeline as well.

From an organic perspective, the way we think about our business is really, you know, there are three levers for growth organically. So we have mature products that we continue to penetrate. There is a very, very large addressable opportunity. These are mature products that have very, very healthy margins and we continue to penetrate them. These are all the existing products that you see, you know, in the areas of vast distribution and Martech. The second category of products, I classify them as sort of teenagers. These are products that, we've invested in. You know, I talked about at the time of the IPO about all the investments we were making through RG Labs. And now it's been a couple of years, they have matured. They're revenue generating. And, you know, hopefully we will be hitting at some point a tipping point from which we can see a hockey stick effect. So I believe that we have the task of achieving that with one or two of the new products that we have, including revAI and the integrated RevMax platform.

And, you know, the third category is, you know, really what I call babies. You know, these are products that are at an inception stage. They are pre-revenue, but they burn a lot of cash. And these are experiments that as a company we continue to do. Some will work out. Some babies will grow into teenagers, but some will have a terminal effect. So, you know, as in things that focus on tech, it's very important that we continue to focus on that. So our assumptions are largely on growth, organic growth from our mature products.

But I do feel like, you know, there will be one or two products in that teenager category that will grow into adults over this next period. The second question was around how do we ensure that the senior management team has a skin in the game show? And so we already have a SARs program where, you know, as sort of the stock price goes up, you know, there is rewards for the senior management team to participate in that upside. And, you know, there are about 100 people out of the 800 people that participate in the SARs program. And secondly, what we are also doing now is we recently got an approval for the ESOP Trust. So the goal is that, you know, we will also now start providing stock to senior employees and we're working on internal modalities on how we do that. But that creates another incentive for senior management team to participate in the upside of the company. And so far, you know, it's really working very, very well. As was evident in the attrition numbers that I pointed out, the industry, the product industry, product industry is usually offering 20% attrition, but we are now at about 13%. And this is in addition to other HR programs that we run.

Your third question was a question around the existing numbers that we have and the opportunity to continue to, I think you mentioned the point that, look, you're tending towards INR950 crores to INR1,000 crores and margin is already at 19%. So how come the vision in upside is not more?

So look, I think as you've noticed that the performance is already exceeding what we had guided for two quarters ago. And we've actually fended that guidance now given the performance that we've seen. And we want to continue to, you know, promise and deliver on that promise.

And that's the hope. But your question on the margins, I think, you know, we are in very early stages of the large opportunity exist in the travel industry. And again, a metric I've talked about, you know, it's a $2.35 trillion industry with almost close to a hundred billion spent on tech and travel and hospitality.

So we are still a very, very small company and there is a large addressable market that we need to, you know, focus on and grow the company. So we are actually quite ahead of schedule in terms of the margin profile that we wanted to get to. So if you look at our LTV to CAC, it's very efficient. And, you know, I was hoping you would ask me the question that why aren't you investing more in sales given the LTV to CAC? Right. So given our customer acquisition cost is also so efficient and with all the different programs that we are running, I see a much larger opportunity to continue to reinvest in the business.

And we don't want to, I mean, when I talked about all the three different categories, the babies, teenagers, and these are all our mature product lines are actually in fact north of 30% margin and we can turn that on very, very easily. But we don't, we want to do that at the cost of growing the company. Absolutely not.

I mean, we see the opportunity and we want to capitalize on it. And look, this is going to go through investment cycles when we, you know, I'm trying to build this company for, you know, getting to ultimately getting to a billion dollars. So, you know, whenever we see the opportunity to invest more and scale up, you know, we will go through those investment cycles.

We see the opportunity where we want to invest more. So at this point, I would say we are extremely comfortable with the margin profile that we have obtained. And as I have indicated in the last call, pretty much attainable in the three-year time horizon that we can get to that close to that 25% number.

Aditya Jhaver: Okay. That sounds good. Bhanu, last, just to follow up this one, you said the second category, right? The first one is matured and the second one. So when the second one, since we have been working on for past three years or two years, right? We will come matured. I just wanted to understand the life cycle of this product.

Bhanu Chopra: So anyway, I would say that, you know, with increasing revenue and the products are growing extremely fast, but the revenue base is small. So even if I told you each of these products are growing at 100% year-on-year revenue, the base is small and given the size of the company is overall now scaled quite significantly for it to create a meaningful impact is at least a few quarters away where you can see, you know, a meaningful impact on our overall top line and bottom line. But as I mentioned earlier, I feel very, very comfortable with our mature products that I call it out continuing to give us that 20% to 25% growth.

And I see this actually as a bonus. So we are at it, but if the company size goes from, you know, from two years ago, if I told you that, you know, we do INR30 crores, it would still be meaningful, right? Because we were at INR300 crores.

Now we're closing in at a INR1,000 crores. INR30 crores is neither interesting for you nor for me to talk about. So I do think as we get scale, as we reach the tipping point, you know, these teenager products, you know, would be the future. I mean, just the growth that we have shown that it will ultimately do create that meaningful impact for us.

Moderator: Thank you very much. The next question is from the line of Karan Uppal from Philip Capital India. Please go ahead.

Karan Uppal: Yes. Thanks for the opportunity and congratulations on a strong set of numbers yet again. So two questions from my side. Firstly on Adara. So how had Adara performed in Q2? Last quarter, you mentioned that the revenue was around $8 million. So if you can share what is the revenue run rate this quarter and X of Adara, how is the growth in the market segment? So that's question number one.

Second question is on distribution. So why is distribution revenue steady when travel sector is doing so well? Is it due to the discounts you have gained to some large hotel chain or maybe you are losing market share to competitors? So if you can explain the disconnect between distribution and the strong travel demand?

Bhanu Chopra: Tanmaya, do you want to take that question?

Tanmaya Das: Yes, I'm sorry. I was speaking on mute. I'm sorry. So Yes. So the first question was around Adara. I think Adara is growing, you know, around. It registered around 57% growth in H1 and 81% in Q2. So it is incrementally growing, sequentially growing and showing all signs of an excellent year. It's now crossed around 10 million quarterly revenue mark, which was around 8 million or 9 million last quarter. So that's on Adara.

Next question was on distribution. Yes, the distribution revenue is flat this quarter, primarily because one of the large OTAs which is connected to us is not performing well from their perspective. So the number of bookings are not great. But at the same time, good news is that we had one of the large OTA connecting to GDS last year and that has started to monetize from this month. The benefits have not been seen in H1, but from Q3 and Q4, you would see the uptake because of that. And it is the biggest contract ever won in RateGain. So we should see some good uptake in Q3 and Q4.

Karan Uppal: Okay. So for the full year, can we expect Adara to grow maybe 30% to 35%?

Tanmaya Das: Yes, Adara will grow around 45%.

Moderator: Thank you so much. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Yes, thank you very much, sir, for the opportunity and many, many congratulations for the extremely good set of numbers. So first of all, just a few clarifications on the comments that you already made. You mentioned that 20%-25% is an organic growth, right? So, I mean, and the balance will be through M&A. So overall, what percentage growth do you expect from M&A as well? I mean, would it be 10%-15% on an yearly basis? As you mentioned, we have a good pipeline, right, of M&A activities.

Bhanu Chopra: Yes. So, you know, it's very hard to, like, put a number on the inorganic growth because, you know, we're looking at companies that are different sizes. So it's hard to comment. But even if you were to, you know, sort of take conservative numbers in terms of the size of companies that we undertake given the past performance, you know, that's why if you sort of do the math, you know, the goal of coming to doubling the revenue in the next year is basically a CAGR of 26%.

So we think that organically we can grow between 20%-25% and the balance will be inorganic. And, it's also important to look at how disciplined we've been about M&A. So if I take you back to 2015 when we raised our first round of private equity money and it was for the purpose of M&A, we didn't actually acquire any company for the first three years.

So, it's not going to be a straight line for the next three years. It's very much possible that we may do one or two deals within the next year or it could be that, it's postponed to the second year. It really all depends on the value that we get these deals at because we've been fiscally very prudent about what we pay and we are patient strategic buyers. So it's hard to, you know, put down a number, but what basis, whatever past, the last three, four years and the co-acquisitions that we've done, we've given some, numbers of what that is, organic business like.

Deepak Poddar: Yes. So, and you mentioned doubling revenue in two years, right?

Bhanu Chopra: No, three years.

Deepak Poddar: Three years. So that effectively means 25% CAGR. I mean, that's organic, right?

Bhanu Chopra: No. So it's 26% is what it is. And that does account for inorganic as well. Like I said, we've taken sort of like conservative, it's conservative numbers on what inorganic growth will add to our revenue growth.

Deepak Poddar: Okay. Fair enough. I understood. And my second clarification on your margins, we do have an aspirational margin of 25%, right? In the medium term. That's what you mentioned, right? In one of the comments earlier.

Bhanu Chopra: Yes. So like I said, as a scale of let's say INR2,000 crores, I do believe that, we will be at a 25% margin despite, us wanting to continue to invest in R&D and scale up because from here on, lot of our mature products, I continue to see the operating leverage play out. So yes, so we do feel comfortable. But like I said, we've been exceeding our margin guidance since we have listed. And I'm very comfortable with where we are. And, we'll get there in three years, but I don't want to get there at the speed we are expanding margins and, continue to actually accelerate our investments.

Deepak Poddar: Correct. So at a INR2,000 crores revenue scale is what we might aspire for such kind of margins as well, right?

Bhanu Chopra: That is correct.

Deepak Poddar: And then my last question is on your -- current global situation. So the current global situation, do we see any kind of impact on the demand side or on the client side or any reservation or, how is the situation right now?

Bhanu Chopra: Yes. So look, clearly we are seeing some level of impact in the Middle East. The conversations that we are having with customers is slowing down because of the situation with Israel-Palestine. And, but overall, so far, this conflict started on the 7th of October, but we've not seen any other impact on the overall business, either in the US. In fact, I'm sure you've seen the GDP numbers that came out. Similarly on the travel numbers also, we are seeing, pretty robust demand. So although we have seen some impact in the Middle East area and it is very, very small business for us today.

And so on the overall number, it's a marginal impact. But I would say that, Middle East was an area that we really wanted to focus and grow in, given all the investments Saudi Arabia is making in trying to actually become bigger than even UAE. So that's obviously on a pause, but only in the grand scheme of things, it's not impacting our numbers.

Deepak Poddar: Okay. So overall, we are not seeing much impact?

Bhanu Chopra: That is correct.

Deepak Poddar: That's it from my side, sir. Thank you so much. All the very best, sir.

Bhanu Chopra: Thank you.

Moderator: Thank you so much. The next question is from the line of Ritik Tulsyan from Concept Investwell. Please go ahead.

Ritik Tulsyan: Yes. So I have two questions. So first is, what as a company we are doing differently leading to such a high LTV to CAC? Because, the average of SaaS companies far lesser than your company. So I like I want to understand what we are really doing differently. And where do you see this number heading in, let's say, two years, three years down the line? So that is my first question. Second, I'll ask after you've answered the first question.

Bhanu Chopra: So look, I can talk about, what we are doing and how our space structure is and how we go to market. So basically, broadly speaking, there are a couple of segments that we go after. One is, the enterprise and mid-market and the other is sort of the long tail. And if you look at our business, predominantly, we're heavily concentrated in the mid-market and the enterprise segment.

And we effectively go to market by utilizing our global center of excellence and marketing based media. So while the enterprise team is actually operating in each of its respective regions, there's been a lot of ammunition and support that is provided by the COE of marketing based out of India.

So effectively, we are able to manage our, marketing costs. But in terms of, our enterprise leadership are local in the market. The other thing that is really, really powerful in the RateGain platform that, that's something that I've talked about in the past, and we haven't fully leveraged it is as we acquire more companies and capabilities, there is a huge bunch of overlap in terms of the commonality of customers that we have.

And as a result of which it creates tremendous opportunity for the customer and say, look, we're doing already these things with you. Now we have this interoperable platform where we can become the one-stop shop, which helps us increase the size of share of wallet with each of these customers. So, I don't see your other question about, do I see the LTV to CAC changing quite significantly?

No, because we will continue to be focused on this mid-market and enterprise market. And I don't believe that, we have fully leveraged the platform of fast selling and upselling yet. You know, the work is underway and I do not see these numbers changing significantly over a period of time.

Ritik Tulsyan: Okay, thank you. And my second question is, so like we have a good amount of cash and investment on our balance sheet, right? Yet we are going for QIP. So I just want to know, do we have any big M&A in pipeline or in line for which we need such huge amount of cash? So I don't understand the need for IP right now. So if you can explain on that part? So that was my last question.

Bhanu Chopra: Yes, you're right. We're at INR425 crores to INR450 crores now of cash on the balance sheet. And as you saw in the first half, we generated INR76 crores. So it's a valid question. And as we've been saying that, the goal is to actually build a war chest plan. And we do have significant opportunities in front of us from an M&A perspective.

And we do believe that, we need to be ready for that because when an opportunity knocks at your door, you need to be able to respond very, very quickly. And thus, we believe we need to have this war chest to be able to execute on some of these deals that they do capitalize at the right price for us.

Ritik Tulsyan: Okay, thank you so much and all the best for your future endeavour. Thank you.

Bhanu Chopra: Thank you.

Moderator: Thank you. The next question is from the line of Anmol Garg from DAM Capital. Please go ahead.

Anmol Garg: Yes. Thanks for the opportunity and congratulations on strong set of numbers. I have just one question. So, largely, I wanted to understand that, how should we think about the new client additions going ahead? So, going ahead from cross-selling, will it be driven by additions towards smaller hotel chains? Or how should we think about ARPU going ahead as well?

Bhanu Chopra: Yes. So, like I said, the additions will continue to be in the mid-market and enterprise segment. And I do see the ARPU actually going up as we continue to cross-sell and up-sell to this mid-market account. So, while we will continue to see the addition, I think the larger focus for us is continue to penetrate the market that we have. Because one of the comments I mentioned earlier is, just three, four years ago, just prior to COVID, we were really a one-two product company. And now, we have 13 products. And we've just begun to realize the value of being able to leverage our platform. And that continues to be our area of focus for us. And thus, I do believe that the ARPU will continue to go up.

Anmol Garg: Yes. So, we think that cross-sell would be enough to increase our ARPU apart from the smaller client additions that we will go ahead with?

Bhanu Chopra: I'm sorry. Can you repeat the question? Would the cross-sell be enough for us?

Anmol Garg: So, what I'm asking is that you think that cross-sell opportunities, which particularly can increase our ARPU, will be enough to offset the new client additions, which would be largely smaller hotel chains and will give you a lesser ARPU in the initial start?

Bhanu Chopra: I think maybe you misunderstood. I do not see -- it's not like we have pretty much capitalized on every big hotel chain or big enterprise. And remember, we are now have diversified our customer segments, right? We've gone across to airlines and rental companies and destination management companies as a result of the acquisition that we did of Adara, which is predominantly based in the US, the DMOs. But now, we have DMOs all across the world that we can add. Airlines is something that's new for us.

There's a bunch of big new airlines that we're pursuing, and we have RFPs. And similarly, even in the hotel chain segment, we haven't penetrated every hotel chain. So, our focus will continue to be the mid-market and the enterprise chain. So, I don't see any new deal that we signed going significantly down either. We are continuing to see that we sign larger deals.

Anmol Garg: Sure. Understood. Thanks. Thanks for answering the question.

Moderator: Thank you so much. The next question is from the line of Rohan Nagpal from Helios Capital India. Please go ahead.

Rohan Nagpal: Hi. Thanks for the opportunity. I have a couple of questions. I'll just ask them frequently. So, I think on -- based on the information I was given out in this call, Adara revenue this quarter was about $10 million, $10.5 million. And last quarter, it was about INR66 crores. So, if I adjust for Adara revenue, on an organic basis, your revenue is flat Q-on-Q. So, are there any -- so, there clearly seem to be some headwinds that the organic business is facing. So, could you just shed some light on that?

Bhanu Chopra: On the organic -- Tanmaya, do you want to take that? Because I'm surprised with the comment. I mean, we are seeing…

Tanmaya Das: Yes. I mean, I talked about distribution segment, right? Because, we talked about distribution segment where one of the bigger OTAs is not performing well. But we are, as I said, we have started monetizing one of the very big contracts. So, we see uptake in Q3 and Q4. On DaaS segment, on organic side, we had to actually, defer a few revenues because one of the large renewals could not get signed by 30th of September. But I think that now is being signed as we speak. So, we should see that uptake in again Q3 and Q4. That is obviously another 3%, 4% for DaaS, which we kind of missed because we could not see the price increase with them.

On the market side, as I said, like excluding Adara, we have got My Hotel Shop, which is the paid digital media. That is going pretty well. I think that has grown around 26% in Q2. And sequentially also it has grown around 7%.

On the social side, as we have been telling that we still are not out of the woods there. I think that is flat from quarter-over-quarter at this point of time because we wanted to make it profitable and we let go a few loss-making customers. And we are able to make it, a 15% EBITDA margin in going forward. So, from that perspective, we will see growth challenges in that business. So, I hope I answered your question.

Rohan Nagpal: Yes, that is helpful. Thanks for the color over there. And then my other question was that, so one thing that I have noticed is that in the first half of this year, transaction revenue accounted for 40.8% of your overall revenue. And since it was 37% in Q1, the share in Q2 was even higher. So, if I look at this on a year-on-year basis, your transaction revenue has gone from INR29 crores in Q2 of FY '23 to INR104 crores in Q2 of FY '24.

So now, with a company that derives that much more money from transactions, you are fundamentally a different business, right? Earlier it was a recurring revenue business. Now, there is a much greater emphasis on transaction revenue going out quarter-after-quarter, fighting for revenue, making sure that it gets booked. So, what exactly is going on there? Could you provide some color?

Tanmaya Das: Primarily because of Adara growth. Adara, the paid digital media is primarily on a transaction model, on a per impression model. I think from a contractual perspective, most of our transaction revenue across RateGain are kind of annual renewal contracts. It's mostly the transaction, but they are built on a transaction basis. Actually, I would say we have a very...

Bhanu Chopra: Tanmaya, let me also comment. So, Rohan, if you actually look at the numbers, a significant amount of our growth, like Tanmaya mentioned, came from the Adara, paid digital media business. And as you know, the company was really suffering and they had adopted models just to survive. And one of those models was actually this transaction model that is bringing the money however we can.

So, as we get into subsequent year of ODG assets, the goal is to move this more into what we call evergreen contracts or subscription types of contracts with minimal commitment. So, I do see that happening, but not immediately. Because as you have noticed, we've been very, very deliberate and slow in making any big changes. I think our strategy of being very deliberate in the changes we want to make in the business has paid off dividends. And similarly, we don't want to now upset what is working, but eventually we do want to secure and go more towards our also preferred model of subscription.

And I do think that will happen, but it will not happen anytime in this fiscal period. We've already begun to have those conversations with a lot of the customers again have common. And they understand the business model through which we operate. And as we become more important to them, then we can also establish that we are a company, a global company that has been around and will be around. There's also much easier to have that conversation to get them to commit to an annual subscription minimum as well.

Rohan Nagpal: So, if I understand you correctly, the transaction model was adopted by Adara as a survival tactic, but over a period of time, not immediately, but over the medium term, you expect to transition that transaction revenue into a hybrid sort of model?

Bhanu Chopra: That is correct.

Rohan Nagpal: Okay.

Moderator: Mr. Rohan Nagpal, may we request you to return to the queue for the following questions?

Rohan Nagpal: Sure.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Yes. Thanks for the opportunity. So, basically, just to understand the aspect, firstly, from a seasonality point of view, based on your guidance, is it like now the seasonality post-Adara taking a bigger share of the revenue?

Bhanu Chopra: Rahul, I can't hear you. Can you try the handset, please? Sorry.

Rahul Jain: Yes. Sorry for that. So, I was saying, with Adara now fully integrated into our business, is there a very different way we have to see the seasonality for our business? And, in general, what are your sense from a pure market perspective that can things change materially faster? Because, irrespective of the economic behaviour, the spend behaviour on travel continues to be much better that way?

Bhanu Chopra: Your first question about seasonality, no, I don't see that changing. So, we will continue to see that our H2 is stronger than H1. And, going into Q3 and Q4, they usually are stronger quarter end. And we see a similar trend in Adara as well. Now, like I said, I think I tried to address this question earlier as well in terms of the geopolitical risk that we see around us. We've seen some level of impact.

It's hard for me to say, what does this have to do, does this, escalate to an all-out in Middle East war or peace. You know, it's difficult to comment on that. But I can tell you what we see today. Like I said, we don't see, even in the Q3, end of October, we continue to see good traction on our numbers, both revenue numbers and, let's say, number. We've seen some impact in the Middle East. But, like I said, that part of our business is very small.

Although, we did intend to invest quite significantly given all the activity we were seeing in Middle East, also in Saudi Arabia. But obviously that will have to be postponed now. But in terms of impact to our business, it's non-material at this point. But it's hard to comment on, you know, how the problem escalates or de-escalates in the Middle East. But actually, I can tell you in terms of the overall activity, especially in North America, we're not seeing any letdown. We'll continue to see quite robust growth. And also, please remember, the function of growth as a result of two things.

One is the growth of the overall industry, but also, us getting market share. And the fact that we're the only company that provides an end-to-end platform is enabling us to also gain market share and get much, much deeper with our clients. So, while the industry growth is, if you look at the numbers now, it's poised to grow to $2.35 trillion, which is about 7.5% from now up until 2020. But I do believe, we will continue to grow much faster than that.

Rahul Jain: Okay, okay, great. I appreciated the color. Thank you.

Moderator: Thank you. The next question is from the line of Miten Shah. Please go ahead.

Miten Shah: So, I would just like to know, I've been seeing this tagline since the inception of IPO, like we served, top 23 of the 30 hotel chains of the world and the top 25 out of 30 of online travel agents of the world. Why is this number not improving? Is it that the balance hotel chains side and OTAs are looking in Antarctica? That's the first question.

Bhanu Chopra: I think it's a great point. We need to come back to you. My suspicion is that it is potentially improved, especially on the hotel chain side and possibly also on the OTAs. On the car rental, we already work with all the car rental companies. On the airline side also, the number is far more significant than what we had in the past. So, thanks for pointing that out. In the next call that we have, you should see that tagline improved.

Miten Shah: Thank you. Thank you. And the subsequent question after this would be, can any new verticals be added? Like hotel chains, online travel agents, we have DMOs. Can any new verticals can be added in the future?

Bhanu Chopra: Yes, so we've added destination management companies. And in terms of additional customer segments, one area that we work with continuously is the vacation rental market. But there isn't, first focus on it as of this point. But that, as you know, is a massive, massive industry. And the main industry in a segment that is of interest to us. But we're just trying to execute. I mean, there's already a lot for us to execute on. So, focus is to continue to deliver on the segments that we are focusing on. But yes, there are some one or two adjacent segments that can be very, very interesting for us, vacation rental is one.

The other is tourism activities, which is also a very high growth area in the travel industry. And fundamentally, everything that we do can be applied to those segments as well. But like I said, we want to continue to focus on the key market segments that we focus on and continue to gain market share before we begin to venture out. I think the easier way for us to get into these segments would be, M&A, so that we're not maybe starting from scratch, but we have like a customer base. And we do evaluate those opportunities from time to time as well.

Miten Shah: All right. Thanks a lot for the opportunity and once again, congratulations for the set of numbers.

Bhanu Chopra: Thank you.

Moderator: Thank you. Well, we will take that as our last question. I would now like to hand the conference over to Mr. Bhanu Chopra for closing comments.

Bhanu Chopra: Yes. Thank you everyone for taking the time out for this call today. We appreciate everybody's support. Thank you.

Moderator: Thank you very much. On behalf of RateGain Travel Technologies Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.